

Sharing the benefits
of healthy living



Solvency and Financial Condition Report.

Discovery Group Europe Limited
for the year ended 30 June 2022



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SUMMARY

1 BUSINESS AND PERFORMANCE SUMMARY

Group overview

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

This is not a single group SFCR, and so should be read in conjunction with the SFCRs of Vitality Life Limited ("VLL") and Vitality Health Limited ("VHL").

DGEL is part of the Discovery Group ("Discovery"), a global provider of insurance and financial services solutions, with operations in 35 countries and with over 39 million lives impacted worldwide. In its most recent financial year, Discovery generated annualised new business premium income of over £1bn. The Group's business and performance is primarily driven by the insurance results of VHL, which is authorised to carry out short-term health insurance business, and of VLL, which is authorised to carry out long-term life insurance and investment business.

On 23 December 2015, VLL received authorisation from the Prudential Regulation Authority ("PRA") to write long-term insurance business (life and annuity, and permanent health). Hence, in 2016 VLL started to underwrite VitalityLife branded policies itself (until that point policies had been underwritten by The Prudential Assurance Company Limited ("PAC") and, at the time of this Solvency and Financial Condition Report ("SFCR"), continue to be liabilities of PAC). In this document, "business written on the PAC licence" will refer to the contracts for which the Group owns the economic interest but which are liabilities of PAC. It is expected that this business will remain a liability of PAC for an indefinite period of time.

The consolidation into the Group of the economic interest of the business written on the PAC licence, and the capital requirements associated with that economic interest, recognise the contractual nature of the relationship between the Group and PAC.

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

In general, where reference is made to "Vitality", this relates to functions performed at a group level across VLL, VHL and the other legal companies under DHEL. The Board at DHEL level is the "Group Board".

The Vitality model

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

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

The Vitality model works in three simple steps. First, by helping members to understand their health both through a self-assessed health review and a clinician-led health screen; second, by making it cheaper and easier to get healthy by discounting access to a broad network of health and wellbeing partners; and third, by

rewarding members for making healthy lifestyle choices. The model is underpinned by significant actuarial, behavioural and clinical science, which informs the product and member approach. The success of the model centres on both removing financial barriers to adopting a healthier lifestyle, and in helping members overcome their cognitive and behavioural biases to engaging in healthy behaviours in the long-term. This is achieved by creating an aspirational network of health and reward partners, which includes prominent brands such as American Express, Apple, Caffè Nero, Virgin Active and Waitrose.

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

The COVID-19 pandemic and the subsequent UK lockdown restrictions required Vitality to innovate and adapt its Vitality reward program. In April 2020, Vitality launched a new 'Vitality at Home' programme replacing benefits temporarily unavailable during the lockdown with ones more suited to members' new situation. For instance, members could earn activity points using the Peloton or Jennis exercise apps at home; the new partnership with Caffè Nero introduced Coffee at Home (free and discounted coffee via online delivery); and members could earn vouchers for the Rakuten movie service to stream films. Throughout 2021-22 Vitality continued with these initiatives and went on to embed many of them permanently into the programme, as the Group expected some of the changes in member preference and behaviour introduced during the pandemic to persist (e.g. members can earn Rakuten vouchers weekly as well as monthly cinema tickets).

2021-22 has gradually seen a return to pre-pandemic members' engagement patterns, although some changes seem to be persistent. For instance, the continued use of remote-working has led to an increased demand for both home-workout solutions, and also for gym locations closer to home as well as closer to the workplace. The Vitality launches of the PureGym and Peloton benefits in January 2022 have targeted this trend.

Vitality continues to invest in growing its brand in the UK through sponsorship, advertising, and intellectual leadership opportunities. In sponsorship, the Vitality brand is aligned not only with a broad portfolio of sports but also with mass participation events, for instance as a founding partner to Parkrun. Vitality has also placed a significant emphasis on the role of women in sport (e.g. via its support of Netball and GB & England Women's Hockey) and into achieving equity where possible (such as through cricket and its support of the T20 Vitality Blast and the inaugural Hundred format). Vitality are also sponsors of several Premiership Football clubs, including both the men's and women's teams, as well as the Vitality Women's FA Cup. From an intellectual leadership perspective, Vitality launched the Vitality Research Institute, a dedicated research unit established to advance the science and evidence of Shared Value Insurance. Its primary aim is to enhance the Vitality product and member experience through behavioural experimentation, resulting in higher levels of member engagement and behaviour change - in line with Vitality's core purpose to make people healthier, and to enhance and protect their lives.

Sustainability is embedded into Vitality's culture and decision making. Vitality has committed to achieving carbon neutrality in its operations by 2025 with a longer-term ambition to achieve Net Zero emissions by 2050 or earlier. Vitality will publish a transition plan by 2025 and set interim Net Zero targets for 2030, in order to decarbonise its operations. Vitality continues to mature and embed its approach to the PRA's supervisory statement SS3/19 on managing the financial risks from climate change and is in the process of developing its Task Force on Climate-Related Financial Disclosures ("TCFD") report. Vitality is driving positive change through collaborating with key stakeholders such as suppliers, Vitality partners, charities,

sponsors, asset managers and advisers. Vitality recognises that through its unique Vitality programme, the business can positively influence members' behaviours. Through these actions, and more, Vitality will set itself on a path to net zero emissions.

Business overview

In the year to 30 June 2022 on an IFRS basis VHL produced a pre-tax profit of £64.3m (2021: £39.1m). At 30 June 2022, VHL set up an additional IFRS UPR to recognise the change in risk emergence over the policy period driven by the Omicron variant, continued restrictions which were in the UK until February 2022, increasing severity of diseases and the inflationary impacts of provider tariffs. Under IFRS, no future profit beyond the valuation date is recognised. However, under Solvency II premium is not deferred to allow for the change in risk emergence, and hence future profit beyond the valuation date and up until the end of the contract period is recognised.

VHL utilises financial reinsurance ("FinRe") to offset the impact of new business strain on its IFRS profits. Under Solvency II, the impact of FinRe treaties are disregarded, and the full value of new business strain is recognised as incurred. VHL's assets are prudently invested taking into account the short-term nature of its business and obligations. The assets are primarily invested in collective investment undertakings (highly liquid short-term money market funds), cash and deposits held with major UK banks and investment grade corporate and government bonds.

In the year to 30 June 2022 on an IFRS basis VLL produced a pre-tax profit of £110.3m (2021: £43.5m profit).

The fundamentals of the business, operations, strategy and capital remain strong and VLL is well placed to implement its business strategy.

The main features of the financial performance of VLL in the period were:

- The financial results relating to the term, whole of life and income protection products sold under the brand VitalityLife performed in line with expectation. The in-force book of business grew substantially year on year - gross of reinsurance premium income increased by 14% from £192.1m to £219.7m, driven by strong retention and growth in new business volumes from last year.
- As a result of COVID-19, VLL incurred an additional £2.0m of claims (net of reinsurance) on protection products that are directly attributable to COVID-19. The COVID-19 related provision held at 30 June 2021 of £3.2m was more than adequate to cover these claims. At 30 June 2022 VLL has set aside specific morbidity provisions to cover £0.9m of claims (net of reinsurance) for the next 12 months.
- Positive reserving experiences were observed in the year, particularly in respect of lapse experience. There has continued to be a significant focus on retention in the last 18 months through operational improvements, customer engagement and distribution quality management.
- A number of actuarial basis changes were made in respect of lapses, mortality and renewal expenses. This led to an overall reduction in profitability in the year, which was partially offset by a change to the long-term inflation assumption to reflect the current and expected higher inflationary environment.
- VLL had fair value gains on interest rate derivatives of £74.5m. These gains arose as a result of rising market interest rates in the period. VLL holds interest rate derivatives to manage its exposure to market interest rate risk in respect of the valuation of the Insurance Contract Reserves. These gains offset interest rate derivative losses in VLL's parent company, (Discovery Holdings Europe Limited "DHEL"), as referred to on page 6 below.
- This was the fourth full year of trading for the unit-linked insurance products sold under the VitalityInvest brand. VitalityInvest recorded new business levels similar to the prior year and premium income (new investment flows) increased by 11% from £298.6m to £331.7m. Assets under management increased by 43% in the year from £511.6m at 30 June 2021 to £732.4m at 30 June 2022.
- VitalityInvest made a £19.4m loss after tax. The size of the loss increased as a result of a reduction of the negative insurance contract reserve relating to unit-linked business due to the change in

distribution strategy. From 31 July 2022, VLL will no longer be selling VitalityInvest products through the adviser and franchise channel as part of a broader review of its Invest distribution strategy, and is looking to completely exit this business during the 2022/23 financial year.

DHEL generated a loss before tax for the year to 30 June 2022 of £193.4m. Although DHEL made losses of £204.1m as a result of the derivative contracts held during the year to 30 June 2022, these losses were in line with expectation given the rise in market interest rates over the period. These losses were offset by gains due to interest rate rises observed in DHEL's subsidiary, VLL, of £74.5m, and through repayments on the loan with PAC of £77.5m as a result of regulatory surplus emerging on the policies underwritten by PAC.

Vitality Corporate Services Limited ("VCSL") generated a profit before tax for the year to 30 June 2022 of £4.2m.

2 SYSTEM OF GOVERNANCE SUMMARY

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

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

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

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

3 RISK PROFILE SUMMARY

The principal risks that DGEL faces is the profitability, valuation and continued success of its subsidiaries. To this extent, DGEL is represented, either by a member or attendee, on all decision making and advisory bodies of its subsidiaries, including the Board of Directors, Actuarial Committee, Audit Committee, Risk Committee, and Remuneration Committee.

Underwriting risk is the largest risk measured by the standard formula Consolidated Group Solvency Capital Requirement ("Group SCR") and arises through the provision and administration of short term private medical insurance by VHL and of long term protection business (including life, serious illness and income protection cover) by VLL. The contribution from default and market risk in VLL and VHL to the Group SCR are small in comparison. The contribution from market risk has reduced following a restructuring of the hedging programme and a revised approach in the Group SCR to recognising the underlying risks to the valuation of the loan from DHEL to PAC in regard to the business written on the PAC licence.

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

4 SUMMARY OF VALUATION FOR SOLVENCY PURPOSES

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

Year ended 30 June	2022	2021
	£'m	£'m
IFRS consolidated net asset value	757.7	792.1
Valuation adjustment in VLL technical provisions, net of reinsurance	(80.1)	(40.3)
Valuation adjustment in VHL technical provisions	68.7	46.4
Removal of VHL deferred acquisition costs	(49.0)	(41.9)
Removal of benefit of VHL financial reinsurance under IFRS	(198.5)	(156.0)
Removal of prepayments	(20.4)	(19.4)
Removal of goodwill	(123.7)	(123.7)
Removal of intangible assets	(50.9)	(55.6)
Revaluation of undertakings recognised under the adjusted equity method	(10.9)	(8.6)
Valuation adjustment for deferred tax assets	49.9	26.7
Total SII excess asset over liabilities	342.8	419.7

5 CAPITAL MANAGEMENT SUMMARY

The capital management objective is to maintain sufficient own funds to cover both the Group SCR and Minimum Consolidated Group SCR ("Group MCR") with an appropriate buffer. The Group carries out regular reviews of the solvency ratio as part of its risk monitoring and capital management system and has complied continuously with both the Group MCR and the Group SCR throughout the reporting period. The Group calculates its Group SCR using the standard formula and has analysed the risk profile of the business to confirm that this approach is appropriate.

DGEL received £14.0m of ordinary share capital injections and the value of Tier 2 subordinated liabilities included within Group own funds eligible to cover the Group SCR did not increase during the reporting period. The primary use of this funding was the financing of other costs in DHEL.

Of the Tier 2 own funds, two subordinated loans totalling £40.5m are subject to transitional measures and discussed in more detail in D.3.1.5. The Group does not use the matching adjustment nor the volatility adjustment, nor are transitional measures for technical provisions applied.

Year ended 30 June	2022	2021
	£'m	£'m
Eligible Group own funds to meet the Group SCR	430.8	531.0
Tier 1	247.0	364.6
Tier 2	171.5	122.1
Tier 3	12.3	44.3
Group SCR	367.6	332.8
Group SCR coverage ratio	117%	160%
Group SCR coverage ratio excluding deductions	140%	177%

Year ended 30 June	2022	2021
	£'m	£'m
Eligible Own Funds to meet the Group MCR	267.7	381.2
Tier 1	247.0	364.6
Tier 2	20.7	16.6
Tier 3	0.0	0.0
Group MCR	103.6	83.0
Group MCR coverage ratio	259%	459%

A BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Name and legal form of the undertaking

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

3 More London Riverside

London

SE1 2AQ

This Solvency and Financial Condition Report ("SFCR") covers the Group as per the Group Structure outlined in A.1.5 below.

