DISCOVERY HOLDINGS EUROPE LIMITED

Consolidated Annual Report and Financial Statements

For the year ended 30 June 2023

Incorporated and registered in England and Wales. Registered No: 05933172

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DISCOVERY HOLDINGS EUROPE LIMITED CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS AND OFFICERS

Directors in office at the date of signing the financial statements

Adrian Gore**

Nicholas Caplan*

Andrew Foster**

David Hare*

Rosemary Hilary*

Monty Hilkowitz**

Deepak Jobanputra

Joanne Kenrick*

Neville Koopowitz

Alastair Lyons*

Ayanda Ntsaluba**

Justin Skinner

*Independent non-executive

** Non-executive

The appointment of Directors is not subject to retirement by rotation.

Company Secretary at the date of signing the financial statements

Fiona Molloy

Registered office

3 More London Riverside

London

SE1 2AQ

Registered number

05933172

Independent auditors

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

The Directors present their Strategic report, Report of the Directors and the consolidated audited financial statements for the year ended 30 June 2023.

Discovery Holdings Europe Limited ("the Company", "DHEL") is a private company limited by shares, incorporated and domiciled in England and Wales.

The Company is one of eight companies that, along with the holding company, make up the Discovery Holdings Europe Limited ("DHEL") group of companies ("Vitality", "the Group"). Within Vitality there are four business units, "VitalityHealth", "VitalityLife", "VitalityInvest" and "VitalityCar".

References made to the Group Board refer to the DHEL Board.

Principal activities and business review

At the centre of the business is Vitality's 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, Vitality 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. As an insurer, Vitality 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 insurance premiums; while society benefits from a more healthy and productive population.

Vitality delivers Shared Value by helping members to understand their health, removing barriers 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, Waitrose, Virgin Active, Garmin, Peloton and Mindful Chef, as well as incentives that reward members for engaging in health-enhancing activities such as Odeon, Vue, Caffé Nero, Amazon, and American Express.

The principal activity of the Company is to act as the holding company of Vitality Life Limited ("VLL") (and its subsidiaries Vitality Health Insurance Limited ("VHIL") and Vitality Health Limited ("VHL")), Vitality Corporate Services Limited ("VCSL"), Better Health Insurance Advice Ltd ("BHIAL") and the joint venture Healthcode Limited ("HL"). The Company also incurs administration costs in respect of the wider group and has held derivative contracts to provide economic hedges to risk exposures in the wider group.

The Company also funds the VitalityLife policies that were underwritten by The Prudential Assurance Company ("PAC") prior to 1 May 2015 by way of a loan to PAC. VitalityLife policies underwritten by PAC from 1 May 2015 onwards are not funded by the Company. The repayment of this loan is contingent upon the emergence of regulatory surplus in respect of the VitalityLife products underwritten by PAC prior to 1 May 2015. The balance on this loan at 30 June 2023 is £813k (2022: £755k).

In its role as a holding company, the Company has performed in line with expectation. In its role of mitigating interest rate risks in the wider group by holding interest rate derivatives, the Company also performed in line with expectations.

The principal activity of VLL is the underwriting of life insurance business. The business comprises of protection insurance contracts and unit-linked insurance contracts. VLL is the sole underwriter of life insurance contracts in the Group. VLL began underwriting new business from 1 January 2016. Through a strong product proposition and investment in brand awareness the number of in-force policies written under the new VLL insurance licence has continued to grow rapidly since trading commenced. With effect from 13 February 2020, VLL became the parent of VHIL and therefore indirectly, VHL. VLL performed in line with management's expectation in the year ended 30 June 2023.

The principal activity of VHL, which is a wholly owned subsidiary of VHIL, is to provide private medical insurance in the United Kingdom trading as "VitalityHealth". VHIL no longer has any active members. VHL is the sole underwriter of private medical insurance in the Group and continues to perform strongly with strong new business sales, and maintaining a strong loss ratio (claims incurred divided by earned premium) in the year.

The principal activity of VCSL is to provide administrative, distribution and management services for the VitalityHealth products sold by VHL (trading as "VitalityHealth"), for the VitalityLife products underwritten by PAC and VLL (trading as "VitalityLife"), for the products underwritten by VLL (trading as "VitalityInvest") and for the VitalityCar products created alongside Covéa Insurance plc ("Covéa") and distributed by Vitality. In all these regards VCSL has performed in line with expectation.

VCSL owns 50% of Healthcare Purchasing Alliance Limited (HPAL). HPAL is responsible for supporting VitalityHealth with procurement of healthcare with most large hospitals, primarily around contracting. HPAL's registered office is 8 Surrey Street, Norwich, Norfolk, NR1 3NG.

The principal activity of Vitality Healthy Workplace Limited (VHWL) is the provision of an engaging health solution for UK businesses. The offering ("Vitality at Work") takes a holistic approach to employee health, providing a range of tools to help employers understand their employees' physical and mental wellbeing needs and motivations. Vitality at Work can help reduce absenteeism, improve productivity and give employers a whole workforce view of the health of their employees.

The principal activity of BHIAL is providing insurance mediation services for health insurance policies to individuals and companies. It currently operates as an appointed representative of VCSL for regulatory purposes. BHIAL is performing in line with expectations.

The principal activity of HL is the provision of bill clearing services, practice management systems, secure message, pre-authorisation and clinical coding translation tools for the private healthcare market.

The registered office for VHIL, VHL, VCSL and VLL is 3 More London Riverside, London, SE1 2AQ.

The registered office of BHIAL is Roddis House, 4-12 Old Christchurch Road, Bournemouth, BH1 1LG.

The registered office for HL is 10 Orange Street, London, United Kingdom, WC2H 7DQ.

The Directors have obtained and will continue to monitor reports from across multiple functions within the Group on the implementation of the business continuity plans as well as the financial position of the Company. The impact of the geopolitical and economic environment on each of the Company's subsidiaries (direct and indirect) is detailed further in each of those company's Annual report and financial statements.

Vitality generated a consolidated profit before tax for the year to 30 June 2023 of £59,184k (2022: profit before tax of £44,049k).

The consolidated net assets of Vitality as at 30 June 2023 were £775,108k (2022: assets of £724,340k).

The Company generated a loss before tax for the year to 30 June 2023 of £1,384k (2022: loss before tax of £193,438k).

The net assets of the Company as at 30 June 2023 were £627,065k (2022: £624,067k).

The last 12 months have been characterised by geo-political uncertainty, pressure on cost of living, very high levels of inflation and a significant increase in the level and volatility of market interest rates.

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. Over three years on, the impact continues to be felt. The pandemic has had a long-term impact on the economy of the UK, and a sustained direct effect on the operations, workforce, and capacity of the UK healthcare system. Despite some resurgence in interest relating to COVID-19, restrictions relating to COVID-19 are not directly visible in day-to-day life, with infection control related restrictions not generally visible. Many ascribe the impact of COVID-19 as contributing to the all-time highs seen in the NHS waiting list.

Significantly increased levels of interest have been seen in the private sector. Private healthcare providers and insurers report increased demand and interest, and VitalityHealth's own growth numbers testify to the reshaped perception, relationship, and expectations of the public healthcare system in the UK. Turbulence within the NHS has become particularly visible in the previous year, including challenges relating to waiting lists and national strikes.

VitalityHealth expected higher claims rates which have been seen in the current financial year. Claims authorisations have now increased above historic rates. It is not entirely clear how much of this is “new” activity and how much of this is catch-up activity. VitalityHealth's general expectation is that a new baseline of claims activity, above the pre-pandemic baseline, will be established. This increase will be above and beyond some of the changes made to help customers access value from their policies – from more customer-friendly authorisation procedures, digital claims and services, and removing underwriting exclusions from types of mental health treatment.

The financial results relating to the term, whole of life and income protection products sold under the brand VitalityLife performed beyond expectation. The in-force book of business grew strongly year on year; gross of reinsurance premium income increased by 16% from £219,693k to £255,576k, driven by strong levels of retention and growth in new business year on year. The in-force book size has also been positively impacted by the impact of premiums on indexed policies growing in line with increased UK inflation levels. This protects the policyholder’s real value of future claims benefits;

For VitalityLife, positive reserving experiences were observed in the year, particularly in respect of lapse and indexation experience. The strong focus on retention and positive policyholder outcomes in recent years through operational improvements, customer engagement and distribution quality management continue to contribute to positive lapse experience variances. Positive indexation experience arises when the level of policyholder premiums increases by more than expected due to inflation. Whilst the customers future benefits also increase in value there is an overall positive impact on Vitality’s profitability.

Changes to the economic assumptions were made in the year to reflect market conditions and the removal of the interest rate derivatives towards the end of the financial year as a result of the implementation of IFRS 17 on 1 July 2023. The changes to the valuation interest rate led to an overall reduction in profitability in the year which was partially offset by fair value gains on derivatives.

Vitality had fair value gains on interest rate derivatives of £24,537k (2022: losses of £129,517k). Vitality held interest rate derivatives to manage its profitability volatility exposure to market interest rate risk in respect of the valuation of the insurance contract reserves. Towards the end of the financial year these derivatives were removed with the interest rate risk now expected to be managed from 1 July 2023 using Other Comprehensive Income accounting as permitted by IFRS 17.

Whilst expected, VitalityInvest made a £9,835k loss after tax. Following the closure to advised new business in July 2022, VitalityInvest exited the retail investment market, no longer accepted top-ups and transfers into existing plans from 6 April 2023, and no longer received or processed recurring contributions from 1 July 2023. VitalityInvest has partnered with abrdn as the preferred provider to deploy an easy transfer solution for both advised and non-advised policies to be transferred off the VLL book next financial year. Assets under management decreased by (48)% in the year from £732,447k at 30 June 2022 to £382,396k at 30 June 2023. The exiting of the retail investment market resulted in a significant reduction in premium income related to unit-linked products in the year and also a significant increase in withdrawals by unit-linked policyholders as they moved their investments to other providers.

In June 2021, Vitality and Covéa launched a Vitality branded Personal Lines motor insurance product to the UK market. Vitality previously had a contract with Covéa under which the motor insurance policies were fully underwritten by Covéa and Vitality received a profit share commission, while also incurring some of the administrative expenses related to the product.

The UK car insurance market has experienced unprecedented claims inflation leading to significant price increases, which Covéa, as underwriter, had to pass on to the VitalityCar members. These increases have materially impacted VitalityCar’s ability to deliver value for good drivers and have led to the decision to not offer members cover beyond their current plan year and to run off the book of business by 30 June 2024. This has resulted in an accelerated write-off of VitalityCar's capitalised systems, with a pre-tax impact of approximately £8.8m for the financial year ended 30 June 2023.

Key performance indicators (KPIs)

A monthly report of many operational metrics is produced and reviewed by senior management, but the following key metrics are routinely used in the assessment of the Group's performance:

KPI	Metric	Year ended / as at 30 June 2023	2022
Lives, k	Total	1,744	1,629
Premium Income, £m	VitalityHealth	634.6	557.2
	VitalityLife	255.6	219.7
New Business Sales, £m	VitalityHealth	109.8	94.8
	VitalityLife	80.3	62.0
Profit before tax, £m	Including Finance Costs	59.2	44.0
	Excluding Finance Costs	86.3	57.3
Solvency coverage, %	Vitality Health Limited	142%	154%
	Vitality Life Limited	211%	211%
	Group	122%	117%
Assets under management, £m	VitalityInvest	382.4	732.4
Lapse Rate, %	VitalityHealth	On Track	On Track
	VitalityLife	On Track	On Track

- **Lives**

  Total lives increased 115k (7%) in the year from 1,629k to 1,744k driven by strong new business sales and strong customer retention (as reflected in lapse rates). Increasing total lives covered by Vitality allows the Group's core purpose to make people healthier and to enhance and protect their lives to impact more people in society.

- **Premium income**

  VitalityHealth premium income increased £77.4m (14%) in the year from £557.2m to £634.6m.
  VitalityLife premium income increased £35.9m (16%) in the year from £219.7m to £255.6m.

  Both VitalityHealth and VitalityLife have seen robust year on year premium growth broadly consistent with lives growth (per above). Overall an increase in new business sales year on year, on track retention levels and dynamic market pricing has led to growth in premium income year on year.

- **New business sales**

  VitalityHealth new business sales increased £15.0m (16%) in the year from £94.8m to £109.8m. VitalityLife new business sales increased £18.3m (30%) in the year from £62.0m to £80.3m. Strong year on year growth was driven by increased relevance of PMI and Life Insurance in the wake of the COVID-19 pandemic as well as Vitality's continual innovation and adoption of new ways of doing business both digitally and telephonically. New business is measured as the expected premium to be received in the first 12 months of each new business policy sold.

- **Profit before tax**

  Consolidated profit before tax increased £15.2m (35%) in the year from £44.0m to £59.2m. The growth is driven by strong operating performance, particularly in respective of VitalityLife. This was offset somewhat by costs and inefficiencies associated with the wind-down of the VitalityInvest and VitalityCar businesses as well as an increase in finance costs as result of an increase in UK interest rates. When removing finance costs of £27.1m (2022: £13.2m), year on year profit growth increased £29.0m (51%).

- **Solvency coverage**

  The underlying insurance entries in the Group are well capitalised with solvency coverage (measured on a Solvency II standard formula basis) of 142% and 211% for VHL and VLL respectively. Solvency coverage for the group ("SII Group") is measured at the Company's immediate parent company level (in line with Solvency II group requirements). The Group is also well capitalised with solvency coverage improving by 5 percentage points in the year from 117% to 122%.

- **Assets under management**

  Vitality charges unit-linked policyholders a fee for managing their unit-linked assets and therefore the profitability of VitalityInvest branded products is directly linked to the value of assets under management. Assets under management decreased £350.0m (48%) in the year from £732.4m to £382.4m due to the wind-down of the business. Vitality continues to track this as a KPI to monitor the wind-down.

- **Lapse rates**

  Lapse rates remain encouraging across both VitalityLife and VitalityHealth given the complex economic environment. Our research shows clients who are more highly engaged with the Vitality programme are, on average, almost 6% less likely to cancel their plan. Underlying lapse rates are not disclosed publicly as they are considered commercially sensitive.

Future developments and outlook

Vitality's core purpose is to make people healthier and enhance and protect their lives. By focusing on lifestyle as well as illness and death, Vitality will create awareness of the real issues facing society, empower members to make positive change and contribute towards a healthier nation.

Health and wellbeing will remain a strong feature of the products offered as the Directors believe that the promotion of good health will bring benefits in terms of lower claims ratios, as well as leading to improvement to individuals' lifestyles and health, their productivity and public health generally. With this vision and purpose Vitality aims to build a substantial profitable business.

Following the closure to advised new business in July 2022, VitalityInvest exited the retail investment market, no longer accepted top-ups and transfers into existing plans from 6 April 2023, and no longer received or processed recurring contributions from 1 July 2023. VitalityInvest has partnered with abrdn as the preferred provider to deploy an easy transfer solution for both advised and non-advised policies to be transferred off the VLL book next financial year.

Five years ago, Vitality started exploring how to leverage the Shared Value model in the car insurance market by incentivising and rewarding good driving. Plans were stalled by the COVID-19 pandemic, but Vitality successfully launched VitalityCar in 2021.

The business had a promising start, attracting close to 25,000 members. However, over the recent months the car insurance market has experienced unprecedented claims inflation, leading to significant price increases. This has impacted Vitality's ability to deliver appropriate value for good drivers and consequently, Vitality is no longer offering new car insurance policies.

Over the period there has been continued conflict between Russia and Ukraine, increased economic uncertainty and the 'cost of living crisis' due to the burden of high inflation. Vitality is closely monitoring and managing the associated risks and remains committed to supporting its staff and customers as any associated challenges emerge.

Further information can be found in the financial statements of each company and copies can be obtained from Vitality, 3 More London Riverside, London, SE1 2AQ.

Principal risks and uncertainties

A description of the financial and insurance risks of the Group are set out in note 2 and 3.

Corporate Governance

Wates Principles

For the financial year ended 30 June 2023, under The Companies (Miscellaneous Report) Regulations 2018, Vitality continues to apply the Wates Corporate Governance Principles for Large Private Companies. The Wates Principles have been applied to all companies within Vitality. The Statement of Corporate Governance arrangements covers all companies.

There have not been any departures from the Wates Principles as detailed within this Statement.

Set out below is how the Principles have been applied over the past year.

Principle 1 – Purpose and Leadership

Vitality is part of the Discovery Group, a global, integrated financial services organisation that uses a pioneering Shared Value insurance model across its businesses to achieve its core purpose of making people healthier and enhancing and protecting lives. The core purpose of Vitality is aligned with Discovery.

Vitality is the pioneer of a new category of insurance: Shared Value Insurance. Vitality shares value from positive behaviour change leveraging the insure-tech platform with cutting-edge data science models. The Shared Value model is based on the concept of interventions Vitality can make as an insurer that will inspire behavioural change amongst members – for the better. It’s an incentive-based model, in which members are rewarded through a range of partners and benefits, when they take steps to be healthy. As market disruptors, Vitality transforms the world of insurance through Shared Value. Vitality know that society is increasingly demanding that companies have a strong social purpose, and by focusing on creating a healthier society, Vitality is at the forefront of this. It’s good for Vitality's members, good for Vitality and good for society.

Vitality’s Values underpin how the Group operates:

- GREAT PEOPLE: Vitality believes in attracting great people from diverse backgrounds, with distinctive personal experiences and outlooks. Vitality never compromises on finding the best person for every role, ensuring exceptional standards are maintained – or elevated – with every hire. Vitality strongly believes in the importance of different factors included in emotional intelligence. Vitality aims to be an organisation that the best people want to be part of.
- LIBERATING THE BEST IN PEOPLE: Vitality believe in greatness in every person; and intervenes to bring this out of them. Vitality insists on an inclusive environment that enables every person to bring all of themselves to work. In fact, Vitality celebrates this. Vitality seeks out strong, independent views and encourages robust intellectual debate. When a direction is eventually chosen, Vitality represents it. Vitality works hard at eliminating politics.
- INTELLECTUAL LEADERSHIP: Vitality is a thought leader in the markets in which it operates and is actively engaged in policy debate based on science and facts, inspired by Vitality's Core Purpose. Vitality actively looks for ways that assets and expertise can be applied towards this end. Personally, Vitality is committed to continuous learning and self-betterment.
- FORCE FOR GOOD: Vitality is determined to be an exceptional employer, excellent partner and a good corporate citizen. Vitality is deeply committed to nation building and protecting the planet. Vitality’s Core Purpose and Shared-Value model demand this.
- CUSTOMER, CUSTOMER, CUSTOMER: Vitality is obsessed with customers and their experience because Vitality empathise as though their problems are its own and recognise the impact of its actions on the people Vitality serve. Vitality articulates this care through intuitive customer journeys and an approach to managing service, centred on statistics, as well as accounting for every single interaction. Anecdotes matter. Vitality use every customer touchpoint to nurture lifelong relationships.
- INNOVATION AND OPTIMISM: Vitality is a profound disruptor. Vitality enters markets where it is believed that through its Core Purpose and Shared-Value model, change be affected for good. Vitality does so through products that are brilliant: dealing with complex issues yet, should be simple to

understand. Vitality is optimistic about the future and seek out positive signals in the current environment.

- DRIVE, TENACITY AND URGENCY: Vitality think like founders. Vitality avoids unnecessary bureaucracy and irrespective of scale – Vitality seek insurgency. Vitality executes brilliantly, and at rapid pace, marrying ambitions with short-term, urgent goals. Vitality is also unrelenting: Vitality squeezes every product and process for brilliance all the way to the last “100m.”
- BUSINESS ASTUTENESS AND PRUDENCE: Vitality thinks like an owner: Vitality pursues the business case and invest only if there is a clear benefit for the organisation, customers and society. Vitality embraces necessary governance in substance and form: Vitality continually pursues exceptional risk management, financial excellence and financial strength – and Vitality faces challenges head-on and deals with them constructively. Vitality respects the scarcity of capital.
- INTEGRITY, HONESTY AND FAIRNESS: Vitality ensures that the complexity of the organisation is contrasted with simple, old-fashioned values of doing the right thing. Vitality is truthful in interactions and transparent in all dealings; and ensures that every single rule and policy meets the highest ethical standards. Vitality treats everyone fairly, recognising the inherent worth of every human being. Vitality encourages people to question anything that they are not comfortable with. When necessary Vitality makes difficult decisions.

For information on the major strategic developments during the year, any concerns that have been identified and how they have been addressed, please refer to the Principal decisions made (S.172) section in the Strategic Report.

Further details on the engagement with our stakeholders is provided within the Section 172 Statement and under Principle 6: Stakeholder relationships and engagement.

Principle 2 – Board Composition

The Group Board achieves efficiency across the Vitality Group, ensuring that the strategic issues and matters relating to stakeholders are being thoroughly considered in the most efficient way. This is achieved by bringing together all the operating businesses in the Vitality Group under one Operational Oversight Board (Vitality UK Board) whilst ensuring that the individual companies meet their individual statutory and regulatory requirements. This approach is in line with the One Vitality vision and purpose which delivers a seamless customer experience integrating how Vitality develops and delivers product propositions to all Vitality UK customers.

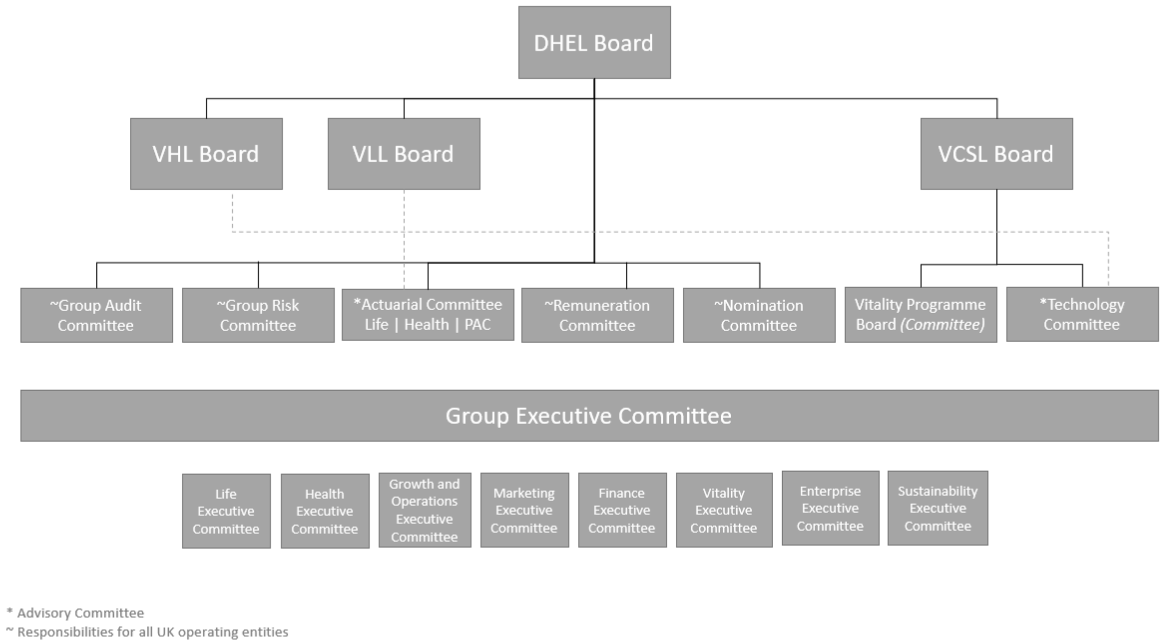
The structure of the Boards ensures that all operational matters are tabled for discussion and debate for all the businesses at the Vitality UK Board. This structure promotes operational consistency across all the operating businesses which benefits Members in terms of a seamless member service across the Vitality Group.

The DHEL Board is composed of the Chair who is the founder of the Discovery Group in South Africa, and a combination of Independent Non-Executive Directors, Non-Executive Directors and Executive Directors.

The subsidiaries within the Group include the regulated entities of Vitality Health Limited, Vitality Life Limited and Vitality Corporate Services Limited. These regulated entities have a combination of Independent Non-Executive, Non-Executive and Executive Directors on their Boards. They all have a majority of Independent Non-Executive Directors and have an independent Chair.

The Board delegates some of its responsibilities to its Committees. Independent Non-Executive Directors act as Chairs to the relevant Committees.The External Remuneration Committee is chaired by a Non-Executive Director.

The day-to day management of Vitality is delegated to the CEO who is supported by the Group Executive Committee who implement the strategy and ensure that the values and culture are implemented and communicated consistently across Vitality.



The Nomination Committee regularly reviews and assesses the composition of the Boards and recommends appointments of new Directors. Board appointments are made on merit by assessing candidates against measurable objective criteria (knowledge, skills, experience and independence) and with a view to promoting diversity of thinking, inclusion, insights and challenge to support sound decision making.

The composition of the Board reflects the size and complexity of the business. The Nomination Committee ensures, and each Director confirms, that they are able to allocate sufficient time to Vitality to discharge their responsibilities effectively.

Directors attend an Annual Strategy Event and update their skills and knowledge by meeting with senior leaders across the business. An induction programme is in place for new Directors and is tailored to their specific experience and knowledge. The Board meetings also provide sufficient opportunity for deep dives from subject matter experts; recent examples this year include Talent Management, Consumer Duty Pricing Fairness, Brand and Marketing Strategy and Ethical Decision Making.

The Group Board is convened separately to the operational businesses, and continues to table strategic matters such as capital and funding and new strategic initiatives. The Group Board is chaired by Mr Adrian Gore. This ensures that an appropriate amount of time and focus is allocated to the interests of Vitality's sole shareholder and the strategic objectives of the Vitality Group.

Composition of the Board

Membership	DHEL	VCSL	VHL	VLL
Chair	Adrian Gore (NED)	Joanne Shaw (iNED)	Alastair Lyons (iNED)	Alastair Lyons (iNED)
iNEDs	Nicholas Caplan David Hare Rosemary Hilary (SID) Joanne Kenrick* Alastair Lyons	Nicholas Caplan Lord Sebastian Coe Andrew Crossley David Hare Rosemary Hilary Joanne Kenrick* Alastair Lyons	Nicholas Caplan Lord Sebastian Coe (SID) Andrew Crossley David Hare Rosemary Hilary Joanne Kenrick* Joanne Shaw	Nicholas Caplan Andrew Crossley (SID) David Hare Rosemary Hilary Joanne Kenrick* Nicky McCabe Rosanne Murison*
NEDs	Sir Andrew Foster Monty Hilkowitz Ayanda Ntsaluba	Adrian Gore	Monty Hilkowitz Ayanda Ntsaluba	Monty Hilkowitz
Executive Directors	Deepak Jobanputra Neville Koopowitz Justin Skinner	Neville Koopowitz Keith Kropman Greg Levine Judy Parfitt Nicholas Read	Keith Klintworth Neville Koopowitz Justin Skinner	Neville Koopowitz Justin Skinner Justin Taurog

* Effective 1 August 2023

Composition of the Committees

Membership	Risk Committee	Audit Committee	Actuarial Committee
Chair	Rosemary Hilary (iNED)	Andrew Crossley (iNED)	David Hare (iNED)
Members	Nicholas Caplan (iNED) Andrew Crossley (iNED) David Hare (iNED) Joanne Kenrick* Nicky McCabe (iNED) Rosanne Murison*	Nicholas Caplan (iNED) David Hare (iNED) Rosemary Hilary (iNED)	Monty Hilkowitz (NED) Robert Lee~ David Slater~ ~ Independent Actuary

Membership	Remuneration Committee	Nomination Committee	Technology Committee
Chair	Sir Andrew Foster (NED)	Lord Sebastian Coe (iNED)	Nick Caplan (iNED)
Members	Andrew Crossley (iNED) Adrian Gore (NED) Alastair Lyons (iNED) Ayanda Ntsaluba (NED)	Sir Andrew Foster (iNED) Adrian Gore (NED) Alastair Lyons (iNED) Joanne Shaw (iNED)	Nicky McCabe (iNED) Rosanne Murison* (iNED) David Wicks** ** Independent Adviser

* Effective 1 August 2023

Board Effectiveness Review

In 2023, the Board Effectiveness review was completed by Alastair Lyons, Chair of Vitality UK. This was undertaken by means of an externally sourced questionnaire that provided an overall assessment against a benchmark of sixty listed international companies, and a one-to-one interview with all Directors based on their responses to the questionnaire.

Based on the questionnaire, Vitality was assessed as having a strong Board that benchmarks in the upper quartile of those surveyed.

Some of the proposed recommendations for the year ahead include:

- More opportunities for external speakers
- Minimising ad hoc meetings
- Focussing Committee feedback to the Board on matters of materiality to all Directors
- Submitting in advance of the Board questions of clarification and understanding resulting from Board papers and presentations
- Make the most of opportunities to involve executives below the Group Executive Committee in Board presentations.

Principle 3 – Director Responsibilities

The Board and individual Directors have a clear understanding of their accountability and responsibilities. Terms of Reference are in place for Boards and Committees.

The Board is responsible for organising and directing the affairs of Vitality in a manner that is most likely to promote the success of Vitality for the benefit of its stakeholders. Five meetings are scheduled each year for each company and ad hoc meetings are also held when required. A Board Strategy Event is held on an annual basis.

Vitality supports strong governance to ensure that decisions are supported by clear, accurate and timely information. The Board receives regular and timely information on all key aspects of the businesses. This information includes; financial performance, customer metrics, cyber, people, risk reporting, the Vitality Programme, distribution, strategic alignment to the business plans, initiatives, opportunities, product launches, market conditions and the clinical environment, such as updates relating to medical care.

All Directors are required to declare any potential conflicts of interest. Where there are potential conflicts appropriate measures are implemented.

The Board delegates some of its responsibilities to one or more Committees. The Chair of those Committees provides updates to the Board on their proceedings at each quarterly meeting.

The Board met regularly throughout the year and there was strong attendance from all Directors. For information on the key activities in the year, please refer to the Section 172 Statement and the Strategic Report.

Vitality recognises the importance of providing the Board with accurate, relevant and timely information. There is an open dialogue between quarterly meetings ensuring that Non-Executive Directors are fully informed. The finance function is appropriately qualified to ensure the integrity of the financial information provided to the Board. Assessments of the financial control environment are reported to the Audit Committee. The Risk Committee reviews regulatory compliance reports from management to ensure that Vitality complies with the relevant regulatory requirements.

Principle 4 – Opportunity and Risk

Vitality's core purpose is to make people healthier and to enhance and protect their lives.

Our shared-value model underpins Vitality's core purpose to help people lead healthier lives. It's based on the concept of interventions Vitality can make as an insurer that will inspire behavioural change among our members – for the better. It's an incentive-based model, in which Vitality rewards its members through a range of partners and benefits, when they take steps to be healthy. In this way Vitality benefits members, society and Vitality.

The benefits of the Vitality programme as a business model include:

- Behavioural change. Behavioural economics forms the foundation of the Vitality product construct, which actively influences behaviour and improves morbidity, mortality, and financial outcomes for members.

