Vitality
HEALTH INSURANCE

SOLVENCY AND FINANCIAL CONDITION REPORT

VITALITY HEALTH LIMITED FOR THE YEAR ENDED 30 JUNE 2019

POSITIVELY DIFFERENT HEALTH INSURANCE

CONTENTS

SUMMARY

1 BUSINESS AND PERFORMANCE SUMMARY

Company overview

Vitality Health Limited (“VHL”, “VitalityHealth”, “the Company”) is the UK’s fourth largest private medical insurer. VHL is part of the Discovery Group, a global provider of insurance and financial services solutions, with operations in 21 countries and with over 18 million insured members worldwide. In its most recent financial year, the Discovery Group generated annualised new business premium income of £1.1bn.

VHL takes a unique approach to insurance, utilising a pioneering business model that incentivises people to be healthier, and that enhances and protects their lives. By incentivising members to be healthier, the business model directly addresses one of society’s greatest challenges, being the rise of lifestyle-induced non-communicable disease. As a result of addressing a societal challenge through a business model, Discovery Group has been recognised by Professor Michael Porter and Professor Mark Kramer, both from Harvard Business School, as a leading example of a business creating shared value for itself and society, and as an exemplar of their shared value concept in the insurance sector. Distinct from the traditional insurance approach, VHL 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 loss ratio, and better retention rates. This allows VHL 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, VHL benefits from reduced claims from a healthier member base; Vitality members benefit from lower premiums, improved health, and access to a wide range of partners and rewards; while society benefits from a reduced healthcare burden on the state, as well as a more healthy and productive population.

The VHL 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 centers 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 Apple, Amazon, British Airways, Disney, Ocado, Starbucks and Virgin Active.

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

The 2018-19 financial year saw the introduction of a number of exciting new partnerships and benefits to the Vitality programme. A new partnership was announced with Amazon Prime, allowing members to access an Amazon Prime subscription with payments waived each time members reach a certain number of physical activity points. The Amazon Prime benefit forms an extension to Vitality's existing Active Rewards offering. Furthermore, VitalityHealth announced a new product for the small and medium size enterprise ("SME") market – Vitality Essentials. This new product is offered at no additional charge to the employees of Vitality's SME clients who do not have PMI, subject to eligibility. It provides primary care services through Vitality GP, and a selection of benefits including a 40% discount at Vitality's gym network, discounts of up to 40% on wearable devices, and a 25% discount on sports shoes at Runner's Need. Member engagement across all pillars of the programme continues to increase, driving unprecedented levels of additional value. To-date, Vitality members have earned over 11 million Starbucks drinks, 8 million cinema tickets, and over 110,000 discounted Apple Watches through the programme. Recently introduced products have seen positive traction, for example Vitality Healthy Mind – introduced in August 2018 – with over 30,000 members engaging in mindfulness activities through the benefit, and logging over half a million sessions in the first year of the benefit's availability.

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 elite teams but also with mass participation events, such as headline sponsorship of Parkrun and various half marathon and 10k events. In addition, a specific focus has been applied to women in sport, such as through sponsorship of England Hockey and England Netball. From an intellectual leadership perspective, Vitality has partnered with University of Cambridge, Rand Europe and The Financial Times to deliver Britain's Healthiest Workplace, a study on the drivers and impacts of ill-health on the UK workforce. Since inception in 2013, over 430 unique organisations and over 158,000 distinct individuals have taken part, making this one of the largest and most comprehensive studies of workplace health in the UK.

Business overview

VHL is a United Kingdom regulated entity authorised to carry out short term health insurance business. The ultimate parent company, Discovery Limited ("Discovery"), is an established and successful international insurance group and has a market value of over £5bn, which is equivalent to a FTSE 100 company. Its UK presence, Vitality Health Limited, was formed in 2004 as 'PruHealth', a joint venture with The Prudential Assurance Company ("Prudential"). In November 2014 Discovery acquired the shares held by Prudential and now owns 100% of Vitality Health Limited.

The Company produces its financial statements in accordance with International Financial Reporting Standards ("IFRS"). On an IFRS basis the Company produced a pre-tax profit of £36.4m (June 2018: £25.5m). VHL has observed significant profitability growth over the period driven by investments into a number of successful initiatives started in prior financial years which continued over the year. These initiatives have resulted in record earned premium growth and have put VHL in a good position to capitalise on future opportunities in the UK health insurance market.

The Company 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. During the year, the Company increased exposure towards bonds and in December 2018 the Company purchased an office building and related land in Stockport. This property is approximately 70% occupied by staff for the benefit of the Company with the remainder occupied by third party tenants.

Product overview

VHL's unique product model places equal emphasis on encouraging Better Health and offering Better Care. Vitality's comprehensive core cover gives members peace of mind that if they ever need it, they'll enjoy fast access to high quality in-patient and out-patient diagnosis and treatment. As well as protecting members when they need medical assistance, Vitality helps members lead a healthier life through an integrated engagement and reward programme. Details on Vitality's key product benefits are provided below.

FAST ADMISSION

The flexibility and freedom to fix appointments and treatment dates – making it easier to fit in to a busy work schedule.

PROMPT REFERRAL

Quicker access to leading consultants should you need further treatment.

ACCESS TO DRUGS

Many health insurers provide access to drugs that aren't available to NHS patients due to the high costs.

PRIVATE HOSPITAL

A more relaxed, quieter and private environment to be treated, including single occupancy rooms and en-suites.

GP HELPLINE

Quicker access to primary care services.

SECOND OPINION

An easy and convenient escalation process to change consultants if you are not happy.

REWARDS: Remove the financial barrier to participating in healthy activities.

PERSONAL HEALTHCARE FROM VITALITYHEALTH

INTEGRATED PRIMARY CARE

Vitality GP offers you virtual GP consultations within 48 hours , with benefits such as written prescriptions, self-referral into physiotherapy, Talking Therapy services and a skin analytics service.

MARKET-LEADING COVER OPTIONS

As well as all of the benefits of Core Cover such as Advanced Cancer Cover, we offer a rich range of cover options. This includes access to the most holistic mental health offering in the market and comprehensive out-patient and diagnostic cover.

FULL COVER PROMISE

We'll pay all consultants' and anaesthetists' fees in full as long as your consultant is recognised by us and the condition and treatment is covered on your plan.

FAIR AND TRANSPARENT RENEWAL PRICING

We use your Age, Base rate increase, Claims history and engagement with the Vitality Programme to calculate your renewal premium. As well as providing lower increases for claimers than the market, you can also reduce any increase by engaging with the Vitality Programme.

THE VITALITY PROGRAMME

The Vitality Programme is a unique behavioural incentives programme designed to make you healthier. In doing so, you can access a range of discounts and rewards – worth £76m to our members during 2018.

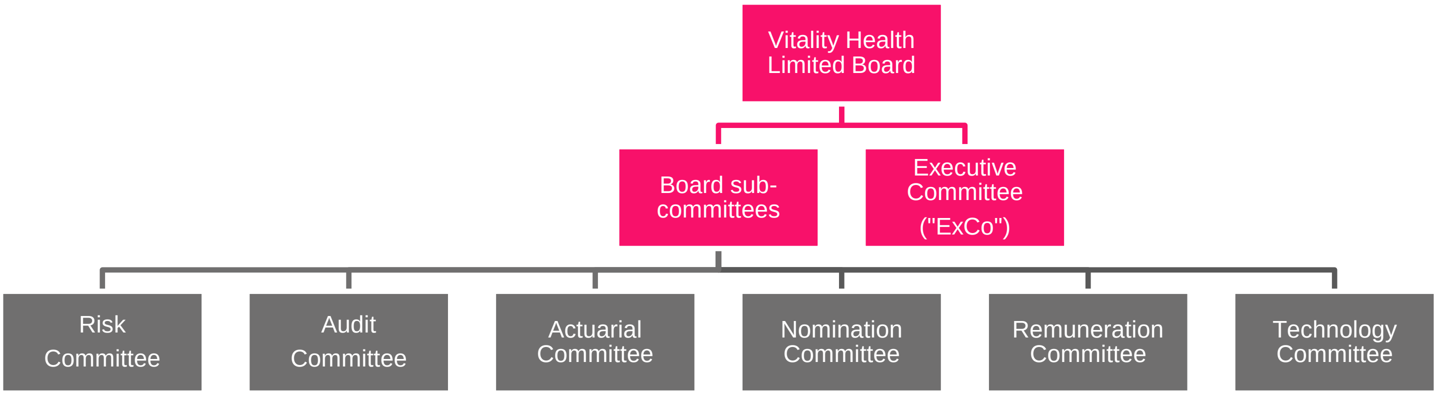
2 SYSTEM OF GOVERNANCE SUMMARY

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

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

Overview of the Board and sub-committees



The Board and sub-committee functions operate across all Vitality entities in the United Kingdom.

The Company ensures that all persons, who effectively run the Company or have other key functions / roles, are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity. A wide range of personal and professional checks are carried out on individuals employed by the Company, both at inception of their employment and on an annual basis where appropriate.

The governance structure of the Company has not changed materially in the year to 30 June 2019. Changes in the directors of the business are outlined in Section B.1.2. Ultimate responsibility for the performance and strategy of the Company resides with the Board and they delegate authority within the organisation as they see fit.

The Company employs a 'three lines of defence' governance model that aims to ensure that risk management is effective, appropriate decisions are made and best practice is implemented and maintained.

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 execution of risk management and 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 of 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.

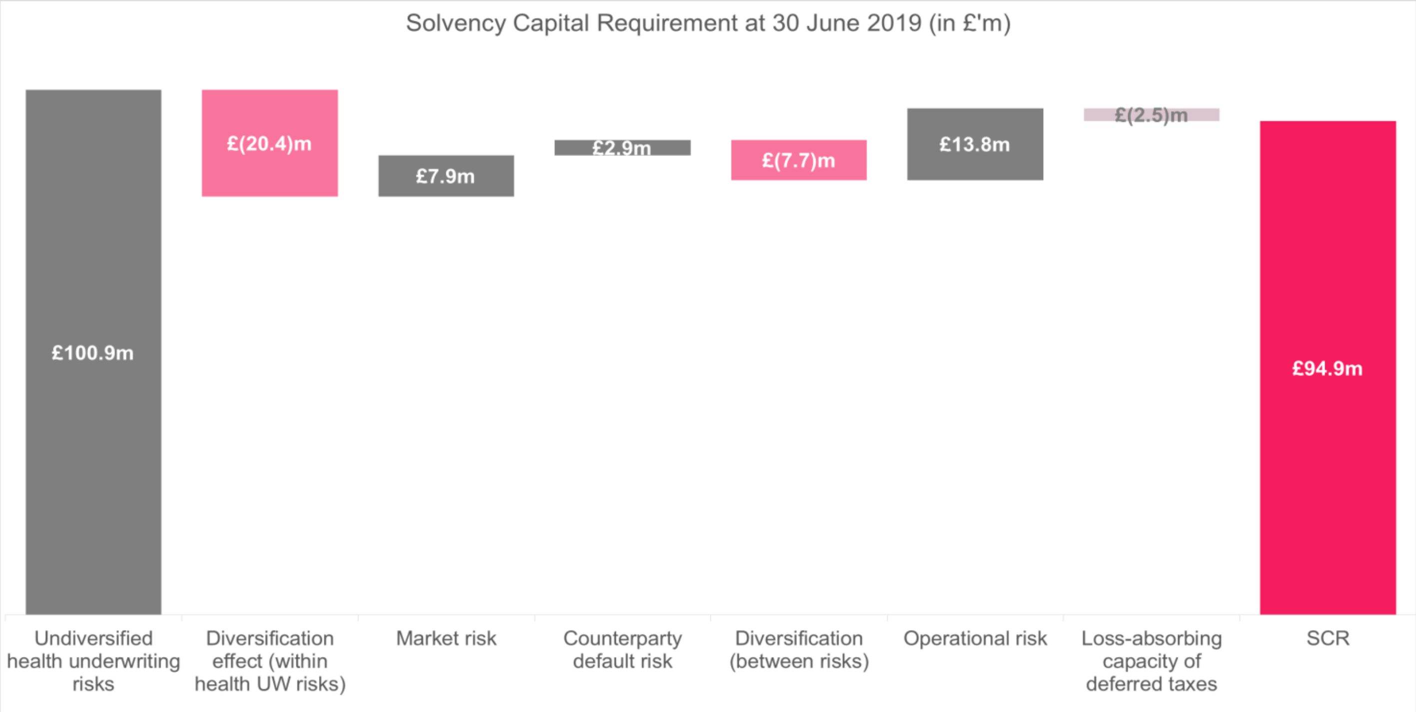
The 3rd line of defence – assurance

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 amongst other things include the adequacy of first and second line functions as defined above.