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

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

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

Under Solvency II, the group supervisor of Discovery Limited is the PRA as the Republic of South Africa is not an equivalent country for Solvency II group supervision purposes. In the absence of equivalence, Discovery Limited is subject to full Solvency II group supervision or the Group can apply to the PRA to use another method. A waiver was granted by the PRA, effective 12 July 2022, modifying the PRA Rulebook on Group Supervision to use another method under which specified reporting is performed at the DGEL level of the Group (DGEL being the topmost UK undertaking).

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

Prudential Authority

South African Reserve Bank

370 Helen Joseph Street

Pretoria

South Africa

0002

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

Prudential Regulation Authority

Bank of England

Threadneedle Street

London

EC2R 8AH

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

The independent auditors of DGEL are:

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside

London

SE1 2RT

A.1.4 Holders of qualifying holdings in the undertaking

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

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

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

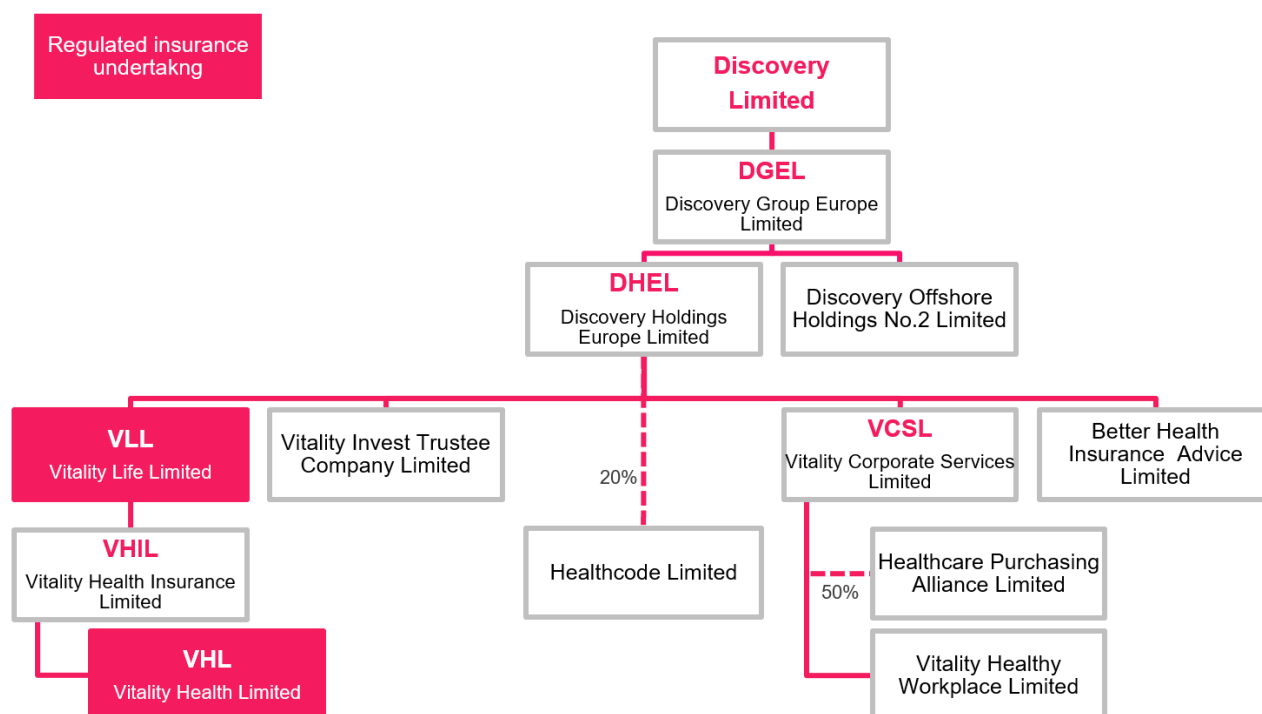
A list of related undertakings within the Group is shown below.

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

Name of related undertaking	Legal form	Country	Participating undertaking	Proportion of ownership interest held by the participating undertaking	Proportion of voting rights held by the participating undertaking
Vitality Health Insurance Limited	Limited by shares	United Kingdom	Vitality Life Limited	100%	100%
Healthcode Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	20%	20%
Vitality Health Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	100%	100%
Healthcare Purchasing Alliance Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	50%	50%
Vitality Healthy Workplace Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	100%	100%

The structure chart below explains the ownership and legal links between the Group, its ultimate parent undertaking, Discovery Limited and its related undertakings. Participations are 100% unless shown.

Figure 1



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

DGEL is the top-most undertaking within the scope of Solvency II and is a holding company for DHEL and also owns a dormant company called Discovery Offshore Holdings No.2 Limited.

DHEL, the holding company, owns one regulated insurance entity (VLL) and indirectly holds a second regulated insurance entity (VHL) as VLL has direct ownership of the holding company Vitality Health Insurance Limited ("VHIL") which owns VHL. DHEL also owns a services company Vitality Corporate Services Limited ("VCSL"), a distributor (Better Health Insurance Advice Limited ("BHIA")) which is an

appointed representative of VCSL), and Vitality Invest Trustee Company Limited ("VITCL") that considers the SIPP provided by VitalityInvest.

DHEL itself is not a regulated insurance entity, and thus has no capital requirement under Solvency II. VCSL and BHIA similarly have no solvency capital requirements, although as VCSL is an intermediary it is required to hold a small amount of Retail Mediation Activity ("RMA") regulatory capital.

Healthcode Limited ("HL") is a joint venture of which DHEL owns 20%. It is not a regulated insurance entity, and thus has no capital requirement. The ownership changed from VHIL to DHEL on 24 June 2021.

VCSL owns 50% of Healthcare Purchasing Alliance Limited ("HPA"), which is a joint venture between VitalityHealth and Aviva Health which is responsible for negotiating hospital tariffs with private hospitals in the UK. VCSL also owns 100% of Vitality Healthy Workplace Limited ("VHWL"). HPA and VHWL are not regulated insurance entities and thus have no capital requirements under Solvency II.

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

- Paying for the cost of the Vitality programmes and other administration costs which are then recharged;
- Providing Vitality brand services, partner and reward services, and cross selling to existing Vitality Group customers in relation to the Vitality branded Personal Lines motor insurance product; and
- Holding all employment contracts and managing the payroll.

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

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

All business is conducted in the United Kingdom.

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

There were no distributions to shareholders in the reporting period.

Over the period there has been the conflict between Russia and Ukraine, increased economic uncertainty and the 'cost of living crisis' due to the burden of high inflation. The Company is closely monitoring and managing the associated risks and remains committed to supporting its staff and customers as any associated challenges emerge, as was the case during the height of the COVID-19 pandemic.

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

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

A.2 UNDERWRITING PERFORMANCE

Vitality Health Limited

The table below shows VHL's IFRS premiums, claims and expenses for the period ended 30 June 2022. For Solvency II purposes, all of VHL's business is defined as "medical expenses insurance".

Year ended 30 June	2022	2021	Change
	£'m	£'m	£'m
Gross earned premium	557.2	534.1	23.1
Reinsurance share of premium	(76.7)	(128.4)	51.7
Gross claims incurred	(281.6)	(259.0)	(22.6)
Reinsurance share of claims	67.2	64.5	2.7
Expenses	(200.5)	(174.3)	(26.2)
Underwriting result	65.5	36.9	28.6
Investment and other income	(0.7)	3.0	(3.7)
Unsubordinated loan interest	(0.2)	(0.2)	—
Subordinated loan interest	(0.2)	(0.6)	0.4
IFRS profit before tax	64.4	39.1	25.2

All medical expenses insurance business is underwritten in the UK.

VHL's underwriting performance improved in the year. VHL has seen a healthy growth in insured lives, despite the challenges of the COVID-19 pandemic. In the prior year, a number of reinsurance treaty amendments were signed with the reinsurers. This was to change the repayment profile of the treaties to reflect the economic profile of the reinsured business due to the pandemic. This has resulted in a decrease in the reinsurance share of premiums. The growth in both claims incurred and the reinsurance share of claims reflects both lives growth and increased usage by members of hospitals relative to the prior year which saw lower usage driven by national restrictions.

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

Vitality Life Limited

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

Underwriting performance and IFRS (loss)/profit £'m	30 June 2022				30 June 2021			
	Other Life	SLT Health	Unit-linked	Total	Other Life	SLT Health	Unit-linked	Total
Gross premiums	178.0	41.7	331.7	551.4	156.2	35.9	298.6	490.7
Reinsurers' share of premiums	(112.9)	(26.5)	—	(139.4)	(97.1)	(22.3)	—	(119.4)
Gross claims and withdrawals	(53.6)	(11.6)	(50.5)	(115.7)	(39.1)	(10.0)	(31.9)	(81.0)
Reinsurers' share of claims	31.3	6.7	—	38.0	21.8	5.0	—	26.8
Investment income on assets held to back unit-linked liabilities	—	—	(57.8)	(57.8)	—	—	44.2	44.2
Expenses	(142.9)	(35.6)	(19.2)	(197.7)	(128.1)	(33.4)	(12.0)	(173.5)
Reinsurance financing received	70.7	19.1	—	89.8	68.7	21.0	—	89.7
Movement in insurance contract reserves				(156.9)				(232.3)
Pre-tax underwriting performance				11.7				45.2
Other income and expenses				98.6				(1.7)
Pre-tax IFRS profit/(loss)				110.3				43.5

All business is underwritten in the UK.

The main features of the financial performance of VLL in the year were:

- The financial results relating to the term, whole of life and income protection products sold under the brand VitalityLife performed in line with expectation. The in-force book of business grew substantially year on year - gross of reinsurance premium income increased by 14% from £192.1m to £219.7m, driven by strong retention and growth in new business volumes from last year.
- Positive reserving experiences were observed in the year, particularly in respect of lapse experience. There has continued to be a significant focus on retention in the last 18 months through operational improvements, customer engagement and distribution quality management.
- Several actuarial basis changes were made in respect of lapses, mortality and renewal expenses. This led to an overall reduction in profitability in the year, which was partially offset by a change to the long-term inflation assumption to reflect the current and expected higher inflationary environment.
- As a result of COVID-19, VLL incurred an additional £2.0m of mortality and morbidity claims (net of reinsurance) on protection products that are directly attributable to COVID-19. The COVID-19 related provision held at 30 June 2021 of £3.2m was more than adequate to cover these claims. At 30 June 2022 VLL has set aside specific morbidity provisions to cover £0.9m of claims (net of reinsurance) for the next 12 months, with no specific mortality provision considered necessary.
- VLL had fair value gains on interest rate derivatives of £74.5m. These gains arose as a result of rising market interest rates in the period. VLL holds interest rate derivatives to manage its exposure to market interest rate risk in respect of the valuation of the Insurance Contract Reserves. These gains offset interest rate derivative losses in VLL's parent company, DHEL, as referred to in section A.4.1 below.
- This was the fourth full year of trading for the unit-linked insurance products sold under the VitalityInvest brand. VitalityInvest managed to record new business levels similar to the prior year and premium income (new investment flows) increased by 11% from £298.6m to £331.7m. Assets under management increased by 43% in the year from £511.6m at 30 June 2021 to £732.4m at 30 June 2022.
- VitalityInvest made a £19.4m loss after tax. The size of the loss increased as a result of a reduction of the negative insurance contract reserve relating to unit-linked business due to the change in distribution strategy. From 31 July 2022, VLL will no longer be selling VitalityInvest products through the adviser and franchise channel as part of a broader review of its Invest distribution strategy, and is looking to completely exit this business during the 2022/23 financial year.
- VLL received dividend income from its subsidiary, Vitality Health Insurance Limited, of £33.2m.

A.3 INVESTMENT PERFORMANCE

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

The interest and gains on assets are included below for each financial statement asset class. The financial statement asset class line item cash and cash equivalents includes deposits, cash and cash equivalents and collective investment undertakings, as these are highly liquid investments.

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

Financial statement asset class	Gains/income on investments in the year to 30 June 2022	Gains/income on investments in the year to 30 June 2021
	£'m	£'m
Financial assets at fair value through profit and loss	(58.9)	46.9
Fair value (loss) / gain on derivatives	(196.3)	(107.7)
Coupons earned on derivatives	4.6	6.5
Cash and cash equivalents	0.5	—
Deposits other than cash and cash equivalents	0.3	0.6
Loan interest	0.1	3.1
Total	(249.7)	(50.6)

Financial statement asset class	Expenses on investments in the year to 30 June 2022	Expenses on investments in the year to 30 June 2021
	£'m	£'m
Financial assets at fair value through profit and loss	—	—
Total	—	—

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

- i. Over-the-counter total return interest rate swap derivatives held by DHEL, which provided DHEL with the capital appreciation/depreciation and coupon payments on a portfolio of Gilts designed to closely match that of a specified Gilt Index. These derivatives were held by DHEL to economically hedge an exposure that the Group has to this index as a result of the VitalityLife policies underwritten by PAC.
- ii. A portfolio of over-the-counter interest rate swaps and swaptions that were utilised by DHEL to hedge exposure to falling interest rates that is linked to the VitalityLife business.