- Better insurance outcomes for members. The positive impact of Vitality on health improves mortality and morbidity experience, resulting in lower claims and better retention of healthier members and better value for members.

Long term Strategic opportunities are identified in the annual business planning process and discussed with the Board throughout the year. The Risk Committee supports the Board in the oversight of the risk management. For additional information on the main strategic opportunities and risks, please refer to the Principal Risks and Uncertainties section on page 6 of the Strategic Report.

Vitality sets out how it approaches risk management in its Enterprise Risk Management "ERM" Framework. This Framework is approved by the Group Board. The Principal Risks have been disclosed in the Strategic Report.

The ERM Framework ensures the businesses:

- Align risk appetite and strategy – The Boards of Vitality and senior management consider the organisation's risk appetite when evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks;

- Optimise risk response decisions – The Framework provides the rigour to identify and select among alternative risk responses, risk avoidance, reduction, sharing, and acceptance in the most optimal and cost-efficient manner;

- Reduce operational surprises and losses – By gaining enhanced capability to identify potential events and establish responses;

- Identify, manage, and monitor multiple risks – The businesses face a myriad of current and emerging risks affecting different parts of the organisation. The Framework facilitates an effective response to the interrelated impacts as well as the integrated responses to multiple risks; and

- Optimise capital allocation – By obtaining robust risk information, the management of the organisation is able to effectively assess the overall capital needs and enhance capital allocation.

The Group Chief Risk Officer is responsible for the design and implementation of the Framework across the organisation, regular review of the Framework, underlying policies, and review of compliance of the businesses with these principles and minimum standards set out in this Framework. The Group Chief Risk Officer reports regularly to several Committees including the Risk Committee and to the Board on compliance with this Framework.

The core components of the Framework are:

Risk Strategy

Vitality's Risk strategy is to implement an effective risk governance process that is practical, pragmatic and proportionate to the businesses. It ensures that the achievement of each business' strategy and annual business plans can be achieved within risk appetite, through understanding and managing risk that it is exposed to effectively.

Risk Taxonomy

The organisation has adopted a risk taxonomy that classifies risks, into nine broad 'level 1' categories. In this structure, the broader risk categories or risk themes are grouped into nine level 1 risks. Under each of these level 1 risks sits a more detailed catalogue of specific level 2 sub-risks.

Risk Appetite

Risk appetites and risk appetite statements are set and approved each year for each of the businesses to operate within. Performance against risk appetite is reported to the Risk Committee, and then to the relevant Board(s) where any risks are outside of appetite, along with activity taken to bring it back into appetite, or reasons for risk acceptance.

Risk Policies are in place and set the minimum risk management process standards for at least every Level 1 risk category. These provide a set of high level minimum operating standards across the Vitality Group in line with regulatory expectations and further include Operational Resilience, Cyber Resilience, Outsourcing and

Third Party Risk Management and Sustainability Standards. These standards are designed to recognise the business benefits inherent in operating a well-controlled organisation. These policies define the internal control framework the implementation of which is evidenced through Risk Registers and Risk & Control Self Assessments.

Vitality has adopted the “three lines of defence” governance model as a key principle of operation. The model promotes transparency, accountability and consistency with the ERM Framework through the clear identification of roles and separation of business management from governance and control structures.

The overall responsibility for execution of the risk management processes and practices in the day-to-day management of the business rests with the Chief Executive Officer and Managing Directors of the organisation. The role of the second line of defence, the Group Risk and Compliance Functions under the leadership of the Group Chief Risk Officer, is to support the executives in managing risks and embedding risk considerations into daily operations. The second line reports to the Risk Committee and Boards, providing an independent view of the risk management practices and controls environment in the business for risk including regulatory and legislative compliance. Company Secretariat ensure that the appropriate governance activity is scheduled, completed and documented in line with good corporate governance practices. Regulatory returns (e.g. Own Risk and Solvency Assessments, Regulatory Statutory Returns, Regular Supervisory Reports, and Solvency and Financial Condition Reports) and communications are made in a timely and accurate manner, and appropriate relationships are maintained with the appropriate bodies on an ongoing basis (the Financial Conduct Authority, Information Commissioner's Office, and the Prudential Regulation Authority). The third line of defence comprises Group Internal Audit as the assurance function, which provides an independent and balanced view of the effectiveness of the first and second line functions. Group Internal Audit delivers an annual audit plan that is agreed by the Audit Committee and provides assurance over the effectiveness of the control environment across the business. They additionally carry out an annual audit on Internal Financial Controls that support the financial statements. The findings from all internal audit reviews are reported to the Audit Committee.

Principle 5 - Remuneration

The Group Board is ultimately responsible for the remuneration policy, with the support of the Remuneration Committee which is mandated to assist the Group Board and the Boards of all the companies within the Vitality Group in fulfilling their responsibilities.

The Remuneration Committee has clearly defined terms of reference. The overarching purpose of the Remuneration Committee is to consider, agree, and recommend to the Group Board the remuneration policy and philosophy for the organisation and ensure that is aligned with their long-term business strategy, its business objectives, its risk appetite, values and long term interests of the businesses and recognises the interests of relevant stakeholders.

The Remuneration Policy is designed to align with Vitality’s ambitions of:

- attracting, retaining and motivating high calibre employees;
- encouraging and rewarding employees to achieve or exceed the business objectives;
- aligning the economic interest of employees with those of the shareholder;
- providing an environment that encourages innovative thinking and extraordinary performance;
- bringing consistency, transparency and equity to pay principles; and
- fostering Vitality’s owner-manager culture.

The Remuneration Committee has the benefit of an external remuneration expert who attends and advises at each committee meeting.

Vitality is able to demonstrate that it practises the 'equivalent pay for equivalent work' principle. Further information on the gender pay gap is included in Principle 6.

A Single Incentive Scheme is in place to incentivise key individuals to deliver improvements in performance, by aligning their interests with Vitality's longer term strategic goals. The Remuneration Committee has the discretion to moderate incentive allocations and business performance scores. A Governance Report prepared by the Chair of the Risk Committee is prepared to assist with this process.

Principle 6 – Stakeholders

The Boards of the Vitality Group seek to consider and effectively manage wider stakeholder relationships through good governance and communication in order to deliver the purpose of the Vitality Group and to protect its brand and reputation. The Boards seek to align group strategic objectives with their purpose whilst considering outcomes for members (customers), employees (our people), Regulators, Shareholder, Business Partners (suppliers) and financial advisors.

Information on Vitality's position and prospects is included in the Strategic Report.

Suppliers

A strategic approach to Sourcing gives Vitality the competitive edge in the market. The approach to Sourcing has been designed to match the pace of the businesses and to always strive for commercial innovation from suppliers. From a cost management perspective, the businesses ensure they are getting full value for money by securing sustainable value during negotiations and careful management of the number of suppliers selected. Members benefit through careful selection of only those suppliers which meet stringent levels of quality and delivery. Vitality meets regulatory obligations by having a thoroughly governed and consistent approach to supplier selection and contracting. There is a framework for clear oversight and accountability for developing healthy relationships with suppliers, which involves initial and ongoing analysis of suppliers to measure criticality to the business and ensure the correct level of governance is in place. A supplier code of conduct has been formulated which must be adhered to and is included within any contractual arrangement, which includes Vitality's approach to sustainability, diversity and inclusion. Vitality takes pride in its suppliers and so each year hosts a Supplier Awards ceremony to update them on the current business strategy and importantly recognise providers for their outstanding contributions.

Outsourcing Committee

The Outsourcing Committee exists to provide senior management with oversight of all outsourcing activity carried out by the Vitality Group. This includes any outsourcing carried out by the Discovery Group in South Africa.

Outsourcing is fully defined in the Outsourcing Policy. At a high-level it is explained as:

“An arrangement of any kind between Vitality and a third-party service provider by which that service provider performs a function or activity that would otherwise be reasonably undertaken by Vitality itself.”

The Outsourcing Committee aims to ensure that any such outsourcing is performed in accordance with the standards set in the Outsourcing Policy. Meeting these standards enables the organisation to fully meet the specific obligations set out in the FCA’s Handbook and the PRA Rule Book.

Specifically, the Outsourcing Committee examines the suitability of new outsourcing arrangements, the performance and risk profile of current arrangements and the management of terminating relationships.

In addition to the above primary objective, the Outsourcing Committee also reviews any Vitality Benefit Partners and Third-Party Suppliers who are considered materially important to the Vitality Group. Such reviews will be carried out in the same manner as the Outsourcing Service Provider reviews.

Employee Engagement

Vitality employs close on 2,770 employees at three sites in the United Kingdom, and one in South Africa.

“Great people” and “liberating the best in people” are values Vitality hold dear. Vitality knows that attracting, developing, motivating and retaining top calibre employees from diverse backgrounds will help its businesses succeed in its core purpose: to make people (including employees) healthier, and enhance and protect their lives.

Promoting employee engagement has become even more critical in the past year on account of demand for talent significantly outstripping supply in the UK.

Employee experience surveys

Vitality's employee net promoter (eNPS) score has improved consistently in the past 18 months, climbing to +37 (place to work) in April this year, which is in the 'great category':

Vitality-wide results	Dec 2020	June 2021	Dec 2021	Mar 2022	Oct 22	Apr 23
Place to work	+39	+15	+14	+23	+31	+37
Product and services	+51	+34	+32	+32	+38	+47

Employee wellbeing

Vitality's ambition is to be the model employer for employee wellness, and Vitality's employee wellbeing strategy comprises five pillars:

1. Physical wellbeing

Support provided to employees in the past year included weekly online classes (HIIT, yoga, Pilates, mindfulness); Vitality's annual Steptember campaign (with over 900 employees clocking more than one million steps); 1-2-1 wellbeing coaching sessions; on-site health checks and step tests; and free admission to sponsored run events. In 2023, Vitality will launch two personalised employee wellbeing campaigns, focused on type 2 diabetes and ADHD.

2. Mental wellbeing

Employees have access to a network of trained mental health champions, talking therapies, mindfulness apps, and an employee assistance programme. In 2022/2023, additional support provided included mental health awareness training for managers, and campaigns featuring tips, resources and employee stories to coincide with World Mental Health Day and Mental Health Awareness Week.

3. Financial wellbeing

Vitality's partnerships with Salary Finance and London and Country give employees access to responsible, inexpensive loans and debt consolidation services, and fee-free mortgage advice. To help employees with the cost of living crisis, Vitality:

- Paid employees earning below the UK's median household income a monthly cost of living allowance,
- Implemented differentiated increases in Vitality's annual pay review, with lower earning staff getting higher increases than other employees,
- Organised financial wellbeing campaigns featuring expert support and guidance on navigating the cost of living crisis, and
- Introduced a pay advance service.

4. Lifestyle

Vitality provides employees with free healthy breakfasts and lunches approved by an in-house nutritionist. Vitality also offer menopause, fertility, new parent and men's health support services. This year Vitality introduced a 'buddy scheme' to facilitate the return to work of employees after parental leave.

5. Social well-being

Vitality's communications platform, VITL, offers opportunities for employees to connect and collaborate through community spaces and information hubs. Initiatives to ensure that employees feel connected in the new hybrid working world include a virtual book club, 'getting to know you' sessions for new joiners hosted by executives, and access to a Community Active Fund offering £1,000 grants to support employees' local sports clubs. Vitality recently introduced a 'Make It Happen Fund', which sponsors in-house sports teams.

Other interventions included:

- Lunch-time leadership runs and walks at all Vitality offices;
- A family pitch day at the Bournemouth Vitality stadium, raising funds for AFC Bournemouth Community Sports Trust;
- Volunteering with Future Frontiers to provide career coaching to 25 secondary school pupils from disadvantaged backgrounds.

Sustainability

Vitality's ambition is to be carbon neutral by 2025, and to achieve zero net emissions by 2050 or earlier. To help employees lead greener and more sustainable lives, Vitality partnered with Pawprint, a platform which enables employees to calculate their carbon footprints and advises them on steps to take to reduce their impact on the environment. A competition in the first half of 2023 saw departments competing to reduce their collective carbon emissions.

In addition, Vitality has:

- Launched a salary sacrifice electric vehicle scheme;
- Introduced a car-pooling scheme;
- Provided employees with branded mugs and reusable water bottles and discontinued single-use plastics;
- Appointed 15 Green champions;
- Established a Green hub on the intranet platform, containing eco tips, resources and employee stories;
- Introduced meat-free days at Vitality's on-site restaurants; and
- Introduced free eco-friendly period products.

Diversity and inclusion

Vitality is committed to diversity and inclusion because it's good for Vitality employees, for Vitality as a business, and for society.

Vitality want all their great people to bring all of themselves to work, so that they can liberate the best in themselves. Vitality knows that diversity fosters innovation, which is part of Vitality's DNA. And Vitality believes that inclusive diversity promotes social cohesion, which benefits society.

Diversity and inclusion chime with Vitality's shared value model, and advance Vitality's core purpose, which is to make people healthier and enhance and protect their lives. Diversity and inclusion are also explicitly called out in Vitality's values.

Gender

A key focus has been to increase female representation at senior levels, and to reduce Vitality's gender pay gap. Vitality is a signatory to the Women in Finance Charter and have committed to gender parity at senior levels by 2025. Currently females comprise 46.6% of employees in the top three tiers of the organisation. To realise this goal, a target of 60% has been set for female external appointments to roles with annual salaries of more that £50,000.

Since 2018, Vitality has reduced its mean gender pay gap by over 12%.

	2018	2019	2020	2021	2022	2023
Mean pay gap	31.55	26.59	25.79	22.92	20.94	19.60
Median pay gap	16.50	15.52	15.03	12.12	10.28	9.81

Vitality's mean pay gap is considerably lower than the financial services sector average of 26.6% and Vitality compare favourably on the median pay gap measure.

Ethnicity

Vitality's ethnicity pay gap is significantly smaller than its gender pay gap. It has increased in the past year. (Fewer numbers in this cohort of employees make it sensitive to relatively minor changes.) A total of 13.7% of Vitality's employees who have disclosed their ethnicity are black, Asian or from a minority ethnic background.

	2020	2021	2022	2023
Mean pay gap	2.14%	4.28%	4.53%	6.53%
Median pay gap	- 9.62%	1.83%	- 2.88%	-1.08%

LGBTQ+

Vitality established an LGBTQ+ forum this year, which (like the forums for other affinity groups) is chaired by a member of the group executive team. The forum was consulted on a range of initiatives to mark Pride month.

Shareholder

Vitality is ultimately owned by Discovery Limited. There is shareholder representation on the Boards of the Companies. The Boards are responsible for managing the outcomes for a number of stakeholders which may not always align with each other across the organisation. These Boards oversee and govern the management of the businesses and make decisions on behalf of the stakeholders including the Shareholder, in order to deliver shareholder value.

Customers

Vitality is obsessed with customers and their experience because Vitality empathise as though their problems are its own and recognise the impact of their actions on the people Vitality serves. Vitality articulates this care through intuitive customer journeys and an approach to managing service centred on statistics, as well as accounting for every single interaction. Anecdotes matter. Vitality uses every customer touchpoint to nurture lifelong relationships.

Vitality is committed to ensuring that its conduct is in the best interests of Vitality's customers and Vitality is treating them fairly. That's why Vitality has processes in place that identify customers who may be vulnerable and ensure they are treated appropriately. Vitality's Regulatory and Conduct Risk Policy recognises Vulnerable Customers and sets out appropriate levels of care.

Customer outcomes are governed by looking at:

- Products - Products and services developed, marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Marketing – Customers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- Distribution – When customers receive advice, Vitality consider the suitability of the advice and take account of customers circumstances;
- Servicing and Performance – Members are provided with products and associated services that perform as Vitality has led them to expect;
- Complaints – Members do not face unreasonable post-sale barriers imposed by Vitality to change product, switch provider, submit a claim or make a complaint; and
- Data Privacy – ensure that members' data is used appropriately, stored securely and deleted when requested.

Principal decisions made (S.172)

The Directors are fully aware of their responsibilities to act in good faith and in a way that would be most likely to promote the success of Vitality, for the benefit of its members as a whole, in accordance with section 172 of the Companies Act and they have acted in accordance with these responsibilities during the year. To discharge their section 172 (1) (a-f) responsibilities the Board has had regard to these factors when making the principal decisions of Vitality. All decisions have been made to promote the long term success of Vitality. Further information is contained in the Strategic Report.

The Board is committed to maintaining the highest standards of corporate governance and business conduct and the nine Values underpin how Vitality and the Board operates. Vitality's Shared Value Model underpins its core purpose to help people lead healthier lives. It is based on the concept of interventions made by Vitality as an insurer will inspire behavioural change among its members – for the better. It is an incentive-based model in which members are rewarded through a range of partners and benefits when they take steps to be healthy.

As market disruptors, Vitality continues to transform the world of insurance through Shared Value. Society is increasingly demanding that companies have a strong social purpose and, by focusing on creating a healthier society, Vitality is truly at the forefront of this. It is good for Vitality's members, good for Vitality and good for society.

Vitality operates a One Vitality vision and purpose, delivering a seamless customer experience. Whilst combined Board meetings are convened, separate Board meetings for the individual entities are also convened to consider any matters specifically reserved for the specific Boards.

In accordance with Section 172 of the Companies Act, Vitality's key stakeholders are considered when making decisions. Vitality's key stakeholders are members (customers), employees (our people), Regulators, shareholder, Business Partners (suppliers) and financial advisors.

Customers

One of Vitality's core values is, Customer, Customer, Customer.

The Board ensures that it keeps up to date with the needs of the customer through MI and regular training. During the course of the year, deep dives were provided on areas such as Vulnerable Customers, Consumer Duty and Ethical Decision-Making.

With the introduction of the Consumer Duty Regulation, a Consumer Duty Steering Committee was established, with independent non-executive director (iNED) representation and chaired by the Company Chair who fulfilled the role of interim Consumer Duty Champion until the appointment at the beginning of August 2023 of an additional iNED to hold this role. Its aim was to oversee the implementation of the Consumer Duty regulation across Vitality.

In July 2022, Vitality also appointed a Chief Customer Officer.

In February 2023, Vitality continued to lead the way as the next generation of insurer in the UK protection market with the launch of a series of VitalityLife product innovations and enhancements. The launch provided protection products that can be fully embedded into people's lives and directly meet their specific needs.

Information relating to the key decisions on the future of VitalityCar and VitalityInvest is included in the strategic report within the 'principal activities and business review' section.

Our People

The independent non-executive Directors engage regularly with employees through manager forums and organised site visits to gain additional insight into Vitality.

The Board recognises the benefits of a diverse workforce and an inclusive culture. Diversity fosters innovation, which is part of Vitality's DNA. Vitality believes that inclusive diversity promotes social cohesion, which benefits society.

The CEO addresses all employees four times a year to provide a formal update on Vitality's performance. A series of 'In conversation with…' interviews are conducted where the CEO chats with senior leaders at Vitality on a range of topics, exploring their thoughts and insights on the business. The CEO and senior management visit all offices to meet with employees.

As part of the governance requirements, the Remuneration Committee reviews and approves the bi-annual award of short-term incentives to employees, considering factors such as, governance, customer service, internal gender diversity targets, profit and sales.

In accordance with regulatory guidance, the Remuneration Committee also oversees the remuneration and incentives for all aspects of remuneration relating to the Group CEO and his direct reports, and those staff holding controlled functions. The Committee also considered and approved employees' annual salary increases and any LTIP allocations.

A governance rating determined by the Chairs of all Committees of the Board, is also applied. This rating takes into account a wide array of Vitality's governance including compliance and assurance activity, complaints, risk management and the general governance arrangements.

During the year the London and Croydon offices relocated to 80 Strand. The move embraced the hybrid working model whilst also providing improved sustainability credentials and a better working environment for all employees. Vitality's office in Bournemouth will also be relocating to new premises in 2024.

A key decision in Q1 of the financial year was in relation to the rising cost of living. Vitality recognised that everyone was being affected by the increase in prices and paid employees earning below the UK's median household income a monthly cost of living allowance.

Vitality has a zero tolerance approach to acts of bribery and corruption. A Group Financial Crime Policy is in place that includes robust requirements that are in line with the UK Bribery Act 2010 that all employees are required to comply with.

Business Partners (Suppliers)

To ensure that supply risk is mitigated appropriately all activity is managed in line with the Sourcing and Outsourcing Policy. The Policy ensures that relationships with business partners deliver maximum commercial value and acceptable business risk against the backdrop of the Strategy and Business Plan approved by the Directors.

The Board receives updates as necessary from management on suppliers.

The Group Board considers and approves the Policy on Modern Slavery on an annual basis (on behalf of all companies within the Vitality Group). The statement and supporting policy ensure compliance with the Modern Slavery Act.

Regulators

A constructive and open relationship is maintained with the regulators. Throughout the year regular engagement meetings are held between the Regulators, Directors and key personnel.

Shareholders

The Strategy, that is approved by the Board, is in place to support long term profitability and growth. It is determined by the Board in the context of the parent company's group-wide strategy.

There is regular interaction with the shareholder.

ESG

The Chief Sustainability Officer is responsible for driving the ESG agenda. Vitality has committed to targeting carbon neutrality by 2025 and net zero by no later than 2050. Vitality's ESG strategy emphasises a focus on social impact through its core purpose of making people healthier and enhancing and protecting their lives.

Environmental Reporting

Vitality is part of the Discovery Group (“Discovery"), a global financial services organisation. Discovery has publicly set out its climate change position for the whole group which acknowledges that this is one of the key risks facing businesses and society. As well as government commitments, there is growing pressure from both society and investors for companies to align their business models with a net-zero future.

This provides an opportunity to address both health and climate-related challenges, given their inter-dependencies. As a global financial services organisation, Discovery recognises that its ability to do business is fundamentally linked to the sustainable well-being of the communities in which it operates.

Vitality’s core purpose of making people healthier and enhancing and protecting their lives is aligned to the goal of maintaining an environment that enables and sustains good health. In addition, through Vitality’s Shared-Value business model, Vitality plays a significant role in influencing the members’ health and financial behaviour, and the value created from this behaviour change is shared with the members and society.

Vitality’s climate change strategy has set targets to achieve Carbon Neutrality by 2025 and Net Zero by 2050 or earlier with the aim of publishing a Net Zero plan by 2025 which will include interim targets. Vitality will continue to focus on the following:

- Assess and acknowledge potential climate-related risks and opportunities, and formulate appropriate strategies;
- Integrate climate-change issues into Vitality Group policies and practices, including investments, procurement and partnerships;
- Set science-based targets aligned with global best practice for direct and indirect greenhouse gas emissions;
- Innovate to develop products and services that help our members make more sustainable choices;
- Drive climate action and advocacy through industry and policy engagement; and
- Disclose and report on climate-related risks, strategies, targets and progress that are aligned with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

<u>Climate-related Financial Disclosures</u>

(a) a description of the governance arrangements of the company in relation to assessing and managing climate-related risks and opportunities

- The Board appointed a Chief Sustainability Officer (CSO) in 2021 who is a member of both the Group Executive Committee and of the Group Board.

- The CSO is the designated Senior Manger Function (SMF) individual with clear responsibility for the financial risks from climate change, which are included within the Sustainability strategy.

- The Board approves the Sustainability strategy and updates are presented at Board meetings.

- In 2022, the ultimate parent company Discovery set up a Group ESG Executive Committee that considers ESG risks and opportunities at a Group level, that is attended by the UK CSO, and is chaired by Discovery Group CEO and founder, Adrian Gore.

- Vitality’s Risk Committee and Audit Committee monitor the Key Risk Indicators for all Sustainability risks, including climate-related risks and opportunities, which are presented quarterly and are supported by appropriate metrics and targets.

- The CSO established and chairs Vitality’s Sustainability Executive Committee which drives action in line with the approved Sustainability strategy and monitors and provides oversight on its delivery.

- The CSO reports regularly to the Group Executive Committee on both risks and opportunities associated with climate change and reports quarterly to the Risk Committee, Audit Committee and Board.

- Vitality engages with specialist consultancies to gain insight into best practice and participate and participate/present at industry forums.

- The Corporate Scorecard includes a target measure for ESG measures that affects the bonus for all employees.

(b) a description of how the company identifies, assesses and manages climate-related risk and opportunities

- **Identify**: Climate Change risk workshops were held in 2022 with key stakeholders across the business to ensure climate and sustainability risks and opportunities have been considered. The output was presented and reviewed at the Group Executive Committee and Risk Committee.

- **Assess**: Climate change risks have been assessed by their potential likelihood and impact on Vitality. The assessment shows that Vitality expect transitional risks to be of higher impact than physical risks in the short term (next five years). A quantitative Climate Change scenario is included in the ORSAs which explores these impacts.

- **Manage**: Controls and mitigants are in place for climate change and sustainability risks, such as the Sustainability strategy directed by the CSO, SS3/19 internal audit, regulatory change identification and management processes, corporate bond thresholds and supplier due diligence. Given the emerging nature of these risks, ongoing risk reviews and industry collaboration are pursued to ensure best practice and resilience.

- **Monitor**: Quantitative and qualitative Key Risk Indicators (KRIs) for Sustainability risks are regularly monitored, and performance assessed against the Risk Appetite Statement (RAS) for climate change.

- **Report**: Sustainability focused Audit reports, CRO reports, supported by Risk and Control assessments, and compliance updates have been provided to the Risk Committee and Audit Committee for review and increased awareness.

(c) a description of how processes for identifying, assessing and managing climate-related risk are integrated into the overall risk management process in the company

- **Identify:** Climate-related financial risk is integrated into Vitality's ERM framework. It is specifically recognised in the risk taxonomy under Sustainability Risk within Strategic Risk.

- **Assess:** All risks within the Risk taxonomy are rated on potential likelihood and impact of occurring, both before and after management actions. The quantitative Climate Change scenario in the ORSAs, influenced by the Bank of England Climate Biennial Exploratory Scenario (CBES) exercise explores these impacts.

- **Manage:** The existing policies and minimum standards were assessed in 2021 to apply an improved level of guidance for the implementation of Vitality's climate change and Sustainability strategy.

- **Monitor:** Sustainability risks and controls are assessed quarterly as part of Vitality's regular Risk and Control Self-Assessment (RCSA) process.

- **Report:** The outputs from the RCSAs and from Sustainability Committee reports are summarised and shared regularly with the Risk Committee. Sustainability and climate change updates are included in the Group CEO report at board meetings.

(d) a description of – (i) the principal climate-related risks and opportunities arising in connection with the operations of the company, and (ii) the time periods by reference to which those risks and opportunities are assessed.

- Risks are distinguished between the short term (less than one year), medium term (one – five years), and long term (beyond five years).

- Transitional risks include:
  - Regulatory Risks (short to medium term) – risk of increased regulation as the UK transitions to Net Zero could lead to increased resource and training needed;
  - Reputational Risks (short to long term) – increasing expectations from all stakeholders and greenwashing risks could lead to increased resource and training needed;
  - Market Risks (medium to long term) – exposure to carbon intensive assets is limited. Development of carbon market and reliance on carbon offsets for carbon neutral commitment; and
  - Technology Risks (short to long term) – reliance on technology advancements in the Net Zero strategy.

- Physical risks include:
  - Operational risks (long term) – business continuity plans, and work-from-home resilience has been tested during the pandemic; and
  - Claims risks (long term) – long term impact on health from air pollution, extreme heat and increased exposure to diseases.

- Legal risks (medium to long term) - increase in litigation cases

- Opportunities include:
  - Resource efficiency and energy sources – office building and nurses' fleet efficiencies as well as staff commuting opportunities; and
  - Products and services – the Vitality Programme provides the ability to influence members to make more sustainable choices.

(e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company.

- In the short term, the most material risks to Vitality are reputational, which are managed through the effective implementation of the climate and Sustainability strategy and regular reporting on progress. These risks are well managed and hence not deemed material.

- Vitality has no appetite for non-compliance with regulation, therefore the increase in regulatory reporting will have an impact on business planning and resourcing. In the short-term Vitality may see increased costs in response to policy risks which can be incorporated into the annual budgeting process. This risk is well managed and hence not deemed material.

- As a health and life insurer, Vitality monitors the impact of climate change on health. This is expected to materialise in the longer term, depending on the speed at which the global net zero ambition is achieved. The impact is deemed to be non-material in the short to medium term. The impact for the long term is not known but is managed through the provision of reinsurance and the ability to reprice general insurance contracts.

- Vitality is already exploiting opportunities to reduce emissions associated with running its business in terms of the buildings it operates and the vehicles used, with little impact on the business model and strategy.

(f) an analysis of the resilience of the business model and strategy of the company, taking into consideration different climate-related scenarios.

- Vitality includes a quantitative scenario for climate change in the Own Risk and Solvency Assessment (ORSA) process, informed by the Bank of England Climate Biennial Exploratory Scenarios (CBES).

- The Vitality scenario had a particular focus on the economic and policy lapse implications of the Late Action scenario, which is the most extreme in terms of transition risks, which in Vitality's view, outweigh the impacts faced from physical risks. As the business plan projection covers a 5-year time horizon, Vitality accelerated the climate change impacts to the start of the business plan projection, i.e. assuming that the disorderly transition starts in 2023 rather than 2031.

- The response to climate change is also recognised as a potential driver in the reputational and pandemic ORSA scenarios.

- The output of the scenario test indicated that the impact on the business in the short-term is limited and manageable given the nature of the claims and investment risks.

(g) a description of the targets used by the company to manage climate-related risks <u>and</u> to realise climate-related opportunities <u>and</u> of performance against those targets.

- **Vitality's Climate Ambitions:**
  - Short term: Carbon neutral within own directly controlled operations by 2025 (scope 1 and 2 emissions offset using high-quality carbon credits).
  - Medium to long term: Achieve net zero by 2050 or earlier (a reduction in our scope 1, 2 and 3 emissions of 90%, with the last 10% offset using only high-quality carbon removal projects).

- **Interim targets (compared to FY 2019 baseline):**
  - By 2025, Vitality aims to publish its first transition plan to achieve net-zero GHG emissions by 2050 or earlier and adopt science-based targets across all activities. The Group Net Zero project has started, and Vitality is currently on track to meet this target.

- In addition, Vitality's bonus scorecard includes ESG performance targets.

(h) the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.

Strategy alignment	Type of risk / opportunity	Metrics / KPIs used to assess progress against targets
Pillar 1: Align Embedding Sustainability into our culture and decision making	Opportunities: Resource efficiency	a. Scope 1 and 2 GHG emissions b. The % of our fleet vehicles that are hybrid and/or EV c. The energy rating of our office buildings d. The carbon intensity of our employees commuting to work and travelling for business e.g. the carbon emissions per employee e. Food waste in all offices f. Water usage in all offices
	Opportunity: Energy sources	a. The % of our electricity coming from renewable sources b. The % of our gas coming from renewable sources
	Transition risk: Reputational	a. Employee satisfaction metric, which gauges our employee's perception of our commitment to reducing our carbon footprint. b. The journey to increasingly digital journeys e.g. print spend, the % of claims completed digitally
	Transition risk: Market	a. The carbon intensity and externally rated ESG ratings for our invested assets
Pillar 2: Influence Driving positive change through collaborating with partners and suppliers	Transition risk: Reputational	a. Scope 3 GHG emissions b. The % of our partners and suppliers publishing their GHG emissions c. The % of our partners and suppliers who are also aligned to science-based targets d. Supplier Engagement Framework with associated materiality-based Risk matrix
Pillar 3: Impact Enabling people to make more sustainability choices through Vitality products and services	Opportunity: Products and services	a. Number of car-free days per VitalityCar member b. Average % of a VitalityCar members miles being offset c. Total number of miles and tCO2e offset Note that VitalityCar is now closed to new business and hence will not feature in the future.