3 RISK PROFILE SUMMARY

The Company's principal activity is the provision and administration of private medical insurance ("PMI"), supported by the Vitality rewards programme. The Company's product covers a range of benefit choices and is available in the individual market, SME market and the large corporate market.

The Solvency Capital Requirement ("SCR") for the Company at 30 June 2019 is £94.9m. The following chart shows the relative composition of the standard formula risk capital components:



The risk profile of the Company has not changed materially over the year. Health underwriting risk remains the biggest risk followed by operational risk. The detailed description of each risk is found in Section C.

Though the Company does not have significant exposure to market risk, it has increased compared to prior year. This is attributable to the increased exposure to high grade diversified corporate bonds as well as purchasing the Stockport property.

The key movements in the SCR over the year has been driven by:

- The increase in underwriting and operational risk due to the growth in the business's premium volume and in-force profitability;
- An increase in market risk due to the further investment in bonds and the purchase of the Stockport property;
- An allowance for the loss-absorbing capacity of deferred taxes which reduces the capital requirement; and
- Consequently, less concentration in health underwriting risk results in the standard formula defined correlations providing a higher diversification benefit when compared to the prior year.

The Company carries out stress and scenario testing, including reverse stress testing, as part of its own risk and solvency assessment ("ORSA") process which includes stress testing for material risks. This allows VHL to assess the resilience of the entity to continue operating efficiently under extreme trading conditions and is used to identify potential risks and impacts. In particular:

- It would take a very unlikely adverse variance on the benefit ratio to breach the SCR; therefore the Company's underwriting risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite;
- It would take a very rare adverse variance on market risk or credit risk to breach the SCR; therefore the Company's investment risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite. This is consistent with the low risk investment strategy;
- It would take a very unlikely combined adverse variance on the benefit ratio, expenses, lapse rates and a very unlikely operational risk event to breach the SCR; therefore the Company's liquidity risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite.

4 SUMMARY OF VALUATION FOR SOLVENCY PURPOSES

Solvency II ("SII") requires a market consistent approach in the valuation of assets and liabilities. This basis creates a number of differences when compared with the financial statements prepared under IFRS. The valuation differences are summarised below:

- The benefit in technical provisions as SII allows the capitalisation of future profits on in-force business up until the contract boundary (i.e. renewal date). Under IFRS, this is set at a nil value;
- The removal of the deferred acquisition cost asset under IFRS which are valued at nil under SII;
- The removal of financial reinsurance assets under IFRS which are valued at nil under SII;
- The removal of other minor IFRS assets (mainly pre-paid expenses) valued at nil under SII; and
- The additional deferred tax asset ("DTA") recognised under SII as a result of higher future profits being available under SII to support the DTA.

The table below summaries each of the valuation differences:

Year ended 30 June	2019	2018
	£'m	£'m
IFRS net asset value	**264.2**	**228.4**
Add - Move to SII technical provisions	48.0	44.8
Remove - Financial reinsurance assets under IFRS	(154.2)	(126.3)
Remove - Deferred acquisition costs under IFRS	(39.5)	(36.3)
Remove - Other IFRS valuation differences	(0.4)	(0.4)
Add - SII DTA adjustment	1.7	0.0
Total SII excess asset over liabilities	**119.8**	**110.2**

5 CAPITAL MANAGEMENT SUMMARY

The objective of own funds management is to hold sufficient capital to ensure the SCR ratio is within VHL's risk appetite. The table below summarises the SCR ratio movement over the past year. VHL calculates its SCR using the standard formula. The difference between eligible own funds and excess assets over liabilities is due to addition of subordinated liabilities and adjustments for tiering restrictions. The relationship between eligible own fund and excess asset over liabilities is detailed in Section E.1.2.

Year ended 30 June	2019	2018
	£'m	£'m
Eligible own funds to meet the SCR	**131.6**	**123.8**
Tier 1	98.6	92.6
Tier 2	18.8	18.2
Tier 3	14.2	13.0
Solvency Capital Requirement	**94.9**	**87.0**
SCR coverage ratio	**138.6%**	**142.4%**

The table below summarises the Minimum Capital Requirement ("MCR") ratio movement over the past year.

Year ended 30 June	2019	2018
	£'m	£'m
Eligible Own Funds to meet the MCR	**103.3**	**97.0**
Tier 1	98.6	92.7
Tier 2	4.7	4.3
Tier 3	0.0	0.0
Minimum Capital Requirement	**23.7**	**21.7**
MCR coverage ratio	**435.4%**	**445.9%**

The SCR coverage ratio reduced by 3.8% compared to the prior year as a result of a lower growth in eligible own funds (6.3%) compared to the SCR growth (9.1%).

The growth in the eligible own funds was driven by the SII profits in the year and higher profits recognised in the premium technical provisions (reflecting the increased margins and in-force size of the business).

The SCR required under SII has increased in line with the growth of the business's revenue and future profitability (recognised in the technical provisions) as detailed in Section 3. Given the business's growth aspirations, the SCR is expected to grow each year proportionally to its revenue. In addition, the Company is now able to recognise the loss-absorbing capacity of deferred taxes due to tax payments to HMRC which would be recoverable in the coming 12 months in the event of a significant stress scenario; this reduces the SCR by £2.5m at 30 June 2019.

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

A BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Name and legal form of the undertaking

The Company 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 covers Vitality Health Limited on a solo basis.

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

The Company is an undertaking of:

- Discovery Group Europe Limited, the ultimate insurance holding company which has its head office in an European Economic Area ("EEA") State, the United Kingdom; and
- Discovery Limited, the ultimate insurance holding company, has its head office in the Republic of South Africa, which is not an EEA state.

Under Solvency II, the group supervisor of Discovery Limited is the Prudential Regulation Authority ("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 Company can apply to the PRA to use another method. The Company has a waiver in place, effective 1 January 2019, from the PRA modifying the PRA Rulebook on Group Supervision to use another method.

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

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

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 the Company 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 the Company, who were direct and indirect holders of qualifying holdings in the Company at any time during the reporting period and at the end of the financial year were (see Figure 1 in Section A.1.5):

- Vitality Health Insurance Limited ("VHIL") - a limited company incorporated in the United Kingdom. As at the reporting date, Vitality Health Insurance Limited owned 100% of the shares of the Company and was able to exercise 100% of the voting power at any general meeting;
- Discovery Holdings Europe Limited ("DHEL") - a limited company incorporated in the United Kingdom. As at the reporting date, Discovery Holdings Europe Limited owned 100% of the shares of Vitality Health Insurance Limited;
- Discovery Group Europe Limited ("DGEL") - a limited company incorporated in the United Kingdom. As at the reporting date, Discovery Group Europe Limited owned 100% of the shares of Discovery Holdings Europe Limited; and
- 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

The Company is an EEA insurance subsidiary undertaking of Discovery Limited, the ultimate world-wide parent undertaking and Discovery Group Europe Limited, the ultimate EEA parent undertaking. The participating undertaking of the Company is Vitality Health Insurance Limited. A list of related undertakings within the Discovery Group Europe Limited group are shown below.

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

Vitality Life Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Corporate Services Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Health Insurance Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Healthcode Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	20%	20%
Vitality Health Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	100%	100%
Healthcare Purchasing Alliance Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	50%	50%
Vitality Healthy Workplace Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	100%	100%

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

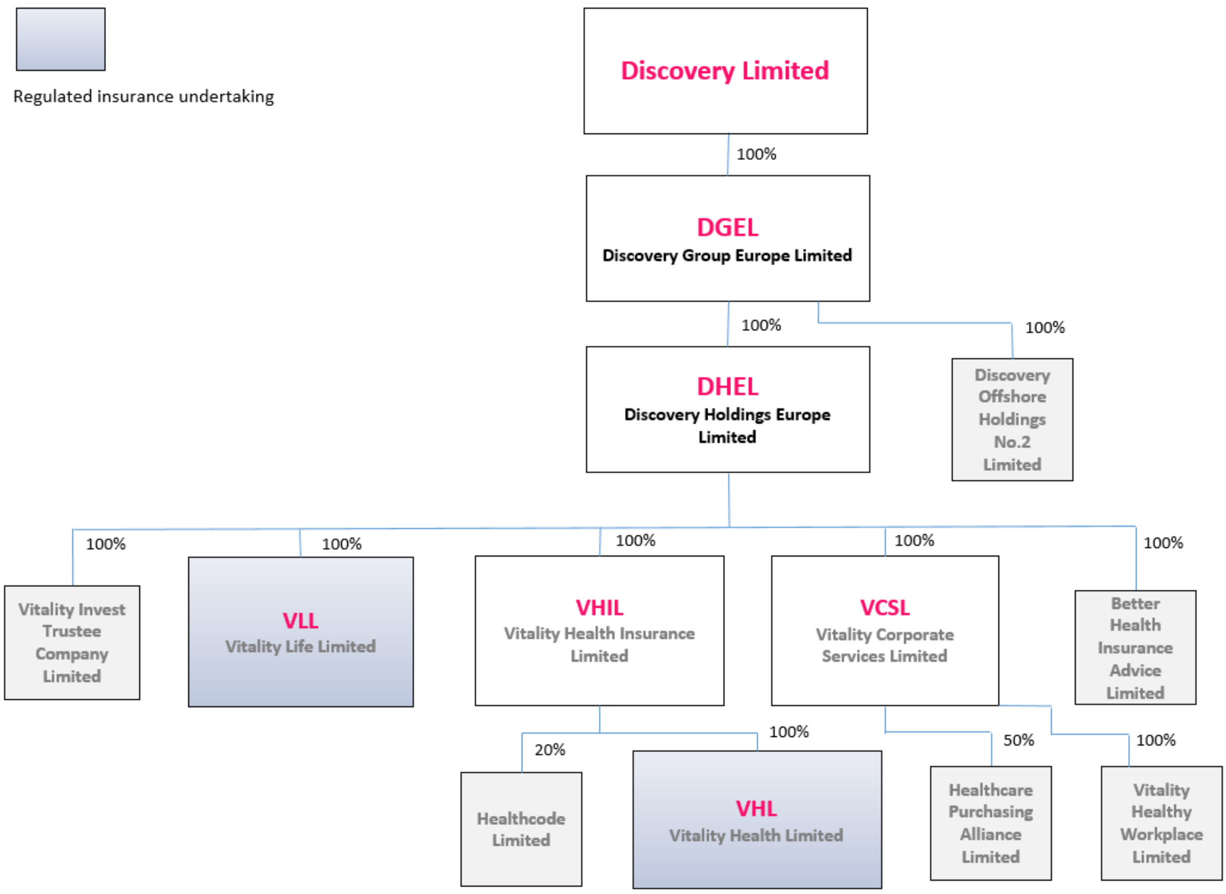


Figure 1

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

DGEL is the topmost European entity 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 two regulated insurance entities (VHL and VLL). It also owns a holding company (Vitality Health Insurance Limited ("VHIL")), 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").

DHEL itself is not a regulated insurance entity, and thus has no capital requirement. VCSL and BHIA similarly have no solvency capital requirements, although as VCSL is an intermediary it is required to hold a small amount of net assets. VHIL was de-regulated as an insurance entity on 15 May 2019 and hence also has no solvency capital requirements.

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

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

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

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

The Company only has one line of business, that is medical expense insurance, and all business is transacted 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

Reinsurance based financing obtained to offset the total strain of writing new business and repaid in future periods through ceded premiums and claims under a quota share treaty continues to be an important part of the Company's strategy. The Company has one cash treaty and nine cashless treaties in place as at 30 June 2019. The amount of new cashless financing received in the year to 30 June 2019 was £44.4m (June 2018: £35.7m). The deficit balance on the only cash treaty was paid in full during the year but the treaty will continue to cede premiums and recover claims until December 2021.

There were no other significant business events which have had a material impact on the Company. External events such as the uncertainty within the UK economy driven by Brexit continue to have unclear impacts on the PMI market and the behaviours of our customers.