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

The Group does not have any investments in securitisations.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

VLL had fair value gains on interest rate derivatives of £74.5m. These gains arose as a result of rising market interest rates in the period. VLL holds interest rate derivatives to manage its exposure to market interest rate risk in respect of the valuation of the Insurance Contract Reserves.

VLL received dividend income from its subsidiary, Vitality Health Insurance Limited, of £33.2m.

Financing reinsurance is an important part of VHL's strategy. Financing is obtained to partially offset the upfront cost of writing new business, and this financing is then repaid in future periods through ceded premiums and claims under quota share treaties. The amount of financing received in the year net of repayments of existing treaties and excluding fees payable was £42.5m of income compared to £20.1m of outgo in the prior year. The higher sales seen over the financial year resulted in more new financing reinsurance being taken than in the previous year. In the prior year, a number of reinsurance treaty amendments were signed with the reinsurers. This was to change the repayment profile of the treaties to reflect the economic profile of the reinsured business due to the pandemic.

In January 2022, VHL repaid a £6.8m subordinated loan to DHEL and a £13.2m unsubordinated loan to VHIL. In June 2022 VHL paid a dividend of £20.0m through VHIL to VLL.

DHEL generated a loss before tax for the year to 30 June 2022 of £193.4m. Although DHEL made losses of £204.1m as a result of the derivative contracts held during the year to 30 June 2022, these losses were in line with expectation given the rise in market interest rates over the period. These losses were offset by gains

due to interest rate rises observed in DHEL's subsidiary, VLL, of £74.5m, and through repayments on the loan with PAC of £77.5m as a result of regulatory surplus emerging on the policies underwritten by PAC.

On 16 June 2021, VCSL and Covéa Insurance plc ("Covéa") launched a Vitality branded Personal Lines motor insurance product on Covéa's insurance licence, VitalityCar, to the UK market. Vitality provides branding and the Vitality Good Driving Programme (part of the "Vitality Programme"). VCSL generated a profit before tax for the year to 30 June 2022 of £4.2m.

A.4.2 Leases

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

A.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION

No other information is provided.

B SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

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

The principal activity of DGEL is that of an insurance holding company. The principal risks that DGEL faces is the profitability, valuation and continued success of its subsidiaries. To this extent, DGEL is represented, either by a member or attendee, on all decision making bodies of its subsidiaries including the Board of Directors, Actuarial Committee, Audit Committee, Risk Committee, and Remuneration Committee.

The DHEL Board is ultimately responsible for the oversight of the regulated insurance undertakings. The regulated insurance undertakings have their own respective Board and Board Sub-committees which are responsible for the performance and strategy of those undertakings. The DGEL Board is ultimately responsible for the oversight of DHEL and predominantly focuses on capital and represents the Discovery Group interests. The DGEL Board has set up a Reporting Committee which reviews the Solvency II reporting and recommends the reporting to the DGEL Board for approval prior to submission to the regulator and publication.

General information on the key functions

The Risk, Compliance and Internal Audit functions all operate across DHEL and its subsidiaries including the regulated insurance undertakings and non-insurance entities. The general information on the key functions is provided in section B.1.1 of the VLL SFCR and VHL SFCR. References therein to the VLL and VHL Boards apply *mutatis mutandis* to the DHEL Board.

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

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

There were no material changes to the system of governance over the reporting period other than the formalisation of the Sustainability Committee.

No Director changes took place in the year.

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

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

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

B.1.3.1 Principles of the remuneration policy

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

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

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

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

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

The Group has no defined benefit pension liabilities.

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

Shareholders

- DGEL issued ordinary share capital to Discovery Limited of £4.75m on 27 August 2021, £2.25m on 26 November 2021 and £7.00m on 8 April 2022.

Persons who exercise a significant influence on the Company

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

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

Executive management and directors

There were no material transactions between the Group and Executive Management and Directors.

B.2 FIT AND PROPER REQUIREMENTS

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

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

B.3.1 Risk management system

The Group uses the standard formula to assess its Solvency Capital Requirement.

Each Company in the Group adopts the Vitality UK Enterprise Risk Management Framework ("ERMF"), which is underpinned by a comprehensive set of risk policies, frameworks, and guidelines to ensure that adequate processes and procedures are in place to manage risks. These documents are aligned with the current regulatory requirements, including Solvency II. Various assurance activities are undertaken to support the business in monitoring the risks within Vitality UK and ensuring there is sufficient compliance with the framework. Activities include tracking key risk indicators against Vitality's risk appetite, annual attestation to risk policies, incident reporting and thematic risk assurance reviews.

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

The Group adopts the 'three lines of defence' governance model:

The 1st line of defence – business management

Business management makes up the first line of defence. Overall, the first line of defence is responsible for the day to day management of risk and functioning of controls within the business operations as well as delivering the strategy and optimising business performance within an agreed governance and risk framework.

The 2nd line of defence – oversight

The second line of defence comprises the Risk Management Function and the Compliance Function. These are functions that provide assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system.

The 3rd line of defence – assurance

The third line of defence is the independent Internal Audit Function. Internal Audit provides an independent and balanced view of the effectiveness of the system of internal controls, which may among other things include the adequacy of first and second line functions as defined above.

The risk management process requirements, as specified in the ERMF, are detailed in section B.3.1 of the VLL SFCR and VHL SFCR.

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

B.3.2 Implementation of risk management system

The Groups' Company Boards are responsible for all key decisions across the organisation but delegates some of its decision making responsibilities to the Executive Committee, Risk Committee, Audit Committee and Remuneration Committee. The Boards are also advised by the Actuarial Committee and the Technology Committee. The outputs from the risk management system are reviewed by the Executive and Risk Committees with a summary of key items taken to the Boards. This is taken to the decision making committees by the Risk function following their review. This process facilitates the integration of the risk management system in the decision making process.

The Group has not applied for a waiver to prepare a single ORSA document for the whole group.

B.3.3 ORSA process

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

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

All these processes are used by the Board and management in the day-to-day decision making to ensure risk and capital management are aligned. The output from the various processes is reported to the Executive Committee, Risk Committee and the Board at various points in the year. Actuarial aspects of the ORSA process (including risk appetite assessments and stress and scenario testing) are also reported to the Actuarial Committee.

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

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

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

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

B.4.2 Implementation of the Compliance Function

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

B.5 INTERNAL AUDIT FUNCTION

B.5.1 Implementation of the internal audit function

The Internal Audit function operates across DHEL and its subsidiaries, and its implementation is as described in section B.5.1 of the VLL SFCR and the VHL SFCR.

B.5.2 Independence of the Internal Audit Function

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

B.6 ACTUARIAL FUNCTION

The PRA requires that firms should have an Actuarial function and has specified that firms should appoint a Chief Actuary to each authorised insurance company set out under the PRA's senior managers' regime. The VLL Chief Actuary is a Senior Management Function ("SMF") and reports functionally to the VLL Managing Director and is a member of the VLL Executive Committee. The VHL Chief Actuary is a Senior Management Function ("SMF"), reports functionally to the Group Chief Executive Officer and is a member of the Group and Executive Committees. Vitality has various actuarial teams that perform the work and provide the information necessary to fulfil the requirements of the Actuarial function as set out in the PRA Rulebook.

Each Chief Actuary presents a report annually to the Actuarial Committee and the Board that summarises the activities of the Actuarial function that supported compliance with the requirements for the calculation of the technical provisions, and provides the Chief Actuary's opinions on the overall underwriting policy and the adequacy of the reinsurance arrangements.

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

B.7 OUTSOURCING

VCSL provides management services to all companies in the Group including the recharge of expenses incurred on its behalf. All staff costs incurred by VCSL are allocated and recharged to the relevant company. The jurisdiction of the contract with VCSL is England and Wales.

A description of the outsourcing policy and process is outlined in section B.7 of the VLL SFCR and VHL SFCR. There are no additional outsourcing arrangements other than those covered in the VLL and VHL SFCRs.

B.8 SYSTEM OF GOVERNANCE – ANY OTHER INFORMATION

Sustainability risks and the risks from climate change are cross-cutting over several aspects of the business and taxonomy risk. Vitality has implemented a Sustainability Committee to develop and implement a sustainability strategy, as well as supporting risk identification, management, measurement and reporting of sustainability and climate change risks.

C RISK PROFILE

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

Underwriting risk is the largest risk measured by the standard formula Group SCR and arises through the provision and administration of short term private medical insurance by VHL; long term protection business (including life, serious illness and income protection cover) by VLL; and in regard to the business written on the PAC licence. The investment type business provided by VLL does not create any material underwriting risk. Market risk exposures in DHEL have reduced over the period as the derivatives used in the hedging programme now directly mitigate the interest rate risk that DHEL was previously indirectly exposed to. Default risk as a component of the Group SCR is small. The operational risk capital requirement arises from the exposures in VLL and VHL.

The risk profile of the Group, measured by the standard formula, has changed over the year as a result of the growth in the underlying businesses, VLL and VHL; the restructuring of the hedging programme; and recognition of the underlying risks to the valuation of the loan between DHEL and PAC in regard to the business written on the PAC licence.

The table below shows the capital requirements that arise under the risk modules making up the Group's SCR:

Year ended 30 June	2022	2021
	£'m	£'m
Health underwriting	200.6	169.7
Life underwriting	260.9	207.4
Market risk	37.0	126.0
Counterparty default risk	11.5	12.7
Diversification credit	(126.1)	(151.9)
Basic SCR	383.9	363.9
Operational risk	26.6	24.1
Adjustment for loss absorbing capacity of deferred taxes	(42.9)	(55.2)
Group SCR	367.6	332.8

The Group's SCR arises from contributions from its different constituent businesses. As a percentage of the Group SCR before inter-company/consolidation diversification these were as follows:

Year ended 30 June	2022	2021
VLL	60%	49%
VHL	25%	25%
Other	15%	26%
Group SCR	100%	100%

On this measure, VLL and VHL together account for 85% of the capital requirements arising within the Group. The other 15% of the capital requirements arise from risks to the contingent loan with PAC.

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

C.1 UNDERWRITING RISK

The underwriting risk exposure within the regulated insurance undertakings is described in section C.1 of the VLL SFCR and VHL SFCR, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated. The Group is additionally exposed indirectly to underwriting risk with regard to the valuation of the loan between DHEL and PAC with regard to the business written on the PAC licence. The underlying risks (lapse, mortality and morbidity, and expenses) and mitigations are the same as those described in section C.1 of the VLL SFCR. As with VLL, the largest contributor to underwriting risk is lapse risk.

Life underwriting risk contributed 49% to the group's undiversified SCR and health underwriting risk contributed a further 37% (2021: 38% and 31% respectively).

C.2 MARKET RISK

C.2.1 Exposure

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

In DHEL, the valuation of the loan to PAC in regard to the business written on the PAC licence is exposed to interest rate risk. In June 2022, the swaps used to mitigate liquidity risk held by DHEL were sold and instead implemented on the PAC balance sheet. In addition to reducing liquidity risk, hedging the interest rate risk 'at source' also materially reduces the risk of DHEL's own funds being reduced by a potential impairment of the loan asset. DHEL also holds a swaption, which as interest rates increase will increase its own funds, while its contribution to the Group SCR will be immaterial. While the swaption value cannot fall below zero, any subsequent reversal of interest rates would correspondingly reverse the increase in own funds.

In VCSL, there is some exposure to property risk, though the impact on the overall Group SCR is immaterial.

In DGEL, which otherwise conducts all of its operations in Pounds Sterling, there is some exposure to South African Rand which exposes it to changes in exchange rates. This currency risk accounts for 13% of the Group's pre-diversification market risk. DGEL does not hold any securities that are traded on public exchanges. The Group has a significant long-term investment in DHEL. The directors of DGEL are actively involved in managing DHEL to ensure that the value of DGEL's interest is maximised.

Market risk accounts for 7% of the pre-diversification SCR (2021: 23%).

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

C.2.2 Risk mitigation

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

With regard to the loan from DHEL to PAC, the interest rate hedging strategy, now implemented alongside the business written on the PAC licence, is used to mitigate the risk to the loan valuation from a reduction in interest rates. In the event that interest rates decrease the value of the swaps increase to offset the increase in the reserves of the business. Aside from a small component of rebalancing losses that result from basis risk, increase, then there is no material impact on the loan valuation.