Direct environmental footprint

The direct environmental impact of Vitality's operations is relatively low since there is no manufacturing element to the business. However, the urgency of action on climate change is recognised and the need for responsible environmental policies, practices and education.

Vitality is committed to reducing its direct environmental footprint. This has happened in a number of places, for example:

- Full building energy and environmental surveys across the property portfolio in order to identify areas where emissions can be reduced;

- Vitality has undertaken a wholesale relocation and downsizing of the London property estate, moving to more efficient premises including repurposing of original furniture and ethically recycling to avoid waste to landfill;

- Approval has been granted to relocate the Bournemouth office to a newer and more efficient premises including repurposing of original furniture and ethically recycling to avoid waste to landfill;

- Food waste management and measuring was introduced as well as meat free days in Vitality's on-site restaurants;

- Replaced 8 out of 17 of the Nurse vehicle fleet with Plug-in Hybrid Electric Vehicles, and an agreement to replace the rest with full self-charging Hybrid vehicles in H2 2023;

- 95% renewable electricity contracts are in place as well as carbon offset gas contracts. A plan is being developed to move the remaining contracts to renewable;

- Continued increased usage of video conferencing facilities to reduce the travel carbon footprint of the business;

- Reduction of paper usage through data collation for customer documentation, marketing collateral and magazines, photocopier paper and hand towel usage using sustainable sources; and

- Vitality is working on the ESOS submission for 2023/2024 to maintain the compliance achieved in 2019.

The following table shows the financial year ended 30 June 2023 unaudited direct carbon emissions for Vitality. It is not been possible to collate this data for each of the Companies as Vitality Corporate Services Limited enters into all such supply contracts on behalf of all the Companies within the Vitality Group.

	2022/2023 kWh	**2022/2023 tCO2e**	**2022/2023 tCO2e per employee**
Electricity Consumption (kWh)	1,933,154	400	0.16
Gas Consumption (kWh)	1,700,600	311	0.13
Business Travel – Land (kWh)	591,812	143	0.06
Total	**4,225,566**	**854**	**0.35**

The following table shows the financial year ended 30 June 2022 unaudited direct carbon emissions for the Vitality Group.

	2021/2022 kWh	**2021/2022 tCO2e**	**2021/2022 tCO2e per employee**
Electricity Consumption (kWh)	1,864,095	361	0.16
Gas Consumption (kWh)	1,617,155	295	0.13
Business Travel – Land (kWh)	548,366	134	0.06
Total	**4,029,616**	**790**	**0.34**

The Streamlined Energy & Carbon (SECR) report was compiled independently by energy consultants Briar Consulting Engineers Limited. The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed. The 2022 UK Government GHG Conversion Factors for Company reporting were used in emission calculations as these relate to the reporting period. The data underlying the preparation of the report which was provided by Vitality has been reviewed independently by Briar (Briar Consulting Engineers Limited).

The energy data was collated from energy invoices, meter reads and mileage records, through existing reporting mechanisms that Vitality already has in place. This energy data was converted to carbon emissions using emission factors provided by the Department of Business, Energy & Industrial Strategy that relate to the beginning of each respective reporting year.

The associated emissions are divided into the combustion of fuels and the operation of facilities (scope 1), purchased electricity (scope 2) and the in-direct emissions that occur because of company activities (scope 3). Emissions for vehicle consumption were derived from mileage records and account for all fuel consumed by company cars, grey fleet and hire cars, known as Business Travel - Land for Vitality Corporate Services Limited.

On behalf of the board

Neville Koopowitz

Chief Executive Officer and Director
Discovery Holdings Europe Limited (Reg No: 05933172)
29 November 2023

Apart from the appointments and resignations listed below, the Directors listed on page 3 were in office for the whole financial year and up to the date of signing the financial statements.

- Joanne Kenrick was appointed as independent non-executive Director on 1 August 2023

The Directors are not subject to standing for re-election by rotation.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. Vitality also purchased and maintained throughout the financial year Directors' and officers' liability insurance in respect of itself and its Directors.

Going concern

Going concern has been evaluated by the Directors of the Company. They concluded that it was reasonable to expect the Company and Group to remain in business for a period of not less than 12 months from the date of signing of the financial statements.

In performing this evaluation the Directors of the Company have considered the board approved business plans of the Company and of the companies for which it acts as the holding company to support the solvency and liquidity requirements of the business for the next 12 months.

Results and dividend

The results for the year ended 30 June 2023 for the Group are set out on page 39, within the Consolidated statement of comprehensive income.

The results for the year ended 30 June 2023 for the Company are set out on page122, within the Statement of comprehensive income.

No dividend was paid or proposed in the year ended 30 June 2023 (2022: £nil).

Capital management

The Group's objectives when managing capital are to safeguard Vitality's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The policies and processes in place are to review and report capital levels to management, and to project future capital requirements on a monthly basis. For more information about capital risk see note 2.

Financial risk management

Financial risks are managed as outlined in note 2 to the financial statements.

Events after the reporting year

See note 41 for details.

Future developments

See the Strategic report on page 8 for future developments.

Political donations and political expenditure

No contributions were made for political purposes during the year 2022: (£nil).

Employee matters

Employees and leaders are updated regularly on business performance: Vitality holds regular CEO live broadcasts to employees, strategy update sessions with senior leaders, and communicates business scorecard performance to employees twice a year as part of Vitality's bi-annual bonus process.

Vitality actively encourages job applications from candidates from diverse backgrounds and is committed to providing equal opportunities to all candidates, including those with disabilities, at every stage in the employee lifecycle. Disability forms an important part of Vitality's annual Diversity and Inclusion programme and Vitality is committed to encouraging positive conversation about disability and creating an inclusive environment where disabled employees can thrive.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Consolidated Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Independent auditors
The auditors, PricewaterhouseCoopers LLP, have been appointed by the Board as the Company's auditors in accordance with the elective resolution passed by the Company under the Companies Act 2006.

PricewaterhouseCoopers LLP have been the Company's auditors since 2016. Legislation regarding audit firm rotation requires that the external audit contract be put out to tender at least every 10 years.

As required by regulation, the directors fulfilled their requirements to participate in a competitive tender for the audit of the Company. As a result a recommendation will be made to the Board to appoint Deloitte LLP for the audit of the Company for the financial year ending 30 June 2024. A resolution proposing their appointment will be made following the finalisation of the 30 June 2023 audit.

On behalf of the board

Neville Koopowitz

Chief Executive Officer and Director

Discovery Holdings Europe Limited (Reg No: 05933172)

29 November 2023

Report on the audit of the financial statements

Opinion

In our opinion, Discovery Holdings Europe Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 June 2023 and of the group's profit, the company's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statement of financial position as at 30 June 2023; the Consolidated and Company Statement of Comprehensive Income, the Consolidated and Company Statement of Cash Flows and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements 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 based on these responsibilities.

With respect to the Strategic report and the Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Report of the Directors for the year ended 30 June 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 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 economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulatory Authority ('PRA') and Financial Conduct Authority ('FCA') and UK tax legislation applicable to the group, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in key estimates and judgemental areas of the financial statements, such as the valuation of insurance contracts. Audit procedures performed by the engagement team included:

- Designing audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion;
- Enquiries of the Board, Audit Committee, management, the risk and compliance function and internal audit;
- Review of internal audit reports, compliance reports and whistleblowing reports is so far as they are related to the financial statements;
- Gaining an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.
- Discussions with the Board, Audit Committee, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing correspondence between the Company and the PRA, FCA and HMRC in relation to compliance with laws and regulations;
- Reviewing relevant Board meeting minutes including those of the Risk Committee and Actuarial Committee, as well as attending all Audit Committee meetings;
- Procedures relating to the significant assumptions made in the actuarial reserving methodology;
- Identifying and testing a sample of journal entries, in particular any journal entries posted with unusual account combinations such as a credit to premiums and a debit to an unexpected balance sheet account, which may be indicative of the overstatement or manipulation of revenue;
- Performing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matter

The financial statements for the year ended 30 June 2022, forming the corresponding figures of the financial statements for the year ended 30 June 2023, are unaudited.

Sean Forster (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 November 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Note	Year ended 30 June 2023 £'000	Year ended 30 June 2022* Unaudited £'000
Revenue			
Insurance premium revenue	4	1,020,586	1,188,163
Reinsurance premiums	4	(262,600)	(216,069)
Net insurance premium revenue		**757,986**	**972,094**
Investment income	5	10,784	7,745
Net fair value gains / (losses) on financial assets at fair value through profit or loss	6	47,812	(191,608)
Vitality income	7	32,632	30,559
Other income	7	10,732	7,376
Net income		**859,946**	**826,166**
Claims and policyholders' benefits	8	(855,349)	(414,303)
Insurance claims recovered from reinsurers	8	128,474	103,183
Gross changes in claims outstanding	8	(7,520)	(3,561)
Reinsurers' share of changes in claims outstanding	8	2,857	2,037
Net claims and policyholder benefits		**(731,538)**	**(312,644)**
Acquisition costs	9	(194,050)	(164,933)
Administrative expenses	9	(456,424)	(264,537)
Reinsurers' share of acquisition and administrative expenses	9	167,639	141,140
Net transfer to/from assets and liabilities under insurance contracts			
– change in assets arising from insurance contracts		441,877	(152,108)
– change in liabilities arising from insurance contracts		—	(4,973)
– change in liabilities arising from reinsurance contracts		(958)	(10,676)
Other expenses		(393)	(343)
Profit from operations		**86,099**	**57,092**
Share of net profits/losses of equity-accounted investments		186	175
Finance Costs	13	(27,101)	(13,218)
Profit before tax		**59,184**	**44,049**
Income tax	14	(12,737)	15,697
Profit and total comprehensive income for the year		**46,447**	**59,746**

The Group has no comprehensive income or expense other than the profit for the year recognised in the statement of comprehensive income.

All amounts above are in respect of continuing operations.

* The 2022 financial information presented is unaudited and provided for comparative purposes only.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

		As at 30 June	
		2023	2022 *
			Unaudited
	Note	**£'000**	£'000
ASSETS			
Goodwill	16	34,338	34,338
Intangible assets	17	47,016	49,980
Property and equipment	18	14,277	14,040
Assets arising from insurance contracts	20	868,024	776,259
Deferred acquisition costs	21	53,292	49,036
Assets arising from contracts with customers	22	340,259	301,987
Investment in equity-accounted investees	23	434	297
Deferred tax asset	24	39,971	45,812
Financial assets - investments at amortised cost	25	55,013	10,745
Financial assets - investments at fair value through profit or loss	26	330,719	721,154
Financial assets - derivative financial instruments at fair value through profit or loss	27	—	10,788
Insurance receivables, contract receivables and other receivables	28	482,862	417,115
Current tax asset		249	6,666
Inventory	29	4,064	464
Cash and cash equivalents	30	250,107	324,216
TOTAL ASSETS		**2,520,625**	**2,762,897**
EQUITY			
Ordinary share capital and share premium	31	748,930	744,430
Retained earnings / (accumulated losses)		26,357	(20,090)
Other reserves		(179)	—
TOTAL EQUITY		**775,108**	**724,340**
LIABILITIES			
Liabilities arising from insurance contracts	32	382,396	732,447
Liabilities arising from reinsurance contracts	33	470,524	455,193
Contract liabilities to customers	34	456,663	418,541
Financial liabilities – Borrowings at amortised cost	35	132,737	132,390
Financial liabilities – Derivative financial instruments at fair value through profit or loss	27	—	3,889
Financial liabilities – Other payables	36	303,197	296,097
TOTAL LIABILITIES		**1,745,517**	**2,038,557**
TOTAL EQUITY AND LIABILITIES		**2,520,625**	**2,762,897**

The financial statements on pages 43 to 145 were approved by the Board of Directors on 29 November 2023 and signed on its behalf by

* The 2022 financial information presented is unaudited and provided for comparative purposes only.

Neville Koopowitz
Chief Executive Officer and Director
Discovery Holdings Europe Limited (Reg No: 05933172)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Ordinary share capital	Share premium	(Accumulated losses) / retained profits	Other reserves	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 July 2021 (unaudited*)	**6,088**	**724,342**	**(79,836)**	**—**	**650,594**
Ordinary shares issued	140	13,860	—	—	**14,000**
Profit and total comprehensive income for the year	—	—	59,746	—	**59,746**
At 30 June 2022 and 1 July 2022 (unaudited*)	**6,228**	**738,202**	**(20,090)**	**—**	**724,340**
Ordinary shares issued	45	4,455	—	—	**4,500**
Profit and total comprehensive income for the year	—	—	46,447	—	**46,447**
Share based payment reserve	—	—	—	**(179)**	**(179)**
At 30 June 2023	**6,273**	**742,657**	**26,357**	**(179)**	**775,108**

* The 2021 and 2022 financial information presented is unaudited and provided for comparative purposes only.

The notes on pages 43 to 120 are integral to these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

		Year ended 30 June	
		2023	2022
			Unaudited
	Note	**£'000**	£'000
Cash flows from operating activities			
Profit before tax		59,184	44,049
Adjustments for:			
Net finance costs		14,981	3,816
(Payments for) / receipt of corporation tax		(407)	8,559
Amortisation and impairment of intangible assets	17	28,100	30,252
Depreciation, loss on disposal and impairment of property and equipment	18	6,699	2,814
Depreciation of and interest on right-of-use assets		2,458	2,142
Amortisation of deferred acquisition costs	21	98,203	84,845
Increase in investment in equity-accounted associate	23	(112)	77
Gains on financial assets - investments at fair value through profit or loss	26	(23,972)	58,210
(Gains) / losses on derivative financial instruments at fair value through profit or loss	27	(24,537)	129,517
(Purchase) / sale of inventory	29	(3,600)	151
Other reserves movement		(179)	—
Capitalised finance costs		1,336	1,657
Dividend received		(48)	—
Movement in operating assets and liabilities		(588,709)	(12,507)
Net cash (used in) / from operating activities		**(430,603)**	**353,582**
Cash flows from investing activities			
Investment in intangible assets	17	(25,136)	(24,150)
Purchases of property and equipment	18	(6,936)	(2,547)
Investment in equity-accounted associate	23	(25)	(253)
Purchase of financial assets - investments at fair value through profit or loss		(786,094)	(327,734)
Proceeds from sale of financial assets at fair value through profit and loss	26	1,200,501	96,789
Investment in financial assets at amortised cost	25	(43,300)	(85)
Settlements of derivative contracts	27	31,436	(140,332)
ROUA capitalised expenses		(132)	—
Dividend received		48	—
Interest received		10,784	7,745
Net cash from / (used in) investing activities		**381,146**	**(390,567)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	31	4,500	14,000
Increase in borrowings at amortised cost	35	(989)	27,842
Principal element of lease payments		(2,398)	(2,644)
Interest paid		(25,765)	(11,561)
Net cash (used in) / from financing activities		**(24,652)**	**27,637**
Net decrease in cash and cash equivalents		(74,109)	(9,348)
Cash and cash equivalents at the beginning of the year	30	324,216	333,564
Cash and cash equivalents at the year end	**30**	**250,107**	**324,216**

The notes on pages 43 to 120 are integral to these consolidated financial statements

1 Significant accounting policies

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The preparation of financial statements in conformity with UK-adopted international accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1 (section 1.3).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements, unless otherwise stated.

The year to 30 June 2023 is the first that the Company has prepared consolidated financial statements. The prior year consolidated financial information for the year to 30 June 2022 is unaudited and has been provided for comparative purposes only.

The Company's consolidated financial statements include the full consolidation of the assets and liabilities of the Company and its subsidiary, VCSL. These companies are jointly party to a contract with PAC. Under the legal terms of this contract, PAC underwrites policies sold by VitalityLife prior to 1 January 2016. Policies sold by VitalityLife after this point are underwritten by VLL.

Although the policies are underwritten by PAC from both a legal and regulatory perspective, the contract with VCSL and the Company passes all economic risk and rewards associated with these policies to the Group. DHEL provides funding for these policies on an agreed commercial basis and once that funding has been repaid any profits from these policies are paid over to VCSL.

When considered in the separate financial statements of VCSL and the Company respectively, the nature of the contractual agreement is that of a loan arrangement (in the Company) from the Company to PAC and a profit share arrangement (in VCSL), and are accounted for in those separate financial statements accordingly.

When considering the overall relationship between the Group and PAC for the purposes of the consolidated financial statements of the Company, the transfer of risks and rewards associated with the contractual arrangement meet, in substance, the definition of an insurance contract issued under IFRS 4 - Insurance contracts. Accordingly, the Company includes this insurance contract arrangement in its consolidated financial statements.

This insurance contract arrangement had the following impact on the consolidated financial statements:

- Impact on the consolidated net assets: £49,161k (2022: £53,107k)
- Impact on the consolidated net insurance premium revenue: £73,249 (2022: £79,610)
- Impact on the consolidated administrative expenses: increase in expenses of £76,107 (2022: decrease in expenses of £65,084)
- Impact on the consolidated profit before tax: Reduction in profit by £3,945k (2022: Increase in profit by £109,901k)

The increase in profits by £109,901k in the year to 30 June 2022 was broadly offset by derivative losses in the Company (as part of the Group's strategy to manage interest risk). These are disclosed in Net fair value gains / (losses) on financial assets at fair value through profit and loss.

(i) **New and amended standards adopted**

The below have been adopted in the year and do not have a significant impact on the financial statements:

- Annual Improvements to IFRS 2018-2020 Cycle: Amendments to IFRS 1 Presentation of Financial Statements, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture (published by the IASB in May 2020)
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract (published by the IASB in May 2020)
- Amendments to IFRS 16 Leases: COVID-19 Related Rent Concessions beyond 30 June 2021 (published by the IASB in March 2021)

(ii) **Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted**

Vitality has not early adopted any accounting standards, amendments, or annual improvements issued but not yet effective. There are no standards that are not yet effective, other than as described below, that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

IFRS 17: Insurance Contracts

a) Background

The effective date of IFRS 17 *Insurance Contracts* is for reporting periods beginning on or after 1 January 2023, with comparative restatement of the preceding year. IFRS 17 is therefore mandatory for Vitality, effective from 1 July 2023, with comparative restatement of the financial year ended 30 June 2023, including a restatement of the opening statement of financial position as at 1 July 2022.

IFRS 17 is a new accounting standard for insurance contracts that provides guidelines on recognising, measuring, presenting, and disclosing insurance contracts. It was introduced by the International Accounting Standards Board (IASB) in May 2017 and subsequently amended in June 2020 and December 2021. It was approved for adoption in the UK by the UK Endorsement Board in May 2022.

IFRS 17 replaces the previous standard, IFRS 4 *Insurance Contracts*, issued in 2005 as an interim standard with limited prescribed changes to pre-existing insurance accounting practices applied by insurers.

IFRS 17 represents a positive step towards enhancing transparency, comparability, and understanding of how insurers earn profits from insurance contracts, namely insurance service result and financial results.

Whilst the underlying contractual terms and economic risks and rewards of each insurance contract remain unaltered, IFRS 17 impacts the accounting treatment of insurance contracts and most notably the timing of recognition of insurance related profits and losses for accounting purposes. Importantly, it also separates the insurance related profit or losses between those arising from insurance service results and those arising from financial results.

b) IFRS 17 Project and Progress

Work on the finalisation of key policy and methodology decisions is complete. At this stage, management continue to refine the IFRS 17 models and business operations as well as performing validation procedures over the transition results in line with the final key policies and methodologies. The tax impact also requires finalisation as it is dependent on how the companies in the Group impacted by IFRS 17 utilise the transitional tax loss. Despite there being a remaining level of uncertainty, management has estimated the financial impact of the accounting policy change to enable the restatement of the comparative opening balance as at 1 July 2022.

Throughout the project Vitality has deployed a cross-functional project team and governance structure in respect of the adoption of IFRS 17. The Company's Board of Directors has ultimately responsibility for the implementation of the new accounting standard. Key policy and methodology decisions have been approved and recommended to the Board at various other governance committees – including the Actuarial Committee and the Audit Committee.

As part of the project and governance structure Vitality's management are well integrated into the wider Discovery Limited Group project and governance structures including an IFRS 17 Executive Working Committee which comprises the Insurance business CFOs, Chief Actuaries, and IT specialists from across the Discovery Limited group. The IFRS 17 Executive Working Committee is supported by a Technical Advisory Group comprising IFRS Specialists, Actuaries, Financial Managers, and Tax specialists. The Committee also engages with external professional services firms where necessary.

The primary focus of the project going forward is the restatement of the 30 June 2023 results and balance sheet on an IFRS 17 basis whilst embedding the new business-as-usual IFRS 17 processes and controls across management reporting, statutory reporting, planning and relevant operational areas of the business.

c) Definition and classification

Insurance contracts are contracts under which Vitality accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder should a specified uncertain future event adversely affect the policyholder. For Vitality this comprises of both insurance and reinsurance contracts issued.

A reinsurance contract transfers significant risk if it transfers substantially all the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

Vitality determines whether it has assumed significant insurance risk by comparing benefits payable after an insured event with benefits payable if the insured event had not occurred.

IFRS 17 does not specify what significant insurance risk is. As part of the implementation of IFRS 17 Vitality has used judgement to specifically define significant insurance risk for the purposes of IFRS 17 as follows: The possibility that the present value of losses arising on the insurance contract exceeds 10% of the present value of income and receipts collected when applying a worst-case scenario upon inception of the insurance contract.

As a result of this definition the insurance contracts and associated reinsurance contract held relating to the term, whole of life and income protection policies sold under the brand will be in scope of IFRS 17. The unit-link business sold under the brand VitalityInvest does not fall into scope of IFRS 17 and will be in scope of IFRS 9.

d) Separating components within insurance contracts

IFRS 17 requires an analysis of whether the contract contains components that should be separated from the insurance contract and accounted for under different IFRS standards. IFRS 17 requires that cash flows relating to embedded derivatives, cash flows relating to distinct investment components and promises to transfer distinct goods or distinct services, other than insurance contract services, be accounted for separately.

At transition Vitality has no contracts requiring further separation or a combination of insurance contracts.

e) Transition

IFRS 17 requires the standard to be applied fully retrospectively unless impracticable. If impracticable, the entity can elect to apply a modified retrospective approach or use the fair value approach.

Vitality has applied the modified retrospective approach for the Private Medical Insurance portfolio as of 1 July 2022. It is impracticable to apply the fully retrospective approach as during the financial years ended 30 June 2013 and 30 June 2014 (two of the ten years that insurance acquisition cash flows are being deferred), the data was not collected with sufficient granularity for the purposes of recognising an insurance acquisition cash flow asset, and its omission has an immaterial impact on the equity.

Vitality has applied the fully retrospective approach to all long-term insurance contracts in scope of IFRS 17.

On the transition date, 1 July 2022, Vitality will:

- Identify, recognise, and measure each group of gross insurance contracts and associated reinsurance contracts, as if IFRS 17 had always applied;
- Derecognise any existing IFRS 4 balances;
- Classify reinsurance balances separately depending on whether they are in an asset or liability position at a portfolio level, where previously they were classified at a treaty level; and
- Recognise any resulting net difference in accumulated profit net of any related tax adjustments.

f) Measurement models

IFRS 17 prescribes three possible measurement models.

- The default model is the General Measurement Model (GMM). The GMM is typically used for measuring long-term insurance risk and annuity contracts;
- The GMM is supplemented by the Variable Fee Approach (VFA) for contracts where policyholders have purchased investment-linked insurance contracts integrated with insurance coverage; and
- The Premium Allocation Approach (PAA) is a simplified approach of the GMM for short-duration contracts such as personal lines and private medical insurance.

Vitality will apply the PAA approach to all short-term insurance contracts in scope of IFRS 17, these primarily relate to the private medical insurance portfolio. This is on the basis that the coverage period of each contract is on year or less.

Vitality will apply the GMM for all contracts of insurance in scope of IFRS 17 and has elected to disaggregate Insurance finance income and expense (“IFIE”) for the period in Other Comprehensive Income (“OCI”) and then present in profit or loss IFIE using a systematic allocation.

Insurance finance income and expenses comprises of the change in the carrying amount of a group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

g) Premium Allocation Approach ("PAA")

The PAA simplifies the general measurement model. At initial recognition, the insurance contract is measured as:

- The premiums, if any, received at initial recognition;
- Minus any insurance acquisition cash flows at that date; and
- Plus/minus any amount arising from the derecognition at that date of insurance acquisition cash flow assets and any other asset or liability previously recognised for.

Where insurance acquisition cash flows are directly attributable to a group of contracts, Vitality allocates costs to that group and the groups that will include renewals of those contracts. Vitality expects to recover part of the related insurance acquisition cash flows through renewals of these contracts. The allocation to renewals is based on how Vitality expects to recover those cash flows.

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired,Vitality:

a. Recognises an impairment loss in profit or loss, if required, so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group; and
b. If the asset relates to future renewals, recognises an impairment loss in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, and this excess has not already been recognised as an impairment loss under (a).

Vitality reverses any impairment losses in profit or loss and increases the asset's carrying amount to the extent that the impairment conditions have improved.

g.1) PAA – Accounting Policy Elections

Vitality will apply the PAA for all short-term contracts of insurance in scope of IFRS 17.

For those contracts that apply the PAA, Vitality has elected not to reflect the time value of money in the measurement of the Liability for Remaining Coverage ("LRC") and the Liability for Incurred Claims ("LIC") when:

- LRC: On initial recognition of the contract, the time between the insurance service and the related premium is no more than one year.
- LIC: The cash flows are expected to be paid or received in one year or less from the date the claim is incurred. In some instances, claims might be disputed. If the claim is expected to be disputed and settlement deferred beyond 12 months, the election would not apply.

Vitality has not elected to immediately expense insurance acquisition cash flows. Consistent with the default IFRS 17 requirement, insurance acquisition cash flows will be deferred and amortised over the initial and renewal periods.

g.2) PAA – Significant Judgements and Estimates

Vitality uses judgement in determining the initial and renewal periods for which the insurance acquisition cash flows incurred in the first year of cover are attributed to groups. The initial and subsequent renewal period is set at ten years for the portfolio of PMI contracts.

This ten-year period for the deferral of insurance acquisition cash flows incurred in the first year of cover has been set through analysis of the premium run-off profile of tranches of new business as they renew over time, which reflects the impact of both lapses over time and premium increases at each annual renewal date. Management considers the premium run-off to be an appropriate proxy for the deferral of insurance acquisition cash flows incurred, on the basis that those acquisition costs tend to correlate with premium volumes. For instance, new business commission paid to third party brokers is calculated as a percentage of premium.

Prior to IFRS 17, Vitality's financing reinsurance strategy to offset new business strain under IFRS 4 saw those upfront acquisition costs offset by reinsurance income in the income statement and then unwound over a ten-year period as that new business renewed over time. In transitioning from IFRS 4 to IFRS 17, management considered and assessed the appropriateness of applying a similar ten-year period under IFRS 17.

The below table presents sensitivities on this ten-year period:

Sensitivity	Percentage (decrease) in the estimated asset in respect of the deferral of insurance acquisition cash flows as at 1 July 2022
Period decreased from 10 years to 9 years	(4.9%)
Period decreased from 10 years to 8 years	(10.7%)

h) General measurement model

Under IFRS 17, any company that issues contracts must report those contracts on the Statement of financial position as the total of:

- The expected fulfilment cash flows (EFCF): the current estimates of amounts that the company expects to collect from premiums net of any pay out for claims, benefits, and expenses, including an adjustment for the timing and risk of those amounts, and
- The CSM: the expected profit for providing insurance coverage recognised in profit or loss over the period of insurance coverage.

h.1) Expected Fulfilment cash flows

The measurement of a group of insurance contracts includes all future cash flows expected to arise within the contract boundary of each contract in the group. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which Vitality can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

The IFRS 17 expected fulfilment cash flows comprise a best estimate component and a risk adjustment for non-financial risks. The best estimate cash flows are expected to be broadly consistent with the current IFRS 4 cash flows after removing any margins specifically held under IFRS 4 and allowing for the change in approach to discount rates and time value of money between IFRS 4 and IFRS Vitality applies judgment to determine which cashflows within the boundary of insurance contracts relate directly to the fulfilment of the contracts, including the extent to which fixed and variable overheads are directly attributable to fulfilling insurance contracts.

h.2) Contractual Service Margin ("CSM")

h.2.1) Initial recognition

The CSM represents the future unearned profit. On initial recognition of a group of insurance contracts, if the total of the expected fulfilment cash flows ("EFCF"), including insurance acquisition cash flows:

- is a net inflow, then the group is profitable at inception. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

- is a net outflow, then the group is onerous at inception. In this case, the net outflow is recognised immediately as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

h.2.2) Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC).

- The LRC comprises the fulfilment cash flows related to services that will be provided under the contracts in future periods and any remaining CSM at that date.

- The LIC includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

h.2.3) Impact of changes in Expected Fulfilment Cashflows

IFRS 17 requires a company to update the EFCF at each reporting date, using current estimates of the amount, timing, and uncertainty of cash flows and discount rates. Vitality:

- accounts for changes to estimates of future cash flows from one reporting date to another, either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage (as reflected by the CSM), depending on the type of change and the reason for it; and

- will include Insurance finance income and expenses (“IFIE”) in profit or loss using systematic allocation. The remainder of IFIE is recognised in Other Comprehensive Income.

h.2.4) Changes in CSM

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the financial year, adjusted for:

- interest accreted on the carrying amount of the CSM during the year using discount rates determined on initial recognition of the group (i.e., the locked in rate)

- the CSM of any new groups added in the year.

- the amount recognised as insurance revenue because of the services provided in the year, i.e., release of CSM using coverage units. In determining the coverage units, Vitality has elected to reflect the time value of money in the coverage units using a real rate of return for insurance contracts measured using the GMM.

- The effect of any changes in fulfilment cash flows that relate to future services, except to the extent that:

    a. any increases in the fulfilment cash outflows exceed the carrying amount of the CSM, in which case the excess is recognised immediately in profit or loss.

    b. any decreases in the fulfilment cash outflows are allocated to the loss component, reversing losses previously recognised in profit or loss.

h.3) Time value of money and discount rates

Discounting adjusts the estimates of expected cash flows to reflect the time value of money and the financial risks associated with those cash flows to the extent that the financial risks are not already included in the cash flow estimates.