A.2 UNDERWRITING PERFORMANCE

The table below shows the Company's IFRS premiums, claims and expenses for the period ended 30 June 2019. An analysis by Solvency II lines of business is found in the quarterly reporting template S.05.01 in Section G. For Solvency II purposes, all of VHL's business is defined as "medical expenses insurance".

Year ended 30 June	2019	2018	Change
	£'m	£'m	£'m
Gross earned premium	**460.1**	**431.1**	**29.0**
Reinsurance share of premium	(76.1)	(67.2)	(8.9)
Gross claims incurred	(253.6)	(228.9)	(24.7)
Reinsurance share of claims	59.1	54.5	4.6
Expenses	(155.6)	(163.3)	7.7
IFRS underwriting result	**33.9**	**26.2**	**7.7**
Investment and other Income	3.4	0.4	3.0
Subordinated loan interest	(0.9)	(1.1)	0.2
IFRS profit before tax	**36.4**	**25.5**	**10.9**

The Company's underwriting performance experienced significant growth over the financial year where its IFRS profit before tax increased by £10.9m. The profitability improvement was driven by the increase in earned premium due to the increase in new business, combined with the reduction in expenses incurred in the year as well as the increase in investment income.

The Company has maintained its strong underwriting performance compared to last year, whilst seeing significant growth in both earned premiums (6.7%) and insured lives (12.4%) alongside improvements in the overall expenses incurred. In 2018 the Company saw higher project spend which has subsequently reduced in 2019.

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

A.3 INVESTMENT PERFORMANCE

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

The Company's investments fall into the following categories as at the 30 June 2019:

1. **Collective investment undertakings** (£64.0m, 30 June 2018: £109.1m)

The Company has decreased investment in short-term money market funds and has moved towards longer term assets over the year. This is a result of a change in investment strategy approved by the Board. In the year ended 30 June 2019 the Company received investment income of £0.4m over the period (£0.3m in prior year). No material expenses were incurred in respect of these assets.

2. **Cash and cash equivalent** (£20.8m, 30 June 2018: £15.1m) **and Short term deposits** (£10.3m, 30 June 2018: £10.3m)

Cash, cash equivalent and short term deposits relates to amounts held in UK bank accounts (Barclays and HSBC) generated interest income of £0.1m over the period (£0.1m in prior year). No material expenses were incurred in respect of these assets.

3. **Bonds** (£61.0m, 30 June 2018: £24.4m)

The Company is invested in funds with exposure to a range of government and corporate bonds. All bonds issues are Sterling denominated and have an average duration of 4 years. During the year, the Company increased exposure towards investment grade bond portfolios. Investment return of £2.4m was achieved and £0.2m of investment management expenses were incurred in the year (net investment loss of £0.1m in prior year). The downward shift in the UK yield curve has led to a high amount of unrealised gains. The Company's investment strategy has changed compared to the prior year where the majority of assets were short term in nature. VitalityHealth's assets and liabilities are well matched at June 2019 as there are more short term assets than short term liabilities.

A.3.2 Information about any gains and losses recognised directly in equity

Not applicable – all gains and losses are recognised in the Statement of Comprehensive Income.

A.3.3 Information about any investments in securitisation

The Company did not invest directly in securitised investments during the year ended 30 June 2019.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

Financing reinsurance is an important part of the Company'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 £27.7m compared to £21.8m in the prior year.

The Company purchased an office building and the land that the building is situated on in Stockport in December 2018 as an investment approved by the Board. All staff of the Company are employed by VCSL and the building is approximately 70% occupied by VCSL staff for the benefit of the Company with the remainder occupied by third party tenants. The property yielded rental income of £0.5m during the year and £0.1m was incurred in depreciation expense in respect of the portion of the asset that relates to the building.

Interest of £0.9m (compared to prior year of £1.0m) was paid on subordinated loans on the Company's balance during the year.

A.4.2 Leases

A.4.2.1 Financial leases

The Company is not party to any financial leases.

A.4.2.2 Operating leases

The Company is not party to any operating leases.

A.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION

No other information.

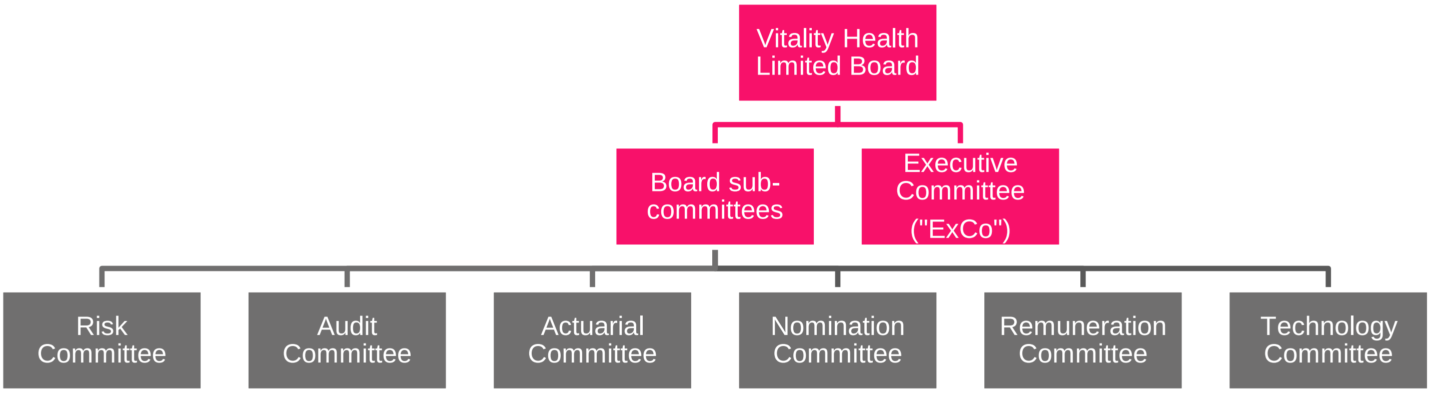
B SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

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

The core purpose of the Company is to make people healthier and to enhance and protect their lives. The Company has a unique entrepreneurial spirit with a strong emphasis on innovation. The Board has the responsibility to preserve these special attributes, while at the same time ensuring that the principles of sound uncompromising good governance are observed.

Overview of the Board and sub-committees



The Board and sub-committee functions operate across all Vitality entities in the United Kingdom.

The Board

The Board is ultimately responsible for the performance and strategy of the Company. By selectively delegating authority and certain functions to various committees, the Board does not absolve themselves of their own responsibility for the Company.

It is the Board's responsibility to:

- Ensure that the Company operates within an established framework of an effective system of internal control, risk management and compliance;
- Ensure that the solvency capital requirements and minimum capital requirements are maintained at all times;
- Validate that the standard formula is appropriate for the Company and the output from it is used effectively;
- Ensure that the values of the Company are established and known throughout the Company;
- Determine the strategy and approve the business plan;
- Ensure that the business is conducted in an efficient and effective manner; and
- Assist approved persons to discharge their responsibilities in respect of the area of business for which they are responsible.

Board Committees

Risk Committee

The Risk Committee is responsible for assisting the Board with the overall system of risk and compliance management, ensuring that risk and compliance matters are disclosed in a timely manner, including conduct risks, emerging risks, business continuity and disaster recovery, and outsourcing risks.

The Committee consists of five independent Non-Executive Directors and fourteen members of senior management. Only the independent Non-Executive Directors can vote on matters with a quorum of two needed for approvals and decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, investments, accounting, economics and management skills.

The Committee meets four times a year with the mandate to convene additional meetings as circumstances require. The Chair of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee. The Chair of the Committee regularly meets with the Chief Risk Officer without other members of management present.

The responsibilities of the Risk Committee are to:

- Oversee the development of the risk and compliance framework to ensure that they are appropriate to the business and that risks are identified, managed and controlled. This includes overseeing the formulation of the high level risk management strategy to support the overall business strategy, and of an appropriate compliance universe, manual and monitoring plans;
- Recommend to the Board risk appetites and monitor them on a regular basis. Consider and monitor remedial actions where the business is outside of risk appetite;
- Review and recommend to the Board risk policies covering each material risk faced by the Companies;
- Support the embedding and maintenance of an open culture in relation to the management of risk across the Company;
- Oversee the periodic review of the format, content and frequency of risk information;
- Oversee Vitality Corporate Services Limited’s Sales channels including Appointed Representatives and the employed sales channels across the businesses, together with any conduct issues arising; and
- Receive, review and challenge reports and minutes from the Outsourcing Committee, Policy Committee, Product Governance Committees and Conduct Risk Committees to support the Risk Committee in fulfilling its duties in relation to outsourcing, policy setting and attestation, product approval and conduct risk management and treating customers fairly. This includes receiving, reviewing and challenging upwards reporting from these Committees.

Audit Committee

The Audit Committee is responsible for assisting the Board in terms of the financial reporting processes, internal controls, performance of the internal and external audit processes, financial crime controls and any other matters that may impact the financial results of the Company.

The Committee consists of four independent Non-Executive Directors and twelve members of senior management. Only the independent Non-Executive Directors can vote on matters and a quorum of two is needed for approvals and decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, investment, accounting, economics and management skills.

The Committee meets four times a year with the mandate to convene additional meetings as circumstances required. The Chair of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee. The Chair of the Committee regularly meets with the Risk, Compliance and Internal Audit Function leaders without members of management present.

The financial responsibilities of the Audit Committee are:

- Monitoring the integrity of the Company's financial reporting and of its financial statements and make appropriate recommendations to the Board, having particular regard to:
  - Changes to or new significant accounting policies;
  - Significant accounting judgements and estimates;
  - The accounting for significant, unusual or complex transactions or items; and
  - Regulatory Solvency II reporting.
- Review the Company's systems of internal financial controls, including receiving reports from management on the effectiveness of the systems established and the results of controls and testing carried out by internal and external audit.

Actuarial Committee

The objective of the Actuarial Committee is to ensure that technical actuarial matters relating to the Company are reviewed by the Committee and appropriate input is provided to the Board, Risk and Audit Committees.

The Committee consists of two independent Non-Executive Directors and two independent actuaries. Executive and senior management attend the Committee by invitation and it is chaired by an independent Non-Executive Director with extensive actuarial experience in management and consulting. The Chair of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee.

The responsibilities of the Actuarial Committee include:

- On behalf of the Board, to review matters of an actuarial nature and, as appropriate, report on, approve, or recommend approval of those matters to the Board, the Audit Committee or the Risk Committee;
- Give the Board, Audit Committee and Risk Committee comfort that the contents and recommendations of any reporting to the Board on actuarial matters relating to the Company have been properly considered;
- Support the Risk Committee by reviewing the methodologies and assumptions underlying the quantitative elements of the ORSA and in such other ways as requested to assist the Risk Committee in its identification, appraisal and management of risk;
- Support the Audit Committee by reviewing the methodologies and assumptions used to determine the technical provisions and in such other ways as may be requested by the Audit Committee;
- Receive, review and report to the Board on the opinion to be expressed by the Actuarial function on the adequacy of the reinsurance arrangements;
- Receive, review and report to the Board on the option to be expressed by the Actuarial function on the overall underwriting policy; and
- Receive, review and, if appropriate, recommend approval by the Board of the annual Actuarial function report.

Technology Committee

The objective of the Technology Committee is to ensure that technical IT matters relating to the Company are reviewed by the Committee and appropriate input is provided to the Board, Risk and Audit Committees.

The Committee membership consists of the Chair and at least two other Executive and Non-Executive Directors. The Committee is chaired by an independent Non-Executive Director with extensive experience in information technology and security management. The Chair of the Committee has a position on the Board and reports at each Board meeting on the activities of the Committee.

The responsibilities of the Technology Committee include:

- Review and approve the Company's operations and technology policies;
- Review the Company's operations and technology strategy;
- Prepare recommendations to the Board regarding strategic technology investments;
- Monitor and evaluate trends in technology that may affect strategic plans in terms of opportunities and threats;
- Receive management information on operations and technology performance; and
- Review major operations and technology risk exposures, including information security, cybersecurity and fraud risks. Review the mitigating steps adopted to control these risk exposures and periodically provide a report to the Risk Committee on the conclusion of any risk reviews.