C.2.3 Risk concentration

Across the Group, assets are held across a wide range of counterparties to reduce concentration risk. Refer to section C.2.3 of the VLL SFCR and VHL SFCR for additional information. At group level, as measured by the capital requirements for concentration risk, there are no material risk exposures.

C.3 CREDIT RISK

C.3.1 Exposure

In addition to the credit risk exposures in VLL and VHL which primarily arise from exposure to banking and reinsurance counterparties, at 30 June 2022 DHEL held £24.1m on deposit in cash at a single banking counterparty. The bank is highly reputable with a credit quality step of 2. At the reporting date, the

aforementioned swaption in DHEL is collateralised such that the counterparty does not present a material credit risk to the Group. Cash holdings by other group entities are significantly below the levels of cash holdings by DHEL, VHL and VLL, with the largest single exposures to banking counterparties in DGEL, VCSL and VHIL being £1.8m, £7.9m and £0.8m respectively, all with banks with credit quality steps of 2.

Credit risk exposures within the regulated insurance undertakings are described in section C.3.1 of the VLL SFCR and VHL SFCR, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated. Counterparty Default Risk contributed 2% to the Group's pre-diversification SCR (2021: 2%). Spread risk capital and concentration risk capital held within the market risk module can also be seen as being related to credit risk. Together, counterparty default risk, spread risk and concentration risk contributed 35% to the Group's undiversified SCR related to economic exposures.

C.3.2 Risk mitigation

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

To mitigate the risk of banking counterparty default, banks are chosen following a thorough due diligence exercise to select only highly reputable and creditworthy banks. To mitigate credit risk arising from reinsurer exposures, the selected counterparties are large, well established multinational reinsurers and chosen such that the credit rating is at least single A (or equivalent). Credit ratings of reinsurance counterparties are reviewed at least annually.

The exposure to credit risk within the unit-linked funds is managed as part of the investment mandate of the funds.

C.3.3 Risk concentration

The Group avoids material credit risk concentrations by ensuring its deposits are split across more than one banking unit and reinsurance is split across multiple reinsurance counterparties to reduce single name exposure. In addition, counterparties are chosen such that they are highly reputable and creditworthy to further reduce credit risk exposure. As mentioned in C.3.1, the derivatives are collateralised, mitigating credit risk that may otherwise arise on them.

C.4 LIQUIDITY RISK

C.4.1 Exposure

Liquidity risk is defined as the risk that the Group is unable to realise investments and other assets in order to settle their financial obligations when they fall due. The Group has taken action to reduce the liquidity risk in DHEL, discussed in the 2021 SFCR, arising from timing differences between the periodic agreements of amounts due to or from PAC regarding the advance or repayment of the aforementioned loan and the daily settlement of margin on the derivatives. This was achieved by closing out the existing swaps in DHEL in June 2022, and instead implementing them on the PAC balance sheet where the impact of changes in interest rates on the IFRS reserves of the business written on the PAC licence can be directly hedged, and where there is increased access to liquid resources. To mitigate this risk further DHEL holds an interest rate swaption which can be used to provide further liquidity.

Liquidity risk exposures within the regulated insurance undertakings are described in section C.4.1 of the VLL SFCR and VHL SFCR, alongside details of how these risks are identified and measured, how concentrations of risk may occur, and how these risks are mitigated. Aside from the liquidity risk in DHEL mentioned above, there are no other material liquidity risk exposures within the Group.

C.4.2 Risk mitigation

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

C.4.3 Risk concentration

The Group as a whole avoids material liquidity risk concentrations by ensuring its invested assets are split across a number of counterparties, but also within each collective investment undertaking, the funds are invested across a number of liquid, short term counterparties.

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

The expected profit in future premiums for Group is the sum of the amounts for VLL, £901.6m, and VHL, £67.1m. A discussion of its derivation is included in section C.4.4 of the VLL SFCR and VHL SFCR.

C.5 OPERATIONAL RISK

C.5.1 Exposure

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risk contributed 5% to the Group’s pre-diversification SCR (2021: 4%).

The following measures are used to assess operational risks:

- Risk and control assessments – the ERMF requires all teams across the business to carry out a risk and control self-assessment which would highlight any operational risk issues that need to be taken into account when assessing the risk profile for the business.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the operational risk exposure.
- The Group also carries out operational risk scenario workshops to develop scenarios for each operational risk category. This involves estimating the severity and likelihood of each scenario based on the information captured in the Group’s risk registers and input from subject matter experts in the business. Once captured, the operational risk profile is assessed quantitatively and taken into account in each of VLL’s and VHL’s own assessment of its solvency capital requirements. Operational risks are also assessed using qualitative techniques to understand the likelihood and impact of the risks materialising. The results of this assessment are recorded in the ORSAs of VLL and VHL.
- The top operational risks included in the assessment were:
 - Model risk - the risk of loss resulting from using insufficiently accurate models to make decisions.
 - Cyber risk, including fraud and information risks - the risk of financial loss, business disruption and data leakage or loss due to the malicious or fraudulent exploitation of security vulnerabilities within Information Technology systems.
 - Technology risk - the risk associated with the use, ownership, operation, involvement, influence, adoption and development of technology within the Group. It consists of technology-related events and conditions that could potentially impact the business.
 - Market conduct risk - the risk that VHL’s decisions and behaviours lead to detriment or poor outcomes for members and/or the Group fails to maintain high standards of market integrity.

The business continued to actively manage these key risks over the period.

C.5.2 Risk mitigation

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

- Risk reduction – where possible, the Group takes action to reduce the impact of a risk. The required actions vary by risk;
- Risk removal – where risks are outside risk appetite and there are no commercially viable means of reducing the risk, the business may remove the risk;
- Risk transfer – the Group outsources a number of activities and in some cases the associated risks with carrying out those activities. Whilst the Group can outsource activities, it does not transfer responsibility and therefore manages its outsourcing relationships accordingly;
- Risk acceptance – where the Group has considered all other mitigation techniques and the risk remains out of appetite, it may proceed to accept the risk with the approval of the Risk Committee; and
- Reporting – the material operational risks which the Group is exposed to are identified and recorded in the risk register. The risks are assessed and, once the actions required to manage the risks have been agreed, the risks are reported to Senior Management, the relevant Risk Committees and the Boards.

Examples of operational risk key controls which are in place include, but are not limited to, business continuity testing and plans, user acceptance, system and regression testing, claim process mapping and review of rules decision-making, compliance monitoring, quality assurance, information security management standards, supplier risk assessments and the staff onboarding process.

The Group continues to improve risk management through the risk strategy directed by the Chief Risk Officer.

C.5.3 Risk concentration

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

C.6 OTHER MATERIAL RISKS

The Risk Management process within the Group includes a review of both the current and emerging risk profile. In summary, the Group is exposed to the following other material risks:

- New business funding liquidity risk (for VLL, discussed in further detail below);
- Reputational risk, including impacts from conduct risk, liquidity risk and the knock-on impacts on underwriting risks such as persistency and expenses;
- Regulatory risk, including impacts from regulatory change and compliance exposure;
- Strategic risk, where the Company's strategic objectives could be impacted by evolving customer preferences, the Company's investment performance, the economic environment, its approach to sustainability and managing climate change risk, and political and regulatory change. In particular the recessionary impacts of the COVID-19 pandemic continue to generate uncertainty in this area; and
- Vitality risk is the risk that Vitality reward costs exceed those allowed for in the current budget as a result of e.g. higher than anticipated engagement and / or higher utilisation, without a corresponding improvement in claims and lapse experience.

There are no other material risk concentrations to which the Group is exposed. No other material risks were identified through the sensitivity, scenario and stress tests described below in Section C.7. No material changes to the measures used to assess the risk exposure or the material risks over the reporting period have taken place.

The above risks are subject to the same ERMF as underwriting, market, credit, liquidity and operational risks, and are recognised within Vitality's risk taxonomy. Controls and other risk mitigating activities are

implemented and regularly assessed by management as part of the quarterly RCSA. Depending on the nature of the risk, the monitoring of risk indicators or other performance metrics is reported internally to the Executive Committee on a regular basis. If appropriate, they are subject to a risk, compliance or internal audit review, with any adverse findings reported to the Audit Committee. A summary of the effectiveness of the techniques used to mitigate these risks is reported within the quarterly CRO Report to the Risk Committee.

New business funding liquidity risk (VLL)

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

A key source of liquidity for the writing of new business is provided by reinsurers through financing reinsurance treaties. This financing helps offset part of the strain of writing new business and is repaid in future periods contingent on policyholders' premiums payments. Therefore, there is a dependency on reinsurers to provide this funding resulting in a risk exposure to the reinsurers reducing their capacity to provide funding or failure. This could lead to the loss of funding to write new business until such time as replacement funding can be arranged. The high levels of liquid investment assets help to mitigate the risk of reinsurer failure.

In addition, VLL will receive any dividends issued by VHIL as its parent company. There is a risk that VHIL does not issue dividends (or issue lower dividends than expected), reducing VLL's liquidity capital.

VLL also has, via its parent, access to an unsubordinated debt facility with a major UK bank.

Another source of liquidity is capital injections from its ultimate parent company, Discovery Limited.

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

C.7 RISK PROFILE – ANY OTHER INFORMATION

C.7.1 Risk sensitivity

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

C.7.2 Sensitivities

The table below shows the impacts of stresses on the Group SCR and solvency coverage ratio. Due to the investment strategy of VLL and VHL described below in Section C.7.3, there is no material impact to the Group SCR or solvency coverage ratio from economic shocks such as movements in equity market values, credit spreads of Government or corporate bonds, or real estate values. As such, no Group SCR coverage impacts are shown for these stresses. In the short-run, changes in lapse rates also do not materially impact the Group SCR coverage.

The stresses below have been calculated as the one year impact on coverage if the stress event was to happen independently in the 2022-23 financial year, and hence impact the June 2022 Group SCR and SCR coverage ratio.

Risk driver and stress description	Impact on Group SCR coverage %	Remarks
Mortality and morbidity: An immediate and permanent increase of 10% in mortality rates and morbidity for Life business.	(7)%	There is a decrease in SCR cover, which is driven primarily by a reduction in future profits, given the reinsurance risk mitigation in place which limits the impact of mortality risk on claim payouts.
Medical expenses: An increase in the VHL gross loss ratio of 10%.	(8)%	Own funds are impacted by the reduced profit and the VHL SCR experiences a small increase, resulting in a fall in the Group SCR coverage ratio.
Interest Rates: An immediate and permanent increase of 50bps in nominal interest rates.	6%	SCR cover increases when interest rates increase. This is primarily via the impact on VLL's SCR and its risk margin.
Interest Rates: An immediate and permanent decrease of 50bps in nominal interest rates.	(7)%	SCR cover reduces when interest rates decrease. This is primarily via the impact on VLL's SCR and its risk margin, as well as changes in the composition of the SCR.

C.7.3 Prudent Person Principle

The Group ensures that its assets are invested in accordance with the Prudent Person Principle set out in the PRA Rulebook. It only invests in assets whose risks it can properly identify, manage, control and report and which can be appropriately taken into account in the Group's overall solvency needs assessment as documented in its ORSA report.

The DHEL Board is responsible for setting the overall Risk Appetite and Financial Risk Policy which covers market, credit and liquidity risk. The Financial Risk Policy is supported by a Responsible Investment Standard which covers environmental, social and governance requirements for shareholder invested assets. Internal reporting on defined risk metrics such as minimum credit ratings and risk concentration checks are performed each month.

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

VLL has unit-linked policies where the investment risk is borne by the policyholders and ensures that the unit-linked assets and liabilities are appropriately matched.

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

VLL uses a standard interest rate swap for the purposes of reducing the BEL exposure to interest rate movements. Similarly standard interest swaps are used on the PAC for the purposes of reducing the IFRS reserve exposure to interest rate movements which may otherwise cause a loss of own funds in DHEL through an impairment of the loan to PAC. DHEL further holds a receiver swaption for liquidity management purposes.

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

D VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

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

The difference between the Solvency II balance sheet and the statutory account value (“SAV”) balance sheet arises due to consolidation, valuation, and presentational differences. The tables below show the value of assets and liabilities held in the Group and set out on the different valuation bases. As discussed in section A.1.8 above, under section 401 of the Companies Act 2006, the DGEL Group is exempt from having to produce consolidated accounts. The statutory account values disclosed in this document represent proforma consolidated DGEL group IFRS values, the Group SOFP.