The following table shows which discount rate to apply throughout measuring a group of insurance contracts and the general objective of determining that discount rate:

Element	Discount Rate
Fulfilment cashflows	Current discount rate
CSM interest accretion for contracts without direct participation features	Discount rates are determined on initial recognition of the group i.e. locked in at inception
Adjustments to the CSM for changes in the fulfilment cash flows for contracts without direct participation features.	

The requirement to use the discount rate at initial recognition in updating the CSM under the GMM leads to a difference between the change in the EFCF and the adjustment to the CSM—the difference between the change in the cash flows measured at the current rate and the change in the cash flows measured at the locked-in discount rate. The difference:

- represents the cumulative effect of changes in financial variables on the underlying change in estimates between the date the insurance contracts were initially recognised and the date of the change in estimates; and

- gives rise to a gain or loss that is included in profit or loss or OCI, depending on the accounting policy choice made for the presentation of insurance finance income or expenses in profit or loss and comprehensive income.

Vitality has elected to present changes in IFIE in OCI with systematic allocation to the profit or loss.

The “bottom-up” approach is used to derive the discount rate for the cash flows. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics of the insurance contracts sold. The determination of the liquidity adjustment is a key judgement for Vitality. In this case Vitality has concluded that the characteristics of the insurance contracts it sells are such that no liquidity premium adjustment is required. Such characteristics include the ability for policyholders to lapse their policy in full or in part without penalty, the term of the policies, the ability for policyholders to get replacement cover at similar prices and the absence of significant options or guarantees within the policies.

For Vitality, the risk-free yield curve will be 'current' and reflect the risk-free yield curve derived on the last day of the reporting period. The nominal risk-free yield curve is used to discount nominal cash flows, while real cash flows are discounted using the real risk-free yield curve.

i) Level of aggregation

Vitality uses judgement to determine at what level of granularity Vitality has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogenous and will be allocated to the same group without performing an individual contract assessment.

Based on this judgement Vitality will aggregate all insurance contracts into single portfolios as the products bear similar risks and are managed together. The CSM, for business accounted under the GMM, is calculated and tracked for separate contract groupings based on annual cohorts based upon the accounting period in which the business was written. As required by IFRS 17 these groupings are further subdivided at the date of initial recognition into three groupings: onerous (if any); contracts which have a significant possibility of becoming onerous subsequently (if any); and the remaining contracts.

j) Risk adjustment for non-financial risks

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arise from non-financial risk as Vitality fulfils insurance contracts. For long term contracts measured under GMM this component replaces an implicit allowance for prudence within the IFRS 4 reserves.
IFRS 17 does not prescribe methods for determining the risk adjustment for non-financial risk. Therefore, management's judgement is necessary to determine an appropriate risk adjustment technique. Vitality has elected to use a confidence level technique.

For contracts measured under the GMM when applying a confidence level technique, the first step in the process is to calculate the best estimate reserve, where there is an equal chance that the actual amount needed to pay future claims will be higher or lower than the calculated best estimate. The risk adjustment is then calculated such that there is a specified percentage probability that the reserves will be sufficient to cover future claims. For Vitality, the determination of specified percentage has been determined as 90%.

For contracts measured under the PAA, the explicit risk adjustment for non-financial risk is estimated to measure the LIC. The risk adjustment will be determined by applying a confidence level technique, applying a 75% confidence level.

k) Reinsurance

Vitality will measure reinsurance contracts separately to the underlying contracts using consistent assumptions in cases where the reinsurance is transacted or in place in the same accounting period, in accordance with the standard. The level of aggregation for CSM calculation purposes will be at a treaty level.
A group of reinsurance contracts is recognised on the date on which any underlying insurance contract is initially recognised. This applies to Vitality's quota share reinsurance contracts.

Vitality will apply the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of the underlying insurance contracts.

For reinsurance arrangements a loss recovery component is established when underlying onerous groups of insurance contracts are recognised, which will offset the insurance losses for the portion of the contracts being reinsured.

l) **Tax**

The impact of the transition to IFRS 17 will be to de-recognise profits that were previously taxed under IFRS 4, thereby creating a tax loss.

For VitalityLife Limited (a regulated Life insurance company) transitional relief for tax purposes was enacted in December 2022 which spreads relief for the tax loss over a ten-year period. Vitality anticipates full recovery of this tax loss against profits to be earned in future years, primarily through the release of CSM margins to profit and loss.

For all other companies in the Group impacted by IFRS 17 the tax loss will be recognised immediately upon transition as there is no spreading relief available for short-term insurers. Vitality anticipates full recovery of this tax loss.

m) Presentation and Disclosures

IFRS 17 requires extensive new financial statement disclosures with fundamental changes to the format of the Statement of Comprehensive Income being required to report a net profit or loss from insurance services separately from the finance results. There will be new detailed disclosures that will include a roll-forward from the prior period of insurance balances split by each component. Additional disclosure will be included where significant judgement have been made when applying IFRS 17. Information on the expected emergence of the CSM patten will also be included.

n) Impact

The total impact of transition adjustment (after tax) to the balance of Vitality's shareholders' equity is estimated to be a reduction in equity as at 1 July 2022 of between £240m and £265m. The impact on short-term business (measured under the PAA) is between £39m and £43m. The impact to the long-term business (measured under GMM) is between £201m and £222m. A range of outcomes has been presented to facilitate disclosure as there remains some uncertainty, as described above, over the final impact of the introduction of the standard.

n.1) Long-term business

For the long-term business, the impact of the above reduction in equity is effectively offset by the increase in the CSM that is available for release to profit in future years or to absorb any adverse changes and the risk adjustment. On this basis, the total value created through the insurance activities of Vitality remains largely unchanged, however the timing and recognition of insurance related profits has been deferred. The CSM provides a release of future profits and reduced volatility due to its ability to absorb negative variances.

Meanwhile, the election of OCI results in less volatility because of its ability to manage variances in financial risks.

The most significant changes that result in an increase in CSM compared to margins held under IFRS 4 can be summarised as follows:

- The measurement under IFRS 17 includes only those cash inflows and outflows relating directly to the fulfilment of the group of insurance contracts, termed directly attributable expenses. In addition to claims and benefits, these may include certain directly attributable overhead expenses. However, non-directly attributable expenses are not included in the initial recognition value of the contract. Under IFRS 17, these non-directly attributable expenses are immediately expensed and are therefore not considered when determining the EFCF of the insurance contracts being measured. The immediate expensing of such non-directly attributable expenses increases the available CSM on the portfolio compared to the IFRS 4 treatment where such expenses were brought into account when determining the available margins.

- Under IFRS 17 contracts are measured at a more granular level with groups established at a minimum on an annual business cohorts basis. Each of these cohorts is further categorised into separate groups based on expected profitability at initial recognition being profitable, profitable at risk, and onerous groups based on the EFCFs (which includes the risk adjustment and all directly attributable expenses). As a result of this losses on initial recognition are immediately expensed when they arise on onerous contracts, effectively eliminating any cross-subsidisation or set-off applied within a portfolio between profitable and onerous contracts that occurred under IFRS 4 when measuring contract as a single group of contracts. When applying a fully retrospective transition approach this immediate write-off of shortfalls increases the reduction in equity at transition but increases the available CSM on the remainder of the portfolio, which will be recognised as profit in future.

n.2) Short-term business

For the PMI portfolio measured under the PAA the transition adjustment includes the retrospective revaluation of the assets and liabilities associated with the reinsurance-based financing quota share treaties to nil. However, over 90% of this revaluation impact as at 1 July 2022 is offset by the deferral of insurance acquisition cash flows over 10 years under IFRS 17. The deferral of insurance acquisition cash flows over 10 years under IFRS 17 is similar to Vitality's financing reinsurance strategy under IFRS 4 to offset new business strain. As set out in note 41, Vitality terminated all reinsurance-based financing quota share treaties linked to PMI products on 1 July 2023, after the end of the reporting period. The termination was in response to this impact upon implementation of IFRS 17.

1.2 Summary of significant accounting policies

(a) Basis of consolidation

The Group's financial statements consolidate the assets, liabilities and results of the operations of the holding company and its subsidiaries, joint ventures and associates as of 30 June 2023. All subsidiaries have a reporting date of 30 June 2023.

(i) Business Combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(ii) Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Consolidation is discontinued from the date on which control ceases. Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised gains or losses are also eliminated.

VHIL, VHWL and BHIAL are exempt from the requirements of the Companies Act 2006 (CA06) relating to the audit of individual account and the Company has provided a guarantee under section 479C of CA06 in respect of the year to 30 June 2023.

(iii) Associates

Associates are entities over which the Company has the ability to exercise significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights, generally between 20% and 50%, together with other factors such as board participation and participation in the policy-making process. These are equity accounted.

A joint venture is a joint arrangement whereby the parties have joint control of an arrangement and have rights to the net assets of the arrangement.

The Company recognises its interest in a joint venture as an investment and accounts for that investment using the equity method. Under the equity method, on initial recognition the investment in a joint venture is recognised at cost. The carrying amount is adjusted to recognise the Company's share of the post-acquisition profit or loss of the investee and is recognised in profit or loss. Distributions received from an investee reduce the carrying amount of the investment. The Company will discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture.

The Company assesses at each reporting date whether there is objective evidence that an associate or a joint venture is impaired.

(iv) Joint operations

A joint operation is a joint arrangement whereby the parties have joint control of an arrangement and rights to the assets and obligations for the liabilities relating to the arrangement.

The Company recognises its share of those assets, liabilities, revenues and expenses that the operators incur jointly.

(b) Financial assets and liabilities

Vitality follows IFRS 9 in respect of the classification and measurement of financial instruments.

Financial assets

Vitality follows IFRS 9 in respect of the classification and measurement of financial instruments.

On initial recognition, financial assets are classified as being subsequently measured at either amortised cost or fair value dependent upon Vitality's business model for managing the asset and its cash flow characteristics. Financial assets are not reclassified following initial recognition unless Vitality changes its business model for managing financial assets.

Financial assets are deemed to be held under one of three business models:

– Hold to collect, where the business objective is to hold the asset to collect the contractual cash flows;
– Hold to collect and sell, where the business objective is to hold the asset to collect the contractual cash flows and to sell the financial assets; and
– Other.

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amortised cost is measured using the effective interest method. The balances disclosed as loans and receivables in the Statement of Financial Position are held at amortised cost.

Financial assets held within a hold to collect and sell business model are measured at fair value through OCI if the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Vitality does not currently have any such assets.

All other financial assets are held at fair value through profit or loss. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Impairment of financial assets

Vitality applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Impairments are charged to the Statement of Comprehensive Income.

Financial liabilities

Financial liabilities are classified as either:

– Financial liabilities at amortised cost (trade payables, loans with standard interest rates, bank borrowings); or
– Financial liabilities at fair value through profit and loss (interest rate swaps, foreign exchange future/ option contracts, convertible notes, contingent consideration, and commodity contracts).

Vitality measures financial liabilities at amortised cost unless either: it is held for trading and is therefore required to be measured at FVPL; or Vitality elects to measure the liability at FVPL to eliminate accounting mismatch.

Vitality derecognises financial liabilities when, and only when, Vitality's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of comprehensive income.

(c) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of Vitality or counterparty.

(d) Intangible assets

Intangible assets are recognised in the Statement of financial position if it is probable that the relevant future economic benefits attributable to the asset will flow to Vitality and its cost can be measured reliably.

Internally developed software is capitalised as an intangible asset and amortised over its estimated useful life when it is either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the Statement of comprehensive income on a straight-line basis over the estimated useful lives of the assets. Impairment losses are calculated and recorded on an individual basis.

The estimated useful life of internally developed software currently being amortised is 3 to 10 years depending on the nature of the software developed.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and any highly liquid investments with less than three months to maturity from the date of acquisition which are subject to an insignificant risk of changes in value. Cash and cash equivalents are categorised for measurement purposes as being held at amortised cost.

(f) Share capital

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Where any group company purchases Vitality's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to Vitality's equity holders, until the shares are cancelled or reissued.

(g) Derivative contracts

Derivative financial instruments are initially recognised in the Statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures the instruments at their fair value. Changes in fair value of all derivative contracts are recognised immediately in profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities where the fair value is negative. Hedge accounting is not applied.

(h) Subordinated loans and long term unsubordinated loans payable

Loan borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

(i) Provisions for liabilities and charges

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources or economic benefit will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation. Once a provision is recognised, it is measured as the amount that would be paid to settle the obligation. This includes discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, if this effect is material.

(j) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, Vitality reduces the carrying amount to its recoverable amount.

(k) Taxation

The income tax expense or credit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is provided, in full, using the Statement of financial position liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amount in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the Statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(l) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in the Statement of comprehensive income.

(m) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Vitality defines significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Recognition and measurement

Vitality's insurance contracts are classified into three main categories, depending on the nature of the product and type of risk insured: individual life insurance (non unit-linked), health insurance and unit-linked insurance.

Individual life insurance (non unit-linked)

These contracts provide the following core benefits: life cover; serious illness cover; and income protection cover. These benefits directly expose VLL to mortality and morbidity risks. These contracts are long-term in nature.

Valuation of policyholder liabilities

The actuarial value of policyholder liabilities is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the expected present value of future benefit payments plus expenses and the expected present value of future premiums. Best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission are used.

Where the value of policyholder liabilities is negative in aggregate, this is shown as an asset under insurance contract reserves.

Applying the valuation basis using the best estimate assumptions described above, would result in a gain at initial recognition. Margins against adverse deviation and discretionary margins are therefore added to the best estimate assumption to avoid the premature recognition of future profits. At initial recognition, profits are recognised, to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio, to recoup acquisition costs.

Margins against adverse deviation

- Given the level of uncertainty in the best estimate assumptions, margins are added to protect against future possible adverse experience.
- All margins are at least equal to the margins for adverse deviation prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margin may vary based on policy type and duration to ensure that the margin is in the conservative direction overall.
- The best estimate assumptions and margins are reviewed at each valuation.

Discretionary margins

- Applying the valuation basis described above, may result in a gain at initial recognition.
- To avoid this gain at initial recognition, a discretionary margin is added to the new business reserve to offset the gain after an allowance to cover the acquisition cost of new business expensed in the period.
- The allowance for acquisition costs is estimated within the modelled new business reserve to a tolerance set by the actuarial Committee in line with accounting policy.
- The best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio.
- Changes to assumptions, models and benefits are therefore offset through an increase in discretionary margin (or a release if sufficient discretionary margin exists). The impact of experience variances (with the exception of lapse and mortality experience) on the end-of-period prospective liability recognised in respect of in-force policies is offset against an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances on the in-period cashflows is accounted for in profit or loss for the period and not offset through changes in discretionary margins.
- Where insurance contract reserves (positive or negative) are backed by financial assets (including derivatives) the corresponding change in the insurance contract reserves and the backing financial asset are recognised directly in profit and loss. For example, if derivative assets are held as a hedge against changes to economic assumptions, like a change in the valuation interest rate, changes in insurance contract reserves due to the hedged economic assumptions are recognised directly in profit

and loss. Where economic assumptions are not hedged using backing assets, Vitality will continue follow the discretionary margin procedure set out below.

- Vitality has established a procedure to utilise the available discretionary margin in a specified order:
- First, Vitality will utilise available discretionary margins to absorb the impact of experience variance items on in-force polices that can be offset against discretionary margins (as outlined in previous bullet).
- Secondly, Vitality utilises available discretionary margins to offset the impact of non-economic assumption, model, and benefit changes.
- Lastly, the discretionary margins are utilised to offset the impact of economic assumption changes.
- Where there are insufficient discretionary margins to offset losses arising from changes in assumptions, models, and benefits, those losses in excess of the discretionary margin are recognised immediately in Profit or Loss; and
- In subsequent periods, positive changes in economic assumptions and positive variances in non-economic assumptions, model and benefit changes are first recognised in profit or loss to the extent that it reverses related losses previously recognised in Profit or Loss. This is in the reversed sequence in which the negative variances were utilised against discretionary margin and any excess previously recognised in profit or loss.

Contractual premium and benefit increases are included in the valuation of the policyholder liability. It is further assumed that no voluntary benefits are taken up where a future take-up of these benefits would reduce the liability (or increase the negative reserve). This is in line with actuarial guidance which requires that expected profits in respect of future options that may be taken up by policyholders should not be recognised in the policyholder liability.

The actuarial liabilities are calculated gross of reinsurance. The expected impact of reinsurance is valued separately. The liability estimates are reviewed at every reporting period and any changes in estimates to the liability are reflected in the profit or loss as they occur. Further liabilities are held to reflect incurred but not yet reported (IBNR) claims.

The valuation basis meets the requirements of the liability adequacy test as required by IFRS 4 for individual life insurance and no additional tests are performed.

Premium revenue

Premiums are recognised as revenue when due. Premiums are shown net of any discounts given to policyholders. Premiums exclude taxes and levies.

Insurance benefits and claims

Insurance benefits and claims are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death and serious illness claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in the provision for claims outstanding. The liabilities are calculated gross of reinsurance. An asset (or liability if the aggregate balance is negative) is then raised to allow for the expected recoveries from reinsurers.

Vitality takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability estimated.

Acquisition costs

Acquisition costs represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. Acquisition costs are recognised in profit and loss as they are incurred. Commission costs are clawed back from intermediaries where a policy lapses within its clawback period (two or four years). Commission clawback is credited against acquisition costs when Vitality becomes entitled to recover it from intermediaries. Acquisition costs in the profit and loss are therefore shown net of commission clawback.

The valuation basis makes implicit allowance for the deferral of acquisition costs since profits are recognised at initial recognition to the extent of the actual acquisition costs incurred, and so the acquisition costs are deferred over the lifetime of the policy. As a result no explicit deferred acquisition cost asset is recognised in the Statement of financial position and these acquisition costs are expensed in profit or loss.

Unit-Linked Insurance Contracts

Vitality sells and underwrites unit-linked insurance contracts. A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. The contracts are sold in a number of savings and investment wrappers such as Self Invested Pension Plans (“SIPP”), Individual Savings Accounts (“ISA”) and Junior ISAs. A key feature of the products is the inclusion of an accidental death benefit that increases the value of the units held by a policyholder in the event of a qualifying accidental death. The inclusion of this benefit introduces significant insurance risk into the contract and therefore the products are accounted for as insurance contracts under IFRS 4. The accidental death benefit increases the value of a customer’s unit linked holdings by 5% upon occurrence of an insured event (accidental death).

The product features mean that this embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for changes in the fair value of the underlying assets. Vitality does not separately measure embedded derivatives that meet the definition of an insurance contract.

Valuation of policyholder liabilities

Policyholder liabilities for unit linked contracts comprise of:

– Unit liabilities – This is the face value of the policyholder funds at the valuation date. It represents the value of premiums received from a policyholder plus the accumulation of investment return and policyholder benefits less fees deducted by Vitality to manage the policy and withdrawals made by the policyholder. Vitality aims to fully match policyholder liabilities with investments in matching assets.

Vitality does not currently make use of reinsurance for unit-linked contracts and therefore no allowance is made for reinsurance in the policyholder liabilities.

Premium revenue

Premiums are recognised when insurance units are purchased by customers. Premiums are shown net of any fees the policyholder has paid their financial advisor directly but gross of any fees taken by Vitality to manage the customers policy. Premiums exclude taxes and levies.

Insurance benefits and claims

Insurance benefits and claims for unit-linked insurance contracts represents the value of units redeemed by the policyholder as well as the payments of accidental death benefits. Insurance benefits and claims are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Unit redemptions are accounted for when the value of the contract is paid to the policyholder. Accidental death benefits are accounted for when notified

Health Insurance

Gross premiums

Gross premiums written relate to contracts incepted during the financial year. Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the Statement of financial position date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Insurance benefits and claims

Gross benefits and claims incurred includes all claims occurring during the year, whether reported or not; related internal and external claims handling costs that are directly related to the processing and settlement of claims; a reduction for the value of other recoveries; and any adjustments to claims outstanding from previous years. Deductions are recognised on an incurred loss basis.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Deductions are made for reinsurance and other recoveries, taking into account an assessment of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

An outstanding claims provision is made at the end of the year for the estimated cost of treatments incurred but not settled at the Statement of financial position date, including the cost of treatments incurred but not yet reported. Due to the short-tail nature of the PMI business the outstanding claims provision is not discounted. The estimated cost of treatments includes expenses to be incurred in settling claims and a deduction for other recoveries. Vitality takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing outstanding claims provisions, it is likely that the final outcome will be different from the original liability established.

(n) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. The Company assesses its receivables for impairment on an annual basis as outlined in note 1.2.b.

(o) Reinsurance contracts

Individual life insurance (non unit-linked)

Contracts entered into by Vitality with reinsurers, under which Vitality is compensated for insured events on one or more contracts that meet the classification requirements for insurance contracts, are classified as reinsurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts Vitality is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (reinsurance payables). Where the value of these liabilities is negative in aggregate, they are reported as assets under reinsurers’ share of insurance contract reserves.

Reinsurance financing income received in the period is recognised as income in the Statement of comprehensive income and netted against expenses. The reinsurance financing is obtained to partially offset the cash strain of writing new business, and this financing is then repaid in future years contingent on policyholders' premium payments. The future obligation to repay this financing is reflected in the value of the liability arising from the reinsurers' share of insurance contract reserves.

Outward reinsurance premiums are recognised as an expense and are accounted for in the same accounting period that premiums are recognised in revenue. The amounts due to Vitality under its reinsurance contracts are recognised as reinsurance assets (reinsurance receivables). Vitality assesses its reinsurance assets for impairment on an annual basis as outlined in note 1.2.b

In certain cases there is a gain or loss at inception of a reinsurance contract:

- Where these amounts relate to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurers and recognised immediately.
- Other gains or losses amortised over the life of the insurance policies on the same basis as the profit is expected to emerge.

Health Insurance

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. The amounts Vitality is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (creditors arising out of reinsurance operations). The amounts due to Vitality under its reinsurance contracts held are recognised as reinsurance assets (classified as debtors arising out of reinsurance operations).

The reinsurer's share of the change in insurance contract liabilities represents the movement in the reinsurer's share of the unearned premium reserve and the reinsurer's share of claims outstanding. Reinsurance income represents the reinsurer's share of expenses incurred by Vitality in respect of the underlying insurance contracts to which each financing reinsurance treaty applies. Reinsurance income is measured in proportion to the gross expenses incurred, subject to any maximum level imposed by the financing reinsurance treaty.

Where reinsurance treaties are amended mid-term, but management consider that the terms of the treaty are substantially unchanged, the impact of the amendment will be recognised prospectively within the financial statements.

All premiums ceded to reinsurers are recognised when due, for both financing reinsurance treaties and other reinsurance treaties.

The costs attributable to the acquisition of new business and the renewal of existing business, such as commission and the indirect costs of obtaining and processing such business, are deferred to the extent that they are expected to be covered by future profits from the unearned premiums on these contracts. Deferred acquisition costs is that proportion of acquisition costs incurred in a year that relates to periods of risk after the Statement of financial position date. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is determined to be less than the carrying value, an impairment loss is recognised in the Statement of Comprehensive Income. DAC assets are also considered in the liability adequacy test for each financial year.

(p) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful life of the assets.

The estimated useful life of each asset class is:

Building	40 years
Leasehold improvements	Up to a maximum of 20 years
Fixtures and fittings	Up to a maximum of 10 years
Computer equipment	Up to a maximum of 5 years
Telematic devices	Up to a maximum of 5 years
Office equipment	Up to a maximum of 3 years

The building and land are accounted for under the cost model under which no upward revaluation is possible but impairment can be required if the value of the property falls. Depreciation on the building is recognised through the statement of comprehensive income. Land is not depreciated. The assets' residual value and useful life is reviewed, and adjusted if appropriate, at the end of each financial year. The building's carrying amount is written down immediately to its recoverable amount if the building's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and these are included in the statement of comprehensive income.

The assets' residual values and useful lives assets are reviewed, and adjusted if appropriate, at the end of each financial reporting year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(q) Liability adequacy testing

Vitality applies a liability adequacy test at each reporting date to ensure that the insurance liabilities are adequate using current estimates of future cash flows**.** The tests include comparing the insurance liabilities against a range of widely used actuarial models such as the Chain Ladder models with different development periods, the Bornhuetter-Ferguson models and frequency and severity models with different delay and severity assumptions.

If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the statement of comprehensive income by setting up an additional liability.

(r) Other income

Other income is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to Vitality.

Income from the recharges of expenses to other group companies, trust scheme income, Vitality product fee income, commission income and other income are all recognised upon Vitality providing the related services.

Rental and service charge revenue is billed in advance and the portion of the revenue that relates to future performance periods is deferred and recognised as revenue in those future periods.

(s) Leases

Identification of a lease

At inception of a contract, Vitality assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Vitality uses the definition of a lease in IFRS 16 *Leases* ("IFRS 16").

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For Vitality, such contracts include items such as vending machines and printers.

At commencement or on modification of a contract that contains a lease component, Vitality allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property Vitality has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Vitality recognises a right-of-use asset and a lease liability at the lease commencement date. Vitality presents right-of-use assets in Right-of-use assets and Lease liabilities in the Statement of financial position.

Vitality leases the following assets with a range of lease terms:

- Large offices 7 - 10 years
- Computer equipment 5 years
- Motor vehicles 2 years

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Vitality's incremental borrowing rate. Generally, Vitality uses its incremental borrowing rate as the discount rate.

Measurement

Vitality determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates, the term of the lease arrangement and the nature of the assets.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that Vitality is reasonably certain to exercise, lease payments in an optional renewal period if Vitality is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Vitality is reasonably certain not to terminate early.

Extension or termination options are included in a number of the building leases across Vitality. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Vitality's estimate of the amount expected to be payable under a residual value guarantee, if Vitality changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. Vitality receives incentives such as reimbursements for installations or rent free periods.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Vitality by the end of the lease term or the cost of the right-of-use asset reflects that Vitality will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Short-term leases and low value items

Vitality has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Vitality recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases of low value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately £5k. For Vitality, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals. Short-term leases are those leases with a lease term of less than 12 months.

Lessor

When Vitality acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, Vitality makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, Vitality considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Vitality recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other income".

(t) Employee share based payments

Vitality operates cash settled share-based compensation plans under which Vitality receives services from employees as consideration for awards of cash payments. The fair value of the employee services received in exchange for the awards granted is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted.

Non-market performance and service conditions are included in the assumptions about the number of awards that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, Vitality revises its estimates of the number of awards that are expected to vest based on the non-market conditions. It recognises the impact of the revision to original estimates, if any, in the Statement of comprehensive income, with corresponding adjustments to payables. As the primary employer of staff in the Vitality group, Vitality also bears the costs of equity schemes made available to key management personnel of other companies in the Vitality group. These costs are recharged by Vitality on an arm's length basis and are outside the scope of IFRS 2.

(u) Employee defined contribution pension plan

Vitality operates a defined contribution pension plan and pays contributions to a privately administered pension insurance plan. Vitality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(v) Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash generating unit (CGU) containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is monitored at the operating segment level.

1.3 Critical accounting estimates and judgements in applying accounting policies

Assumptions, estimates and judgements form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are regularly reviewed in the light of emerging experience and adjusted where required.

Critical accounting estimates in applying accounting policies

1.3.a Insurance contract reserve assumptions and estimates

The insurance policies issued by Vitality are valued using various methodologies and assumptions. The assumptions used are best estimate assumptions plus margins against adverse deviation and discretionary margins. Sensitivities to key assumptions are outlined in note 3. The process used to decide on best estimate assumptions is described below:

(a) Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date. The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results. The most recent experience investigations were performed at 30 June 2023.

(b) Mortality and morbidity

Assumptions of future mortality are derived based on life insurance industry mortality tables, adjusted as appropriate to reflect actual past experience and for expected changes in future experience. Assumptions of future morbidity are derived based on data from reinsurers, adjusted as appropriate to reflect actual past experience and for expected changes in future experience.

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy.

An adjustment is made to the standard mortality and morbidity assumptions to reflect the expected impact of engagement in the Vitality programme.

At 30 June 2022, Vitality held a provision for potential increases in morbidity compared to the base actuarial assumptions over the short term relating to COVID-19. As at 30 June 2023, Vitality no longer holds such a provision as the uncertainty relating to COVID-19 has reduced.

(c) Lapse rates

Lapses rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than existing actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice.

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Consideration is made for the estimated impact of the economic environment. An adjustment is made to the lapse assumptions to reflect the expected impact of the Vitality programme.

(d) Economic assumptions/Investment returns

Vitality writes long term protection business and only began writing business from 1 January 2016. Given this, one of the key assumptions in setting the insurance contract reserves is the reinvestment rate that Vitality is expected to earn on future premiums and assets that will be invested a long time into the future. The net of reinsurance contract reserves on non-unit-linked business is negative (an asset in the Statement of financial position) as at the balance sheet date and cash inflows on contracts in force are expected to exceed cash outflows. As the reserves are negative the reinvestment rate assumption relates to assets that will be invested in the future rather than held now to match liabilities. At 30 June 2023 the reinvestment rate has been estimated at 3.978% (2022: 2.915%) per annum.

At 30 June 2023 the reinvestment rate was estimated with reference to the UK gilt yield curve with an adjustment for a liquidity premium. The liquidity premium reflects management's long-term assumption of the return above the UK gilt yield curve from a portfolio of UK government and investment grade corporate fixed interest bonds of term and nature appropriate to the policyholder liabilities.

The best estimate inflation assumptions are set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities. At 30 June 2023 the inflation rate used for premium and benefit indexation was set at 3.5% (2022: 3.5%), and the expense inflation was set at 3.75% (2022: 3.75%).

(e) Expense assumptions

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

The allocation of expenses between initial and renewal is based on the latest expense analysis where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionally based on estimates of the functions performed.

Per policy expenses are projected to increase in line with expected future expense inflation.

Non-recurring expenses are excluded from the expense analysis used to derive the assumption.

1.3.b Impairment of non-financial assets

Non-financial assets (including intangible assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least at each Statement of financial position date. Such indicators include continued losses, change in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows expected to be generated by the non-financial asset. An impairment charge is recognised as a loss in the Statement of comprehensive income immediately.

For Investments in subsidiaries, value in use is measured either as the net assets of the subsidiary, embedded value (the present value of future profits plus adjusted net asset value) or present value of projected cash flows covering the remaining useful life of the asset.

1.3.c Outstanding claims provision

The estimation of treatments incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of incurred but not settled ("IBNS") treatments already notified to Vitality, where more information about the claim event is generally available. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where treatments are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims Vitality employs a frequency and severity model which uses expected claims costs and pathways based on the treatment authorisation call information. Vitality uses a variety of estimation techniques alongside the frequency and severity models to help determine the appropriate reserve to hold. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in the external environment, such as hospital facilities being limited or unavailable;
- Hospitals being unable to process invoices consistently;
- Changes in Vitality processes which might accelerate or slow down the development and/or recording of paid or incurred treatments compared with the statistics from previous periods;
- Changes in the legal environment;
- The effects of inflation;

- The impact of large losses; and
- Movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid treatments. In estimating the cost of these Vitality has regard to the claim circumstance as reported and information on the cost of settling claims with similar characteristics in previous periods.