Executive Committee

The Executive Committee is mandated and responsible for implementing the strategies approved by the Board and managing the affairs of the Company. The Executive Committee is chaired by the Chief Executive Officer and meets weekly, the CEO is a member of the Board and has a standing agenda item on the Board to provide an update of the business performance and outlook. Each area of the business is represented by an executive on the Executive Committee and feedback on the activities of each department is provided at the weekly Executive Committee meeting.

The responsibilities of the Executive Committee include:

- Develop, implement and monitor the business plan, recommending any changes for approval by the Boards;
- Structure operations for maximum efficiency;
- Ensure that effective systems of controls are established and maintained which facilitates identification and effective management of all significant risks facing the business;
- Decisions on prioritisation of the allocation of capital and operating resources within current business plan;
- Ensure the functional business areas provide accurate and timely management information to enable the business to be effectively managed;
- Ensure that the business operates within an effective and appropriate governance framework;
- Pass relevant and specific information to the Board, including any recommendations by the Committee that require approval by the Board;
- Review financial and operational performance of the business and authorise appropriate actions;
- Review the Company's code of conduct, leadership charter and policy statements to ensure these are fair to employees and reflective of organisational culture;
- Approval and regular review of the Company's performance management and bonus framework;
- Review of third party contracts or agreements which may carry a reputational risk to VitalityHealth or the Discovery Group;
- Review of any material product changes, including new partner contracts – these will take the form of recommendations to the Board;
- Review of any new financial incentive programmes (including staff incentive schemes, broker incentives etc.) which may impact on behaviours; and
- Monitoring of fraud and financial crime.

Nomination Committee

The Nomination Committee is responsible for assisting the Board to ensure the right mix of skills and expertise is represented on the Board.

The Committee consists of a minimum of five independent Non-Executive Directors and is attended by members of senior management. Only the independent Non-Executive Directors can vote on matters with a quorum of three needed for approvals and decisions. The Committee meets at least once a year with the mandate to convene additional meetings as circumstances require. The Chair of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee.

The main responsibilities of the Nomination Committee are to:

- Monitor the balance of skills, knowledge, experience and diversity on the Boards, ensuring these are appropriate to the needs of the Companies within the Group;
- Ensure the appointments of Directors are linked to the Group's strategy;
- Ensure the quality of nominees to the Boards;
- Set policy around Board appointments and specify descriptions of the role and capabilities required for Board appointments in light of existing skills and experience of current Board members;
- Ensure an adequate and up to date succession plan is in place for each Board;
- Ensure the Directors receive induction training and on-going training;
- Make recommendations to the DHEL Board with regard to all members of the DHEL Group; and
- Evaluate the Board's effectiveness.

Remuneration Committee

The Remuneration Committee is responsible for assisting the Board to set the parameters of remuneration for the Company and to oversee the Remuneration policy and outcomes for employees.

The Committee consists of a minimum of two independent Non-Executive Directors, two Discovery Executive Directors and is attended by members of senior management. The independent Non-Executive Directors and Discovery Executive Directors can vote on matters with a quorum of three needed for approvals and decisions. The Committee meets at least twice a year with the mandate to convene additional meetings as circumstances require. The Chair of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee.

The main responsibilities of the Remuneration Committee are to:

- Review performance against targets and agree payments;
- Set the remuneration policy and principles and monitor its application;
- Verify specific oversight and governance processes; and
- Report and provide assurance of the Remuneration Policy.

General information on the key functions

The following section provides a summary of the authority, resources and operational independence of the key functions.

- Risk Function – the function is headed by the Chief Risk Officer who is supported by a team that possesses skills ranging from risk management, actuarial, information technology and the UK regulatory environment. The Chief Risk Officer report including the risk summary is presented to the Executive Committee, Risk Committee and the Board, giving these management bodies the information gathered through the risk management process. The Risk Function maintains independence by carrying out an oversight role of the major processes, allowing for robust challenge of decisions and processes across the business.
- Internal Audit Function – the function is headed by the Chief Internal Auditor who is supported by a team containing qualified accountants and auditors. Information on the independence of the internal audit function is provided in Section B.5.2. The findings of the internal audit function are reported to the Audit Committee and a summary is provided to the Board by the Chair of the Audit Committee.

- Compliance Function – the function is headed up by the Group Compliance Director who is supported by a team of specialists with skills that include, an in depth understanding of the UK regulatory environment, financial crime and data protection legislation and monitoring experience. More information on the implementation, authority and independence is provided in Section B.4.2. The findings of the compliance function are reported to the Executive Committee, Risk Committee and Audit Committee. The Chairs of the Risk and Audit Committees are members of the Board and present summaries of the activities of their committees to the Board.
- Actuarial Function – the function is headed by the Chief Actuary who is supported by Fellows and members of the Institute and Faculty of Actuaries, international actuaries with equivalent qualifications, as well as other technical professionals. Information on the authority, resources and independence of the actuarial function is provided in Section B.6. The Chief Actuary is a member of the Executive Committee. Activities of the Actuarial Function are tabled at the Actuarial Committee which is chaired by an independent Non-Executive Director who subsequently provides a summary of the committee's activities to the Board.

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

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

There were no director resignations in the period. The following Director changes took place in the year:

- Joanne Shaw was appointed on 21 September 2018
- Alastair Lyons was appointed as Chair of the VHL Board on 10 December 2018

There were no changes made to Committees in the last year.

The following changes were made in positions of influence during the year:

- Sir Andrew Foster resigned as Chair of the Board on 29 July 2019
- Steve Allibone was appointed SMF16 – Compliance Function on 1 November 2018
- Steve Payne was appointed SMF17 – Money Laundering Reporting Office on 11 December 2018
- Elaine Carr was appointed SMF5 – Internal Audit on 13 December 2018
- Judy Parfitt was appointed SMF18 – Other Overall Responsibility on 16 April 2019
- Andrew Scott was appointed SMF18 – Other Overall Responsibility on 14 May 2019

The Chief Internal Auditor ("CIA") reports independently to the Chair of the Audit Committee who is an independent Non-Executive Director. The CIA heads up a team of seven FTE, made up of one Senior Internal Audit Manager, Four Senior Auditors, a Senior Technology Auditor and one Senior Team Administrator, who deliver audits across the Group. The function can also draw on additional resources as required on a case by case basis.

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

B.1.3.1 Principles of the remuneration policy

All staff of the Company are employed by VCSL and the Company's remuneration policy is intended to recruit and retain employees whose values are aligned to our culture and core purpose. We aim to create an environment that motivates high performance so that all employees can positively contribute to our strategy and values. Our philosophy is to balance a flexible approach that recognises differences in individual performance, value and contribution to the organisation.

We achieve this through a robust performance management practice, which ensures equitable and competitively benchmarked pay levels with incentives geared to agreed performance outcomes, where appropriate.

The key principles that underpin our reward policy, rewards structures and individual rewards are:

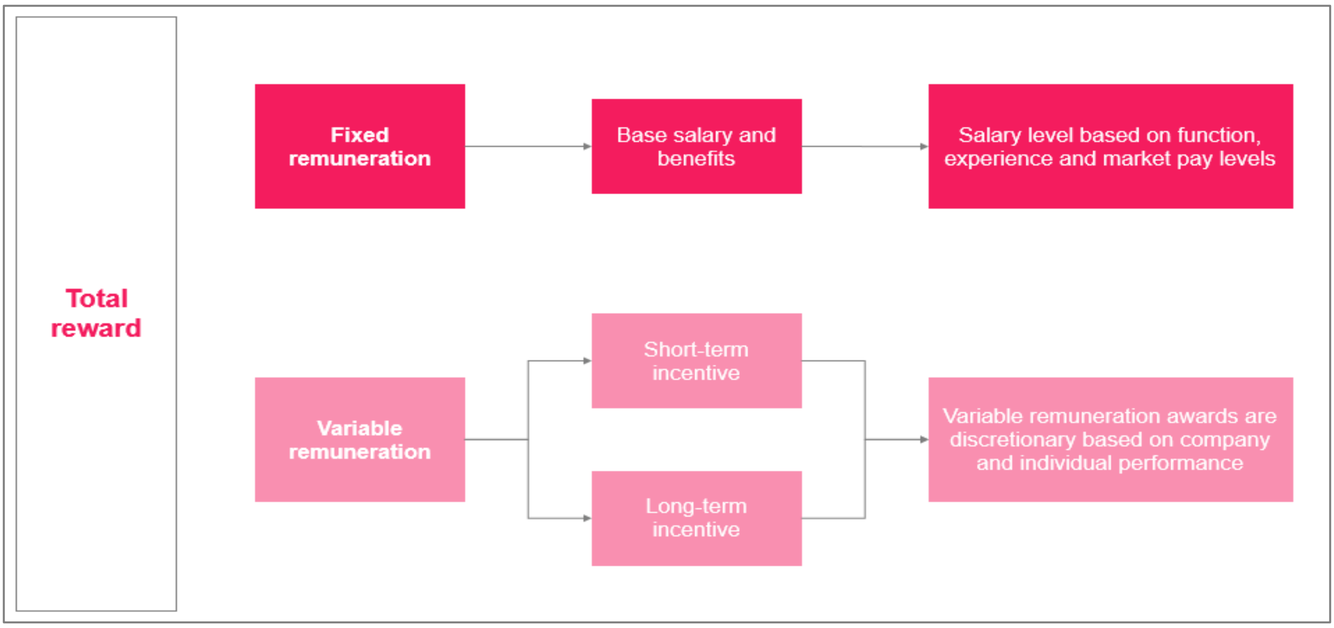
- We offer pay packages that are competitive in the market to attract and retain the right people;
- Pay for performance is at the heart of our remuneration philosophy – exceptional performance is recognised and rewarded;
- We are non-discriminatory – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin;
- Our short-term incentive schemes are designed to encourage, recognise and reward performance and allow sufficient flexibility to respond to different business needs;
- Individual performance appraisals identify talent at all levels in the business and enable fair and competitive pay.
- The corporate bonus pot does not focus solely on sales results to the extent that management is unduly influenced in their decision making;
- Corporate performance scorecards are reviewed each year by Compliance to ensure that they remain balanced and appropriate;
- Pay designs comply with all tax and regulatory requirements;
- We believe in pay that is right and fair – we conduct regular internal and external surveys to ensure fairness and consistency across the business. Our long term incentive schemes create a sense of ownership in the Company; and
- All remuneration decisions are governed by the Internal Remuneration Committee, which is a sub-committee of the External Remuneration Committee. All senior management remuneration decisions are subject to further governance executed by the External Remuneration Committee.

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

VHL's policy is designed to align with the Company's ambitions of:

- Attracting, retaining and motivating high calibre employees;
- Encouraging and rewarding employees to achieve or exceed business objectives;
- Aligning the economic interest of employees with those of shareholders; and
- Providing an environment that encourages innovative thinking and extraordinary performance.

The following diagram shows the composition of our total rewards offering. The elements of this diagram are explained in the sections that follow.



Fixed remuneration

This is the core element of remuneration that gives the Executive Management and individuals who are considered to be in significant influence functions, or those deemed to have a material impact on the strategy or the risk profile of the Company, the security of regular payments in order to manage and plan their financial affairs. The flexible and compulsory benefits are designed to provide non-monetary items in a cost effective way by utilising the Company's economies of scale.

It is the Company's policy to pay a market rate comparable to similar roles within the PMI and Financial Services industry.

It is the Company's policy to provide a wide range of flexible benefits within the context of individual choice, the flexible benefit scheme is the same for all employees and executives take part with no special arrangements being made.

Variable remuneration – short term incentive

The short term incentive is in the form of a biannual bonus payment. The bonus is designed to reward and incentivise those who have achieved pre-determined individual and collective business targets over the preceding six month period. It is designed to encourage a performance culture aligned to our values. The bonus creates a clear link between performance and reward where good results are recognised and retention of high achievers enabled.

The amount of bonus allocation and pay-out varies depending on the seniority of the individual within the Company and the type of role they occupy. The bonus quantum is agreed contractually with each individual, including Executives and Directors, although the scheme rules operate on a discretionary basis and are reviewed periodically.

For non-sales employees, the collective criteria used to determine the level of bonus is determined using key performance indicators (both financial and non-financial) in the form of a scorecard. For sales employees, the level of bonus is dependent on the sales achieved subject to achieving a minimum quality and compliance criteria and a maximum of 200% of their on-target bonus.