Assets (£'m)	SAV - IFRS		Solvency II Value		Valuation Difference		Section reference
	2022	2021	2022	2021	2022	2021	
Goodwill	123.7	123.7	—	—	(123.7)	(123.7)	D.1.1.1
Deferred acquisition costs	49.0	41.9	—	—	(49.0)	(41.9)	D.1.1.2
Intangible assets	50.9	55.6	—	—	(50.9)	(55.6)	D.1.1.3
Deferred tax assets	45.8	28.4	95.9	55.1	50.1	26.7	D.1.1.4
Property, plant and equipment	19.6	27.9	19.6	27.9	—	—	D.1.1.5
Investments	285.0	312.2	275.3	310.0	(9.7)	(2.2)	D.1.1.6
Assets held for index-linked and unit-linked contracts	732.5	511.6	732.5	511.6	—	—	D.1.1.7
Other loans and mortgages	0.8	78.2	0.8	78.2	—	—	D.1.1.8
Reinsurance recoverables	(269.5)	(274.1)	(428.3)	(411.0)	(158.8)	(136.9)	D.1.1.9
Insurance and intermediaries receivables	301.1	261.2	32.3	22.6	(268.8)	(238.6)	D.1.1.10
Reinsurance receivables	198.5	156.3	—	0.4	(198.5)	(155.9)	D.1.1.11
Receivables (trade, not insurance)	44.3	60.2	26.2	45.0	(18.1)	(15.2)	D.1.1.12
Cash and cash equivalents	59.7	87.2	59.7	87.2	—	—	D.1.1.13
Any other assets, not elsewhere shown	33.5	28.3	30.7	24.1	(2.8)	(4.2)	D.1.1.14
Total assets	1,674.9	1,498.6	844.7	751.1	(830.2)	(747.5)	

D.1.1.1 Goodwill

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

D.1.1.2 Deferred acquisition costs (“DAC”)

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

D.1.1.3 Intangible assets

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

D.1.1.4 Deferred tax assets (“DTA”)

The Solvency II value of the Group deferred tax asset at 30 June 2022 is split £43.9m – VHL, £30.8m – VLL, £19.3m – DHEL, £1.8m – VCSL, and £0.1m – VHIL.

For a description of the valuation of the deferred tax asset for VHL and VLL, please refer to section D.1.1.2 and D.1.1.6 in their respective SFCRs.

The deferred tax assets of DHEL, VHIL and VCSL are recognised on timing differences between the tax base of assets and liabilities under IFRS. Under Solvency II, a further DTA is recognised for valuation differences on assets and liabilities. DTA recognised are tested for recoverability under both IFRS and Solvency II. The valuation method used is as prescribed in Article 15 of the Delegated Regulation.

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

Subsequent to the VHL and VLL SFCRs referred to above, the UK Government has now reversed the announcement made on 23 September 2022, such that the UK corporate tax rate will increase from 19% to 25% from 1 April 2023 as previously enacted rather than being cancelled. As this increase was enacted as at the 30 June 2022 reporting date, it is already reflected in the valuation of deferred tax assets / LACDT in this report.

D.1.1.5 Property, plant & equipment

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

VHL continues to own the land and office building purchased in late 2018 in Stockport. VCSL is the principal tenant of the building with the remainder of the tenants being third parties. An impairment test was performed in June 2022 with an independent valuation of the property obtained, resulting in no impairment provision being required. The value of this property at 30 June 2022 is £9.0m. Under IFRS, the land and buildings are valued at depreciated cost. Under SII the property has been recognised at fair value, in line with the independent valuation.

D.1.1.6 Investments

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

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

The investments arising in DHEL relate to the following derivatives:

- i) A derivative asset of £10.8m. As at 30 June 2022 DHEL was party to one open derivative contract with a total notional derivative value of £170.0m, which do not qualify for hedge accounting under IFRS. The asset represents fair value and is based on quoted market valuations.

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

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

These assets represent the amount held by VLL to back the policyholder liabilities relating to the unit-linked insurance contracts sold by VitalityInvest. For SII, all assets and liabilities relating to index-linked and unit-linked contracts are reported in a single line item within 'assets held for index-linked and unit-linked contracts' and therefore this number is net of non-technical liabilities held in relation to these unit-linked contracts. The total IFRS value of these liabilities is £732.4m.

The material element of these assets relates to £667.3m held in a range of investment funds and a further £66.4m held in cash and cash equivalents. The allocation of assets into the funds and cash is directly

matched with units chosen by the policyholders when purchasing (or servicing) their unit-linked policy. These assets are measured using a mixture of amortised cost (which equates to fair value) and fair value depending on their nature and IFRS classification. The valuation is based on independent fund manager valuation reports that are derived from market prices or statements provided by VLL's bankers.

D.1.1.8 Other Loans and mortgages

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

D.1.1.9 Reinsurance recoverables

The value of the Group's reinsurance recoverables is equal to the sum of the reinsurance recoverables arising in VHL and VLL, of £9.4m and (£437.6m) respectively.

VHL reinsurance recoverable

Reinsurance recoverables totalling £9.4m relate mainly to the cashless FinRe taken out by VHL and consists of a liability for the reinsurance payables within the contract boundary of the premium technical provision ("PTP") and an asset for the reinsurance recoverables within the claims technical provision ("CTP"). The PTP liability is negligible and the CTP asset is £9.1m, giving a net positive reinsurance recoverable of £9.1m. The remaining £0.3m is held as a reinsurance recoverable asset for the reinsurer's share of a legacy book of business.

VLL reinsurance recoverable

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

Total reinsurance recoverables at 30 June 2022 were £(437.6)m. The recoverables are negative predominantly due to the expected repayments in respect of the new business reinsurance financing received to date.

D.1.1.10 Insurance and intermediaries receivables

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

VHL insurance and intermediaries receivables

Insurance and intermediaries receivables of £17.2m at 30 June 2022 under Solvency II relate to premiums outstanding from policyholders. This balance is valued using a look through of IFRS outstanding premiums. Where outstanding premiums relate to future premium collection dates these are included in the PTP. Where the premium collection date falls before the reporting date, but the cash has not been received at the reporting date, this amount falls in premiums outstanding.

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

VLL insurance and intermediaries receivables

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

D.1.1.11 Reinsurance receivables

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

VHL reinsurance receivables

The Solvency II value of reinsurance receivables is nil. The difference to the financial statements of £198.5m relates to the cashless FinRe balance that is recognised under IFRS, but not under Solvency II.

VLL reinsurance receivables

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

D.1.1.12 Receivables (trade, not insurance)

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

D.1.1.13 Cash and cash equivalent

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

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

D.1.1.14 Any other assets, not elsewhere shown

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

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

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

D.2 TECHNICAL PROVISIONS**D.2.1 Technical provisions analysed by each material line of business**

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

The table below shows the technical provisions at 30 June 2022 by line of business:

£'m	VLL Unit-linked	VLL Other life	VLL SLT Health	VHL Health NSLT	Total
Technical Provisions Calculated as a Whole	732.5	—	—	—	732.5
Gross Best Estimate Liabilities	(2.0)	(640.7)	(382.2)	21.3	(1,003.6)
Risk Margin	2.5	183.0	53.5	7.0	246.0
Technical Provisions	733.0	(457.7)	(328.7)	28.3	(25.1)
Recoverables	—	315.6	122.1	(9.4)	428.3
Technical Provisions allowing for recoverables*	733.0	(142.1)	(206.6)	18.9	403.2

For comparison, the table below shows the technical provisions at 30 June 2021 by line of business:

£'m	VLL Unit-linked	VLL Other life	VLL SLT Health	VHL Health NSLT	Total
Technical Provisions Calculated as a Whole	511.6	—	—	—	511.6
Gross Best Estimate Liabilities	(6.2)	(622.8)	(313.4)	39.6	(902.8)
Risk Margin	1.9	158.7	39.4	6.0	206.0
Technical Provisions	507.3	(464.1)	(274.0)	45.6	(185.2)
Recoverables	—	306.3	112.1	(7.3)	411.1
Technical Provisions allowing for recoverables*	507.3	(157.8)	(161.9)	38.3	225.9

For VLL, the main driver of the increase in technical provisions over the year is the increase in technical provisions calculated as a whole, which increases as new investment business is written over the year. This increase is partially offset by the other two lines of business becoming more negative over the year, which is mostly due to the VLL new business written over the period.

For VHL, the claims technical provision has increased over the last year due to the general growth in VHL's policyholder base and the increase in authorisation requests for treatment seen since March 2022. The PTP liability has decreased compared to the prior year as there is no longer an expectation of a claims catch-up that was within the position at 30 June 2021. This has led to a lower benefit ratio projection at 30 June 2022

D.2.2 Technical provisions calculation methodology

VLL technical provisions calculation methodology

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

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

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

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

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

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

VLL segmentation of business

The technical provisions for the Life business are segmented into two categories, Other Life and SLT Health, where the segmentation is carried out at a per policy level depending on the types of benefit attached to each policy. The technical provisions for VitalityInvest are captured in the index-linked and unit-linked category.

VLL main assumptions

Interest rates, unit fund growth rate and inflation

The risk-free interest rate term structure used for discounting the projected cash flows in the technical calculation is the GBP relevant risk-free structure as specified by the Solvency II regulations. VLL used the rates as provided by the PRA. These rates are also used for VitalityInvest's unit fund growth rate assumption (gross of charges).

VLL does not use the matching adjustment nor the volatility adjustment.

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

Expenses

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

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

The proportion of renewal expenses denominated in South African Rands has reduced over time due to the migration of certain operations to the UK, whereas previously these were outsourced to other Discovery group companies in South Africa.

Lapse assumptions

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

Claims Assumptions

Assumptions of future mortality are derived based on both data from reinsurers and life insurance industry mortality tables, adjusted as appropriate to reflect actual past experience (including experience for business written on the PAC licence) 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 (including experience for business written on the PAC licence) and for expected changes in future experience.

VHL technical provisions calculation methodology

VHL claims technical provision ("CTP")

The claims technical provision is a provision set aside for claims that have been incurred by VHL, but are yet to be either reported or settled at the valuation date. This provision includes an allowance for the expenses involved in handling these claims.

The provision is set based upon a frequency and severity model for the most recent two treatment months which uses the expected treatment timeline and cost for each authorised claim. For older treatment months traditional chain ladder methods are used. The reserve, by treatment month, is the difference between the paid amount and that which is ultimately expected to occur in that treatment month. In recent years VHL has moved away from the traditional chain ladder models used widely across the industry, as these inherently rely on stability in both treatment and payment patterns in order to provide accurate projections, and this assumption cannot be relied upon given the disruption caused by the pandemic. The frequency and severity model base result is then adjusted as necessary to reflect changes in the severity, frequency and timing of treatments.

VHL's CTP calculation and processes are subject to an annual review against the VHL Reserving standard. No material findings were raised into the adequacy of the overall CTP position.

VHL premium technical provision ("PTP")

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

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

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

The expected claims and Vitality Healthy Living Programme reward costs are projected through the application of the benefit ratio on the projected future premiums. The benefit ratio assumption is based on historical, pre-pandemic, experience, adjusted for future expected trends and inflation. The calculation of the PTP up until the contract boundary reflects our best estimate of these underlying dynamics, in line with SII requirements.

The expense cash flows are projected through allocation to in-force policies. The assumption of total future expenses is based on prior experience adjusted for future expected trends. The allocations are based on expense investigations.

The PTP is a negative liability, or an asset, as the total future claims, benefits and expenses are expected to be lower than the future premiums received. The PTP has increased over the year due to an assumed catch-up in claims being included in the June 2021 position that is no longer a feature.

D.2.3 Reinsurance payables

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

D.2.4 Uncertainty associated with technical provisions

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

For VHL, the uncertainty around claims experience remains as the removal of all lifestyle restrictions from the pandemic has resulted in volatility in the external environment and in the experience of VHL. There are also risks that could emerge over the coming years from the COVID-19 pandemic:

- Increased authorisations for treatment could also come with increased costs for these claims as the illness has progressed without treatment over the pandemic; and
- Variants of COVID-19 could continue to emerge which potentially impact on the efficacy of vaccines, leading to further strain on the NHS over the coming winter. This could come with additional future uncertainty and additional economic challenges.

Further, there remains uncertainty arising from the high inflation environment which could increase treatment costs, coupled with the cost of living challenges and changes within the political environment of the UK that could impact volumes. The CTP is therefore subject to a greater degree of uncertainty than under normal circumstances.

For the PTP, a set of sensitivities are produced on the key assumptions in order to judge the uncertainty associated with the projection of future profits. The two key non-economic assumptions of benefit ratio and expense ratio can diverge from the best estimate and increase the technical provision liability. However, the impact on the solvency ratio is reduced as lower expected profits in future premiums are limited by the application of the contract boundary restriction and in addition the reduction would also result in a lower lapse risk under health underwriting risk.