Where possible, Vitality also adopts multiple techniques to provide further estimates of the required level of provisions, including chain ladder models. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes.

The estimate is sensitive to changes in assumptions, but due to the short-tailed nature of the liabilities, at the date of signing of the financial statements this sensitivity is reduced as approximately 75% of claims are typically settled within 3 months of the treatment date.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability. See note 34.

Critical accounting judgements in applying accounting policies

1.3.d Deferred tax asset

The recognition of deferred tax assets are subject to a degree of estimation and judgement. The level of deferred tax asset recognised in the Statement of financial position is determined with reference to the expected future taxable profits of the Company and the wider UK Group. Vitality makes use of all available evidence when determining the future taxable profits. This evidence includes medium term business plans approved by the Directors of the UK Group and discounted cash flow projections of the profits that are expected to emerge from the insurance policies underwritten by the UK Group. In assessing the availability and quantum of future profits Vitality applies probability factors to determine a range of probable outcomes. Vitality then applies judgement to conclude on where within this range the deferred tax asset is set.

1.3.e Product classification – Unit-linked contracts

As disclosed above, Vitality sells and underwrites unit-linked contracts with savings and investment characteristics. In assessing the most appropriate IFRS and accounting policy to account for these contracts, management performs an assessment against the recognition criteria of IFRS 4. The product features are such that the inclusion of an accidental death benefit as an integral part of the contract exposes Vitality to insurance risk. In management's judgement this insurance risk is 'significant' and therefore meets the criteria of IFRS 4 to be accounted for as an insurance contract.

1.3.f Earnings Pattern

As stated in Vitality's accounting policy, unearned premium is that proportion of a premium written in a year that relates to periods of risk after the Statement of financial position date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. Before the year ended 30 June 2020, Vitality earned the premium straight-line over the life of each insurance policy as the incidence of risk had been broadly stable over time. However, COVID-19 caused a significant distortion of the incidence of risk because private hospitals were restricted in their availability during the early periods of the pandemic. As a result, for the year ended 30 June 2020, Vitality developed a model to proportionally scale the premiums recognised in line with the pattern of the claims against normal expectations. The proportional change in earned premiums was a weighted average of each monthly cohort of policies, by cover date, with the weighting based on the relative premium size of each monthly cohort. This method of grouping also ensured that all premiums are earned within the contract boundaries of the policy, with no premium deferred between policy years. This model continued to be applied in the year ended 30 June 2022, with claims experience during this financial year impacted by the initial uncertain stages of the Omicron variant and by continued restrictions across the UK, such as the guidance to work from home which continued in England into January 2022.

Private hospitals were not restricted in their availability during the year ended 30 June 2023 and there were no COVID-19 related restrictions in force across the UK. This greater stability in the incidence of risks meant that no adjustment to the unearned premium reserve was recognised at 30 June 2023. As such, there are no key assumptions or sensitivities to note. There was an adjustment made relating to COVID-19 in the year ended 30 June 2022.

1.3.g Reinsurance Risk Transfer

Management apply judgement in assessing all reinsurance contracts for risk transfer at inception in accordance with IFRS 4.

For financing reinsurance treaties, management consider a range of scenarios under which the reinsurer could incur a loss under the terms of the treaty. The primary risk to which the reinsurers are exposed is the risk of adverse claims experience for the underlying insurance contracts underwritten by Vitality. While the level of adverse claims experience required for the reinsurers to incur a loss is unlikely, management consider the scenarios to have commercial substance based on historic claims experience seen by Vitality.

Management consider that the amendments to existing reinsurance treaties made during the financial year ended 30 June 2021, as set out in note 10, to have no impact on the original risk transfer assessment for those treaties. Had the revised terms applied from the point of inception of each reinsurance treaty, the scenarios considered within the risk transfer assessment would have been unchanged (i.e. the same level of adverse claims experience would have resulted in the same level of projected loss for the reinsurer under both the original and revised terms).

1.3.h Capitalised software development costs

The estimates and assumptions surrounding the useful economic life of capitalised software development costs and the date at which amortisation commences is subject to a degree of judgment. Vitality assesses the useful economic life and amortisation commencement date separately for each project being capitalised with reference to the nature and expected use of the asset. An annual impairment review is performed to assess the future economic benefit and recoverability of the related assets. See note 17.

1.3.i Long-term incentive plan awards

A further critical accounting estimate and is in respect of the amounts accrued in relation to cash-settled long-term incentive plan awards. The value of these awards are dependent upon the embedded value of the VitalityHealth business and the value-in-force of the VitalityLife business. In deriving these values it is necessary to make certain assumptions about the future performance of the business. These assumptions were arrived at based on past experience, internal experience, market information and industry trends. See note 12.

2 Management of financial risk

Vitality's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

- *Equity price risk:* The impact of changes in equity prices and dividend income.
- *Interest rate risk:* The impact of changes in market interest rates.
- *Currency risk:* The impact of changes in foreign exchange risks.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that Vitality will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash being available to meet commitments as and when they become due.

Financial risks are managed by Vitality as follows:

- Vitality has appointed reputable external asset managers to manage its investments.
- The Actuarial Committee reviews the overall matching of shareholder and policyholder assets to their respective liabilities.
- The Unit-linked committee oversees that Vitality has adequate systems and controls to administer and manage unit-link funds fairly and that assets backing unit-linked policies are appropriate for policyholders.
- The Finance Executive Committee is a sub-committee of the Group Executive Committee and meets at least once a month to focus on financial planning, review and strategy; and
- The Reinsurance Investments and Capital Committee (RICCO) is a sub-committee of the Executive Committee and meets at least twice monthly to focus on shareholder assets and the performance of asset managers responsible for managing these assets.

Vitality has not significantly changed the processes used to manage its risks from previous periods.

To assist in the analysis of the financial risk that Vitality is exposed to, the Consolidated statement of financial position has been divided into two categories based on the nature of the products provided by Vitality. A description of the categories used is given below:

- **Unit-linked Insurance Contracts** – this category relates to insurance contracts issued by Vitality which have a component that is linked to the units of an underlying investment portfolio. For this component, Vitality holds the assets on which the prices are based. However, the gross unit liabilities are adjusted by the expected present value of future charges less the expected present value of future expenses and risk claims. The unit-linked component is not accounted for separately from the host insurance contract. For these contracts, the majority of the financial risk is borne by the policyholder. Further details are provided in note 2.1

- **Other insurance contracts and shareholder financial assets and liabilities** – this category relates to:

  a. **Other insurance contracts issued by Vitality** – This relates to insurance contracts issued by Vitality that are not unit-linked. These insurance contracts result in Vitality recognising a negative insurance contract reserve as future cash inflows on these contracts are expected to exceed future cash outflows. As a negative reserve is recognised, no matching assets are specifically held by Vitality to match these insurance cash flows.

  b. **Shareholder financial assets and liabilities** – This relates to assets and liabilities used to operate Vitality, meet day to day liquidity requirements (including the writing of new business), ensure sufficient capital is held to meet regulatory requirements and to generate investment return for Vitality.

The following tables reconcile the statement of financial position to the classes of risk and categories listed above.

30 June 2023	Unit-Linked Insurance Contracts £'000	Other Insurance Contracts and shareholder financial assets and liabilities £'000	Total £'000
ASSETS			
Goodwill	—	34,338	**34,338**
Intangible assets	—	47,016	**47,016**
Property and equipment	—	14,277	**14,277**
Assets arising from insurance contracts	—	868,024	**868,024**
Deferred acquisition costs	—	53,292	**53,292**
Assets arising from contracts with customers	—	340,259	**340,259**
Investment in equity-accounted investees	—	434	**434**
Deferred tax asset	—	39,971	**39,971**
Financial assets - investments at amortised cost	—	55,013	**55,013**
Financial assets - investments at fair value through profit or loss	303,741	26,978	**330,719**
Financial assets - derivative financial instruments at fair value through profit or loss	—	—	**—**
Insurance receivables, contract receivables and other receivables	20,564	462,298	**482,862**
Current tax asset	—	249	**249**
Inventory	—	4,064	**4,064**
Cash and cash equivalents	58,469	191,638	**250,107**
TOTAL ASSETS	**382,774**	**2,137,851**	**2,520,625**
LIABILITIES			
Liabilities arising from insurance contracts	382,396	—	**382,396**
Liabilities arising from reinsurance contracts	—	470,524	**470,524**
Contract liabilities to customers	—	456,663	**456,663**
Financial liabilities – Borrowings at amortised cost	—	132,737	**132,737**
Financial liabilities – Derivative financial instruments at fair value through profit or loss	—	—	**—**
Financial liabilities – Other payables	379	302,818	**303,197**
TOTAL LIABILITIES	**382,775**	**1,362,742**	**1,745,517**

30 June 2022	Unit-Linked Insurance Contracts £'000	Other Insurance Contracts and shareholder financial assets and liabilities £'000	Total £'000
ASSETS			
Goodwill	—	34,338	**34,338**
Intangible assets	—	49,980	**49,980**
Property and equipment	—	14,040	**14,040**
Assets arising from insurance contracts	—	776,259	**776,259**
Deferred acquisition costs	—	49,036	**49,036**
Assets arising from contracts with customers	—	301,987	**301,987**
Investment in equity-accounted investees	—	297	**297**
Deferred tax asset	—	45,812	**45,812**
Financial assets - investments at amortised cost	—	10,745	**10,745**
Financial assets - investments at fair value through profit or loss	667,280	53,874	**721,154**
Financial assets - derivative financial instruments at fair value through profit or loss	—	10,788	**10,788**
Insurance receivables, contract receivables and other receivables	6,214	410,901	**417,115**
Current tax asset	—	6,666	**6,666**
Inventory	—	464	**464**
Cash and cash equivalents	66,662	257,554	**324,216**
TOTAL ASSETS	**740,156**	**2,022,741**	**2,762,897**
LIABILITIES			
Liabilities arising from insurance contracts	732,447	—	**732,447**
Liabilities arising from reinsurance contracts	—	455,193	**455,193**
Contract liabilities to customers	—	418,541	**418,541**
Financial liabilities – Borrowings at amortised cost	—	132,390	**132,390**
Financial liabilities – Derivative financial instruments at fair value through profit or loss	—	3,889	**3,889**
Financial liabilities – Other payables	7,709	288,388	**296,097**
TOTAL LIABILITIES	**740,156**	**1,298,401**	**2,038,557**

The financial risks associated with each category are discussed below.

For the purposes of disclosing financial risks only financial assets and financial liabilities are considered. A reconciliation of the Consolidated statement of financial position to the risk management disclosures is shown below:

	As at 30 June	
Financial Assets	**2023**	2022
	£'000	£'000
Total assets	**2,520,625**	**2,762,897**
Less:		
Goodwill	(34,338)	(34,338)
Intangible assets	(47,016)	(49,980)
Property and equipment	(14,277)	(14,040)
Assets arising from insurance contracts	(868,024)	(776,259)
Deferred acquisition costs	(53,292)	(49,036)
Assets arising from contracts with customers	(340,259)	(301,987)
Investment in equity-accounted investees	(434)	(297)
Deferred tax asset	(39,971)	(45,812)
Current tax asset	(249)	(6,666)
Inventory	(4,064)	(464)
Total Financial Assets	**1,118,701**	**1,484,018**

	As at 30 June	
Financial Liabilities	**2023**	2022
	£'000	£'000
Total liabilities	**1,745,517**	**2,038,557**
Less:		
Liabilities arising from insurance contracts	(382,396)	(732,447)
Liabilities arising from reinsurance contracts	(470,524)	(455,193)
Contract liabilities to customers	(456,663)	(418,541)
Total Financial Liabilities	**435,934**	**432,376**

For the purposes of the financial risk management disclosures for market risk, credit risk and liquidity risk, assets and liabilities arising from insurance contract reserves and liabilities arising from reinsurers share of insurance contract reserves have been excluded and the applicable related risks have been disclosed within the insurance risk management section to better reflect the associated risks to Vitality.

2.1 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS-defined insurance contract with a component that is linked to the units of an underlying investment portfolio. For this component, Vitality holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. The unit-linked component is not accounted for separately from the host insurance contract.

	Held at risk of insurance policyholders As at 30 June	
	2023	2022
	£'000	£'000
Financial assets - investments at fair value through profit or loss	303,741	667,280
Insurance receivables, contract receivables and other receivables	20,564	6,214
Cash and cash equivalents	58,469	66,662
Total financial assets	**382,774**	**740,156**
Financial liabilities – Other payables	379	7,709
Total financial liabilities	**379**	**7,709**

Market, Credit and Liquidity Risk

The assets and liabilities summarised above relate to unit-linked insurance contracts. The liabilities to policyholders under these contracts are consequently invested in matching assets. Vitality retains no material price, currency, liquidity, credit or interest rate risk in respect of these contracts.

Liquidity risk in respect of selling the underlying units is borne by the policyholders as Vitality has the right to delay the sale of units when there is insufficient liquidity in the underlying assets.

Vitality derives investment management fee income based on the total market value of the unit-linked insurance contracts under management. Therefore there is some risk of volatility in this fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based.

As Vitality has no material market, credit or liquidity risk in respect of these contracts risk disclosures have not been presented for unit-linked assets and liabilities.

2.2 Other insurance contracts and shareholder financial assets and liabilities

	Held at risk of Vitality As at 30 June	
	2023	2022
	£'000	£'000
Financial assets - investments at amortised cost	55,013	10,745
Financial assets - investments at fair value through profit or loss	26,978	53,874
Financial assets - derivative financial instruments at fair value through profit or loss	—	10,788
Insurance receivables, contract receivables and other receivables	462,298	410,901
Cash and cash equivalents	191,638	257,554
Total financial assets	**735,927**	**743,862**
Financial liabilities – Borrowings at amortised cost	132,737	132,390
Financial liabilities – Derivative financial instruments at fair value through profit or loss	—	3,889
Financial liabilities – Other payables	302,818	288,388
Total financial liabilities	**435,555**	**424,667**

2.2.1 Market Risk

Currency risk

Vitality has exposure to foreign exchange risk arising from exposure to the South African Rand (ZAR). Foreign exchange risk arises from commercial transactions and assets held overseas. Vitality has a significant ZAR denominated cost base through its outsourcing arrangements with Discovery Life Limited and therefore holds ZAR in South African bank accounts to meet Vitality's foreign currency liquidity requirements. The tables below analyse the exposure of Vitality as at 30 June 2023 and 30 June 2022:

	Exposure to Functional & Presentation Currency	**GBP exposure to South African Rand**	**Total**
30 June 2023	**£'000**	**£'000**	**£'000**
Financial assets - investments at amortised cost	51,519	3,494	55,013
Financial assets - investments at fair value through profit or loss	26,978	—	26,978
Financial assets - derivative financial instruments at fair value through profit or loss	—	—	—
Insurance receivables, contract receivables and other receivables	462,298	—	462,298
Cash and cash equivalents	191,553	85	191,638
Total financial assets	**732,348**	**3,579**	**735,927**
Financial liabilities – Borrowings at amortised cost	132,737	—	132,737
Financial liabilities – Derivative financial instruments at fair value through profit or loss	—	—	—
Financial liabilities – Other payables	300,992	1,826	302,818
Total financial liabilities	**433,729**	**1,826**	**435,555**

30 June 2022	Exposure to Functional & Presentation Currency £'000	GBP exposure to South African Rand £'000	Total £'000
Financial assets - investments at amortised cost	10745	—	10745
Financial assets - investments at fair value through profit or loss	53,874	—	53,874
Financial assets - derivative financial instruments at fair value through profit or loss	10,788	—	10,788
Insurance receivables, contract receivables and other receivables	410,901	—	410,901
Cash and cash equivalents	252,484	5,070	257,554
Total financial assets	**738,792**	**5,070**	**743,862**
Financial liabilities – Borrowings at amortised cost	132,390	—	132,390
Financial liabilities – Derivative financial instruments at fair value through profit or loss	3,889	—	3,889
Financial liabilities – Other payables	286,860	1,528	288,388
Total financial liabilities	**423,139**	**1,528**	**424,667**

Sensitivity to currency risk

	FX Movement (ZAR/GBP)			
	Impact on result before tax		Impact on shareholders equity Corporate tax rate assumed 20.50% (2022: 19.00%)	
	+10% £'000	**-10%** £'000	**+10%** £'000	**-10%** £'000
2023	**(175)**	**175**	**(139)**	**139**
2022	(354)	354	(287)	287

Equity price risk

Vitality's investment in open ended investment companies includes indirect holdings in equities. However, the size of these holdings means equity price risk does not represent a material financial risk to Vitality.

Interest rate risk

Vitality holds financial assets and liabilities that are exposed to fixed and floating interest rates. The table below analyses the fixed and floating rate exposure at the balance sheet date:

	Fixed rate	Floating rate	Non-interest bearing	Total
30 June 2023	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets - investments at amortised cost	53,711	—	1,302	55,013
Financial assets - investments at fair value through profit or loss	26,978	—	—	26,978
Financial assets - derivative financial instruments at fair value through profit or loss	—	—	—	—
Insurance receivables, contract receivables and other receivables	—	—	462,298	462,298
Cash and cash equivalents	—	191,638	—	191,638
Total financial assets	**80,689**	**191,638**	**463,600**	**735,927**
Financial liabilities – Borrowings at amortised cost	—	132,737	—	132,737
Financial liabilities – Derivative financial instruments at fair value through profit or loss	—	—	—	—
Financial liabilities – Other payables	—	156,750	146,068	302,818
Total financial liabilities	**—**	**289,487**	**146,068**	**435,555**

	Fixed rate	Floating rate	Non-interest bearing	Total
30 June 2022	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets - investments at amortised cost	10,411	—	334	10,745
Financial assets - investments at fair value through profit or loss	53,874	—	—	53,874
Financial assets - derivative financial instruments at fair value through profit or loss	—	10,788	—	10,788
Insurance receivables, contract receivables and other receivables	—	—	410,901	410,901
Cash and cash equivalents	—	257,554	—	257,554
Total financial assets	**64,285**	**268,342**	**411,235**	**743,862**
Financial liabilities – Borrowings at amortised cost	—	132,390	—	132,390
Financial liabilities – Derivative financial instruments at fair value through profit or loss	—	3,889	—	3,889
Financial liabilities – Other payables	—	156,750	131,638	288,388
Total financial liabilities	**—**	**293,029**	**131,638**	**424,667**

Sensitivity to interest rate risk

Whilst Vitality holds financial assets and liabilities at the balance sheet date with both fixed and floating interest rate exposure the valuation of these assets and liabilities at 30 June 2023 is not materially exposed to interest rate risk with the exception of the insurance contract reserves and derivatives (in the prior year). The sensitivities of the insurance contract reserves are disclosed in note 3.

The following table illustrates the impact on the profit before tax and shareholders' equity of a change in market interest rates to derivatives as at 30 June:

	Impact on profit before tax		**Impact on shareholders' equity Corporation tax rate assumed 20.50% (2022: 19.00%)**	
	Change in market interest rates relative to 30 June			
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
2023	—	—	—	—
2022	27,414	(26,489)	22,206	(18,215)

2.2.2 Credit risk

Credit risk is the risk incurred whenever Vitality is exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform those obligations in a timely manner. Vitality sets the acceptable level of credit risk through its credit risk policy.

The overriding requirement of the policy, which covers all assets beneficially owned by Vitality, is that all assets are of sufficient quality and are sufficiently well diversified to represent appropriate backing for its liabilities, capital and reserves. The policy also requires compliance with all applicable legislation and regulation and sets further limits under specific types of financial instruments, as summarised below.

Cash and cash equivalents

Maximum exposure limits to external counterparties are set with reference to both short and long-term credit ratings issued by Standard & Poor's and Moody's.

Reinsurance assets

This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Credit exposure to reinsurers is also limited through the use of a number of reinsurers. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Vitality are rated A or higher by Standard & Poor's. No impairments are held against reinsurance receivables and there is no history of default for Vitality in respect of these balances.

Other

All intermediaries are approved and regulated by the Prudential Regulation Authority and/or the Financial Conduct Authority. Vitality's credit risk is concentrated in the United Kingdom.

Premium debtors are not rated by Vitality as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and small companies that arises when a policyholder is in arrears on their policy premiums. Premium debtors that are past due are handled by a specialized credit control and policy retention area in the business. Vitality ages its overdue premium debtors and applies provision percentages to each ageing category based on past experience and expectations regarding future recoverability. The provision has been calculated in accordance with IAS 39.

Agents and brokers are subject to a comprehensive relationship management program including periodic credit assessment. Agents and brokers are not rated by Vitality as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission clawbacks are offset against future payments and hence the risk of outstanding commission clawbacks is reduced significantly. Given the nature of the balances, Vitality uses the simplified approach for impairment provisions under IFRS 9 with lifetime expected credit losses being recognised. The provision has been calculated in accordance with IFRS 9.

The following table analyses the financial assets bearing credit risk using Standard & Poor's ratings:

	AAA	AA to A	BBB or lower	Unrated	Total
	£'000	£'000	£'000	£'000	£'000
30 June 2023					
Financial assets - investments at amortised cost	—	52,098	2,915	—	**55,013**
Financial assets - investments at fair value through profit or loss	—	23,990	—	2,988	**26,978**
Financial assets - derivative financial instruments at fair value through profit or loss	—	—	—	—	**—**
Insurance receivables, contract receivables and other receivables	—	—	—	462,298	**462,298**
Cash and cash equivalents	121,359	69,684	85	510	**191,638**
Total financial assets	**121,359**	**145,772**	**3,000**	**465,796**	**735,927**
30 June 2022					
Financial assets - investments at amortised cost	—	10,745	—	—	**10,745**
Financial assets - investments at fair value through profit or loss	—	50,985	—	2,889	**53,874**
Financial assets - derivative financial instruments at fair value through profit or loss	—	10,788	—	—	**10,788**
Insurance receivables, contract receivables and other receivables	—	992	—	409,909	**410,901**
Cash and cash equivalents	169,848	81,573	5,070	1,063	**257,554**
Total financial assets	**169,848**	**155,083**	**5,070**	**413,861**	**743,862**

2.2.3 Liquidity Risk

Cash flow forecasting is performed by Vitality. Vitality monitors rolling forecasts of Vitality's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. This forecasting takes into consideration Vitality's reinsurance financing plans and, if applicable, external regulator or legal requirements – such as Solvency II capital requirements.

Vitality sets the acceptable level of liquidity risk through the Financial Risk Policy. The main features of the policy are:

- Liquidity risk is only incurred in the pursuit of Vitality's corporate and financial objectives, and in particular its investment objectives.
- Limits on the volume of financial assets held which are both not quoted and not regularly traded on a recognised exchange.
- Limits on the volume of non-cash investments.
- Establishing contingency funding plans to ensure adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

The table below analyses Vitality's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Subordinated loans payable have been disclosed based on the earliest repayment date exercisable by Vitality without regulatory restriction as shown in note 38 using interest rates at the balance sheet date. The amounts are the undiscounted contractual payments and will therefore not agree to the statement of financial position.

	Contractual cash flows			
	< 1 year £'000	1 – 5 years £'000	> 5 years £'000	Total £'000
30 June 2023				
Financial liabilities – Borrowings at amortised cost	—	132,737	—	132,737
Financial liabilities – Derivative financial instruments at fair value through profit or loss	—	—	—	—
Financial liabilities – Other payables	138,136	132,492	38,206	308,834
Total contractual cash flows	**138,136**	**265,229**	**38,206**	**441,571**
30 June 2022				
Financial liabilities – Borrowings at amortised cost	34,000	98,390	—	132,390
Financial liabilities – Derivative financial instruments at fair value through profit or loss	3,889	—	—	3,889
Financial liabilities – Other payables	153,774	53,945	83,054	290,773
Total contractual cash flows	**191,663**	**152,335**	**83,054**	**427,052**

2.3 Fair value estimation

Vitality's financial instruments measured at fair value have been analysed using a fair value hierarchy that reflects the significance of the inputs used in valuing those instruments. The fair value hierarchy is based on the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

This category includes listed equity shares, government securities and certain supranational institution bonds and exchange traded futures and options.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

This category includes listed corporate bonds, commercial paper, certificates of deposit, non-participating investment contracts, third party investments in consolidated funds and derivative instruments that are not exchange traded.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

Level 3 financial instruments principally include unlisted equity instruments and corporate bonds for which prices are not available from third party pricing providers.

	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
30 June 2023				
Financial assets at fair value through profit and loss	416,750	23,990	—	**440,740**
Total financial assets and liabilities at fair value	**416,750**	**23,990**	**—**	**440,740**
30 June 2022				
Financial assets at fair value through profit and loss	432,693	30,165	—	**462,858**
Fair value of derivative contracts	—	6,899	—	**6,899**
Total financial assets and liabilities at fair value	**432,693**	**37,064**	**—**	**469,757**

For the amounts disclosed in the fair value hierarchy table above relating to non-derivative contracts, the look-through basis has not been applied to the financial asset at FVPL. These amounts represent investments in Open Ended Investment Companies.

The derivative contracts held by Vitality at 30 June 2022 were interest rate swaps and swaptions - over the counter (OTC) traded derivatives and therefore not exchange traded. The fair value had been derived using market data from secondary markets and information provided by the swaps counterparty. The fair value of the swaps was derived using discounted cash flow models with the key assumption being market interest rates and gilt prices as at 30 June 2022.

2.4 Capital management

With firms authorised by the PRA to write insurance business, Vitality falls into the scope of the Solvency II regulations. Solvency coverage for the SII Group is measured at the Company's immediate parent company level (in line with Solvency II group requirements). Solvency II is a harmonised EU-wide insurance regulatory regime, transcribed into UK law and the PRA handbook, that among other things prescribes capital requirements and asset / liability valuation standards for assessing regulatory solvency capital requirements. Vitality has processes to regularly measure and report its capital requirements as well as the availability of capital over this level. All requirements have been met for the years ended 30 June 2023 and 30 June 2022.

Policies and objectives

The purpose of the capital management policy is to set out how capital should be managed within the Vitality UK Group of companies. The goal of the policy is to manage the risks associated with solvency capital and funding in line with each company's risk appetite. The policy describes and defines the associated risks in the context of each company and how these risks could materialise and impact the business. Further it outlines the relevant risk principles and appetites, and describes the minimum standards each company in the group should implement to manage the risks within appetite. The objective of the policy is efficient deployment of capital to entities within the group while optimising risk adjusted returns, reducing the cost of capital and maximising expected earnings while (i) keeping within the stated risk appetites, (ii) meeting regulatory requirements and regulators' expectations, (iii) allowing for investment and reinsurance strategies, and (iv) having regard to the consolidated group solvency requirements.

Compliance with the policy is assessed at least annually while the policy is reviewed at least every two years. Alongside ensuring each company and the SII Group complies with the required level of capital, Vitality also seeks to foster an environment of regulatory compliance within the group's culture, strategy and decision making; continually develop and enhance the group's regulatory compliance capability; actively communicate the effectiveness and benefits of compliance management to all stakeholders; and be able to provide reasonable and independent assurance to senior management, the Board and regulators.

Each company and the SII Group determines its Solvency Capital Requirement (SCR) using the standard formula set out under Solvency II. They must, at all times, hold sufficient capital to meet or exceed the SCR. In addition, the Board has set a risk appetite statement in order to maintain a certain amount of surplus capital in excess of these requirements in order to absorb changes in both the level of capital and the SCR. The risk appetite is set to safeguard the interests of its policyholders, having regard to the nature and risk of the insurance contracts underwritten, while providing a satisfactory return to shareholders. As part of Vitality's regular risk monitoring and capital management processes the level of surplus is regularly assessed with actions taken to secure additional capital should the level fall close to the risk appetite.

Measuring and monitoring of capital

A comprehensive programme of stress and scenario testing helps to assess the resilience of Vitality's capital position, and in the event that a risk crystallises with the result that capital falls below specified thresholds Vitality can invoke its Recovery and Resolution Plan. This includes a toolkit of potential management actions that could be taken to obtain additional capital or to reduce the amount of risk accepted, for example by changing the reinsurance or investment strategy.

As at 30 June 2023, the SII Group disclosed regulatory available capital of £429,600k (2022: £430,800k) in accordance with Solvency II. The highest capital requirement the SII Group was subject to at 30 June 2023 was the SCR (2022: SCR) which prescribed a capital requirement of £350,800k (2022: £367,600k). On this basis capital coverage was therefore 122% of the SCR (2022: 117% of the SCR).

As at 30 June 2023, VLL disclosed regulatory available capital of £574,976k (2022: £627,396k) in accordance with Solvency II. The highest capital requirement VLL was subject to at 30 June 2023 was the SCR (2022: SCR) which prescribed a capital requirement of £272,099k (2022: £297,066k). On this basis capital coverage was therefore 211% of the SCR (2022: 211% of the SCR).

As at 30 June 2023, VHL disclosed regulatory available capital of £185,888k (2022: £180,977k) in accordance with Solvency II. The highest capital requirement VHL was subject to at 30 June 2023 was the SCR (2022: SCR) which prescribed a capital requirement of £130,845k (2022: £117,165k). On this basis capital coverage was therefore 142% of the SCR (2022: 155% of the SCR).

Vitality has complied with all externally imposed capital requirements to which it was subject throughout the year.

3 Management of insurance risk

VLL

Vitality enters into contracts that carry insurance risk. The insurance risk under any one insurance contract is the possibility of a claim arising from that contract and the uncertainty of the amount and timing of the resulting claim. This risk is random and therefore unpredictable.

A large portfolio of independent but similar insurance contracts, allow for the use of probability theory to predict the number and value of claims over a defined period. Insurance risk, when considering a large portfolio of insurance contracts, is thus the probability that the actual amount of claims over a defined period is different to expected. This could in turn result in the value of insurance liability being over or underestimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be.

Vitality takes a proactive approach to managing its insurance risk. Risk management processes are employed to ensure Vitality identifies and controls the risks to which it is exposed.

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions. For the reasons set out below, this does not represent a significant risk to Vitality.

Assets arising from insurance contract reserves and liabilities arising as a result of reinsurers share of insurance contract reserves

For assets under insurance contracts, the insurance-related cash outflows (e.g. benefit payments, administration expenses) are covered by expected future cash inflows (predominantly future premiums). This can clearly be seen by considering the positive future net cash flows arising from insurance contracts. These cash flows are calculated in accordance with the accounting policies. Contractual premium and benefit increases are recognised in the cash flow projections.