Variable remuneration – long term incentive plan ("LTIP")

The purpose of the LTIP is to incentivise members of the Executive Committee and key individuals to deliver improvements in performance, by aligning their interests with the longer term strategic goals of the Company.

The LTIPs are for Executive Directors, senior management and key individuals. The LTIP remuneration is based on the growth in the value of the business which is measured using the embedded value.

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

The Company 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

During the year, the Company has not issued additional ordinary shares and subordinated loans.

Persons who exercise a significant influence on the Company

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

Executive management and directors

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

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 Requirements for skills, knowledge and expertise

The Company ensures that all persons who effectively run the Company or have other key functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity.

The Solvency II staff collectively possess professional qualifications, experience and knowledge about at least:

- Insurance and financial markets;
- Information technology and project management;
- Business strategy and business model;
- System of governance;
- Financial and actuarial analysis;
- Insurance distribution;
- Investment management;
- Risk management; and
- Regulatory framework and requirements.

B.2.2 Fitness and propriety of persons

In order to ensure that Senior Managers / Company Directors of the Company are fit, they are recruited giving due regard to interview requirements, referencing, relevant skills, personal and professional background and other checks as required and relevant to the role to be undertaken. Some of the general checks conducted include:

- Educational background check
- Professional Qualifications / Membership check

In order to ensure that Senior Managers / Company Directors are proper, they are subjected to a variety of checks at the commencement of their employment, including:

- Credit checks
- Identity checks (including passport)
- Financial Sanctions & Anti-money Laundering check
- FCA Register search
- UK Directorship search
- Six years employments history (including gap activity over 30 days)
- International adverse media check
- Social media checks
- Criminal history checks
- Standard disclosure checks

Further, an annual process has been adopted to assess the ongoing fitness and propriety of Senior Managers and Company Directors.

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

B.3.1 Risk management system

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

The Company is aligned with the Group's risk management system. The Group's risk management system is articulated in a number of policies and frameworks, overarched by the Enterprise Risk Management ("ERM") Framework.

The Company has developed a comprehensive set of risk policies, frameworks and guidelines to ensure that adequate process and procedures are in place to manage all types of risk. These documents are aligned with current regulatory requirements, including Solvency II, and those adopted by the PRA and FCA. They are reviewed at least once every two years to ensure they are appropriate and remain fit for purpose.

The framework continues to evolve with emerging best practice to continuously 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 of 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 amongst other things include the adequacy of first and second line functions as defined above.

The risk management process requirements, as specified in the ERM Framework are defined in the following table:

Requirement	Description
Risk assessments	The first line is responsible for carrying out the risk assessment process; to identify, measure, monitor, manage and report. However oversight and challenge is provided by the second line in doing so. This process involves reviewing the risk taxonomy and identifying the risks that each department is exposed to, rating the risks and recording the controls used to manage / mitigate those risks. Once the risk, controls along with their ratings and action plans are complete, the top risks are presented to Executive Committee for review and discussion. This includes both a 'bottom-up' and 'top-down' risk assessment. Following the Executive Committee review, the risk assessments are presented to the Risk Committee. All material findings from the assessments are reported during the regular risk reporting process in the first line, with onwards escalation to Risk Committee as required.
Risk assurance reviews	Risk assurance reviews are performed when there is a specific need to obtain an in-depth understanding of a particular risk, including the controls, actions and mitigation strategies in place. A review may be initiated by the second line at the request of the Risk Committee.
Emerging risk assessments	The Risk Function administer the emerging risk process and assessment with individual deep dives being submitted to the Risk Committee at the request of the Chair for review.

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

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

B.3.2 Implementation of risk management system

The activity comprising the risk management system as described in the previous section is carried out by the first line of defence within the Company, with the Risk Function reviewing and challenging the output.

The Board is responsible for all key decisions across the organisation but delegates some of its decision making responsibilities to the Executive Committee, Risk Committee, Audit Committee, Technology Committee and Remuneration 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 Board.

All key decisions made in the Company such as product initiatives, capital management, reinsurance arrangement review, investment strategy, marketing strategy, distribution strategy etc. follow internal governance processes which include an assessment of the risk exposure and mitigation strategies.

These processes facilitate the integration of the risk management system in the decision making process.

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 report represents a summary of the process, and considers the relationship between the risk profile (identification and quantification, including emerging risks), risk appetite and strategy; strategic planning and budgeting; the overall projected solvency needs both on the regulatory and 'own view' bases consistent with the business strategy and risk profile; stress and scenario testing (including reverse stress tests) and therefore integrating the risk management processes outlined above including reporting and disclosure.

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

A full review of the Company's own solvency assessment given the 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. Further compliance with this policy is assessed at least annually.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

The Company maintains an internal control system that governs financial and regulatory reporting in the Company. This framework aims to ensure that:

- All the risks that pertain to the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework have been identified and documented;
- There are controls (manual and automated) in place to address these risks and they are adequately designed to prevent or detect material misstatements in the financial statements and disclosures; and
- The controls identified operate as they are supposed to and are appropriately evidenced.

The financial control framework is subject to annual review of the appropriateness and effectiveness of the controls. This review is conducted by the Internal Audit Function and the results submitted to the Audit Committee.

The IFRS financial statements are subject to rigorous controls in the production and review leading up to publishing, including oversight by the Audit Committee. The actuarial liabilities are produced using best practice actuarial practices that are subject to review by the Reserving Committee (that includes members from the Risk, Actuarial, Finance and Operational Functions) and the Actuarial Committee. The IFRS statements and Solvency II regulatory reporting are also subject to internal review and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publication and submission to the regulator.

B.4.2 Implementation of the Compliance Function

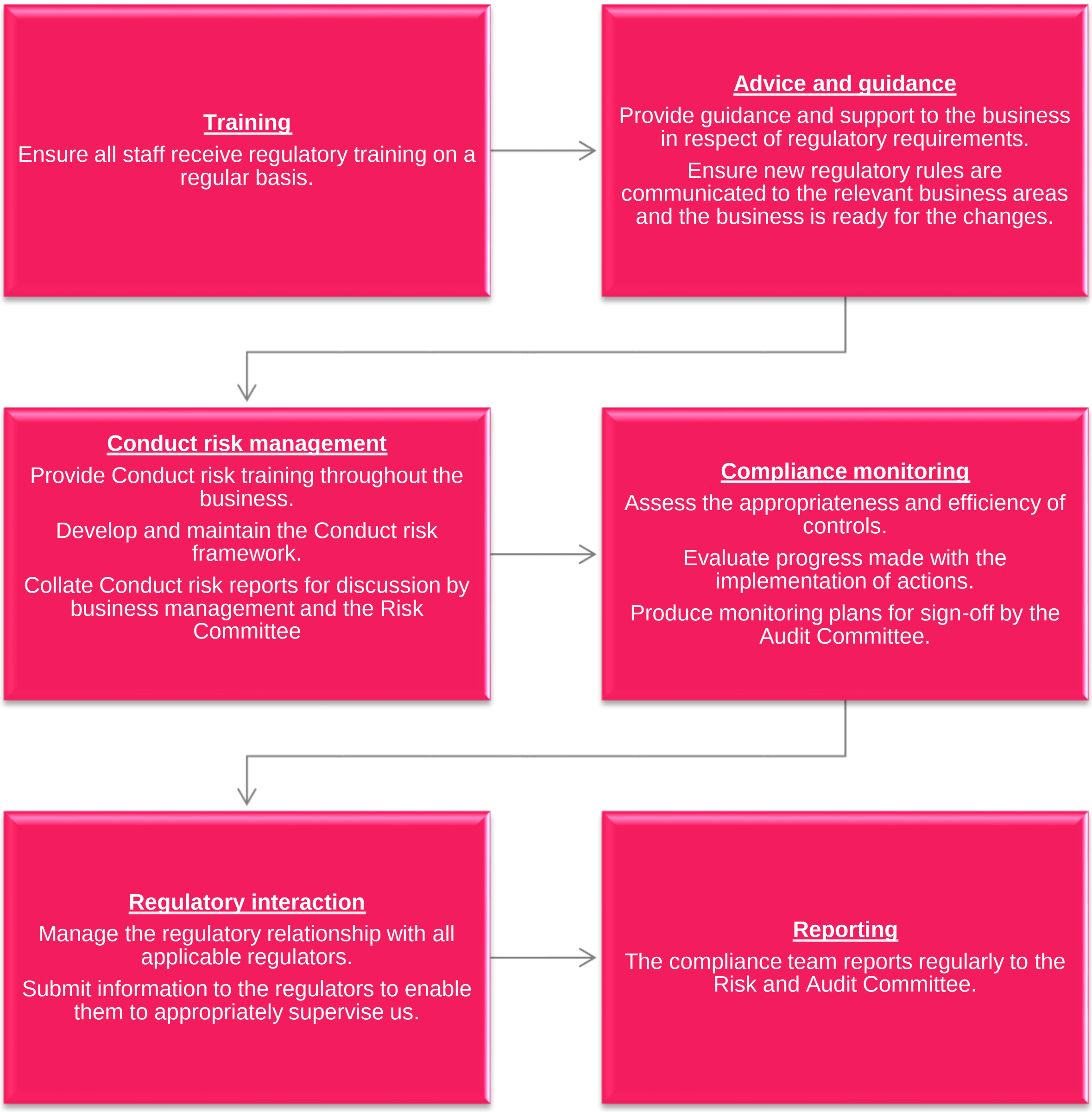
The Compliance Function is as an independent acting second line control function in the three lines of defence:

- It has a formal status within the overall governance framework of the UK Group;
- The Compliance Director is not engaged in any other business of the UK Group which could create a conflict of interest; and
- The Compliance Function has access to all information and staff necessary to carry out its responsibilities.

To provide for the independence of the Compliance Function, the Compliance Director reports to the Chief Risk Officer.

The Compliance Function is responsible for reporting to senior management any breaches, or non-compliance with its Regulatory and Conduct Risk policy or any other relevant policy, rules and regulations. This means that the Compliance Function shall be able to carry out its functions on its own initiative without obstruction from management and other staff members.

The main Compliance activities are described in the following diagram:



B.5 INTERNAL AUDIT FUNCTION

B.5.1 Implementation of the internal audit function

The Group Internal Audit ("GIA") function, headed by the Chief Internal Auditor ("CIA") is the third line of defence in the Company.

Internal audit in the Company is implemented through the following process:

- An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the risk management and control processes across the business. The plan includes a review of the major risk management processes operating across the business and a selection of the key risks identified from those processes. The audit plan also gives special consideration to those operations most affected by recent or expected changes, for example changes following acquisitions, restructures and new ventures. The proposed plan is flexible so that adjustments can be made during the year as a result of changes in management strategies, external conditions, major risk areas, or revised expectations in respect of achieving the business's objectives. Any proposed changes or update in the plan are reported to the Audit Committee for their review and agreement before they are incorporated into ongoing work. The Audit Committee review and approve the plan at least annually; and

- Based on the annual plan, the internal audit activity evaluates the adequacy and effectiveness of controls encompassing the business' governance, operations, and information systems. This includes:
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations;
  - Safeguarding of assets; and
  - Compliance with laws, regulations, and contracts.
- In determining the proposed audit plan, the CIA considers relevant work that will be performed by other areas, e.g. Compliance monitoring, Risk deep dives, External Audit. To minimise duplication of effort and inefficiencies GIA considers work planned, or recently completed, by management. This includes assessments of the risk management process, controls, and quality improvement processes, and the work planned by the external auditors. These factors are all considered in determining the expected coverage of the audit plan for the coming year.
- The Executive Committee and the Board requires that the CIA performs sufficient audit work and gathers other available information during the year so as to form a judgment regarding the adequacy and effectiveness of the risk management and control processes. The CIA communicates overall judgment regarding the business's risk management process and system of controls to the Executive and Audit Committees.

B.5.2 Independence of the Internal Audit Function

The Group Internal Audit function at the Company 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 Company provides for an Actuarial Function as required. The position of Chief Actuary (SMF20, under the Senior Management Function 'SMF' regime) of the Company is held by a Fellow of the Institute and Faculty of Actuaries, whom holds a relevant Practicing Certificate and has complied continuously with the specific professional obligations this requires. The role is supported by Fellows and members of the Institute and Faculty of Actuaries, international actuaries with equivalent qualifications, as well as other technical professionals. The professional body membership and regulatory controlled function status helps to provide assurance that members of the Actuarial Function maintain appropriate independence. The Chief Actuary is a member of the Company's Executive Committee and has unrestricted access to the Chair of the Actuarial Committee (who is a Non-Executive Director of the Company).