D.2.5 Methodology and assumption changes

As discussed in section D.2.7 of the VHL SFCR, the hospital dispute provision has increased slightly since last year. The CTP has increased compared to the prior year as more members have used treatment compared to the previous year, but uncertainty remains in the level and timing of the cost of treatments for members.

In addition, the PTP liability has decreased compared to the prior year as there is no longer an expectation of a claims catch-up that was within the position at 30 June 2021. This has led to a lower benefit ratio projection at 30 June 2022.

D.2.6 Differences between Solvency II valuation and local GAAP/IFRS valuation of technical provisions analysed by each material line of business

The table below shows a build-up from the IFRS valuation of insurance contract liabilities to the Solvency II technical provisions, split by line of business, at 30 June 2022:

£'m	VLL Unit-linked	VLL Other life	VLL SLT Health	VHL Health NSLT	Total
Gross IFRS Insurance contract liabilities	732.5	(483.0)	(298.7)	98.0	48.8
Adjustments for Solvency II	(2.0)	(157.7)	(83.5)	(76.7)	(319.9)
Gross BEL and Technical Provisions calculated as a Whole	730.5	(640.7)	(382.2)	21.3	(271.1)
Add risk margin	2.5	183.0	53.5	7.0	246.0
Technical provisions	733.0	(457.7)	(328.7)	28.3	(25.1)

* The total IFRS UPR netted down by the corresponding portion of its premium debtors and IFRS gross claims provisions.

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

- Solvency II requires an explicit risk margin (£239.0m for the total book), while for IFRS an allowance for risk is made through the margins for adverse deviation in the underlying assumptions.
- The discount rate for Solvency II technical provisions is specified by regulation (the relevant risk-free interest rate is provided by the PRA), while that for IFRS is based on the expected long term return for VLL's expected investment portfolio;

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

For VHL, the £69.7m adjustment from the gross IFRS insurance contract liabilities to the SII gross technical provisions is from the following items:

- £52.1m reduction due to removing premium debtors and the related UPR applicable in IFRS which are replaced with premium technical provisions in SII;
- £24.7m reduction from recognising the premium technical provision under SII. This is made up of the EPIFP, as discussed in section C.4.4, and the expected losses covered by premiums already received;
- £(0.1)m from other minor adjustments related to different treatments of claims handling provisions and the use of discounting between IFRS and SII; and
- £7.0m increase due to the inclusion in SII technical provisions of the risk margin.

The main driver of the change in the adjustment from the gross IFRS insurance contract liabilities from £47.5m at 30 June 2021 to £69.7m at 30 June 2022 is the lower PTP liability at 30 June 2022. The 30 June 2021 position contained a projection of an expected claim cost catch-up due to the relaxing of lockdown restrictions in the three months before the financial year end

D.2.7 Recoverables from reinsurance contracts and special purpose vehicles

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

Total reinsurance recoverables at 30 June 2022 were £(437.6)m. The recoverables are negative predominantly due to the expected repayments in respect of the new business reinsurance financing received to date.

For VHL, the value of the recoverables (share of reinsurers including finite reinsurance and special purpose vehicles) is made up of:

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

D.3 OTHER LIABILITIES

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

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

Other liabilities (£'m)	SAV - IFRS		Solvency II Value		Valuation Difference		Section reference
	2022	2021	2022	2021	2022	2021	
Provisions other than technical provisions	51.6	41.4	51.6	41.4	—	—	D.3.1.1
Insurance and intermediaries payables	10.0	9.9	10.0	9.9	—	—	D.3.1.2
Reinsurance payables	101.7	89.1	28.2	28.9	(73.5)	(60.2)	D.3.1.3
Payables (trade, not insurance)	156.9	140.1	157.5	146.6	0.6	6.5	D.3.1.4
Subordinated liabilities	171.5	169.7	171.5	169.7	—	—	D.3.1.5
Derivatives	3.9	106.1	3.9	106.1	—	—	D.3.1.6
Debts owed to credit institutions	100.2	11.8	100.2	11.8	—	—	D.3.1.7
Any other liabilities, not elsewhere shown	3.9	2.3	3.9	2.3	—	—	D.3.1.8
Total other liabilities	599.7	570.4	526.8	516.7	(72.9)	(53.7)	

D.3.1.1 Provisions, other than technical provisions

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

D.3.1.2 Insurance & intermediaries payables

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

VHL insurance & intermediaries payables

Insurance & intermediaries payable consists of claims outstanding and intermediaries' payables and at the reporting date had a solvency valuation of £5.5m. The material portions of this balance are £1.4m for fund share payments to our Corporate clients; £3.1m for outstanding claims payments; and £0.9m which is owed to independent financial advisors for items such as commission payments.

VLL insurance & intermediaries payables

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

D.3.1.3 Reinsurance payables

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

VHL reinsurance payables

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

The balance owed to reinsurers at the end of the reporting period was £9.6m as shown in line 'Reinsurance payables' in the Solvency II balance sheet. £9.1m of this is related to the corresponding asset set up for the reinsurance recoverables (D.1.1.5) and is valued in line with methodology specified under D.1.1.6 to reflect the nil valuation / cash flow position of the FinRe contracts.

VLL reinsurance payables

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

D.3.1.4 Payables (trade, not insurance)

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

The valuation difference between IFRS and Solvency II relates to a liability representing the negative net Solvency II assets of BHIAL, HL and VHWW, which are all recognised under the adjusted equity method.

D.3.1.5 Subordinated liabilities

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

The interest rate payable on the loan has both a fixed and variable element. The fixed element includes an allowance for the Group's own credit standing and the variable element is designed to reflect changes in risk-free interest rates. Changes in interest rates between the dates the loans were issued and the reporting date of 30 June 2022 did not result in a material change in the fair value of the loans. As a result, there were no material differences between the IFRS valuation and Solvency II valuation of these loans at 30 June 2022.

Subordinated liabilities totalling £171.5m are made up of:

- A subordinated loan subject to transitional arrangements from Discovery Limited to DGEL with a balance of £16.0m as at 30 June 2022, accruing interest at the Bank of England base rate plus 4%.
- A subordinated loan subject to transitional arrangements from Discovery Limited to DGEL, with a balance of £24.5m at 30 June 2022, accruing interest at 3 month ZAR Johannesburg Interbank Agreed Rate plus 2%.
- A subordinated loan of £23.5m owed by DHEL to another Discovery company, issued on 30 June 2016, repayable on 1 July 2026 with the earliest breakpoint being 1 July 2021, and accruing interest at the Bank of England base rate plus 3.65%.
- A subordinated loan of £26.0m owed by DHEL to another Discovery company, issued on 31 October 2016, repayable on 1 November 2026 with the earliest breakpoint being 1 November 2021, and accruing interest at the Bank of England base rate plus 3.65%.
- A subordinated loan of £8.5m owed by DGEL to another Discovery company, issued on 31 December 2016, repayable on 1 January 2027 with the earliest breakpoint being 1 January 2022, and accruing interest at the Bank of England base rate plus 3.65%.
- A subordinated loan of £24.7m owed by DGEL to Discovery Limited, issued on 31 March 2017, repayable on 1 April 2027 with the earliest breakpoint being 1 April 2022, and accruing interest at the Bank of England base rate plus 6%.
- A subordinated loan of £6.0m owed by DGEL to Discovery Limited, issued on 31 October 2017, repayable on 1 November 2027 with the earliest breakpoint being 1 November 2022, and accruing interest at the Bank of England base rate plus 6%.

- A subordinated loan of £10.5m owed by DGEL to Discovery Limited, issued on 31 May 2018, repayable on 1 June 2028 with the earliest breakpoint being 1 June 2023, and accruing interest at the Bank of England base rate plus 6%.
- A subordinated loan of £9.0m owed by DGEL to Discovery Limited, issued on 20 August 2018, repayable on 21 August 2028 with the earliest breakpoint being 21 August 2023, and accruing interest at the Bank of England base rate plus 6%.
- A subordinated loan of £6.5m owed by DGEL to Discovery Limited, issued on 23 November 2018, repayable on 24 November 2028 with the earliest breakpoint being 24 November 2023, and accruing interest at the Bank of England base rate plus 6%.
- A subordinated loan of £2.8m owed by DGEL to Discovery Limited, issued on 28 February 2019, repayable on 1 March 2029 with the earliest breakpoint being 1 March 2024, and accruing interest at the Bank of England base rate plus 6.15%.
- A subordinated loan of £7.1m owed by DGEL to Discovery Limited, issued on 31 May 2019, repayable on 1 June 2029 with the earliest breakpoint being 1 June 2024, and accruing interest at the Bank of England base rate plus 6.15%.
- A subordinated loan of £6.5m owed by DGEL to Discovery Limited, issued on 31 July 2019, repayable on 1 August 2029 with the earliest breakpoint being 1 August 2024, and accruing interest at the Bank of England base rate plus 6.15%.

D.3.1.6 Derivatives

VLL derivatives

The derivative balance represents the fair value of five open derivative contracts at 30 June 2022.

All derivatives held are interest rate swaps held with third party counterparties. The notional value of the swaps at 30 June 2022 is £89.5m. VLL pays a weighted average (based on notional) fixed interest rate of 2.434% and receives a floating interest rate. The floating rate is linked to the 25 year UK GBP SONIA rate. The swap contracts run for an extended period of time (>10 years).

There are no valuation differences for derivatives between Solvency II and IFRS. Derivative contracts are valued at fair value based on observable market data. In the case of interest rate swaps this is market interest rates.

D.3.1.7 Debts owed to credit institutions

Debts owed to credit institutions is comprised of the following:

- DHEL 3 year debt facility with a UK Bank. The facility will be used for general business funding and will be drawn down in a number of tranches. The loan will be repaid or refinanced in or before 2023; and
- Amounts owing to credit institutions for collateral held in relation to derivative positions.

D.3.1.8 Any other liabilities, not shown elsewhere

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

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

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

D.4 ALTERNATIVE METHODS OF VALUATION

Stockport Property

An independent valuation of the property and land was performed as at 30 June 2022. Having reviewed the independent valuation, VHL has recognised the Stockport property at the same value in both SII and IFRS, as this closely approximates fair value.

Over the Counter Derivatives

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

Swaptions: the fair value has been derived using market data from secondary markets and information provided by the derivative's counterparty. The fair value of a swaption is derived using the 'Black model' with key assumptions being market interest rates and market volatility as at 30 June 2022.

Interest rate swaps: The fair value has been derived using market data from secondary markets and information provided by the swaps counterparty. The fair value of the swaps are derived using discounted cash flow models with the key assumption being market interest rates and gilt prices as at 30 June 2022.

Valuation uncertainty has been assessed as moderate for this asset class, as notwithstanding the underlying assets/ liabilities can be determined using quoted market observable data, the impact of unobservable data inputs can have a material impact on the valuation.

There are no valuation differences for derivatives between Solvency II and IFRS.

D.5 VALUATION FOR SOLVENCY PURPOSES – ANY OTHER INFORMATION

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

E CAPITAL MANAGEMENT

E.1 OWN FUNDS

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

The objective of own fund management is to hold sufficient capital to ensure the SCR ratio is within risk appetite. The Group's available own funds, eligible own funds and ratio of eligible own funds over SCR and MCR are disclosed in QRT S.23.01.22. The majority of surplus capital in the Group is held within the regulated insurance undertakings.

The available own funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Solvency II Regulation. The Group holds regular meetings of senior management, which occur at least quarterly, in which the ratio of eligible own funds over Group SCR and Group MCR are reviewed. The committees that review solvency are described in more detail in section B.1 General Information on the System of Governance, and responsibility ultimately rests with the Group's Boards. As part of own funds management, the Group prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The business plan contains a five year projection of funding requirements and this helps focus actions for future funding. The Group had previously implemented a hedging strategy in DHEL to mitigate the risk of future advances of principal on the loan with the Prudential Assurance Company arising from a reduction in interest rates. During the period the hedging strategy was restructured to eliminate this risk by implementing it on the PAC balance sheet instead of in DHEL.