The expected discounted future cash flows utilized in the calculation of assets under insurance contracts are disclosed in the table below:

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	5 to 10 years £'000	Over 10 years £'000	Total £'000
30 June 2023						
Assets arising from insurance contracts	160,491	138,285	323,465	392,332	(146,549)	**868,024**
Liabilities arising from reinsurers share of insurance contracts	(91,748)	(80,790)	(127,854)	(62,839)	8,882	**(354,349)**
Insurance contract reserves net of reinsurance	**68,743**	**57,495**	**195,611**	**329,493**	**(137,667)**	**513,675**
30 June 2022						
Assets arising from insurance contracts	165,951	142,919	331,689	379,257	(243,557)	**776,259**
Liabilities arising from reinsurers share of insurance contracts	(82,809)	(73,569)	(153,989)	(47,207)	4,099	**(353,475)**
Insurance contract reserves net of reinsurance	**83,142**	**69,350**	**177,700**	**332,050**	**(239,458)**	**422,784**

The cash flow valuation discount rate and reinvestment rate is set with reference to the UK gilt yield curve with an adjustment for a liquidity premium. There is therefore a risk that a significant change in the reference yields could cause a change in the value of the insurance contract reserves and therefore the value of the insurance contract reserves is subject to interest rate risk.

Liabilities arising from insurance contract reserves

Liabilities under insurance contracts relate to unit-linked contracts. For these contracts, the insurance related cash outflows are predominantly matched with the sale of policyholder assets and therefore there is no material market or mismatch risk (see note 2.1 for further details).

3.1 Lapse risk

Policyholders have the option to discontinue or, for unit-linked policies, withdraw funds at any time. There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs incurred at the inception of the policy would not yet have been recouped.

There is also a risk of lower than expected lapses at late durations of the policy since no surrender value is payable on withdrawal from a non unit-linked policy even where actuarial reserves are positive.

There is a further risk that lapses are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings on life and protection products (non-unit linked) are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the degree of indexation of future premiums. In general, the higher the indexation increases, the higher the withdrawal risk to future earnings.

Future earnings on unit-linked insurance are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate.

The lapse risk is managed as follows:

Product design

Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

Vitality provides unique rewards and benefits to policyholders via its Optimizer products and Wellness Optimizer products. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

Commission clawback

Vitality predominantly distributes via independent intermediaries. Commissions are clawed back from intermediaries where a policy lapses early on. The clawback period is currently either two or four years. The amount of commission clawback depends on the amount of unearned commission over the period. There is a credit risk associated with clawing back commission from brokers.

Client relationships

All premiums are collected via direct debit. Clients are contacted after a failed direct debit and after notification of a cancellation. The reason for the cancellation is established and wherever possible, the policy is conserved.

Experience monitoring

Lapse experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data for Vitality is currently not sufficient to provide a credible basis for setting assumptions for long duration lapse rates, so reliance is placed on industry benchmarking as well as experience from the VitalityLife business underwritten by PAC.

Proactive Retention

Targeted retention campaigns are run, for example financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.

3.2 Underwriting experience risk

Insurance contracts providing death, serious illness or income protection cover (non unit-linked)

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected.

Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

Underwriting risk on unit-linked contracts is less material than on non-unit linked products and the risk is limited to accidental deaths.

The risks are managed through:

Product design and pricing

Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, medical history and age.

The Vitality Optimizer and Vitality Wellness Optimizer products incentivize engagement in the Vitality Wellness Programme and to actively manage a number of key health indicators (body mass index, blood pressure, cholesterol, blood glucose) which in turn has a positive impact on risk experience.

Underwriting

Underwriting ensures that only insurable risks are accepted and that premiums reflect the circumstances of each risk. This is achieved by different levels of medical underwriting, depending on the answers to medical questions on the application form. Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loading and exclusions are applied where high risks are identified.

Quality assurance audits are performed on underwriting to minimize the risk of incorrect underwriting decisions.

Reinsurance

Reinsurance protects against volatility in claims experience and against an accumulation of risk. In addition, reinsurers provide specialist advice when designing new products. Vitality utilizes surplus reinsurance to reinsure amounts in excess of defined retention levels. Vitality is therefore protected against large individual claims.

During the year to 30 June 2023 and remaining effective at 30 June 2023, Vitality was party to a number of reinsurance agreements. The nature of the agreements in place are outlined below:

- Four (2022: Four) separate quota share agreements that reinsure a specified proportion of the sum assured up to a defined retention level of sum assured for the majority of VLL’s policies.
- Two (2022: Two) separate quota share agreements that finance a specified proportion of the premium value paid by the policyholder.

- A mass treaty (effective from 30 June 2023) with a two year term. The treaty provides a payout to Vitality in the event that 40% or more of Vitality's policyholders lapse in a single event. The treaty has no impact on the insurance contract reserves of Vitality but does reduces its Solvency Capital Required (SCR) under Solvency II.

Experience monitoring

Experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide a credible basis for setting claims rate assumptions, so significant reliance is placed on life insurance industry mortality tables as well as experience from the VitalityLife business underwritten by PAC.

Unit-linked contracts

Underwriting risk on unit-linked contracts is limited to the exposure to accidental death benefit claims. The size of this exposure is correlated to the value of assets under management in relation to unit-linked contracts underwritten by Vitality. Although the accidental death benefit constitutes significant insurance risk for these contracts to be accounted for under IFRS 4, this exposure is currently immaterial.

Vitality charges policyholders a fee (through deduction from policyholder funds under management) to manage its unit-linked contracts. The fees are a percentage of the policyholder funds under management. These policies are not subject to underwriting and the fee charged is the same for all groups of policyholders (depending on the unit-linked investments chosen).

Vitality does not currently utilise reinsurance in respect of its exposure to accidental death risks.

3.3 Expenses

Expense risk can arise through misestimation, higher than expected inflation, lower volumes of business than expected, expense overruns, regulatory change and changes in the mix of business. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

3.4 Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model does not accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world. Any changes made to the model are reviewed. The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. Vitality does not have any legacy systems that could impact on the data quality.

3.5 Regulatory risk

Vitality operates in a highly regulated environment. The regulatory risk can be defined as the potential detrimental impact of unexpected changes in regulations (or interpretation thereof).

Although Vitality endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in the future. This risk is managed through seeking legal advice on new product developments. Further, all insurance products issued by VLL are subject to a rigorous sign-off process.

3.6 Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

3.7 Currency risk

All of Vitality's insurance benefits are pounds sterling denominated as all business is sold in the UK market.

A significant part of operational expenses are South African Rand denominated as systems and administration are based in South Africa. This creates a potential mismatching risk and so Vitality does hold some cash reserves denominated in Rand in a South African based bank account, which are used to pay Rand denominated expenses.

3.8 Solvency capital requirements and protection against adverse experience

There is a risk that future premiums, investment returns and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Insurance liabilities are calculated using best estimates plus the addition of various margins to avoid premature recognition of profits and to provide for a buffer against future adverse experience. In addition, Vitality maintains shareholder capital to meet substantial deviations in experience beyond those provided for in the liability calculations.

Vitality is required to demonstrate solvency to the Prudential Regulation Authority thus needs to maintain sufficient shareholder assets, over and above the assets required to meet shareholder liabilities. Further details can be seen in note 7.

3.9 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with insurance liabilities due to insufficient cash being available to meet commitments as and when they become due. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

Vitality maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, Vitality's expected liabilities are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

3.10 Policy wording/legal risks

There is a risk that VLL could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings or complaints by policyholders.

The risk is managed when new products are developed. All policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

3.11 Reputational risk

Reputational risk is the risk of negative market reaction towards Vitality and/or the fund managers it uses to manage its unit-linked funds which may lead to lapses and low sales volumes.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations and are subject to a rigorous sign-off process.

Vitality only uses reputable fund managers and performs due diligence when working with new fund managers and strategic partners managing its unit linked funds.

Vitality's management reviews all product offerings to minimize the reputational risk.

3.12 Concentration risk

Claims experience risk

There is a risk that a concentration of risk can lead to worse than expected experience. Vitality maintains a well-diversified portfolio of policies. Reinsurance helps protect against this risk, and reduces the exposure to large individual claims.

Withdrawal concentration risk

There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. Vitality has a well-diversified book of business which is spread across a large number of brokers and agents.

3.13 Insurance risk sensitivities

The table below discloses sensitivities to assets arising from non-unit linked insurance contract reserves to key insurance risks noted above. The sensitivities are shown on both a gross and net of reinsurance basis.

	Gross Exposure		Net Exposure	
	Assets arising from insurance contracts £'000	**Change from base assumption %**	**Assets arising from insurance contracts £'000**	**Change from base assumption %**
Base: Base: 30 June 2023 assumptions assumptions	**868,024**	**-**	**513,675**	**-**
Lapses +10% (e.g. from x% to 1.1x%)	840,859	(3.1)	486,563	(5.3)
Lapses -10% (e.g. from x% to 0.9x%)	896,039	3.2	543,360	5.8
Investment return and inflation +1% (e.g. from 5% to 6%)	895,436	3.2	546,423	6.4
Investment return and inflation -1% (e.g. from 5% to 4%)	821,395	(5.4)	462,005	(10.1)
Expense assumption +10%	847,756	(2.3)	493,407	(3.9)
Expense assumption -10%	888,293	2.3	533,944	3.9
Mortality and morbidity +10%	685,236	(21.1)	436,154	(15.1)
Mortality and morbidity -10%	1,052,941	21.3	591,114	15.1
Real curve -1% and inflation +1%	874,769	0.8	521,424	1.5
Real curve +1% and inflation –1%	857,762	(1.2)	502,651	(2.1)
Interest + 1%	885,043	2.0	535,575	4.3
Interest - 1%	827,381	(4.7)	469,406	(8.6)
Base: Base: 30 June 2022 assumptions assumptions	**776,259**	**-**	**422,784**	**-**
Lapses +10% (e.g. from x% to 1.1x%)	753,323	(3.0)	400,742	(5.2)
Lapses -10% (e.g. from x% to 0.9x%)	799,608	3.0	444,929	5.2
Investment return and inflation +1% (e.g. from 5% to 6%)	822,995	6.0	470,508	11.3
Investment return and inflation -1% (e.g. from 5% to 4%)	701,405	(9.6)	349,209	(17.4)
Expense assumption +10%	756,791	(2.5)	403,317	(4.6)
Expense assumption -10%	795,727	2.5	442,252	4.6
Mortality and morbidity +10%	609,379	(21.5)	349,945	(17.2)
Mortality and morbidity -10%	945,073	21.7	495,155	17.1
Real curve -1% and inflation +1%	777,188	0.1	422,273	(0.1)
Real curve +1% and inflation –1%	770,674	(0.7)	418,388	(1.0)
Interest + 1%	816,539	5.2	465,731	10.2
Interest - 1%	700,393	(9.8)	347,480	(17.8)

Sensitivity analysis is not performed on liabilities arising from insurance contracts for unit-linked contracts on the basis that no material risk is currently retained by the Company as noted in note 2.

<u>**VHL**</u>

Vitality takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form Vitality risk profile.

Vitality manages risks through a risk management framework, which allows for the identification, assessment, control and monitoring of risks. Vitality has established effective risk management systems and controls within the framework for the following high-level categories of risk: insurance, credit, liquidity, market, operational and capital management.

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. It is the risk of adverse deviations from the cash flows assumed when pricing or reserving for insurance contracts.

Vitality sets the acceptable level of insurance risk through its insurance risk policy.

The main features of the policy are:

- Insurance risk is only incurred in the pursuit of Vitality's corporate and financial objectives, in particular to grow the business subject to maintaining adequate financial strength;
- The writing of business only on approved rates, which have regard to experience of significant factors such as claims experience, persistency and expenses;
- The use of reinsurance where appropriate;
- The monitoring of the adequacy of reserves to cover insurance liabilities; and
- Regular monitoring of the solvency capital of Vitality (see note (g) below).

Insurance risk is only undertaken within the permitted activities of Vitality. New business is written in accordance with approved pricing assumptions. Underwriting criteria are defined and aligned to the approved pricing assumptions. Vitality's insurance risk is concentrated in the United Kingdom.

Reinsurance based financing is an important part of Vitality's funding strategy, alongside shareholder capital. Financing is obtained to offset the total strain of writing new business, and this financing is then repaid in future periods through ceded premiums and claims under a quota share treaty. Vitality has historically principally utilised cash financing reinsurance treaties. New cashless financing received in the financial year ended 30 June 2023 was £61,600k (2022: £51,400k).

Treaty amendments were signed with the reinsurers during the financial year ended 30 June 2021 in order to change the repayment profile of the treaties in response to the impact of the pandemic on the economic profile of the reinsured business, reducing access to treatment during the pandemic in the short term and introducing a catch up in later periods. These amendments had the effect of increasing the premiums ceded in the financial year ended 30 June 2021 by £39.7m. As expected, the treaty amendments reduced ceded premiums for the financial year ended 30 June 2022 and 2023 by £19.8m each. The amendments only affected the re-phasing of the repayments between financial years and had no net impact in total over the three financial years. See note 10 for further detail.

The following reinsurance contracts were in effect at 30 June 2022 and remain in effect at 30 June 2023:

- A quota share agreements that effectively reinsured 8.5% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.5% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.0% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.0% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 6.0% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 6.5% of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 6.7 % of the risk profit of all individual and SME business written up to and including 31 March 2016;
- A quota share agreement that effectively reinsured 5.3% of the risk profit of all individual and SME business written up to and including 31 March 2016;

- A quota share agreement that effectively reinsured 8.5% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020;
- A quota share agreement that effectively reinsured 12.0% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020;
- A quota share agreement that effectively reinsured 9.0% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020; and
- A quota share agreement that effectively reinsured 8.5% of the risk profit of all individual and SME business written between 1 April 2016 to 31 March 2020.

During the financial year ended 30 June 2023 Vitality became a party to the following additional cashless reinsurance treaties:

- A quota share agreement with two tranches that effectively reinsured 10.4% for the first tranche and 14.2% for the second tranche of all individual and SME business written between 1 April 2016 to 31 March 2020.

These agreements are all financing in nature, although they include significant insurance risk, effectively creating income to Vitality at the start of the agreement which is then repaid via ceded premiums and claims over the duration of the agreement.

As detailed in note 10, as a result of the adoption of IFRS 17 at 1 July 2023, all of the financial reinsurance treaties were cancelled with effect from 1 July 2023.

Sensitivity of IFRS basis profit or loss and equity to loss ratio

Vitality has instituted a system that monitors loss ratios and feeds the results back into the premium rate setting process on an ongoing basis. Because of the short-tailed nature of the business and the intention to carry out this monitoring each month, Vitality's reaction time to unexpected changes in loss ratio will be quick. Furthermore, due to the short-tailed nature of the business, Vitality does not deem further disclosure around the sensitivity of IFRS profits and equity to insurance risk to be necessary. Management considers that the relevant risk variable would not be material within a sensitivity. This is on the basis that the Vitality's product covers treatments already performed and typically 75% of claims are settled within three months of treatment being provided. Vitality intends that premium rates be amended every six months and retains the ability to make changes more frequently for new business. Policies already in force have their premium rates amended on every policy anniversary.

4 Insurance premium revenue and classes of business

Vitality has three main classes of business:

	Year ended 30 June	
	2023	2022
	£'000	£'000
Health		
Medical expense insurance	634,580	557,185
Total Health	**634,580**	**557,185**
Life		
Unit-linked insurance	57,181	331,676
Other life insurance	328,825	299,302
Total Life	**386,006**	**630,978**
Total insurance premium revenue	**1,020,586**	**1,188,163**
Premiums ceded to reinsurers	(262,600)	(216,069)
Net insurance premium revenue	**757,986**	**972,094**

During the year the Vitality did not write any business outside the United Kingdom, and accordingly, no geographic division of information is disclosed in respect of gross premiums earned.

5 Investment Income

	Year ended 30 June	
	2023	2022
	£'000	£'000
Cash and cash equivalents	6,403	1,203
Collective investment undertakings disclosed as cash equivalent	1,455	76
Derivative coupon interest	—	4,639
Interest on corporate bonds	1,691	1,561
Term deposits held at amortised cost	1,068	85
Other interest	167	181
Total investment return	**10,784**	**7,745**

6 Net fair value gains / (losses) on financial assets at fair value through profit or loss

	Year ended 30 June	
	2023	2022
Net fair value gains / (losses) on:	**£'000**	£'000
Investments in open ended investment companies	24,965	(58,187)
Other financial assets	(1,690)	(3,904)
Derivative contracts	24,537	(129,517)
Total net fair value gains / (losses)	**47,812**	**(191,608)**

7 Other income

	Year ended 30 June	
	2023	2022
	£'000	£'000
Income from the recharge of expenses to other group companies	2,543	142
Rental and service charge revenue	729	431
Other income	7,460	6,803
Total Other Income	**10,732**	**7,376**
Vitality product fee income	**32,632**	**30,559**

8 Net claims and policyholder benefits

	Year ended 30 June	
	2023	2022
	£'000	£'000
Individual life & protection insurance (non unit-linked)		
Gross claims incurred	117,286	110,123
Less: Reinsurance recoveries	(71,924)	(62,434)
Total life & protection Insurance (non unit-linked)	**45,362**	**47,689**
Unit-linked insurance		
Withdrawals and drawdowns	430,680	50,547
Total unit-linked insurance	**430,680**	**50,547**
Health Insurance		
Claims and benefits paid	333,350	278,063
Less: Reinsurance recoveries	(77,854)	(63,655)
Total health insurance	**255,496**	**214,408**
Total net claims and policyholders' benefits	**731,538**	**312,644**

9 Acquisition costs and administrative expenses

	Year ended 30 June	
	2023	2022
Acquisition costs	£'000	£'000
Commission costs	95,847	80,088
Amortisation of deferred acquisition costs	98,203	84,845
Total acquisition costs	**194,050**	**164,933**
Administrative expenses	**456,424**	**264,537**
Reinsurers' share of acquisition and administrative expenses	**(167,639)**	**(141,140)**

Acquisition and administrative expenses are partially financed through reinsurance financing. This financing meets the definition of reinsurance under IFRS 4 due to the transfer of lapse risk and reinsurers' share of claims.

Included in the administrative expenses above is £131k (2022: £54k) of fees payable to the Company's auditors for the audit of the Company's financial statements, and £1,693k (2022: £1,342k) of total audit fees for the Group. Audit and non-audit fees for the subsidiaries are disclosed in the respective entities' financial statements.

For the financial year ended 30 June 2023, Vitality paid £592k to KPMG for the audit of VCSL and VHL and £789k to PwC for the audit of VLL. For the financial year ended 30 June 2022 Vitality paid £426k to KPMG for the audit of VHL and £593k to PwC for the audit of VCSL and VLL. For the financial year ended 30 June 2023, Vitality paid £126k to KPMG for audit related assurance services provided to VHL and £183k to PwC for audit related assurance services provided to VLL. For the financial year ended 30 June 2022 Vitality paid £120k to KPMG for audit related assurance services provided to VHL and £203k to PwC for audit related assurance services provided to VLL. Vitality paid £3k to PwC for non-audit related services.

10. Accelerated reinsurance repayments

VHL has used quota share reinsurance treaties as one of the mechanisms to manage initial acquisition cost strain, using reinsurance-based financing to spread initial acquisition costs over multiple policy years to better reflect the economics of the product. During the financial year ended 30 June 2021 repayments on existing reinsurance contracts were accelerated, reducing net earned premiums for the financial year ended 30 June 2021, and consequently reducing repayment obligations in the financial years ended 30 June 2023 and 2022. The strategic rationale for this is set out below.

The COVID-19 pandemic resulted in a temporary reduction in claims ratios for Vitality for the each of the financial years ending 30 June 2022, 2021, and 2020 compared to pre-pandemic levels, as ongoing national lockdowns changed both provider and policyholder behaviour. Whilst some treatments were delayed essential and urgent care continued uninterrupted throughout, such as treatments for cancer. At 30 June 2021, it was anticipated that claims ratios would be higher than pre-pandemic levels during the financial year ended 30 June 2022 and 2023 as a result of a catch up of delayed treatments, combined with increased severity of conditions due to those delays and the impact of the pandemic on premiums.

VHL had recognised reserves as permitted by IFRS at 30 June 2021. However, as a short-term insurer, VHL was constrained in its ability to set aside reserves for the impact of the pandemic that was expected to arise in future renewal periods beyond the 12-month contract boundary.

To protect against the expected increase in claims ratio in subsequent financial years, VHL amended a number of its existing quota share reinsurance treaties to adjust the repayment profile in June 2021. This increased the repayments in the financial year ended 30 June 2021 by £39.7m. As expected, the treaty amendments reduced the ceded premiums for the financial years ended 30 June 2023 and 2022 by £19.8m each. The amendments only affected the re-phasing of the repayments between financial years and had no net impact in total over the 3 financial years.

The impact of accelerated reinsurance payments on prior financial years is summarised below:

	Year ended 30 June	
	2022	2021
	£'000	£'000
Gross earned premiums	557,185	534,132
Earned premiums ceded to reinsurers (excluding acceleration)	(76,700)	(88,633)
Accelerated earned premiums ceded to reinsurers	—	(39,723)
Net earned premiums	**480,485**	**405,776**

As a result of the adoption of IFRS 17 at 1 July 2023, all of the financial reinsurance treaties were cancelled with effect from 1 July 2023. See note 41 for further details.

11 Staff costs and other employee related costs

The average monthly number of persons (including executive directors) employed by Vitality during the year is summarised below:

	Year ended 30 June	
	2023	2022
By activity	**Average number**	Average number
Customer services	978	1,008
Support services	872	748
Sales	596	541
Total employees	**2,446**	**2,297**

The aggregate remuneration payable in respect of those employees was:

	Year ended 30 June	
	2023	2022
	£'000	£'000
Wages and salaries	127,536	112,718
Long term incentive plan expense	10,252	5,294
Social security costs	15,756	12,512
Pension costs	4,889	4,152
Other staff costs	53	85
Total staff costs	**158,486**	**134,761**

Pension costs relate to contributions to a defined contribution pension scheme available to all employees. At 30 June 2023 contributions of £842k (2022: £34k were outstanding. At 30 June 2023 there were no prepaid contributions (2022: £nil).

12 Long Term Incentive Plans

Vitality operates three long-term incentive plans (LTIPs). Participants earn a cash bonus based on an allocation of phantom share options, the valuation of which is linked to the performance of VitalityLife and VitalityHealth, and more specifically to the Value of Inforce ("ViF") of VitalityLife and the embedded value ("EV") of VitalityHealth. The ViF and EV are determined at each balance sheet date as a valuation of the underlying business in VitalityLife and VitalityHealth. The valuation methodology is approved by the Remuneration Committee on an annual basis. The bonus is earned if the participant is employed on each vesting date. For options issued, the vesting date is two, three or four years after the options are granted. The bonus is calculated based on the difference between the option price and the exercise price. The bonus may not be carried forward.

The schemes have been classified as a cash-settled scheme and a liability has been recognised in line with IFRS 2.

The following is a summary of the terms and conditions of the share options granted.

Date Granted	Option Price	Final Vesting Date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	**Shares under option at end of year**
06/12/2018	£0.00	06/12/2021	33,936	—	(33,542)	(394)	**—**
01/03/2020	£0.00	30/11/2023	75,496	—	(37,531)	(906)	**37,059**
01/02/2021	£0.00	30/09/2024	129,898	—	(43,064)	(1,784)	**85,050**
01/02/2021	£0.00	30/09/2025	18,243	—	—	(1,927)	**16,316**
01/12/2021	£0.00	30/09/2025	147,733	—	—	(2,929)	**144,804**
01/12/2021	£0.00	30/09/2026	27,049	—	—	(2,081)	**24,968**
			432,355	**—**	**(114,137)**	**(10,021)**	**308,197**

The long-term incentive plans are cash settled and therefore revalued at each reporting date.

During the year ended 30 June 2023, payments of £4,897k (2022: £4,064k) were made to satisfy the long-term incentive plan schemes where performance criteria and service was met.

At 30 June 2023, the total amount accrued in relation to cash-settled awards was £9,725k (2022: £10,018k) inclusive of employer's national insurance. The charge to the Statement of comprehensive income during the year was £5,342k (2022: £5,259k) inclusive of employers national insurance.

13 Directors emoluments

The Directors are employed by VCSL and by companies in the Discovery Limited group. There are no members of key management other than the executive directors. Other than as disclosed below, no director has received any incremental emoluments or other benefits for services to the Group.

The remuneration in the year disclosed below represents the remuneration paid by the Group to the directors on behalf of Vitality for the periods they held a directorship with one or more Vitality group companies.

	Year ended 30 June	
	2023	2022
	£'000	£'000
Aggregate emoluments in respect of qualifying services	7,905	7,573
Compensation for loss of office	—	550
Aggregate pension contributions to money purchase schemes	60	49
Aggregate amounts receivable under the Long Term Incentive Plan	2,431	2,940
Total	**10,396**	**11,112**

	Year ended 30 June	
	2023	2022
	£'000	£'000
Details of highest paid director		
Aggregate emoluments in respect of qualifying services	2,056	2,015
Aggregate pension contributions to money purchase schemes	5	4
Aggregate amounts receivable under the Long-Term Incentive Plan	505	546
Total	**2,566**	**2,565**

The remuneration shown above is in respect of 14 directors (2022: 14 directors) of the Group. 6 directors are participating in the long- term Incentive Scheme (2022: 10). The total remuneration for directors is recharged to VHL, VLL and BHIAL based on each Director's role in the Group and the companies that they are directors of. Other Group companies do not get recharged for any of the costs as the services that the directors provide to these companies are incidental to the services they provide to the Vitality Group.

14 Finance costs

	Year ended 30 June	
	2023	2022
	£'000	£'000
Interest paid to related parties	14,752	9,758
Interest paid on bank borrowings	5,731	2,574
Amortisation of capitalised borrowing and guarantee costs	1,336	1,657
Reinsurance treaty fees	2,218	1,933
Interest charges for lease liabilities	659	276
Other interest expenses	2,405	(2,980)
Total finance costs	**27,101**	**13,218**

15 Income tax

	Year ended 30 June	
	2023	2022
(a) Current year tax (charge) / credit		
Current tax:		
Current year tax charge	(7,238)	(1,378)
Adjustments in respect of prior years	342	(354)
Total current tax charge	**(6,896)**	**(1,732)**
Deferred tax:		
Deferred tax (expense)/credit	(7,477)	13,798
Adjustments in respect of prior periods	(333)	(583)
Effect of changes in tax rates	1,969	4,214
Total deferred tax (charge) / credit	**(5,841)**	**17,429**
Total tax (charge) / credit	**(12,737)**	**15,697**

The tax assessed for the year is higher (2022: lower) than the standard rate of corporation tax in the United Kingdom for the year ended 30 June 2023 of 20.50% (2022: 19.00%). The difference is explained below:

	Year ended 30 June	
	2023	2022
(b) Reconciliation of tax:	**£'000**	£'000
Profit before tax	59,184	44,049
Tax at 20.50% (2022 19.00%)	(12,133)	(8,369)
Effects of:		
Property, plant and equipment differences	258	(64)
Re-measurement of deferred tax for changes in tax rates	1,969	4,228
Adjustment in respect of prior years	9	(937)
Permanent differences	(187)	(146)
Income not taxable	233	142
Non-taxable reversal of impairment of associates	23	15
Deferred tax asset not recognised	(2,100)	(53)
Insurance tax differences	(809)	20,881
Total tax (charge) / credit	**(12,737)**	**15,697**

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was enacted on 10 June 2021. Current and deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes has been applied.

16 Goodwill

Goodwill is not amortised, but is tested on an annual basis for impairment. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

The table below sets out the goodwill allocated to the respective cash generating units ("CGUs") which is expected to benefit from the synergies of the combination. Impairment of goodwill is assessed at this CGU level. This are no accumulated historical impairment losses.

	As at	
	2023	2022
	£'000	£'000
Goodwill		
– VitalityHealth [1, 2]	34,338	34,338
Total	**34,338**	**34,338**

1. £33,200k of goodwill arose from the acquisition of Standard Life Healthcare and was allocated to the VitalityHealth CGUs as at 31 July 2010.
2. £1,138k of goodwill arose from the acquisition of KYS Paid Limited and was allocated to the VitalityHealth CGU as at 30 April 2014.

The goodwill allocated represents the value of future new business expected to be written by VitalityHealth.

The value-in-use is calculated as the present value of the best-estimate pre-tax cash flows of the CGU for the in-force policies at the valuation date and 10 years of new business. The 10-year forecast was considered appropriate to better reflect the long term specific growth prospects, rather than applying a straight terminal value. For the policies in-force at the valuation date and for each tranche of new business, the cash flows are projected over a 10-year period and a terminal value is applied in the final year of the projection, calculated using a growth rate assumption appropriate for the decline in the best-estimate, pre-tax cash flows.

The methodologies and assumptions applied in determining the recoverable amount is consistent with those in the prior periods, updated for new information. The information is consistent with actual results relative to budgeted amounts. During the reporting period, the recoverable amount for VitalityHealth was higher than the carrying amount, therefore no impairment is necessary. The key assumptions were stressed. The stresses performed included simulating a significant drop in new business, and stresses relating to lapses and morbidity. The result is that there was still sufficient headroom and no impairment necessary.

The cash flows have considered both the ‘value-in-force’ business as well as new business. The significant inputs related to the determination of the discount rates for VitalityHealth:

- A long-term Bank of England gilt of 3.77% was used as the risk free rate;
- An equity risk premium for United Kingdom of 3.5% was added; and
- The Beta Risk is the beta of the FTSE Life insurance index relative to the FTSE 350 Index over a five-year period, adjusted based on the ratio of the specialist US listed health insurers to the average S&P 500 Life and Health Insurance Index over a five-year period. There are no specialist health insurers listed in the UK.

17 Intangible assets

	Internal software development £'000
Cost	
At 1 July 2021	**135,499**
Additions in the year	24,150
Disposals in the year	(14,387)
At 30 June 2022 and 1 July 2022	**145,262**
Additions in the year	25,136
Impairments in the year	(71,290)
At 30 June 2023	**99,108**
Accumulated amortisation	
At 1 July 2021	**(79,417)**
Amortisation in the year	(21,428)
Disposals in the year	5,563
At 30 June 2022 and 1 July 2022	**(95,282)**
Amortisation in the year	(17,395)
Impairments in the year	60,585
At 30 June 2023	(52,092)
Net book amount at 30 June 2022	**49,980**
Net book amount at 30 June 2023	**47,016**

During the financial year ended 30 June 2023, Vitality impaired intangible assets with a net book amount of £9,782k (2022: £nil). The majority of the impaired assets, in the amount of £8.8m, related to the decision to run-off the book of the VitalityCar business by 30 June 2024, combined with the impairment of older intangible assets that were cancelled or replaced.