The Actuarial Function produces a written function report to the Board annually, setting out the tasks that have been undertaken by the Actuarial Function, clearly identifying any deficiencies and giving recommendations on how such deficiencies should be remedied.

B.7 OUTSOURCING

Vitality Corporate Services Limited provides management services to the Company including the recharge of expenses incurred on its behalf. All staff costs incurred by Vitality Corporate Services Limited in respect of the Company branded products are allocated and recharged to the Company. The jurisdiction is the United Kingdom.

The Company's Outsourcing Policy is to follow the process below;

Outsourcing Suitability Assessment

When considering outsourcing arrangements, the Company takes into account how it will fit into its organisation, reporting structure, business strategy, risk appetite and its ability to meet with regulatory requirements.

Service Provider Selection

A competitive tender process is conducted by the Source-2-Pay team.

Due diligence is conducted to assess among other things; financial viability, insurance, anti-money laundering sanctions, conflicts of interest, risk management, personnel, information and asset security, business continuity and disaster recovery, risk concentrations, geopolitical implications and regulatory permissions.

Contractual Requirements

Outsourcing relationships must be established with a set of written agreements which set out the expectations and obligations of each party. Agreements must include the following terms; guarantees and indemnities, regulatory compliance, Data Protection compliance, financial crime, change process, duties and responsibilities, reporting of material developments, right to audit, termination, confidentiality etc.

Contractual Approval

Once a written agreement has been agreed between each party, internal approval must be sought in line with the Company's contract approval process.

Where critical functions have been outsourced, final approval must be sought from the Board and where relevant, the regulator notified.

Reporting and Monitoring

Source-2-Pay maintain a list of all outsourcing arrangements.

The Company has processes for regularly monitoring and reviewing the performance of the service providers.

The Outsourcing Committee receives regular reports on the performance of any service provider undertaking critical functions.

Contingency and Exit Planning

The Company must ensure it has suitable contingency plans in place to mitigate the risk of a significant failure by the Service Provider. These plans must be documented and reviewed at least annually.

The Company must document and maintain an Exit Plan for managing the end of the relationship with a Service Provider.

The Company is currently utilising several service providers to undertake critical or important functions on its behalf. These include claims administrators and document management within the UK; business process outsourcing, IT development and software maintenance in India; and intragroup IT and business process outsourcing services in South Africa.

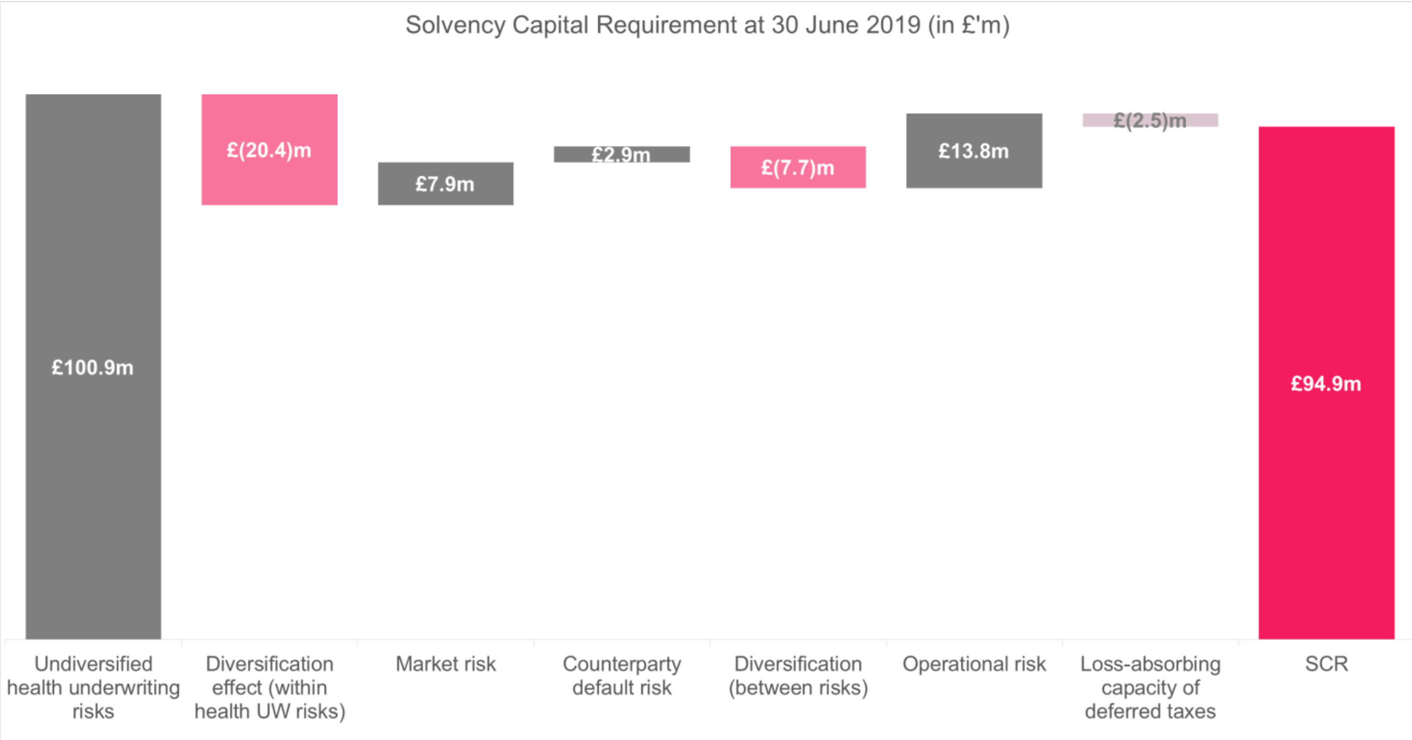
The Outsourcing Committee monitors the efficiency and effectiveness of the outsourced providers and reports to the Risk Committee.

B.8 SYSTEM AND GOVERNANCE – ANY OTHER INFORMATION

The system of governance is considered to be appropriate for the Company, taking into account the nature, scale and complexity of the risks inherent in the business. During the year the Company's risk management capabilities were subject to an external review. There were no significant findings and the report concluded that the framework and culture exists within Vitality's businesses to facilitate effective risk management, and that risk is taken seriously and managed effectively.

C RISK PROFILE

The Company's risk profile is a key driver of its SCR. The SCR for the Company at 30 June 2019 is £94.9m and the distribution of its quantifiable risks at 30 June 2019, as reflected in the SCR, are as follows:



The standard formula SCR risk profile is dominated by underwriting risk similar to the prior year. The material changes during the year relate to an increase in market risk and an allowance for the loss-absorbing capacity of deferred taxes.

Market risk has increased from £3.3m at 30 June 2018 to £7.9m at 30 June 2019. This is attributable to the following changes in the Company's investments in line with the Board approved strategy:

- The Company has added property to its asset portfolio by acquiring an office building and related land in Stockport, which is approximately 70% occupied for its own benefit with the remainder occupied by third party tenants, which attracts a property risk charge;
- The Company has increased its holdings of high quality, investment grade corporate and government bonds; and
- The Company has decreased its investment in short term liquidity funds.

Paragraph 2.6 of the PRA Supervisory Statement SS2/14 sets out the considerations for VHL's ability to recover tax paid on profits generated in 2018-19 in an event of an instantaneous loss equal to the SCR. UK tax rules permit a loss incurred in any one financial year to be offset against profits on which tax was paid in the previous financial year.

In the event of an instantaneous loss, the Company would recover in full the tax paid to HMRC in respect of 2018-19. This recovery of past tax paid to HMRC permits VHL to recognise a loss-absorbing capacity of deferred taxes ("LACDT") adjustment, reducing the SCR by £2.5m.

The Company's principle activity is the provision and administration of PMI, supported by the Vitality rewards programme. The Company's product range covers a range of benefit choices and is available in the individual market, SME market and the large corporate market.

Health underwriting risk refers to the risk that the premiums earned are not adequate to cover the claims, expense and profit margin. It also includes the risk that the reserves held for past claims are not adequate to cover the ultimate claims that emerge when settled. This risk is mitigated by a number of approaches including underwriting at the point of sale and claim, claims risk management and the use of reinsurance. The annually reviewable and renewable nature of the contracts further limits the duration of risk exposure at any one point in time.

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

The Company's invested assets are held primarily to meet operational and short-term liquidity requirements. The majority of the assets are held in cash in bank accounts and in short-term high quality liquid assets within collective investment funds. Surplus assets have been invested in investment grade bond portfolios and the Stockport property used by the Company.

Counterparty default risk is relatively low since the banks are highly creditworthy and reinsurance is spread across different reinsurers with high credit ratings.

Information on each of the risk categories is provided in Sections C.1 to C.5 below. Information is also provided on liquidity risk in Section C.4. Liquidity risk does not form part of the standard formula SCR and is therefore not included in the above graph. Information on the calculation of the SCR is provided in Section E.2 Solvency Capital Requirement and Minimum Capital Requirement.

As noted in Section B.3.1 risks are managed according to a Board approved Risk Management Framework. Specific risk mitigations are identified in Section C.1 to C.6 where relevant.

C.1 UNDERWRITING RISK

C.1.1 Exposure

Underwriting risk is split into premium and reserve risk in order to distinguish between past and future claims. Premium risk results from fluctuations in the timing, frequency and severity of insured events and relates both to policies to be written during the period and to unexpired risks on existing contracts. It covers the risk that claims arising in the future may be greater than expected. Reserve risk is the risk that claims reserves may be insufficient to cover the actual cost of claims that have been incurred in the past.

The following measures are used to assess underwriting risks:

- Experience analysis – the Company projects the expected premiums and claims that it anticipates for the year ahead, the Company then tracks performance against the expected rates and reports the results to the Executive Committee. Any deviations from the expected results are identified and corrective action where necessary put in place. The options available to rectify deviations through a structured pricing strategy include changes in pricing for renewal policies or new business, adjustments to exclusions and excess amounts to control claims costs, changes in the underwriting process to improve the identification of underwriting risks and the portfolio mix at the point of sale;
- Economic capital modelling – the Company has developed a methodology of assessing underwriting risks which involves analysing any changes in the patterns of claims and premiums over time. This analysis gives an indication of a deterioration or improvement of the underwriting risk profile for the business over time;
- Reserving process – the reserving process carried out to set the claims technical provisions includes an analysis of claims settlement patterns and other known operational processes that impact the underwriting risk profile. Key areas of the business including Clinical Risk, Finance, Actuarial, Risk and Claims Management confer on the claims experience and whether any new information exists that should be taken into account in the process. The

reserves are determined by the Chief Actuary and subject to review by the Reserving and Actuarial Committees before being approved by the Audit Committee;
- Risk and control assessments – the Company has an Enterprise Risk Management Framework which requires all teams across the business to carry out a risk and control self-assessment which would highlight any underwriting risk issues that need to be taken into account when assessing the risk profile for the business; and
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the underwriting risk exposure.

C.1.2 Risk mitigation

The following list outlines the techniques used for mitigating underwriting risks in the Company:

- Underwriting at point of sale and claim – members are underwritten at policy inception and at the point of claim. The effectiveness of this technique is monitored through quality assurance activity which involves auditing the application of the underwriting practices and processes;
- Product design and pricing (e.g. exclusion, excesses etc.) – the Company reviews its experience and adjusts premiums in light of this experience in line with actuarially accepted best practice. Occasionally, the Company may adjust the product design in order to mitigate underwriting risk. The effectiveness of this technique is monitored regularly by reporting the underwriting performance results to the Executive Committee at least monthly;
- Claims risk management – high level claims trends and key performance indicators are monitored closely by the Clinical Risk team and reported to key areas of the Company. The effectiveness of this technique is monitored regularly by reporting the underwriting performance results to the Executive Committee at least monthly;
- Reinsurance – the Company reinsures underwriting risks that are outside of appetite, currently this only applies to the travel insurance benefit. The effectiveness of this technique is reviewed annually by the Actuarial Function; and
- VHL is actively managing the portfolio mix and has a structured pricing strategy to improve the underwriting and portfolio mix.