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

E.1.2 Own funds classified by tiers

An analysis of own funds at 30 June 2022 and analysis of change from 30 June 2021 is shown below:

Year ended 30 June 2022	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m	£'m
Ordinary share capital	823.2	—	—	—	823.2
Subordinated debt available at group level	—	—	171.5	—	171.5
Reconciliation reserve	(576.2)	—	—	—	(576.2)
Net deferred tax assets available at group level	—	—	—	95.8	95.8
Total available own funds to meet Group SCR	247.0	—	171.5	95.8	514.3
Less: Restrictions on eligible own funds to meet Group SCR	—	—	—	(83.5)	(83.5)
Total eligible own funds to meet Group SCR	247.0	—	171.5	12.3	430.8
Less: Restrictions on eligible own funds to meet Group MCR	—	—	(150.8)	(12.3)	(163.1)
Total eligible own funds to meet Group MCR	247.0	—	20.7	—	267.7

Year ended 30 June 2021	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m	£'m
Ordinary share capital	809.2	—	—	—	809.2
Subordinated debt available at group level	—	—	122.1	—	122.1
Reconciliation reserve	(444.5)	—	—	—	(444.5)
Net deferred tax assets available at group level	—	—	—	55.0	55.0
Total available own funds to meet Group SCR	364.7	—	122.1	55.0	541.8
Less: Restrictions on eligible own funds to meet Group SCR	(0.1)	—	—	(10.7)	(10.8)
Total eligible own funds to meet Group SCR	364.6	—	122.1	44.3	531.0
Less: Restrictions on eligible own funds to meet Group MCR	—	—	(105.5)	(44.3)	(149.8)
Total eligible own funds to meet Group MCR	364.6	—	16.6	—	381.2

Analysis of Change	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m	£'m
Ordinary share capital issued	14.0	—	—	—	14.0
Subordinated debt issued, accrued interest and foreign exchange revaluation	—	—	49.4	—	49.4
Reconciliation reserve movement	(131.7)	—	—	—	(131.7)
Increase in deferred tax assets recognised	—	—	—	40.8	40.8
Total movement in available own funds to meet Group SCR	(117.7)	—	49.4	40.8	(27.5)
Less: movement in restrictions on eligible own funds to meet Group SCR	0.1	—	—	(72.8)	(72.7)
Total movement in eligible own funds to meet Group SCR	(117.6)	—	49.4	(32.0)	(100.2)
Less: movement in restriction on eligible own funds to meet Group MCR	—	—	(45.3)	32.0	(13.3)
Total movement in eligible own funds to meet Group MCR	(117.6)	—	4.1	—	(113.5)

E.1.2.1 Tier 1 unrestricted

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

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

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

Year ended 30 June	2022	2021	Change
	£'m	£'m	£'m
Solvency II excess of assets over liabilities	342.8	419.7	(76.9)
Less other basic own fund items	(919.0)	(864.2)	(54.8)
Reconciliation reserve	(576.2)	(444.5)	(131.7)

E.1.2.2 Tier 2

Subordinated debt

Total available tier 2 own funds consists of £171.5m in subordinated liabilities. £40.5m of this balance are basic own fund items subject to transitional arrangements (see section E.1.6). Details regarding the subordinated liabilities are documented in Valuation for Solvency Purposes section D.3.1.5. The fully subordinated loans are available and form a part of basic own funds.

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

E.1.2.3 Tier 3

Total available tier 3 own funds consist of £95.8m of net deferred tax assets. This is consistent with Articles 76 and 77 of the Solvency II Regulation. The deferred tax asset will be unwound over future periods dependent on future available profits. The deferred tax asset is deemed a basic own fund item. The amount equal to the value of net deferred tax assets is available, is subordinated to the extent that it ranks after the claims of all policyholders and beneficiaries and non-subordinated creditors, and has no restricted duration as it is based on carried forward losses that do not expire.

Of the total £95.9m deferred tax asset, only £95.8m is available at group level in accordance with Article 330 of the Delegated Regulation. The full deferred tax assets of VHL, VLL and VCSL are available at the group level, less £0.1m of the £0.1m VHIL deferred tax asset, is available at the group level.

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

	Total available own funds to meet the Group SCR	Restrictions on eligibility of own funds to meet the Group SCR	Total eligible own funds to meet the Group SCR
	£'m	£'m	£'m
Tier 1 unrestricted	247.0	—	247.0
Tier 1 restricted	—	—	—
Tier 2	171.5	—	171.5
Tier 3	95.8	(83.5)	12.3
Total	514.3	(83.5)	430.8

The available Tier 3 own funds to meet the Group SCR is reduced by £83.5m to £12.3m due to the quantitative limits applied to the value of tier 3 own funds of 15% of the Group SCR and the sum of tier 2 and tier 3 own funds of 50% of the Group SCR. This leaves total eligible own funds of £430.8m to meet the Group SCR.

The eligible own funds over Group SCR ratio was 117% as at 30 June 2022. The eligible own funds excluding deductions was 140% as at 30 June 2022.

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

	Total available own funds to meet the Group MCR	Restrictions on eligibility of own funds to meet the Group MCR	Total eligible own funds to meet the Group MCR
	£'m	£'m	£'m
Tier 1 unrestricted	247.0	—	247.0
Tier 1 restricted	—	—	—
Tier 2	171.5	(150.8)	20.7
Tier 3	—	—	—
Total	418.5	(150.8)	267.7

The available Tier 2 own funds to meet the Group MCR is reduced by £150.8m to £20.7m due to the limit applied to Tier 2 own funds of 20% of the Group MCR. This leaves total eligible own funds of £267.7m to meet the Group MCR.

The eligible own funds over Group MCR ratio was 258% as at 30 June 2022.

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

Total equity per the Group SOFP was £757.7m as at 30 June 2022. Excess assets over liabilities as calculated under Solvency II was £342.8m. There are no differences between ordinary share capital in the SOFP and the amount reported in basic own funds. The difference of £414.9m between the net assets of the Group in the SOFP and the solvency valuation of the excess of assets over liabilities is due to adjustments to the Statutory Accounts Value in order to value assets and liabilities at their solvency valuations and the subsequent impact on accumulated losses when performing these adjustments combined with the elimination of investment in subsidiaries upon consolidation. The adjustments are documented in section D covering valuation of material assets and liabilities per Article 296 of Delegated Regulation. The summary of adjustments to the Statutory Accounts Value to give the Solvency II value (S.02.01.02.C0010) are detailed below:

Year ended 30 June	2022	2021
	£'m	£'m
IFRS net asset value	757.7	792.1
Valuation adjustment in VLL technical provisions, net of reinsurance	(80.1)	(40.3)
Valuation adjustment in VHL technical provisions	68.7	46.4
Removal of VHL deferred acquisition costs	(49.0)	(41.9)
Removal of benefit of VHL financial reinsurance under IFRS	(198.5)	(156.0)
Removal of prepayments	(20.4)	(19.4)
Removal of goodwill	(123.7)	(123.7)
Removal of intangible assets	(50.9)	(55.6)
Revaluation of undertakings recognised under the adjusted equity method	(10.9)	(8.6)
Valuation adjustment for deferred tax assets	49.9	26.7
Total SII excess asset over liabilities	342.8	419.7

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

The two tier 2 subordinated loans totalling £40.5m described in section D.3.1.5 are subject to transitional arrangements.

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

E.1.7 Ancillary own funds

There are no ancillary own funds at 30 June 2022.

E.1.8 Items deducted from own funds

At June 2022 there were no deductions to Group own funds.

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

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

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

The table below shows the total Group SCR and Group MCR at 30 June 2022 (the amounts at 30 June 2021 are also shown for comparative purposes).

Year ended 30 June	2022	2021
	£'m	£'m
Consolidated Group SCR	367.6	332.8
Minimum Consolidated Group SCR	103.6	83.0

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

The Group SCR has increased primarily as a result of the increase in the underlying SCR for VLL. The movement of the swaps previously held by DHEL onto the PAC balance sheet and the increase in long-term interest rates provided an offsetting movement. The changed approach to 'look-through' the loan between DHEL and PAC increased the Group SCR by approximately 2% at 30 June 2022. The contributions from the remaining companies in the group remained immaterial.

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

E.2.2 Solvency Capital Requirement split by risk modules

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

Year ended 30 June	2022	2021
	£'m	£'m
Health underwriting	200.6	169.7
Life underwriting	260.9	207.4
Market risk	37.0	126.0
Counterparty default risk	11.6	12.7
Diversification credit	(126.2)	(151.9)
Basic SCR	383.9	341.8
Operational risk	26.6	24.1
Adjustment for loss absorbing capacity of deferred taxes	(42.9)	(55.2)
Group SCR	367.6	349.6

The increases in the capital requirements for health and life underwriting risk follow the increases in the underlying amounts in VLL and VHL and the recognition of underwriting risks through the loan arrangement between DHEL and PAC. The hedging strategies which have been moved from DHEL onto the PAC balance sheet are now considered as Solvency II risk mitigating techniques which protect against the interest rate risks on that book. This resulted in a commensurate reduction in the capital requirements in the market risk module because the strategies, while historically implemented on the DHEL balance sheet, were not previously considered to meet the relevant criteria. Counterparty default risk has reduced slightly generally reflecting lower overall cash exposure across the Group. Operational risk has increased slightly reflecting the growth in the requirements for both VLL and VHL that arise as both business increase in size. The change in the adjustment for loss absorbing capacity of deferred taxes ("LACDT") follows the decrease in the VLL LACDT, offset by a small increase in the VHL LACDT. VLL has completed an assessment to evidence that it can continue to recognise LACDT in the SCR at 30 June 2022, for more details on this see summary section 3 in the VLL SFCR.

E.2.3 Inputs used to calculate the Group MCR

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

Year ended 30 June	2022	2021
	£'m	£'m
Vitality Life Limited	74.3	56.3
Vitality Health Limited	29.3	26.7
Group MCR	103.6	83.0

E.2.4 Other information on group capital requirements

E.2.4.1 General information

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

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

E.2.4.2 Group diversification benefits

The table below shows the contribution of each undertaking to the Group SCR at 30 June 2022:

	Solo SCR or notional Solo SCR after impact of consolidation eliminations	Contribution to Consolidated Group SCR
	£'m	£'m
Vitality Life Limited	284.9	221.2
Vitality Health Limited	117.2	91.0
Vitality Health Insurance Limited	0.1	—
Vitality Corporate Services Limited	3.0	3.0
Discovery Holding Europe Limited	59.3	46.0
Discovery Group Europe Limited	8.2	6.4
Diversification between solo undertakings	(105.1)	n/a
Consolidated Group Solvency Capital Requirement	367.6	367.6

Diversification benefits primarily arise across the Group in the areas of underwriting risk. The underlying nature of the risks in VLL and those from the business written on the PAC licence (indirectly through the loan from DHEL to PAC) means that some diversification arises when consolidating this business to the Group level. Similarly while VLL and VHL both contribute materially to Health underwriting risk, it is recognised that the long-term and short-term risks are to some extent independent, leading to diversification benefits. There are also some smaller diversification benefits under market risk and under counterparty default risk that arise upon Group consolidation.

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

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

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

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

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

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

The Group has maintained eligible capital in excess of the Minimum Capital Requirement and Solvency Capital Requirement throughout the year ended 30 June 2022.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

There is no other information to note.

F TEMPLATES

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

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

G DIRECTORS' RESPONSIBILITIES STATEMENT

Discovery Group Europe Limited

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

Financial period ended 30 June 2022

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

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.



Richard Farber

Director

Date: 14 November

H EXTERNAL AUDIT REPORT

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

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

Opinion

We have audited the following documents prepared by the Company as at 30 June 2022:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 30 June 2022, (**the Narrative Disclosures subject to audit**); and
- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 (**the Templates subject to audit**).

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Group templates S.05.01.02;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of the Company as at 30 June 2022 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications.

Basis for opinion

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

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- Obtained management's going concern assessment and challenged the rationale for the material assumptions made in the 5-year business plan using our knowledge of the Company's business performance;
- Considered management's assessment of the regulatory Solvency coverage and liquidity position in management's future forecast;

- Formed an independent view of the Company's ability to continue as a going concern, including performing sensitivity analyses over management's key assumptions; and
- Considered information obtained during the course of the audit to identify any evidence that would contradict management's assessment of 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 Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to 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.

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Group Solvency and Financial Condition Report

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

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

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

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

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

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 Company/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 Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and unsuitable or prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the Group Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Group Solvency and Financial Condition Report such as PRA rulebook applicable to Solvency II firms. We evaluated management's incentives and opportunities for fraudulent manipulation of the Group Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to inappropriate journals entries to own funds, and management bias in accounting estimates and judgmental areas, for example, technical provisions and Solvency Capital Requirement. Audit procedures performed included:

- Discussions with the Board, 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 regulation and fraud;
- For the principal risks noted above, 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 in error, as fraud may involve deliberate concealment by, for example forgery or international misrepresentations, or through collusion;
- Reviewing correspondence between the Company and the PRA and FCA in relation to compliance with laws and regulations,
- Reviewing relevant Board meeting minutes including those of the Audit Committee, Board Committees, Risk Committee and the Actuarial Committee;
- Procedures relating to the significant assumptions made in the actuarial reserving methodology; and
- Review of internal audit reports, compliance reports and whistleblowing reports in so far as they related to non-compliance with laws and regulations and fraud.

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 Group Solvency and Financial Condition Report. 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.