18 Property and equipment

	Land	Building	Computer equipment	Office Equipment	Fixtures and fittings	Leasehold improvements	Telematics devices	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 July 2021	1,122	8,677	16,135	48	5,030	2,931	668	34,611
Additions in the year	—	—	1,914	2	113	189	329	2,547
Disposals in the year	—	—	(9,451)	—	(385)	—	(36)	(9,872)
At 30 June 2022	**1,122**	**8,677**	**8,598**	**50**	**4,758**	**3,120**	**961**	**27,286**
Additions in the year	—	—	2,424	21	741	3,336	414	6,936
Disposals in the year	—	—	(1,967)	—	(2,514)	(877)	(1,375)	(6,733)
At 30 June 2023	**1,122**	**8,677**	**9,055**	**71**	**2,985**	**5,579**	**—**	**27,489**
Accumulated depreciation								
At 1 July 2021	—	(548)	(13,575)	(44)	(4,227)	(1,910)	—	(20,304)
Depreciation charge for the year	—	(217)	(1,743)	(4)	(323)	(472)	(19)	(2,778)
Disposals in the year	—	—	9,451	—	385	—	—	9,836
At 30 June 2022	**—**	**(765)**	**(5,867)**	**(48)**	**(4,165)**	**(2,382)**	**(19)**	**(13,246)**
Depreciation charge for the year	—	(217)	(1,974)	(3)	(347)	(520)	(49)	(3,110)
Disposals in the year	—	—	1,945	—	2,468	780	68	5,261
Impairment of building	**—**	**(2,117)**	**—**	**—**	**—**	**—**	**—**	**(2,117)**
At 30 June 2023	**—**	**(3,099)**	**(5,896)**	**(51)**	**(2,044)**	**(2,122)**	**—**	**(13,212)**
Net book amount at 30 June 2022	**1,122**	**7,912**	**2,731**	**2**	**593**	**738**	**942**	**14,040**
Net book amount at 30 June 2023	**1,122**	**5,578**	**3,159**	**20**	**941**	**3,457**	**—**	**14,277**

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19 Leased assets

The table below relates to those assets held in accordance with IFRS 16 where a right-of-use asset is recognised.

	As at 30 June	
	2023	2022
Right-of-use assets	**£'000**	£'000
Buildings	9,625	5,429
Vehicles	28	96
Computer equipment	—	—
Net book amount	**9,653**	**5,525**

	As at 30 June	
	2023	2022
Lease liabilities	**£'000**	£'000
Current	1,803	2,176
Non-current	9,695	5,264
	11,498	**7,440**

During the financial year ended 30 June 2023 break clauses were exercised on one (2022: two) building leases resulting in a disposal of right-of-use-assets and a reduction in lease liabilities in the amount of £3,758k (2022: £5,862k).

The statement of comprehensive income shows the following amounts relating to leases:

	Year ended 30 June	
	2023	2022
Depreciation charge for right-of-use assets	**£'000**	£'000
Buildings	1,731	1,774
Vehicles	68	64
Computer equipment	—	13
	1,799	**1,851**
Interest expense	**659**	**276**
Expense relating to short-term leases (included in administrative expenses)	**—**	**15**

20 Assets arising from insurance contracts reserves and liabilities arising from reinsurers share of insurance contract reserves

	Year ended 30 June	
	2023	2022
	£'000	£'000
Long-term insurance contracts – gross	868,024	776,259
Less: Reinsurers share	(354,349)	(353,475)
Long-term insurance contracts – net	**513,675**	**422,784**
Current	68,743	83,142
Non-current	444,932	339,642
Total	**513,675**	**422,784**

Reconciliation of movement in net insurance contract reserves

	Year ended 30 June	
	2023	2022
	£'000	£'000
Balance at beginning of the year	**422,812**	**364,681**
Expected unwind of reserves	(86,506)	(82,658)
Unwind of discount rate	16,994	6,802
New business written	78,514	72,687
Experience variances	47,695	32,130
Modelling and methodology changes	(9,133)	(1,674)
Economic assumption changes	52,264	64,065
Non-economic assumption changes	(8,381)	(32,944)
Change in claims incurred but not reported	(584)	(305)
Balance at end of the year	**513,675**	**422,784**

The policyholder reserves are calculated per policy on a prospective, discounted cash flow basis as the difference between the present value of expected future net benefit payments plus expected future expenses (including commission) and the present value of expected future net premiums. These cash flows are projected using best estimate assumptions of future expected mortality, morbidity, lapses, costs, inflation and interest rates, adjusted for margins for adverse deviation in line with INSPRU regulation and discretionary margins.

The reserves are calculated gross and net of the impact of reinsurance arrangements.

Further details regarding the insurance contract reserves can be seen in note 2 and 3.

21 Deferred acquisition costs

	Year ended 30 June	
	2023	2022
	£'000	£'000
At the beginning of the year	49,036	41,864
Costs deferred in the year	102,459	92,017
Costs amortised in the year	(98,203)	(84,845)
At the end of the year	**53,292**	**49,036**

The amount of deferred acquisition costs expected to be recovered after more than twelve months is £nil (2022: £nil).

22 Assets arising from contracts with customers

	As at 30 June	
	2023	2022
	£'000	£'000
Premium Debtors	340,751	302,389
Less: Provision for impairment of premium debtors	(1,771)	(1,527)
Agents and brokers	2,424	2,471
Less: provision for impairment of agents and brokers	(1,145)	(1,346)
Total assets arising from contracts with customers	**340,259**	**301,987**

Assets arising from contracts with customers are expected to be settled within twelve months. The carrying amounts above reasonably approximate the fair value at year end.

23 Investments in equity-accounted investees

	As at 30 June	
	2023	2022
	£'000	£'000
Investment in associate	310	198
Investment in joint venture	124	99
Total investments in equity-accounted investees	**434**	**297**

The investment in associate represents the Company's 20% investment in HL (Reg. No. 03867872) whose registered office is 10 Orange Street, London, United Kingdom, WC2H 7DQ. The investment in HL is recognised under the equity method in accordance with IAS 28.

It is the Company's intention to hold investments in equity securities for more than twelve months. 100% of the above equity security is UK based.

VCSL has a 50% investment in Healthcare HPAL. HPAL is responsible for supporting VitalityHealth and Aviva Health UK Limited with the procurement of healthcare with most large hospitals, primarily around contracting. VCSL recognised a profit of £27k during the financial year ended 30 June 2023 (2022: £98k) on the increase in the valuation of their investment in HPAL. During the financial year ended 30 June 2023 HPAL paid a dividend of £48k to VCSL (2022:£nil).

It is VCSL's intention to hold investments in equity securities for more than twelve months. HPAL's registered office is 8 Surrey Street, Norwich, Norfolk, NR1 3NG.

24 Deferred tax

	As at 30 June	
	2023	2022
(a) Components of deferred tax:	**£'000**	£'000
Fixed asset timing differences	(942)	27
Short term timing differences	2,602	21,083
Losses and other deductions	38,311	24,702
Total deferred tax asset	**39,971**	**45,812**
(b) Movement in deferred tax comprise:		
At the beginning of the year	45,812	28,383
Amounts (charged) / credited to the statement of comprehensive income	(5,841)	17,429
At the end of the year	**39,971**	**45,812**

The recognition of the deferred tax asset is supported by the expected future profitability of the Company and other companies in the group.

£1,755k of unused tax losses and short term timing differences (2022: £669k of unused tax losses) have not been recognised on the Consolidated statement of financial position.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was enacted on 10 June 2021. Current and deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes has been applied.

25 Financial assets - investments at amortised cost

	As at 30 June	
	2023	2022
	£'000	£'000
Term deposits and notice accounts	53,711	10,411
Other financial assets	1,302	334
Total financial assets - investments at amortised cost	**55,013**	**10,745**

26 Financial assets - investments at fair value through profit and loss

	As at 30 June	
	2023	2022
	£'000	£'000
Investments at fair value through profit or loss:		
Investments in open ended investment company funds	306,729	690,989
Other financial assets	23,990	30,165
Total Financial Assets at fair value through profit or loss	**330,719**	**721,154**
Held to back unit-linked policyholder liabilities	**303,741**	**667,280**

Investments held to back unit-linked policyholder liabilities have no fixed maturity and can be withdrawn at short-notice to match policyholder withdrawals.

Other financial assets represent debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income, specifically investments in diversified portfolios of sterling denominated corporate bonds.

The fair value of investments at fair value through profit and loss approximates the carrying amount due to the relatively short-term nature of the instruments.

27 Derivative contracts

	As at 30 June	
	2023	2022
	£'000	£'000
Fair value – assets	—	10,788
Fair value – liabilities	—	(3,889)
Net fair value of derivative contracts	**—**	**6,899**

	As at 30 June	
	2023	2022
	£'000	£'000
Interest rate swaption	—	10,788
Interest rate swap	—	(3,889)
Total fair value of derivative contracts	**—**	**6,899**

As at 30 June 2023 Vitality is party to no open over-the-counter derivative contracts (2022: Six).

Movement in fair value of derivative contracts

	Year ended 30 June	
	2023	2022
	£'000	£'000
Opening fair value of derivative contracts	**6,899**	**(3,916)**
Cash paid / (received) on purchased derivatives	(31,436)	140,332
Gain in fair value through profit and loss	24,537	(129,517)
Closing fair value of derivative contracts	**—**	**6,899**

Summary of open derivative contracts and maturity analysis

a. *Interest rate swaps*

	Average receive fixed interest rate As at 30 June		Average pay fixed interest rate As at 30 June		Notional principal value £'000 As at 30 June		Net Fair value (Liability) £'000 As at 30 June	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Less than 1 year	—	—	—	—	—	—	—	—
1 to 2 years	—	—	—	—	—	—	—	—
2 to 5 years	—	—	—	—	—	—	—	—
5 years +	—	—	—	2.434%	—	89,500	—	(3,889)

In the prior year all interest rate swaps required Vitality to pay the fixed rate and receive the floating rate. Therefore, as the underlying reference rates increased the fair value of the interest rate swaps increased. The underlying reference rate was the 25 Year SONIA rate. No swaps are held at 30 June 2023.

b. *Interest rate swaptions*

	Average receive fixed interest rate strike price As at 30 June		Average pay fixed interest rate strike price As at 30 June		Notional principal value £'000 As at 30 June		Net Fair value Asset / (Liability) £'000 As at 30 June	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Less than 1 year	—	—	—	—	—	—	—	—
1 to 2 years	—	—	—	2.668%	—	170,000	—	10,788
2 to 5 years	—	—	—	—	—	—	—	—
5 years +	—	—	—	—	—	—	—	—

A swaption is an option granting Vitality the right but not the obligation to enter into an underlying interest rate swap. In the pay fixed interest rate swaptions listed above if the reference rate exceeds the strike price at expiration of the swaption, then Vitality will benefit from the value of an interest rate swap at the expiration date based on Vitality paying the fixed rate equal to the strike price and receiving the floating rate at expiration of the swaption. The underlying reference rate was the 25 Year SONIA rate.

In the prior year, the counterparty for the derivative contracts was a third party.

Derivative contracts held with third parties are collateralised with cash. The net cash collateral held at 30 June 2023 was £nil (2022: £10,490k) against third party derivative assets of £nil (2022: £6,899k).

28 Insurance receivables, contract receivables and other receivables

	As at 30 June	
	2023	2022
Insurance receivables, contract receivables and other receivables	**£'000**	£'000
Due from reinsurers	246,018	198,538
RI share of contract liabilities	95,318	84,033
Reinsurers share of claims outstanding	58,695	49,447
Right-of-use assets	9,653	5,525
Other receivables	73,178	79,572
Total Insurance receivables, contract receivables and other receivables	**482,862**	**417,115**

29 Inventory

Inventory consists of vouchers purchased for £4,064k (2022: £464k) which were purchased in bulk to be sold to members as part of the wellness benefit program. An amount of £3,814k (2022: £3,272k) has been recognised as an expense in the Statement of comprehensive income for the financial year ended 30 June 2023 in respect of vouchers issued.

30 Cash and cash equivalents

	As at 30 June	
	2023	2022
	£'000	£'000
Cash at bank and on hand	238,769	280,332
Highly liquid investments	11,338	43,884
Total cash and cash equivalents	**250,107**	**324,216**

All balances are subject to a variable interest rate. The average effective interest earned on cash and cash equivalents was 2.23% (2022: 0.37%).

Highly liquid investments include amounts held in highly diversified and liquid liquidity funds with low levels of volatility and a weighted average maturity of less than 3 months.

Short-term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest or other penalties.

Cash and cash equivalents include balances within the unit-linked funds of £58,469k (2022: £66,662k) which are restricted and therefore not available for general business use.

31 Ordinary share capital and share premium

	30 June 2023 Number of Shares	30 June 2023 £'000	30 June 2022 Number of Shares	30 June 2022 £'000
Ordinary shares				
Authorised				
Ordinary shares of £1 each	No Maximum	No Maximum	No Maximum	No Maximum
Called up, issued and fully paid				
Ordinary shares of £1 each	6,273,196	6,273	6,228,196	6,228
Total	**6,273,196**	**6,273**	**6,228,196**	**6,228**
Share premium arising on:				
Arising on:				
Ordinary shares	6,273,196	742,657	6,228,196	738,202
Total	**6,273,196**	**742,657**	**6,228,196**	**738,202**

All shares have equal ranking.

There were 45,000 ordinary shares issued in the year (2022: 140,000), which were all purchased by Discovery Group Europe Limited. The shares were issued on the following dates: 26 August 2022 (22,500) and 15 November 2022 (22,500).

32 Liabilities arising from insurance contracts

	As at 30 June	
	2023	2022
	£’000	£’000
Unit liabilities	382,396	732,447
Non-unit liabilities	—	—
Balance at end of the year	**382,396**	**732,447**

	As at 30 June	
	2023	2022
	£’000	£’000
Unit-linked insurance contracts		
Balance at beginning of the year	732,447	506,586
Premiums received	55,610	330,178
Withdrawals and drawdowns	(430,680)	(50,547)
Fees	(1,012)	(1,076)
Distributions	1,404	276
Fair value adjustment for change in unit value	24,627	(57,943)
Movement in non-unit liability for unit-linked business	—	4,973
Balance at end of the year	**382,396**	**732,447**

33 Liabilities arising from reinsurance contracts

	As at 30 June	
	2023	2022
	£'000	£'000
Life		
Liabilities arising from reinsurers share of insurance contract reserves	(354,349)	(353,475)
Amounts due to reinsurance financiers	(14,780)	(12,508)
Other reinsurance liabilities	(6,839)	(6,173)
Health		
Reinsurers' share written premiums	(81,851)	(73,423)
Reinsurance recoveries	(12,185)	(9,166)
Cashless treaty fees	(520)	(468)
Total liabilities arising from reinsurance contracts	**(470,524)**	**(455,213)**

The table above excludes debtors of nil (2022: debtors of £20k) in respect of proportional reinsurance treaties on non-health insurance products with a reinsurers' share of written premiums of nil (2022: £40k) and reinsurance recoveries of nil (2022: £89k).

With the exception of the liabilities arising from reinsurers share of insurance contract reserves all reinsurance receivables and payables are expected to be settled within 12 months.

34 Contract liabilities to customers

Life

	As at 30 June	
	2023	2022
	£'000	£'000
Notified but unpaid claims	61,963	51,632
Total claims outstanding – gross	**61,963**	**51,632**
Reinsurers share of claims outstanding	(39,422)	(30,443)
Total claims outstanding – net	**22,541**	**21,189**

Health

	As at 30 June 2023			As at 30 June 2022		
	Gross	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
General insurance contracts						
Claims handling provision	773	—	773	659	—	659
Claims outstanding	52,734	(13,368)	39,366	45,213	(10,511)	34,702
Unearned premiums	341,193	(81,950)	259,243	321,037	(73,522)	247,515
Total	**394,700**	**(95,318)**	**299,382**	**366,909**	**(84,033)**	**282,876**

Movement in gross claims outstanding are as follows:

	As at 30 June	
	2023	2022
	£'000	£'000
Claims outstanding opening	45,213	41,652
Paid in the year	11,905	14,220
Reserve release for prior year	(4,384)	(10,659)
Claims outstanding closing	**52,734**	**45,213**

(a) Assumptions

The outstanding claims reserve method used continues to be driven by a frequency and severity model with adjustments made to allow for any delays in treatments witnessed compared to historical experience. The outstanding claims reserve has two distinct components: the first is in respect of private medical insurance and associated policies; the second is in respect of the closed book of other protection policies written on annually renewable terms.

Private medical insurance and associated policies

The Company uses a frequency and severity approach for the most recent treatment months in order to estimate the ultimate cost of claims with other methods used to validate the recommended result.

This method looks at the expected treatment timeline and cost for each authorised claim and recommends the reserve by accident month as the difference between that paid and that which is expected. This model assumes that claims with the same international classification of disease codes will follow similar timelines to resolution with similar costs. Adjustments are made by accident month to allow for the delays in treatments witnessed compared to historical experience as well as any associated catch-up of previously delayed treatments. For older treatment months traditional chain ladder methods are used.

The calculated figure represents the reserve in respect of both reported and not yet reported claim events. The calculated reserve is considered in light of other factors, such as changes in claims processes, any backlogs of invoices, or uncertainties in the external claims environment. Comparisons are also made with other benchmark figures such as the outputs from chain-ladder models and Bornheutter-Ferguson methods. Adjustments are made to the calculated reserve as necessary to reflect changes in severity, frequency and timing of treatments.

Other protection policies

This closed book consists of Income Protection, Critical Illness and Long-Term Care policies, written on annually renewable terms. Reserves are calculated separately for each of these product groups, taking into account reinsurance arrangements. Reported Income Protection claims are valued using capitalisation factors depending on the severity of a claim and unexpired duration to retirement. An additional amount, based on the amount of business in force, is held in respect of unreported claims.

Accident year – Gross

	12 months ended 30 June 2018	12 months ended 30 June 2019	12 months ended 30 June 2020	12 months ended 30 June 2021	12 months ended 30 June 2022	12 months ended 30 June 2023	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:							
– at end of accident year	241,822	263,369	253,248	278,751	306,135	353,764	
– one year later	232,516	257,105	237,178	262,537	295,714		
– two years later	232,669	257,129	236,887	262,841			
– three years later	232,684	257,110	236,858				
– four years later	232,673	257,151					
– five years later	232,733						
Current estimate of ultimate claims	**232,733**	**257,151**	**236,858**	**262,841**	**295,714**	**353,764**	
Cumulative payments to date	232,726	257,098	236,586	262,237	293,189	304,726	
Liability recognised in the statement of financial position	7	53	272	604	2,525	49,038	**52,499**
Liability in respect of prior years							**235**
Total liability recognised in the statement of financial position							**52,734**

Accident year – Net

	12 months ended 30 June 2018 £'000	12 months ended 30 June 2019 £'000	12 months ended 30 June 2020 £'000	12 months ended 30 June 2021 £'000	12 months ended 30 June 2022 £'000	12 months ended 30 June 2023 £'000	Total £'000
Estimate of ultimate claims costs:							
– at end of accident year	185,368	202,301	191,917	210,963	235,558	266,135	
– one year later	178,135	197,517	179,251	198,140	227,497		
– two years later	178,322	197,473	179,012	198,416			
– three years later	178,320	197,456	178,998				
– four years later	178,309	197,490					
– five years later	178,361						
Current estimate of ultimate claims	**178,361**	**197,490**	**178,998**	**198,416**	**227,497**	**266,135**	
Cumulative payments to date	178,356	197,448	178,773	197,927	225,576	229,576	
Liability recognised in the statement of financial position	5	42	225	489	1,921	36,559	**39,241**
Liability in respect of prior years							**125**
Total liability recognised in the statement of financial position							**39,366**

(b) Analysis of movements in unearned premiums

	As at 30 June 2023			As at 30 June 2022		
	Gross £'000	Reinsurers' Share £'000	Net £'000	Gross £'000	Reinsurers' Share £'000	Net £'000
At the beginning of the year	321,037	(73,522)	247,515	289,488	(60,141)	229,347
Premiums written in the year	654,736	(108,225)	546,510	588,734	(90,081)	498,653
Premiums earned in the year	(634,580)	99,797	(534,782)	(557,185)	76,700	(480,485)
At the end of the year	**341,193**	**(81,950)**	**259,243**	**321,037**	**(73,522)**	**247,515**

35 Financial Liabilities - Borrowings at amortised cost

	As at 30 June	
	2023	2022
	£'000	£'000
Bank loans	100,000	100,000
Accrued interest	178	179
Total before capitalised finance costs	**100,178**	**100,179**
Less: capitalised finance costs	(1,441)	(1,789)
Total long term bank borrowings	**98,737**	**98,390**

Loan	Interest rate	Start date	Maturity date	Loan Balance £'000	
				2023	**2022**
A	3 month SONIA	11/05/2020	31/07/2023	—	100,000
B	3 month SONIA	22/12/2022	21/12/2024	75,000	—
C	3 month SONIA	23/12/2022	22/12/2025	25,000	—
Total at 30 June				**100,000**	**100,000**

Bank loans comprise of 2 (2022: 1) term facility agreements.

The loan A was fully repaid earlier than its maturity date during the year.

The loans are fully drawn down at 30 June 2023 (2022: fully drawn down).

Loan A was and Loan C is secured by Discovery Limited through a financial guarantee arrangement.

Capitalised finance costs comprise of capitalised loan arrangement fees paid to the loan counterparty of all loans and guarantee fee payable to Discovery Limited for loans A and C. These costs are amortised to finance costs in the Statement of comprehensive income over the period of the loan.

The loans are held at amortised cost which approximates to fair value.

The table above excludes an unsubordinated loan of £34,000k (2022: £34,000k) provided by Discovery Finance Company Europe Limited that is disclosed within note 38.

36 Financial liabilities – Other payables

	As at 30 June	
	2023	2022
	£'000	£'000
Amounts owed to related parties	160,529	158,743
Premiums received in advance of coverage date	1,631	1,482
Insurance premium tax	22,644	21,031
Deferred revenue	7	1
Derivative Collateral	—	10,490
Lease Liabilities	11,498	7,440
Trade and other liabilities	106,888	96,910
Total financial liabilities - other payables	**303,197**	**296,097**

All other liabilities included within trade and other liabilities are expected to be settled within twelve months. The carrying amounts above reasonably approximate their fair values at the statement of financial position date.

37 Contingencies

Vitality provides a program of wellness benefits to its policyholders. This is an incentive program where customers earn points for undertaking healthy activities such as visiting the gym, giving up smoking, making healthy nutritional choices and undertaking health screenings. The accumulation of points achieves a Vitality status from Bronze through to Silver, Gold and Platinum. The program provides customers with access to discounts and rewards, including active rewards linked to short-term activity goals.

Vitality expects to continue to incur costs related to the continued operation of the program of wellness benefits. This creates a form of possible obligation as VCSL may incur costs in the future depending on the actions and decisions of customers, such as the healthy activities they undertake and the continuance of their insurance cover.

During the financial year ended 30 June 2023, Vitality signed an agreement for lease for an office building in Bournemouth. The 10-year lease will commence when the agreed works are complete. The landlord works were completed and the lease was signed on 29 August, 2023. Rental payments will commence after an initial one year rent-free period.

38 Related Party Transactions

	For the year ended / as at 30 June 2023			
	Investment and other income from:	Finance and admin costs paid to:	Amounts owed to:	Amounts owed from:
	£'000	£'000	£'000	£'000
Immediate Parent Company	275	9,153	107,250	—
Other Vitality Group companies	1,106	575	—	586
Other Discovery Group Companies	1,277	32,198	86,719	507
	2,657	**41,925**	**193,969**	**1,093**

	For the year ended / as at 30 June 2022			
	Investment and other income from:	Finance and admin costs paid to:	Amounts owed to:	Amounts owed from:
	£'000	£'000	£'000	£'000
Immediate Parent Company	244	6,422	107,250	—
Other Vitality Group companies	997	699	—	347
Other Discovery Group Companies	698	28,005	87,145	446
	1,939	**35,126**	**194,395**	**793**

i. Included in the amounts owed to the Immediate Parent Company are in respect of:

Loan Type	Loan Balance £'000	Reference rate*	Interest rate margin above reference rate	Repayment Date
Subordinated	25,700	A	4.50%	01/01/2021
Subordinated	8,500	A	4.15%	01/01/2027
Subordinated	24,650	A	6.25%	01/04/2027
Subordinated	6,000	A	6.25%	01/11/2027
Subordinated	10,500	A	6.25%	01/06/2028
Subordinated	9,000	A	6.25%	21/08/2028
Subordinated	6,500	A	6.25%	24/11/2028
Subordinated	2,801	A	6.40%	01/03/2029
Subordinated	7,099	A	6.40%	01/06/2029
Subordinated	6,500	A	6.40%	01/08/2029
Total at 30 June 2022 and 2023	**107,250**			

*Reference rate A is the Bank of England Base Rate

The total amount of accrued interest on the above loans at 30 June 2023 was £nil (2022: £nil).

ii. The amounts owed to Other Discovery Group Companies are in respect of:

a. A long term subordinated loan of £23,500k (2022: £23,500k) provided by Discovery Finance Company Europe Limited repayable on 1 July 2026 and accrues interest at a floating rate of 365 basis points above the Bank of England Base Rate; and

b. A long term subordinated loan of £26,000k (2022: £26,000k) provided by Discovery Finance Company Europe Limited repayable on 1 November 2026 and accrues interest at a floating rate of 365 basis points above the Bank of England Base Rate.

c. An unsubordinated loan of £34,000k (2022: £34,000k) provided by Discovery Finance Company Europe Limited repayable on 11 December 2025 and accrues interest at a floating rate of 450 basis points above the Bank of England Base Rate.

The total amount of accrued interest on the above loans at 30 June 2023 was £nil (2022: £nil).

The remaining amounts owed to other Discovery Group Companies relate to balances in the normal course of the operations of the Company.

All of the carrying amounts above reasonably approximate fair value at year end.

All transactions between key management and the Company during the year are on commercial terms which are equivalent to those available to all employees of the Company. Key management personnel had loans of £nil (2022: £nil).

39 Movement in operating assets and liabilities

	Year ended 30 June	
	2023	**2022**
	£'000	**£'000**
(Increase) / decrease in operating assets:		
Assets arising from insurance contracts	(91,765)	(63,806)
Deferred acquisition costs	(102,459)	(92,018)
Assets arising from contracts with customers	(38,272)	(42,756)
Financial assets - investments at amortised cost	(968)	1,912
Insurance receivables, contract receivables and other receivables	(65,747)	(70,724)
	(299,211)	**(267,392)**
Increase / (decrease) in operating liabilities:		
Liabilities arising from insurance contracts	(350,051)	220,888
Liabilities arising from reinsurance contracts	15,331	21,605
Contract liabilities to customers	38,122	47,855
Financial liabilities – Other payables	7,100	(35,463)
	(289,498)	**254,885**
Net movement in operating assets and liabilities	**(588,709)**	**(12,507)**

40 Parent and ultimate controlling party

The immediate parent undertaking is Discovery Group Europe Limited, a company incorporated in England and Wales.

The Company is 100% (2022: 100%) owned by Discovery Group Europe Limited.

The ultimate controlling party of Discovery Group Europe Limited is Discovery Limited, a company incorporated in the Republic of South Africa.

The ultimate controlling party of the Company and largest group to consolidate these financial statements is Discovery Limited. The consolidated financial statements of Discovery Limited can be obtained from Discovery Limited, 1 Discovery Place, Sandton, PO Box 786722, South Africa.

41 Subsequent event

On August 29, 2023, Vitality signed independent lease agreements across 4 floors in new office premises in Bournemouth, each for a term of 10 years. Rental payments will commence after an initial one year rent free period from 29 August 2023.

VHL terminated all reinsurance based financing quota share treaties on 1 July 2023, after the end of the reporting period. The termination was in response to the impact of IFRS 17 on VHL's strategy to utilise reinsurance based financing to offset the total strain of writing new business. VHL holds the following reinsurance related balances under IFRS 4 which would have a net impact of £246.0m on the asset position as at 30 June 2023:

- Debtors arising out of reinsurance operations, a £246.0m asset;
- Reinsurers share on insurance contract liabilities, a £94.0m asset; and
- Creditors arising out of reinsurance operations, a £94.0m liability.

The transition to IFRS 17 sees these assets and liability retrospectively revalued to nil upon implementation of IFRS 17 for the financial year commencing 1 July 2023. The termination on 1 July 2023, following the retrospective revaluation under IFRS 17, is expected to have a nil impact in the financial year commencing 1 July 2023.

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

		Year ended 30 June	
		2023	2022
	Note	**£'000**	£'000
Revenue			
Investment return	3	6,937	16,023
Fair value gain / (loss) on derivative contracts	15	22,512	(204,052)
Other income		111	18,884
Total revenue and gains		**29,560**	**(169,145)**
Finance costs	4	(21,819)	(13,989)
Administrative expenses	5	(9,125)	(10,304)
Total expenses		**(30,944)**	**(24,293)**
Loss before tax		**(1,384)**	**(193,438)**
Income tax	6	(118)	43,495
Loss and total comprehensive loss for the year		**(1,502)**	**(149,943)**

The Company has no comprehensive income or expense other than the loss for the year recognised in the statement of comprehensive income.

All amounts above are in respect of continuing operations.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

		As at 30 June	
		2023	2022
	Note	**£'000**	£'000
ASSETS			
Non-current assets			
Investments in subsidiaries	8	803,300	803,300
Investment in equity accounted associate	9	310	198
Deferred tax	10	18,256	19,269
Loan to PAC	11	813	755
Loans to related parties - unsubordinated	16	57,652	—
Loans to related parties - subordinated	16	31,900	73,050
Fair value of derivative contracts - assets	15	—	10,788
		912,231	**907,360**
Current assets			
Amounts owed from related parties	16	1,452	726
Other Assets		—	992
Cash and cash equivalents	12	8,795	24,237
		10,247	**25,955**
Total assets		**922,478**	**933,315**
Equity			
Equity attributable to the Company's owners			
Ordinary shares	13	6,273	6,228
Share premium	13	742,657	738,202
Accumulated losses		(121,865)	(120,363)
Total equity		**627,065**	**624,067**
Non-current liabilities			
Subordinated loans payable	16	156,750	156,750
Long term bank borrowings	14	98,737	98,390
Loans from related parties - unsubordinated	16	34,000	—
		289,487	**255,140**
Current liabilities			
Payable to related parties	16	5,444	7,848
Loans from related parties - unsubordinated	16	—	34,000
Derivative collateral	15	—	12,260
Current tax		424	—
Other liabilities		58	—
		5,926	**54,108**
Total liabilities		**295,413**	**309,248**
Total equity and liabilities		**922,478**	**933,315**

The notes on pages 126 to 145 are integral to these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Ordinary share capital	Share premium	Retained profits / (accumulated losses)	Total equity
	£'000	£'000	£'000	£'000
At 1 July 2021	**6,088**	**724,342**	**29,580**	**760,010**
Ordinary shares issued	140	13,860	—	**14,000**
Loss and total comprehensive loss for the year	—	—	(149,943)	**(149,943)**
At 30 June 2022 and 1 July 2022	**6,228**	**738,202**	**(120,363)**	**624,067**
Ordinary shares issued	45	4,455	—	**4,500**
Loss and total comprehensive loss for the year	**—**	**—**	(1,502)	**(1,502)**
At 30 June 2023	**6,273**	**742,657**	**(121,865)**	**627,065**

The notes on pages 126 to 145 are integral to these financial statements

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

		Year ended 30 June	
		2023	2022
	Note	**£'000**	£'000
Cash flows from operating activities			
Loss before tax		(1,384)	(193,438)
Adjustments for:			
Receipt for group relief		1,319	24,226
Tax received		—	14,119
Fair value (gain) / loss on derivative contracts	15	(22,512)	204,052
Capitalised finance costs		1,336	1,513
Movement in operating assets and liabilities	17	(14,340)	21,729
Increase in investment in equity accounted associate	9	(112)	**(77)**
Reversal of prior impairment	8	—	**(18,500)**
Net cash (used) / generated from in operating activities		**(35,693)**	**53,624**
Cash flows from investing activities			
Increase in investment in subsidiaries	8	—	(5,000)
(Increase) / decrease in loans receivable		(16,560)	142,972
Receipts / (payments) for settlements derivative contracts	15	33,300	(237,891)
Net cash generated from / (used) in investing activities		**16,740**	**(99,919)**
Cash flows from financing activities			
Proceeds from issuance of new shares	13	4,500	14,000
Increase in loans from related parties	16	—	7,500
Increase in bank borrowings	14	(989)	7,500
Net cash flows generated from financing activities		**3,511**	**29,000**
Net movement in cash and cash equivalents		**(15,442)**	**(17,295)**
Cash and cash equivalents at the beginning of the year	12	24,237	41,532
Cash and cash equivalents at the end of the year	12	**8,795**	**24,237**

The notes on pages 126 to 145 are integral to these financial statements

1. Significant accounting policies

The accounting policies disclosed within note 1 of the Notes to the consolidated financial statements apply to the the Company.