C.1.3 Risk concentration

VitalityHealth writes both individual and group business in the UK however concentration of risk through geographic and other demographic factors are well diversified. The risk is controlled through underwriting controls and frequent monitoring of the business mix and lapses monitoring, as well as regular experience investigations.

C.2 MARKET RISK

C.2.1 Exposure

The Company's core business is the writing of private medical insurance contracts which are annually renewable and have a relatively short tail (claims reserves effectively becoming negligible 12 months after a given cohort of claims incurred). Given the short duration nature of liabilities, a large proportion of investments are held in cash, short-term deposits or liquidity funds.

During the year, the Company increased its exposure to longer term assets in the form of investment grade bond portfolios and the purchase of one UK property, namely the office in Stockport.

C.2.2 Risk mitigation

The Company does not participate in any speculative, arbitrage or trading activities. The Company targets a level of security, quality, profitability and availability in its investment activities:

- Security – No investments are held which pose a material risk to capital as a result of significant price volatility, and in particular no assets are held where the ultimate loss can be greater than the amount of the investment;
- Quality – The credit quality of any interest-bearing investment should be investment grade i.e. only legal entities or paper rated “BBB-” or higher by Standard & Poor’s, Moody’s or Fitch credit ratings agencies;
- Profitability – Assets are only added to the portfolio when their expected return is deemed sufficient relative to the risk taken and is within risk appetite. The expected returns must be evaluated after considering any additional solvency capital required as a result associated with the investment; and
- Availability – All investments are fully admissible from a regulatory capital perspective, and that the types of investments do not significantly increase the Solvency Capital Requirement or Minimum Capital Requirements obligations of the Company.

C.2.3 Risk concentration

The Company’s assets are held by a reasonably wide range of counterparties to manage concentration risk. On 30 June 2019, the largest concentration with one counterparty was 8% of the total assets stressed under this risk module. The counterparty is one with an ‘A-1’ rating by a leading credit ratings agency. Concentration risk constitutes less than 2% of the undiversified SCR and this risk was not material for the Company.

C.3 CREDIT RISK

C.3.1 Exposure

At 30 June 2019, credit risk in the form of counterparty default, spread and concentration risk comprised 2.3%, 4.6% and 1.2% respectively of the undiversified SCR. Credit risk arises principally from two UK-based banking counterparties.

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

C.3.2 Risk mitigation

The credit quality of any interest-bearing investment should be investment grade i.e. only legal entities or paper rated “BBB” or higher by leading credit ratings agencies.

C.3.3 Risk concentration

The Company 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.

C.4 LIQUIDITY RISK

C.4.1 Exposure

Liquidity requirements are assessed monthly in order to meet the Company’s stated liquidity risk appetite. The Company has limited liquidity risk and the assets invested takes this into consideration. At 30 June 2019 the majority of its investment assets are held in cash in UK based bank accounts and in short term high quality liquid assets within collective investment undertakings. The liquidity investment funds invest in Sterling denominated short dated fixed and variable interest securities both sovereign and non-sovereign. Maturities range from overnight to a maximum of under one year and the funds have a credit rating of at least Standard and Poor’s A-1 (or equivalent).

C.4.2 Risk mitigation

As part of the ORSA, stress and scenario testing is conducted to assess the liquidity risk under stressed conditions. The Company's current policy is to hold sufficient internal liquid resources to meet both expected and stressed operating liquidity demands within a specified time horizon.

C.4.3 Risk concentration

The Company avoids material liquidity risk concentrations by ensuring its invested assets are split across a number of counterparties.

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

The EPIFP results from the inclusion in technical provisions of premiums on existing business that will be received in the future but that have not been received at the valuation date. The amount stood at £59.7m for 30 June 2019 (£53.4m for 30 June 2018).

C.5 OPERATIONAL RISK

C.5.1 Exposure

The following measures are used to assess operational risks:

- Risk and control assessments – the Enterprise Risk Management Framework 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 Company 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 Company's risk register and input from subject matter experts in the business. Once captured, the operational risk profile is assessed quantitatively and taken into account in the Company'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 ORSA; and
- The operational risks that were assessed as being material over the period include:
    - Market Conduct – the risk that the Company's decisions and behaviours lead to detriment or poor outcomes for members and / or the Group fails to maintain high standards of market integrity;
    - Technology – the risk associated with the use, ownership, operation, involvement, influence, adoption and development of technology within the Company. It consists of technology-related events and conditions that could potentially impact the business;
    - Fraud – the risk of financial crime and unlawful conduct impacting on the Company. It includes both internal and external fraud;
    - Outsourcing – the risk arising from the inability or unwillingness of an outsourcing service provider to discharge its contractual obligations; and from concentration with an individual outsourcing service provider (which exacerbates the former);
    - Compliance – the risk of not complying with laws, regulations, rules, related self-regulatory standards, Company standards and codes of conduct, as well as the failure to uphold the Group's core values and codes; and
    - Change – the risk of failure to manage the change and / or deliver the change initiative / project within the agreed scope, budget and timelines;

C.5.2 Risk mitigation

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

- Risk reduction – where possible, the Company 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 Company outsources a number of activities and in some cases the associated risks of carrying out those activities. Whilst the Company can outsource activities, it can't transfer responsibility and therefore manages its outsourcing relationships accordingly;
- Risk acceptance – where the Company 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 VitalityHealth is exposed to are identified and recorded in the risk register. The risks are assessed and once the actions required to manage the risks have been agreed, the risks are reported to Senior Management, the Risk Committee and the Board.

C.5.3 Risk Concentration

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

C.6 OTHER MATERIAL RISKS

The risk management process within the Company includes a review of both the current and emerging risk profile. In conclusion, this review demonstrated that the Company is exposed to the following other material risks:

- Reputational risk, including impacts from conduct risk, liquidity risk, and knock-on impacts on underwriting risks such as persistency and expenses;
- Regulatory risk, including impacts from regulatory change and compliance exposure;
- Strategic risk, including impacts on underwriting risks such as persistency, expenses and new business levels. Our strategic objectives could be impacted by evolving customer preferences, our investment performance, and political and regulatory change. This also includes the risk that we are unable to successfully deliver our strategic objectives;
- 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;
- There are no other material risk concentrations to which the Company is exposed. No other material risks were identified through the sensitivity, scenario and stress tests described in Section C.7.1; and
- In 2016 the UK voted to leave the European Union but to date has not ratified the withdrawal agreement negotiated prior to the original exit date of 31 March. It remains uncertain when the outcome and the terms of the actual withdrawal will be set, as well as the future trading relationship with the EU. While the Company does not operate outside the UK, the ongoing uncertainty and lengthy negotiation processes may lead to a volatile market.

C.7 RISK PROFILE – ANY OTHER INFORMATION

C.7.1 Risk Sensitivity

The Company carries out stress and scenario testing as part of its ORSA process which includes stress testing for material risks. This allows VitalityHealth to assess the resilience of the entity to continue operating efficiently under extreme trading conditions and is used to identify potential risks and impacts. For the purposes of stress testing and scenario analysis the following terminology is used:

- **Stress test.** A stress test is a severe change in a single risk factor or a limited number of risk factors. It is typically conducted over a short time horizon, for example an instantaneous shock. This does not make any allowance for management actions.
- **Scenario analysis.** Scenario analysis uses a hypothetical future or relevant historical state of the world to define changes in risk factors. This will normally involve changes in a number of risk factors, as well as the ripple effects and other impacts that follow logically from these changes and related management actions. Scenario testing is typically conducted over a time horizon appropriate for the business plan and risks being tested.
- **Reverse stress tests.** A reverse stress test considers a scenario that could challenge the viability of the organisation. A reverse stress test typically starts with a specified outcome that challenges the viability of the insurer and works backward to identify a stress test or combination of scenarios that could bring about such a specified outcome.

For the 2019 ORSA, the solvency position at 30 June 2019 and the projected solvency position over the business planning period were re-calculated following adverse stresses at the 1-in-50 year level, with each risk's stress conducted individually. In specific cases more exceptional scenarios were considered and the results of the analysis showed that the most material impacts on the SCR cover were:

- It would take more than a 1-in-25 year adverse variance on the benefit ratio to breach the SCR, therefore the Company's underwriting risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite;
- It would take more than a 1-in-200 year adverse variance on market risk or credit to breach the SCR, therefore the Company's investment risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite. This is consistent with the low risk investment strategy; and
- It would take more than a 1-in-25 year combined adverse variance on the benefit ratio, expenses, lapse rates and a 1-in-25 year operational risk event to breach the SCR, therefore the Company's liquidity risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite.

C.7.2 Specific stress tests

The stress tests were selected by considering the risk drivers which are known to contribute significantly to solvency capital requirements and to earnings and were internally calibrated to a highly unlikely scenario. The stress tests considered in VitalityHealth's ORSA were:

	Risk driver and stress description	Stress	Impact
1	Benefit ratio: an instantaneous addition to the benefit ratio for the duration of the first year of the projection subsequently returning and to planned levels.	+4%	A relative reduction in profits will occur as outgo in the first year of the projection will increase, reducing earnings that year and giving a one-off reduction in own funds.
2	Lapse rates: an addition (uniformly across all segments) such that the aggregate lapse rate increases over the first year of the projection, subsequently returning to planned levels.	To 30%	While this is a one-year shock, it will reduce the overall volumes in force for the remainder of the projection. Risk profits will reduce, while the expense basis is assumed to be maintained.
3a	New business: sales in the first year of the projection fall short of plan, but return to the currently planned level thereafter	x0.75	Similarly to the lapse stress, overall volumes in force for the remainder of the projection will reduce leading to lower risk profits against the same expense base.
3b	New business: sales in the first year of the projection exceed the plan, but return to the currently planned level thereafter	x1.25	Opposite to the reduction in new business, one year of excess new business will increase the overall volumes in force for the remainder of the projection.
4	Premium increases: retained premiums fall below those anticipated in the first year of the projection, subsequently returning to the planned level.	x0.4	A one-off reduction in retained premiums will place the whole trajectory of premium increases below that planned: effectively representing a stress to the benefit ratio in every year of the projection.
5a	Expenses: functional costs (i.e. excluding acquisition, amortisation and projects) overrun in the first year of the projection.	x1.2	Similarly to the benefit ratio stress there will a relative reduction in profits and a one-time reduction in own funds.
5b	Expenses: project costs overrun in the first year of the projection.	x1.2	Similar effect to above expense stress.

In all cases, coverage of the SCR exceeded 100% over a one-year horizon with the benefit ratio stress having the largest impact as expected. Over a five year horizon the lapse rate stress had the largest impact and without any management actions would cause coverage of the SCR ratio to drop below 100%, though comfortably exceeding the MCR at all times.

C.7.3 Prudent Person Principle

VitalityHealth ensures that its assets are invested in accordance with the Prudent Person Principle set out in the SII Directive. It only invests in assets whose risks it can properly identify, manage, control and report and appropriately taken into account in the Company's overall solvency needs assessment which is documented in its ORSA report.

The Board is responsible for setting the overall Risk Appetite and Financial Risk Policy which covers market, credit and liquidity risk.

The short term high quality liquid investment holdings are a consequence of the investment assets being prudently invested, taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities. The Company does not invest in derivative instruments for investment income purposes. The collective investment undertakings may from time-to-time purchase limited amounts of derivatives to contribute to a reduction of risks or facilitate efficient portfolio management.

The Company does not have any unit-linked policies where the investment risk is borne by the policyholders.

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

D VALUATION FOR SOLVENCY PURPOSES

Solvency II requires a market consistent approach in the valuation of its assets and liabilities. A number of items differ when compared to the financial accounts reported as prepared under the IFRS standards. The table below provides a summary of the Solvency II versus Statutory Account Values for both the current and prior year ends. The detailed explanation of each reported item can be found in forthcoming section.

The statutory account value is the same as IFRS financial account values.