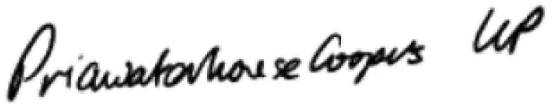
A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Report on Other Legal and Regulatory Requirements

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

Chartered Accountants

London

14 November 2022

Discovery Group Europe Limited

Solvency and Financial Condition Report

Disclosures

30 June

2022

(Monetary amounts in GBP thousands)

General information

Participating undertaking name	Discovery Group Europe Limited
Group identification code	213800W4KXJIK7R3CV51
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	30 June 2022
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

Solvency II value	
C0010	
	0
	95,879
	0
	19,563
	275,269
	0
	0
	0
	0
	30,788
	0
	30,788
	0
	0
	193,557
	10,788
	40,136
	0
	732,452
	755
	0
	0
	755
	-428,263
	9,374
	0
	9,374
	-437,637
	-122,060
	-315,578
	0
	0
	32,273
	0
	26,170
	0
	0
	59,737
	30,701
	844,535

Assets

R0030	Intangible assets
R0040	Deferred tax assets
R0050	Pension benefit surplus
R0060	Property, plant & equipment held for own use
R0070	Investments (other than assets held for index-linked and unit-linked contracts)
R0080	<i>Property (other than for own use)</i>
R0090	<i>Holdings in related undertakings, including participations</i>
R0100	<i>Equities</i>
R0110	<i>Equities - listed</i>
R0120	<i>Equities - unlisted</i>
R0130	<i>Bonds</i>
R0140	<i>Government Bonds</i>
R0150	<i>Corporate Bonds</i>
R0160	<i>Structured notes</i>
R0170	<i>Collateralised securities</i>
R0180	<i>Collective Investments Undertakings</i>
R0190	<i>Derivatives</i>
R0200	<i>Deposits other than cash equivalents</i>
R0210	<i>Other investments</i>
R0220	Assets held for index-linked and unit-linked contracts
R0230	Loans and mortgages
R0240	<i>Loans on policies</i>
R0250	<i>Loans and mortgages to individuals</i>
R0260	<i>Other loans and mortgages</i>
R0270	Reinsurance recoverables from:
R0280	<i>Non-life and health similar to non-life</i>
R0290	<i>Non-life excluding health</i>
R0300	<i>Health similar to non-life</i>
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>
R0320	<i>Health similar to life</i>
R0330	<i>Life excluding health and index-linked and unit-linked</i>
R0340	<i>Life index-linked and unit-linked</i>
R0350	Deposits to cedants
R0360	Insurance and intermediaries receivables
R0370	Reinsurance receivables
R0380	Receivables (trade, not insurance)
R0390	Own shares (held directly)
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in
R0410	Cash and cash equivalents
R0420	Any other assets, not elsewhere shown
R0500	Total assets

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	28,284
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	0
R0550	<i>Risk margin</i>	0
R0560	<i>Technical provisions - health (similar to non-life)</i>	28,284
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	21,278
R0590	<i>Risk margin</i>	7,006
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-786,309
R0610	<i>Technical provisions - health (similar to life)</i>	-328,699
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	-382,182
R0640	<i>Risk margin</i>	53,483
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	-457,610
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	-640,653
R0680	<i>Risk margin</i>	183,043
R0690	Technical provisions - index-linked and unit-linked	732,931
R0700	<i>TP calculated as a whole</i>	732,452
R0710	<i>Best Estimate</i>	-2,009
R0720	<i>Risk margin</i>	2,488
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	51,632
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	3,889
R0800	Debts owed to credit institutions	100,179
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	9,958
R0830	Reinsurance payables	28,232
R0840	Payables (trade, not insurance)	157,490
R0850	Subordinated liabilities	171,475
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	171,475
R0880	Any other liabilities, not elsewhere shown	3,942
R0900	Total liabilities	501,703
R1000	Excess of assets over liabilities	342,832

Premiums, claims and expenses by line of business

[illegible]

Premiums, claims and expenses by line of business

[illegible]

Own Funds

- Ordinary share capital (gross of own shares)
 - Non-available called but not paid in ordinary share capital at group level*
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
 - Non-available subordinated mutual member accounts at group level*
- Surplus funds
 - Non-available surplus funds at group level*
- Preference shares
 - Non-available preference shares at group level*
- Share premium account related to preference shares
 - Non-available share premium account related to preference shares at group level*
- Reconciliation reserve
- Subordinated liabilities
 - Non-available subordinated liabilities at group level*
- An amount equal to the value of net deferred tax assets
 - The amount equal to the value of net deferred tax assets not available at the group level*
- Other items approved by supervisory authority as basic own funds not specified above
 - Non available own funds related to other own funds items approved by supervisory authority*
- Minority interests (if not reported as part of a specific own fund item)
 - Non-available minority interests at group level*

R0230 Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities

R0250 Deductions for participations where there is non-availability of information (Article 229)

R0260 Deduction for participations included by using D&A when a combination of methods is used

R0270 Total of non-available own fund items

R0280 Total deductions

Ancillary own funds

R0300 Unpaid and uncalled ordinary share capital callable on demand

R0310 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

R0320 Unpaid and uncalled preference shares callable on demand

R0330 A legally binding commitment to subscribe and pay for subordinated liabilities on demand

R0340 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

R0350 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

R0360 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

R0370 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

R0380 Non available ancillary own funds at group level

R0390 Other ancillary own funds

R0400 Total ancillary own funds

R0410 Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies

R0420 Institutions for occupational retirement provision

R0430 Non regulated entities carrying out financial activities

R0440 Total own funds of other financial sectors

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
823,171	823,171		0	
0				
0	0		0	
0	0		0	
0		0	0	0
0				
0	0			
0	0			
0		0	0	0
0				
0		0	0	0
0				
-576,218	-576,218			
171,475		0	171,475	0
0				
95,879				95,879
48				48
0	0	0	0	0
0				
0				
0				
0				
0				
0				
0				
48	0	0	0	48
48	0	0	0	48
514,259	246,953	0	171,475	95,830
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0
0				
0				
0				
0	0	0	0	0

5.23.01.22

Own Funds

Basic own funds before deduction for participations in other financial sector

Own funds when using the D&A, exclusively or in combination of method 1

R0450 Own funds aggregated when using the D&A and combination of method

R0460 Own funds aggregated when using the D&A and combination of method net of IGT

R0520 Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

R0530 Total available own funds to meet the minimum consolidated group SCR

R0560 Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

R0570 Total eligible own funds to meet the minimum consolidated group SCR (group)

R0610 Minimum consolidated Group SCR

R0650 Ratio of Eligible own funds to Minimum Consolidated Group SCR

R0660 Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)

R0680 Group SCR

R0690 Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A

Reconciliation reserve

R0700 Excess of assets over liabilities

R0710 Own shares (held directly and indirectly)

R0720 Forseeable dividends, distributions and charges

R0730 Other basic own fund items

R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

R0750 Other non available own funds

R0760 Reconciliation reserve

Expected profits

R0770 Expected profits included in future premiums (EPIFP) - Life business

R0780 Expected profits included in future premiums (EPIFP) - Non- life business

R0790 Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0				
0				
514,259	246,953	0	171,475	95,830
418,428	246,953	0	171,475	
430,755	246,953	0	171,475	12,327
267,665	246,953	0	20,712	
103,558				
258.47%				
430,755	246,953	0	171,475	12,327
367,603				
117.18%				
C0060				
342,832				
919,050				
0				
-576,218				
901,573				
67,107				
968,680				

Solvency Capital Requirement - for groups on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	37,018		
R0020 Counterparty default risk	11,562		
R0030 Life underwriting risk	260,910		
R0040 Health underwriting risk	200,568		
R0050 Non-life underwriting risk	0		
R0060 Diversification	-126,138		
		USP Key	
R0070 Intangible asset risk	0	For life underwriting risk:	
		1 - Increase in the amount of annuity benefits	
R0100 Basic Solvency Capital Requirement	383,919	9 - None	
		For health underwriting risk:	
Calculation of Solvency Capital Requirement	C0100	1 - Increase in the amount of annuity benefits	
R0130 Operational risk	26,626	2 - Standard deviation for NSLT health premium risk	
R0140 Loss-absorbing capacity of technical provisions	0	3 - Standard deviation for NSLT health gross premium risk	
R0150 Loss-absorbing capacity of deferred taxes	-42,942	4 - Adjustment factor for non-proportional reinsurance	
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0	5 - Standard deviation for NSLT health reserve risk	
R0200 Solvency Capital Requirement excluding capital add-on	367,603	9 - None	
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement for undertakings under consolidated method	367,603		
		For non-life underwriting risk:	
Other information on SCR		4 - Adjustment factor for non-proportional reinsurance	
R0400 Capital requirement for duration-based equity risk sub-module	0	6 - Standard deviation for non-life premium risk	
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0	7 - Standard deviation for non-life gross premium risk	
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0	8 - Standard deviation for non-life reserve risk	
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0	9 - None	
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
R0470 Minimum consolidated group solvency capital requirement	103,558		
Information on other entities			
R0500 Capital requirement for other financial sectors (Non-insurance capital requirements)	0		
R0510 Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	0		
R0520 Institutions for occupational retirement provisions	0		
R0530 Capital requirement for non-regulated entities carrying out financial activities	0		
R0540 Capital requirement for non-controlled participation requirements	0		
R0550 Capital requirement for residual undertakings	0		
Overall SCR			
R0560 SCR for undertakings included via D&A	0		
R0570 Solvency capital requirement	367,603		

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Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	213800W4KXJIK7R3CV51	LEI	Discovery Group Europe Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
2	GB	213800JCOXJR5TW95I90	LEI	Discovery Offshore Holdings No. 2 Limited	Other	Company limited by shares	Non-mutual	
3	GB	213800BCIBD7CX78T645	LEI	Discovery Holdings Europe Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
4	GB	2138006JOU6QC6H15U14	LEI	Vitality Corporate Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	Financial Conduct Authority
5	GB	213800Y6CME1PFQA9J19	LEI	Better Health Insurance Advice Limited	Other	Company limited by shares	Non-mutual	
6	GB	213800IPBG84QH78CW58	LEI	Vitality Health Insurance Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
7	GB	213800D5I9HUP34WJ971	LEI	Vitality Health Limited	Non life insurance undertaking	Company limited by shares	Non-mutual	Financial Conduct Authority, Prudential Regulation Authority
8	GB	213800O647LRO31RG918	LEI	Vitality Life Limited	Life insurance undertaking	Company limited by shares	Non-mutual	Financial Conduct Authority, Prudential Regulation Authority
9	GB	213800W4KXJIK7R3CV51UK00001	Specific code	Healthcode Limited	Other	Company limited by shares	Non-mutual	
10	GB	213800W4KXJIK7R3CV51UK00002	Specific code	Healthcare Purchasing Alliance Limited	Other	Company limited by shares	Non-mutual	
11	GB	213800W4KXJIK7R3CV51UK00003	Specific code	Vitality Healthy Workplace Limited	Other	Company limited by shares	Non-mutual	
12	GB	213800W4KXJIK7R3CV51UK00004	Specific code	Vitality Invest Trustee Company Limited	Other	Company limited by shares	Non-mutual	

Undertakings in the scope of the group

				Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation	
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking	
Row	C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	Z13800W4KXJIK7R3CV51	LEI	Discovery Group Europe Limited							Included in the scope		Method 1: Full consolidation
2	GB	Z13800JCOXJR5TW95I90	LEI	Discovery Offshore Holdings No. 2 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
3	GB	Z13800BCIBD7CX78T645	LEI	Discovery Holdings Europe Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	Z138006JOU6QC6H1SU14	LEI	Vitality Corporate Services Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
5	GB	Z13800Y6CME1PFQA9J19	LEI	Better Health Insurance Advice Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
6	GB	Z13800IPGB4QH78CW58	LEI	Vitality Health Insurance Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
7	GB	Z13800D5I9HUP34WJ971	LEI	Vitality Health Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
8	GB	Z13800O647LRO31RG918	LEI	Vitality Life Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
9	GB	Z13800W4KXJIK7R3CV51UK00001	Specific code	Healthcode Limited	20.00%	20.00%	20.00%		Significant	20.00%	Included in the scope		Method 1: Adjusted equity method
10	GB	Z13800W4KXJIK7R3CV51UK00002	Specific code	Healthcare Purchasing Alliance Limited	50.00%	50.00%	50.00%		Significant	50.00%	Included in the scope		Method 1: Adjusted equity method
11	GB	Z13800W4KXJIK7R3CV51UK00003	Specific code	Vitality Healthy Workplace Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
12	GB	Z13800W4KXJIK7R3CV51UK00004	Specific code	Vitality Invest Trustee Company Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method