1.1 Critical accounting estimates and judgements in applying accounting policies

Assumptions, estimates and judgements form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are regularly reviewed in the light of emerging experience and adjusted where required.

(a) Impairment of non-financial assets

Non-financial assets (including intangible assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least at each Statement of financial position date. Such indicators include continued losses, change in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows expected to be generated by the non-financial asset. An impairment charge is recognised as a loss in the Statement of comprehensive income immediately.

For Investments in subsidiaries, value in use is measured either as the net assets of the subsidiary, embedded value (the present value of future profits plus adjusted net asset value) or present value of projected cash flows covering the remaining useful life of the asset.

For the Company’s investment in VLL, the net assets of VLL exceed the carrying value in the Statement of Financial Position. No impairment is therefore required. As a company writing long term insurance business the net assets of VLL are sensitive to the valuation of the insurance contract reserves. The key assumptions and sensitivities underpinning the insurance contract reverses can be seen in the Annual Report and Financial Statements of VLL.

For the Company’s investment in VCSL, the carrying value is compared to the net assets and expected future cash flows of VCSL. VCSL’s principal activity is to provide administrative, distribution and management services on which it charges a mark up. With reference to the Board approved business plan, VCSL is expected to generate cash flows over the next 5 years that fully support and are in excess of the carrying value of the investment.

For the Company’s investment in BHIAL, the carrying value is compared to the fair value less cost to sell of BHIAL. Managements' valuation fully supports and is in excess of the carrying value of the investment.

For the loan to PAC, the repayment of the loan is contingent on the emergence of regulatory surplus in PAC in respect of VitalityLife policies underwritten by them.

(b) Deferred tax asset

The recognition of deferred tax assets are subject to a degree of estimation and judgement. The level of deferred tax asset recognised in the Statement of financial position is determined with reference to the expected future taxable profits of the Company and the wider UK Group. The Company makes use of all available evidence when determining the future taxable profits. This evidence includes medium term business plans approved by the Directors of the UK Group and discounted cash flow projections of the profits that are expected to emerge from the insurance policies underwritten by the UK Group. In assessing the availability and quantum of future profits the Company applies probability factors to determine a range of probable outcomes. The Company then applies judgement to conclude on where within this range the deferred tax asset is set.

2. Risk management policies

The Company is exposed to the insurance and financial risks of its subsidiaries through its direct investment in share capital.

The Company is exposed to the risk of regulatory surplus not emerging or a regulatory deficit emerging in PAC in respect of the VitalityLife product lines underwritten by PAC, resulting in the loan to PAC not being repaid to the Company or requiring the Company to advance further amounts to PAC through the loan. See further information in note 2b.

(a) Governance framework

The Company's risk management policy ensures that the risks taken in meeting the Company's corporate, financial and regulatory objectives are identified and managed in accordance with the approved risk framework.

The Company takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Company risk profile.

The Company manages risks through a risk management framework, which allows for the identification, assessment, control and monitoring of risks. The Company has established effective risk management systems and controls within the framework for the following high-level categories of risk: insurance and financial risks, credit, liquidity, market and capital management.

(b) Liquidity risk

Liquidity risk is the risk that the Company, although solvent, does not have sufficient liquid financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

To manage unexpected cash flows monthly financials are compared to budget and quarterly budget re-forecasting is conducted to ensure that any additional financing required is identified at least three to six months ahead. Financing is satisfied by reinsurance within VitalityHealth and VitalityLife and from shareholders and its availability is key to continuing to grow the business.

The following table illustrates the earliest possible time period in which financial liabilities could be paid out.

All the cash flows depicted below are on an undiscounted basis.

		Contractual cash flows		
	Total	**< 1 year**	**1 – 5 years**	**> 5 years**
	£'000	**£'000**	**£'000**	**£'000**
30 June 2023				
Subordinated loans payable	**156,750**	—	124,850	31,900
Loans from related parties - unsubordinated	**34,000**	—	34,000	—
Fair value of derivative contracts	**—**	—	—	—
Bank borrowings	**98,737**	—	98,737	—
Other financial liabilities	**5,502**	5,502	—	—
Total	**294,989**	**5,502**	**257,587**	**31,900**
30 June 2022				
Subordinated loans payable	**156,750**	25,700	49,500	81,550
Loans from related parties - unsubordinated	**34,000**	34,000	—	—
Fair value of derivative contracts	**—**	—	—	—
Bank borrowings	**98,390**	—	98,390	—
Other financial liabilities	**7,848**	7,848	—	—
Total	**296,988**	**67,548**	**147,890**	**81,550**

(c) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Company's credit risk is focused on related parties (and counterparties for derivative contracts in the prior year). Derivatives purchased over-the-counter have the potential to expose the Company to substantial credit risk and the Company aims to mitigate this risk through collateral arrangements with counterparties. When transacting over-the-counter, the Company endeavours only to transact derivatives with highly rated counterparties.

The following table analyses the financial assets bearing credit risk using Standard & Poor's ratings:

	Total	**AAA**	**AA to A**	**BBB or lower**	**Unrated**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
30 June 2023					
Loan to PAC	**813**	—	813	—	—
Loans to related parties - unsubordinated	**57,652**	—	—	—	57,652
Loans to related parties - subordinated	**31,900**	—	—	—	31,900
Amounts owed from related parties	**1,452**	—	—	—	1,452
Cash and cash equivalents	**8,795**	—	8,795	—	—
Total	**100,612**	**—**	**9,608**	**—**	**91,004**

30 June 2022					
Loan to PAC	**755**	—	755	—	—
Loans to related parties - unsubordinated	**—**	—	—	—	—
Loans to related parties - subordinated	**73,050**	—	—	—	73,050
Fair value of derivative contracts - assets	**10,788**	—	10,788	—	—
Amounts owed from related parties	**726**	—	—	—	726
Cash and cash equivalents	**24,237**	—	24,237	—	—
Other assets	**992**	—	992	—	—
Total	**110,548**	**—**	**36,772**	**—**	**73,776**

The table above excludes investment in subsidiaries, investments in equity accounted associates and deferred and current tax as they are not classified as financial assets.

No assets are past due or impaired.

(d) Market risk

Market risk is the risk that as a result of market movements the Company may be exposed to fluctuations in the value of its assets, in the amount of its liabilities or the income from its assets. Sources of general market risk include movements in interest rates, equities and foreign exchange rates.

The Company sets the acceptable level of market risk through the market risk policy.

The Company has no direct exposure to exchange rate movements.

The Company has a limited exposure to interest rate risk. The Company earns and incurs interest on amounts loaned to and from related parties (see note 16). Fluctuations in the interest rate will influence both the Company's income and costs.

In the prior year the Company had an exposure to market interest rate risk in respect of derivative contracts held at 30 June 2022 (see note 15). The exposure was concentrated to fluctuations on market prices of the 25 year GBP SONIA swap rate.

In the year to 30 June 2023, the Company continued to play a role in the management of the group's interest rate risk, although, as a result of restructuring a number of the derivatives by 30 June 2022, to a lesser degree than in the prior years. Going forward from 30 June 2023 the Company is no longer expected to play a role in managing these risks and they are managed directly by PAC.

The following table illustrates the impact on the profit before tax and shareholders' equity of a change in market interest rates as at 30 June 2022:

	Impact on loss before tax		**Impact on shareholders' equity** Corporation tax rate assumed 20.50% (2022 19.00%)	
	Change in market interest rates relative to 30 June			
	+1%	-1%	+1%	-1%
	£'000	£'000	£'000	£'000
At 30 June 2022	11,891	(6,964)	9,632	(5,641)
At 30 June 2023	—	—	—	—

(e) Capital risk

The Company's objectives when managing capital are to safeguard Vitality's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital is managed on the basis that it includes long term subordinated loans from its immediate parent company of £107,250k (2022: £107,250k) along with additional subordinated loans from Discovery Finance Company Europe Limited of £49,500k (2022: £49,500k) and equity of £627,065k (2022: £624,067k).

Capital risk is covered as part of the board meetings which cover the funding of the Vitality group. The Company has no solvency capital requirement as stipulated by regulatory authorities, but does require capital to ensure funding of the Vitality group objectives, therefore the Company must have sufficient capital available in order to support this. There is no fixed target as the amount of capital held is dependent on the demands of the business and the regulatory requirements of the Group's subsidiaries.

(f) Fair Value Estimation

The Company's financial instruments measured at fair value have been analysed using a fair value hierarchy that reflects the significance of the inputs used in valuing those instruments. The fair value hierarchy is based on the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

This category includes listed equity shares, government securities and certain supranational institution bonds and exchange traded futures and options.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

This category includes listed corporate bonds, commercial paper, certificates of deposit, non-participating investment contracts, third party investments in consolidated funds and derivative instruments that are not exchange traded.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

Level 3 financial instruments principally include unlisted equity instruments and corporate bonds for which prices are not available from third party pricing providers.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 June 2023				
Fair value of derivative contracts - asset	—	—	—	—
Fair value of derivative contracts – liabilities	—	—	—	—
Net financial assets at fair value	**—**	**—**	**—**	**—**
30 June 2022				
Fair value of derivative contracts - asset	—	10,788	—	10,788
Fair value of derivative contracts – liabilities	—	—	—	—
Net financial liabilities at fair value	**—**	**10,788**	**—**	**10,788**

(g) Operational risk

Operational risk is defined as the risk of loss, or adverse consequences for the business, resulting from inadequate or failed internal processes, people and systems, or from external events. The Company sets an acceptable level of operational risk through the operational risk policy. The policy also requires compliance with applicable legislation and regulations.

A strategy to control the operational risk exposures identified is based on a combination of one or all of the following: modify operations such that there is no exposure to the risk; accept exposure to the risk and choose not to control the risk; or accept exposure to the risk and control the exposure by risk transfer or risk treatment.

The level of control and nature of the controls implemented is based on, amongst other things the:

- Potential cause and impact of the risk;
- Likelihood of the risk happening in the absence of any controls;
- Ease with which the risk could be insured against;
- Cost of implementing controls to reduce the likelihood of the risk occurring; and
- Operational risk appetite.

(h) Insurance and financial risks

The Company is primarily exposed to the insurance and financial risks of VHL and VLL as well as the financial risks of the Company's own transactions. The exposure to VLL is as result of its direct investment in the share capital of this company. The exposure to VHL is indirect as a result of the Company's investment in VLL, which in turn owns 100% of VHIL, which in turn owns 100% of VHL.

A description of the insurance and financial risks of VHIL, VHL and VLL are set out in the financial statements of each company and can be obtained from Vitality, 3 More London Riverside, London, SE1 2AQ.

In August 2007, the Company undertook to provide the funding for the critical illness cover and life insurance provided by the Flexible Protection Plan and VitalityLife Plan that are underwritten by PAC. The unemployment cover provided by both products to existing customers is underwritten by the St Andrew's Group.

This funding is provided to PAC by way of a loan which increased in line with the cumulative value of the regulatory strain arising as a result of underwriting this business in prior years.

The loan began to be repaid in 2013 with the emergence of regulatory surplus in PAC in respect of these lines of business. Repayment of the remaining loan balance is contingent upon the emergence of further regulatory surplus. The credit risk exposure to PAC is managed by the Company taking an active role in the management of the VitalityLife business, underwritten by PAC.

A description of the insurance and financial risks of PAC is set out in the financial statements of that company and can be obtained from PAC, 10 Fenchurch Avenue, London, EC3M 5AG.

3. Investment return

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Other interest	6,937	11,384
Derivative coupon interest	—	4,639
Total investment return	**6,937**	**16,023**

Other interest is generated on cash held at bank and the loans provided by the Company to PAC, VLL, VHL and BHIAL. For loan details see note 16. See note 15 for details related to the derivative coupon interest.

4. Finance Costs

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Interest paid to related parties	14,752	9,758
Interest paid on bank borrowings	5,731	2,574
Amortisation of capitalised borrowing and guarantee costs	1,336	1,657
Total finance costs	**21,819**	**13,989**

5. Administrative expenses

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Derivative transaction costs	446	575
Other administrative expenses	8,679	9,729
Total administrative expenses	**9,125**	**10,304**

VCSL incurs the overall audit and non-audit fees on behalf of the Vitality group of companies.

Included in the total fees incurred by VCSL is £131k (2022: £54k) of fees payable to the Company's auditors for the audit of the Company's financial statements. Non-audit fees for Solvency II audits in subsidiaries are disclosed in the respective entities' financial statements.

VCSL provides management services to the Company including the recharge of expenses incurred on its behalf and incurred on behalf of the Company's subsidiary, VLL. All costs incurred by VCSL in relation to the provision of the wellness elements of the VitalityLife branded products are recharged to the Company.

The Company has no employees or staff costs recorded in the statement of comprehensive income as the costs incurred for these staff are incidental and are therefore carried by the respective subsidiaries in the group.

6. Income tax

	Year ended 30 June	
	2023	2022
	£'000	£'000
(a) Current year tax (charge) / credit		
Current tax:		
Current year tax (charge) / credit	(424)	24,769
Adjustments in respect of prior years	1,319	(543)
Total current tax credit	**895**	**24,226**
Deferred tax:		
Deferred tax (charge) / credit for the year	(662)	15,586
Effect of tax rate change	1,280	3,683
Adjustment in respect of prior years	(1,631)	—
Total deferred tax (charge) / credit	**(1,013)**	**19,269**
Total tax (charge) / credit	**(118)**	**43,495**

The tax assessed for the year is higher (2022: lower) than the standard rate of corporation tax in the United Kingdom for the year ended 30 June 2023 of 20.50% (2022:19.00%). The difference is explained below:

	Year ended 30 June	
	2023	2022
	£'000	£'000
(b) Reconciliation of tax		
Loss before tax	(1,384)	(193,438)
Tax at 20.50% (2022 19.00%)	284	36,753
Effects of:		
Adjustments in respect of prior years - current tax	1,319	(543)
Adjustments in respect of prior years - deferred tax	(1,631)	—
Group relief surrendered for payment	—	(24,769)
Payment for group relief	—	24,769
UK to UK transfer pricing margin	(64)	72
Non-taxable reversal of impairment of subsidiaries	23	3,530
Movement in deferred tax not recognised	(1,329)	—
Remeasurement of deferred tax for changes in tax rates	1,280	3,683
Total tax (charge) / credit	**(118)**	**43,495**

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was enacted on 10 June 2021. Current and deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes has been applied.

7. Directors' emoluments

The Directors are employed by VCSL and by companies in the Discovery Limited group. There are no members of key management other than the executive Directors.

The Directors receive no incremental emoluments for their services as a director of the Company and no amounts have been recharged to the Company by VCSL as the services that the Directors provide to the Company are incidental to the services they provide to the rest of the Group.

8. Investments in subsidiaries

The Company owns 100% of the share capital of VCSL, a company registered and incorporated in England and Wales (Reg. No. 05933141), registered office of 3 More London Riverside, London, SE1 2AQ. During the year ended 30 June 2023 the Company did not purchase any (2022: nil) preference shares in VCSL in exchange for cash. The preference shares pay a voluntary non-cumulative annual dividend of 0.1% and are redeemable solely at the discretion of VCSL. No preference share dividends have been received by the Company (2022: £nil). In the prior year, after an assessment of the recoverable amount of VCSL, the Company reversed its prior £16,000k impairment of its investment in subsidiary.

The Company owns 100% of the share capital of VLL, a company registered and incorporated in England and Wales (Reg. No. 03319079), registered office 3 More London Riverside, London, SE1 2AQ. During the year ending 30 June 2023 the Company did not increase its investment in VLL.

The Company owns 100% of the ordinary share capital of BHIAL, a company registered and incorporated in England and Wales (Reg. No. 08380903), registered office Roddis House, 4-12 Old Christchurch Road, Bournemouth, BH1 1LG. In the prior year, after an assessment of the recoverable amount of BHIAL, the Company reversed its prior £2,500k impairment of its investment in subsidiary.

The carrying value of all investments in subsidiaries at the Statement of financial position date are held at cost less accumulated impairment on the basis that projected future performance supports management's view that these holdings are not impaired.

	VLL	VCSL	BHIAL	Total
	£'000	£'000	£'000	£'000
At 1 July 2021	**727,650**	**52,150**	**—**	**779,800**
Investments in the year	—	—	5,000	5,000
Reversal of prior impairment	—	16,000	2,500	18,500
At 30 June 2022 and 1 July 2022	**727,650**	**68,150**	**7,500**	**803,300**
At 30 June 2023	**727,650**	**68,150**	**7,500**	**803,300**

The table above excludes shareholdings that have been fully impaired.

9. Investment in equity accounted associate

	As at 30 June	
	2023	2022
	£'000	£'000
Investment in equity accounted associate	**310**	**198**

The investment in associate represents the Company's 20% investment in HL (Reg. No. 03867872) whose registered office is 10 Orange Street, London, United Kingdom, WC2H 7DQ. The investment in HL is recognised under the equity method in accordance with IAS 28.

It is the Company's intention to hold investments in equity securities for more than twelve months. 100% of the above equity security is UK based.

10. Deferred Tax

	As at 30 June	
	2023	2022
(a) Components of deferred tax:	**£'000**	£'000
Short term timing differences	18,256	19,269
Total deferred tax asset	**18,256**	**19,269**
(b) Movement in deferred tax comprise:		
At the beginning of the year	19,269	—
Amounts (debited) / credited to the statement of comprehensive income	(1,013)	19,269
At the end of the year	**18,256**	**19,269**

Deferred tax assets of nil (2022: £5,535k) are expected to be recovered within 12 months, however this is dependent upon the profitability of the Company and other companies in the group in the next 12 months.

The recognition of the deferred tax asset is supported by the expected future profitability of the Company and other companies in the group.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was enacted on 10 June 2021. Current and deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes has been applied.

11. Loan to PAC

	As at 30 June	
	2023	2022
	£'000	£'000
Loan to PAC	**813**	**755**

On 17 October 2007, the Company made the first advance of a loan to PAC. The repayment of the loan is contingent on the emergence of regulatory surplus in PAC in respect of the Flexible Protection Plan policies and VitalityLife Plan underwritten by them on behalf of VitalityLife. The facility has been extended as regulatory losses arose in the period in respect of these policies. The terms of the facility have been complied with throughout the year. Interest is charged at the Bank of England Base Rate + an arm's length markup per annum.

12. Cash and cash equivalents

	As at 30 June	
	2023	2022
	£'000	£'000
Cash at bank and on hand	8,795	24,237
Total cash and cash equivalents	**8,795**	**24,237**

All balances are subject to a variable interest rate. The average effective interest earned on cash and cash equivalents was 2.8% (2022: 0.3%).

13. Ordinary share capital and share premium

	30 June 2023 Number of Shares	30 June 2023 £'000	30 June 2022 Number of Shares	30 June 2022 £'000
Ordinary shares				
Authorised				
Ordinary shares of £1 each	No Maximum	No Maximum	No Maximum	No Maximum
Called up, issued and fully paid				
Ordinary shares of £1 each	6,273,196	6,273	6,228,196	6,228
Total	**6,273,196**	**6,273**	**6,228,196**	**6,228**
Share premium arising on:				
Arising on:				
Ordinary shares	6,273,196	742,657	6,228,196	738,202
Total	**6,273,196**	**742,657**	**6,228,196**	**738,202**

There is one class of ordinary share, and all shares issued carry equal voting rights. All issued shares are fully called up and paid.

The Company issued 45,000 2022: 140,000 ordinary shares during the year. The shares were issued on the following dates: 26 August 2022 (22,500) and 15 November 2022 (22,500).

14. Long term bank borrowings

	As at 30 June	
	2023	2022
	£'000	£'000
Bank loans	100,000	100,000
Accrued interest	178	179
Total before capitalised finance costs	**100,178**	**100,179**
Less: capitalised finance costs	(1,441)	(1,789)
Total long term bank borrowings	**98,737**	**98,390**

Loan	Interest rate	Start date	Maturity date	Loan Balance £'000	
				2023	**2022**
A	3 month SONIA	11/05/2020	31/07/2023	—	100,000
B	3 month SONIA	22/12/2022	21/12/2024	75,000	—
C	3 month SONIA	23/12/2022	22/12/2025	25,000	—
Total at 30 June				**100,000**	**100,000**

Bank loans comprise of 2 (2022: 1) term facility agreements.

The loan A was fully repaid earlier than its maturity date during the year.

The loans are fully drawn down at 30 June 2023 (2022: fully drawn down).

Loan A was and Loan C is secured by Discovery Limited through a financial guarantee arrangement.

Capitalised finance costs comprise of capitalised loan arrangement fees paid to the loan counterparty of all loans and guarantee fee payable to Discovery Limited for loans A and C. These costs are amortised to finance costs in the Statement of comprehensive income over the period of the loan.

The loans are held at amortised cost which approximates to fair value.

15. Derivative contracts

	As at 30 June	
	2023	2022
	£'000	£'000
Fair value – assets	—	10,788
Net fair value of derivative contracts	**—**	**10,788**

As at 30 June 2023 the Company is party to no open over-the-counter derivative contracts (2022: 1).

VitalityLife has an exposure to interest rate and related risks, primarily as a result of products underwritten by PAC on behalf of Vitality. As part of the Group's strategy to manage this interest rate exposure, the Company has in the past entered into a number of derivative contracts to provide an economic hedge against the exposure for the Group as a whole as appropriate. Over the course of the current year and prior year these derivative contracts were exited and the risk is now managed directly by PAC. Although in prior years the derivatives reduced the exposure to interest rate and related risks, the derivative instruments did not themselves qualify for hedging accounting. Accordingly, the derivative contracts were classified as financial assets and financial liabilities.

Fair value of derivative contracts by derivative type:

	As at 30 June	
	2023	2022
	£'000	£'000
Interest rate swaptions purchased	—	10,788
Net fair value of derivative contracts	**—**	**10,788**

Movement in fair value of derivative contracts:

	Year ended 30 June	
	2023	2022
	£'000	£'000
Opening fair value of derivative contracts	**10,788**	**(23,051)**
Cash paid on purchased derivatives	—	140,332
Cash (received) / paid on sold derivatives	(33,300)	97,559
Gain / (loss) in fair value through profit and loss	22,512	(204,052)
Closing fair value of derivative contracts	**—**	**10,788**

The Company had fair value losses on derivatives of £204,052k in the year ended 30 June 2022. These losses were incurred as part of the Company's role of managing interest rate risk and exposure in the wider group and, in particular, in relation to the policies underwritten by PAC. Whilst losses were incurred in the year in the Company, within the UK group these were offset by gains in the Company's subsidiary, VLL and through the repayments / reduced drawdowns on the loan with PAC. In the year to 30 June 2023, the Company continued to play a role in the management of the group's interest rate risk, although, as a result of restructuring a number of the derivatives by 30 June 2022, to a lesser degree than in the prior years. Going forward from 30

June 2023 the Company is no longer expected to play a role in managing these risks and they are managed directly by PAC.

Summary of open derivative contracts and maturity analysis

(i) Interest rate swaptions

	Average receive fixed interest rate strike price As at 30 June		Average pay fixed interest rate strike price As at 30 June		Notional principal value £'000 As at 30 June		Net Fair value (Liability) / Asset £'000 As at 30 June	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Less than 1 year	-	-	-	-	—	—	—	—
1 to 2 years	-	-	-	2.668%	—	170,000	—	10,788
2 to 5 years	-	-	-	-	—	—	—	—
5 years +	-	-	-	-	—	—	—	—

A swaption is an option granting the Company the right but not the obligation to enter into an underlying interest rate swap. In the pay fixed interest rate swaptions listed above, if the reference rate exceeds the strike price at expiration of the swaption, then the Company will make a gain from the value of an interest rate swap at the expiration date based on the Company paying the fixed rate equal to the strike price and receiving the floating rate at expiration of the swaption. The opposite happens on interest rate swaptions where the Company pays fixed.

Derivative contracts held with third parties were collateralised with cash. No cash collateral was held or pledged at 30 June 2023 as there were no derivatives contracts held (2022: held £12,260k against assets of £10,788).

During the year to 30 June 2023 transactions costs of £446k (2022: £575k) have been incurred in relation to derivative contracts sold in the year. These have been disclosed as administrative expenses.

16. Related party transactions

	For the year ended / as at 30 June 2023			
	Investment and other income from:	Finance and admin costs paid to:	Amounts owed to:	Amounts owed from:
	£'000	£'000	£'000	£'000
Immediate Parent Company	—	9,153	107,250	—
Other Discovery Group Companies	—	7,082	84,488	—
Vitality Group Companies	6,882	759	4,456	91,005
	6,882	**16,994**	**196,194**	**91,005**

	For the year ended / as at 30 June 2022			
	Investment and other income from:	Finance and admin costs paid to:	Amounts owed to:	Amounts owed from:
	£'000	£'000	£'000	£'000
Immediate Parent Company	—	6,422	107,250	—
Other Discovery Group Companies	—	5,445	85,940	—
Vitality Group Companies	28,804	96,291	5,409	73,776
	28,804	**108,158**	**198,599**	**73,776**

i. Included in the amounts owed to the Immediate Parent Company are in respect of:

Loan Type	Loan Balance £'000	Reference rate*	Interest rate margin above reference rate	Repayment Date
Subordinated	25,700	A	4.50%	01/01/2021
Subordinated	8,500	A	4.15%	01/01/2027
Subordinated	24,650	A	6.25%	01/04/2027
Subordinated	6,000	A	6.25%	01/11/2027
Subordinated	10,500	A	6.25%	01/06/2028
Subordinated	9,000	A	6.25%	21/08/2028
Subordinated	6,500	A	6.25%	24/11/2028
Subordinated	2,801	A	6.40%	01/03/2029
Subordinated	7,099	A	6.40%	01/06/2029
Subordinated	6,500	A	6.40%	01/08/2029
Total at 30 June 2022 and 2023	**107,250**			

*Reference rate A is the Bank of England Base Rate

The total amount of accrued interest on the above loans at 30 June 2023 was £nil (2022: £nil).

ii. The amounts owed to Other Discovery Group Companies are in respect of:

a. A long term subordinated loan of £23,500k (2022: £23,500k) provided by Discovery Finance Company Europe Limited repayable on 1 July 2026 and accrues interest at a floating rate of 365 basis points above the Bank of England Base Rate; and

b. A long term subordinated loan of £26,000k (2022: £26,000k) provided by Discovery Finance Company Europe Limited repayable on 1 November 2026 and accrues interest at a floating rate of 365 basis points above the Bank of England Base Rate.

c. An unsubordinated loan of £34,000k (2022: £34,000k) provided by Discovery Finance Company Europe Limited repayable on 11 December 2025 and accrues interest at a floating rate of 450 basis points above the Bank of England Base Rate.

The total amount of accrued interest on the above loans at 30 June 2023 was £nil (2022: £nil).

The remaining amounts owed to other Discovery Group Companies relate to balances in the normal course of the operations of the Company.

iii. Included in the amounts owed from Vitality Group Companies are in respect of

Loan Type	Counterparty	Repayment Date	Reference rate*	Interest rate margin above reference rate	Loan Balance £'000	
					2023	2022
Subordinated	VLL	1 April 2027	A	6.50%	—	24,650
Subordinated	VLL	1 November 2027	A	6.50%	—	6,000
Subordinated	VLL	1 June 2028	A	6.50%	—	8,000
Subordinated	VLL	30 June 2028	A	6.50%	—	2,500
Subordinated	VLL	21 August 2028	A	6.50%	9,000	9,000
Subordinated	VLL	24 November 2028	A	6.50%	6,500	6,500
Subordinated	VLL	1 March 2029	A	6.65%	2,801	2,801
Subordinated	VLL	1 June 2029	A	6.65%	7,099	7,099
Subordinated	VLL	1 August 2029	A	6.65%	6,500	6,500
Total					**31,900**	**73,050**

* Reference rate A is the Bank of England Base Rate.

The total amount of accrued interest on the above loans at 30 June 2023 was £nil (2022: £nil).

All of the carrying amounts above reasonably approximate fair value at year end.

All transactions between key management and the Company during the year are on commercial terms which are equivalent to those available to all employees of the Company. Key management personnel had loans of £nil (2022: £nil).

17. Movement in operating assets and liabilities

	Year ended 30 June	
	2023	**2022**
	£'000	**£'000**
(Increase) / decrease in operating assets:		
Amounts owed from related parties	(726)	(535)
Derivative collateral	—	6,740
Other assets	992	—
	266	**6,205**
Increase / (decrease) in operating liabilities:		
Amounts owed to related parties	(2,404)	4,481
Derivative collateral	(12,260)	12,260
Other liabilities	58	(1,217)
	(14,606)	**15,524**
Net movement in operating assets and liabilities	**(14,340)**	**21,729**

18. Parent and ultimate controlling party

The immediate parent undertaking is Discovery Group Europe Limited, a company incorporated in England and Wales.

The Company is 100% (2022: 100%) owned by Discovery Group Europe Limited.

The ultimate controlling party of Discovery Group Europe Limited is Discovery Limited, a company incorporated in the Republic of South Africa.

The ultimate controlling party of the Company and largest group to consolidate these financial statements is Discovery Limited. The consolidated financial statements of Discovery Limited can be obtained from Discovery Limited, 1 Discovery Place, Sandton, PO Box 786722, South Africa.