	Solvency II		Statutory account value		Difference		Section Reference
Year ended 30 June	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	
Assets							
Deferred acquisition costs	0.0	0.0	39.5	36.3	(39.5)	(36.3)	D.1.1.1
Deferred tax assets	21.2	17.6	19.5	17.6	1.7	0.0	D.1.1.2
Investment assets	135.3	143.7	135.3	143.7	0.0	0.0	D.1.1.3
Property, plant and equipment	9.7	0.0	9.7	0.0	0.0	0.0	D.1.1.4
Reinsurance recoverables	6.1	5.1	65.2	60.1	(59.1)	(55.0)	D.1.1.5
Insurance and intermediaries receivables	15.9	14.0	309.7	268.1	(293.8)	(254.1)	D.1.1.6
Reinsurance receivables	0.0	0.4	154.2	125.9	(154.2)	(125.5)	D.1.1.7
Receivables (trade, not insurance)	0.4	0.1	0.7	0.5	(0.3)	(0.4)	
Cash and cash equivalents	20.8	15.1	20.8	15.1	0.0	0.0	D.1.1.8
Total assets	**209.4**	**196.0**	**754.6**	**667.3**	**(545.2)**	**(471.3)**	

Liabilities							
Technical provisions - health (similar to non-life)	19.5	17.1	362.6	317.9	(343.1)	(300.8)	D.2
Best Estimate	*13.6*	*11.4*	*0.0*	*0.0*	*13.6*	*11.4*	
Risk margin	*5.9*	*5.7*	*0.0*	*0.0*	*5.9*	*5.7*	
Insurance & intermediaries payables	3.3	5.6	3.3	5.6	0.0	0.0	D.3.1.1
Reinsurance payables	6.1	6.2	63.8	58.5	(57.7)	(52.3)	D.3.1.2
Payables (trade, not insurance)	41.9	38.7	41.9	38.7	(0.0)	0.0	D.3.1.3
Subordinated liabilities	18.8	18.2	18.8	18.2	0.0	0.0	D.3.1.4
Total liabilities	**89.6**	**85.8**	**490.4**	**438.9**	**(400.8)**	**(353.1)**	
Total excess assets over liabilities	**119.8**	**110.2**	**264.2**	**228.4**	**(144.4)**	**(118.2)**	

D.1 ASSETS

D.1.1 Solvency II valuation for each material class of asset

D.1.1.1 Deferred acquisition costs ("DAC")

DAC 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.1.1.2 Deferred tax assets ("DTA")

The value of the deferred tax asset is set up in respect of historical unutilised trade losses incurred in the Company. The valuation of the DTA in the financial statements is different to the SII valuation, which is consistent with the methodology prescribed in Article 15 of the Delegated Regulation. The adjustments recognised under SII create additional temporary differences under IAS12 principles, which give rise to a larger DTA under SII compared to IFRS.

The recognition of the deferred tax asset is subject to a degree of estimation and judgment. As there are no external market observable / comparable valuations, an internal valuation model is used. The level of deferred tax asset recognised is modelled with reference to the 10 year expected future taxable profits. Allowance is made for the reducing UK corporation tax rate in the future as well as the legislation changes restricting the ability to offset taxable profits against prior year taxable losses incurred before April 2017.

D.1.1.3 Investments

Bonds

The Company holds investments in a portfolio of bonds which are split between corporate bonds and government bonds with respective values of £58.9m and £2.1m respectively. The bonds are recorded at fair value based on market prices at the reporting date, which are quoted prices in active markets for the same assets per Article 10(2) of the Delegated Regulation. As these are publicly traded securities, the market prices are readily available and are actively traded. There are no material assumptions or judgments made. As the IFRS and SII valuations are both performed on a fair value basis, no valuation differences are observed between them.

Collective investments undertakings

Collective investment undertakings are externally managed funds, containing underlying assets with high credit ratings and short durations. Fund managers provide quarterly reports detailing the underlying securities held in the fund. The quarterly reports are reviewed to ensure average credit ratings and durations have not moved significantly since the previous quarter. Any unusual movements or discrepancies are discussed with the fund managers.

Collective investment undertakings are valued at fair value under SII based on market prices at the reporting date, which are quoted prices in active markets for identical assets per Article 10(2) of the Delegated Regulation. As these are publicly traded securities, the market prices are readily available and are actively traded.

The value of these funds is £64.0m in the financial statements and is the same value under SII. No significant estimates or judgements are used in the valuation of these investments.

Deposits other than cash equivalents

Deposits other than cash equivalents are set at fair value as reported to the Company by the relevant financial institutions at the end of the year. There are no material estimations or judgments made due to the nature of the asset. The valuation of the deposit account does not rely on market prices, as these are cash equivalent and the value stands at £10.3m.

D.1.1.4 Property

During the year the Company purchased an office building and the land that the building is situated on in Stockport. VCSL is the principal tenant of the building with the remainder of the tenants being third party. The property is valued equivalently to a fair value and at 30 June 2019 the value of this property is £9.7m.

D.1.1.5 Reinsurance recoverables

Reinsurance recoverables relate mainly to the cash and cashless FinRe taken out by the Company and consists of a liability for the reinsurance payables within the contract boundary of the premium technical provision ("PTP") and an asset for the reinsurance recoverables within the claims technical provision ("CTP"). These had values of negative £0.1m and positive £5.7m respectively, giving a net positive reinsurance recoverable of £5.6m. The remaining £0.5m is held as a reinsurance recoverable asset for the reinsurer's share of a legacy book of business.

Financial reinsurance

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

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

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

Quota share reinsurance

The balance within the reinsurance recoverable relates to the reinsurer's share of technical provisions on a small number of legacy policies. The differences to the financial statement values are discussed in Section D.2.6. Any uncertainty in the valuation is driven by the underlying technical provision calculations discussed in Section D.2.

D.1.1.6 Insurance and intermediaries receivables

Insurance and intermediaries receivables are £15.9m under Solvency II, the majority of which consists of premiums outstanding from policyholders. This balance is valued using a look through of IFRS outstanding premiums. Where outstanding premiums relate to future premium collection dates these are included in the PTP. Where the premium collection date falls before the reporting date, but the cash has not been received at the reporting date, this amount falls in premiums outstanding. Systems reports are used as the basis for this amount, and it is further tested by evaluating a sample of policies. The assumptions and judgments behind the calculation are therefore limited and reliance is placed on the accuracy of the audited financial statement value.

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

D.1.1.7 Reinsurance receivables

The Solvency II value of reinsurance receivables is nil. The difference to the financial statements of £154.2m relates to the cashless FinRe balance that is recognised under IFRS, but not under Solvency II.

D.1.1.8 Cash and cash equivalent

Cash and cash equivalents are set at fair value as reported to the Company by the relevant financial institutions at the end of the year, per Article 10(2) of the Delegated Regulation. There are no estimates or judgments used in valuing the cash holdings give that cash is held in British Pound Sterling ("GBP"). The majority of cash holdings are instant access and the Company expects no issues withdrawing or moving money held in these accounts.

D.2 TECHNICAL PROVISIONS

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

The values of the Company's technical provisions under Solvency II are set out in template S.17.01.02 (Non-Life Technical Provisions). All liabilities are denominated in GBP. Supplementary information regarding delays in timing of settlement and apportionment of the claims technical provision to the most recent and prior accident years are included in template S.19.01.01 (Non-Life insurance claims). The Company includes all its business under 'medical expenses insurance'. All business is direct and the Company does not take on any risks from other businesses meaning there is no inwards reinsurance.

A summary of the technical provisions netted down for reinsurance recoverable is shown in the table below:

Year ended 30 June	2019	2018
	£'m	£'m
Gross claims technical provision	29.6	27.1
Gross premium technical provision	(16.0)	(15.7)
Best Estimate Liability	**13.6**	**11.4**
Risk margin	5.9	5.7
Total reinsurance recoverables	(6.1)	(5.1)
Net technical provision	**13.4**	**12.0**

D.2.2 Technical provisions calculation methodology

VHL's technical provisions are calculated as the Best Estimate Liability ("BEL") plus the risk margin. The BEL is calculated separately for the premium provision and for the provision for claims outstanding. The valuation for all policies in-force and on risk at the valuation date corresponds to the expected future cash flows taking account of the time value of money.

The overall reserve is calculated as the prospective value of future expected cash flows, allowing for premiums, claims, relevant expenses and policyholder benefits. The 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 recoverable. The cash flow projection used in the calculation of the BEL allows for all the cash flows required to settle the insurance obligations up to the contract boundary of the policies; for VitalityHealth this is the next renewal date.

D.2.3 Claims technical provision ("CTP")

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

The provision is set based upon actuarial "chain ladder" model results widely used in the non-life insurance industry. The chain ladder model assumes past invoice settlement patterns are appropriate to predict future expected claims. Where business circumstances invalidate this assumption, additional analysis are used to supplement the chain ladder model results. The cash outflows allowed for are:

- Future invoice payments in respect of treatment incurred prior to the reporting date; and
- Future invoice processing expenses in respect of settling the above liabilities.

The CTP has increased slightly over the last year due to the higher level of outstanding claims compared to the prior year and the general growth in our book. Claims development patterns and invoicing have remained stable through the year.

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.

D.2.4 Premium technical provision ("PTP")

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

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

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

The expected claims and Vitality reward costs are projected through the application of the benefit ratio on the projected future premiums. The benefit ratio assumption is set based upon historical experience, adjusted for future expected trends and inflation.

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

Over the past year, the PTP has remained fairly stable, which is attributable to the limited change in the combined ratio assumption.

D.2.5 Risk margin

The risk margin is set as the cost of the unhedgeable portion of the SCR up until the run-off of the in-force policies' liabilities. The cost of capital is set at 6% as prescribed by the Solvency II regulations.

The risk margin grew over the year, in line with the relatively stable SCR. For VitalityHealth, the SCR is expected to run off to zero from year 2 onwards given the short term nature of the in-force policies.

D.2.6 Reinsurance payables

The majority of the reinsurance payables relates to FinRe. The FinRe has an IFRS benefit but has a nil net impact under Solvency II. This is not analysed further due to materiality (see Section D.1.1.5).

D.2.7 Methodology and assumption changes

The CTP valuation contains an addition for uncertainty and a provision for disputes with hospitals. The hospital dispute provision is lower than last year and relates to disputes about prior treatments that are yet to be resolved.

The uncertainty provision is at a similar level to last year, and is included as it is deemed an appropriate approach, particularly in light of the inherent volatility in the reserving environment in terms of invoice processing and instability of claims payment data.

The PTP has not changed materially compared to the prior year, but offsetting movements between expenses and benefit ratio assumptions have resulted in a stable combined ratio. Throughout the year, the actual experience is monitored regularly and assumptions are adjusted in the event of material deviation from the expected position.

Under Solvency II, the reserve methodology for legacy policies and assumptions are unchanged and cash flows are projected until the contract boundary.

D.2.8 Uncertainty associated with the value of technical provisions

Over the past year, the actual CTP experience has shown material deviations from the actuarial model results. This level of volatility is driven by changes in invoice processing speeds and payment patterns. An allowance has been set up in light of this uncertainty (as noted in D.2.7) and the risk of under provisioning is relatively low.

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 would also result in a lower lapse risk under health underwriting risk.

D.2.9 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 2019:

Year ended 30 June	2019	2018
	£'m	£'m
Gross IFRS insurance contract liabilities*	**68.8**	**63.7**
Adjustment to SII	(49.3)	(46.6)
SII gross technical provisions	**19.5**	**17.1**
Gross claims technical provision	**29.6**	**27.1**
Gross premium technical provision	(16.0)	(15.7)
Risk margin	5.9	5.7

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

The main differences between the Solvency II and IFRS liabilities arise from:

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

D.2.10 Recoverable from reinsurance contracts and special purpose vehicles

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 financial reinsurance treaties consist of one cash-based FinRe treaty and nine 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

D.3.1.1 Insurance & intermediaries' payables

Insurance & intermediaries payable consists of claims outstanding and intermediaries' payables and at the reporting date had a solvency valuation of £3.3m. The material portion of this balance, which will be analysed here, is the claims outstanding amount of £2.9m.

The claims outstanding amounts are valued at fair value and therefore the valuation is deemed consistent with Solvency II principles and meets Article 10(4) of the Delegated Regulation. No adjustment is made for the Solvency II valuation as the inputs are claims reports and approvals from employees. There is little future uncertainty of the economic outflow as the amount is paid within a month of the claim being authorised and as such the liability is not included in technical provisions and not discounted. From experience, when claims are paid the amount does not differ materially to the original valuation.

D.3.1.2 Reinsurance payables

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

The balance owed to reinsurers at the end of the reporting period was £6.1m as shown in line 'Reinsurance payables' in the Solvency II balance sheet. £5.6m of this is related to the corresponding asset set up for the reinsurance recoverables (D.1.1.4) 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.

D.3.1.3 Payables (trade, not insurance)

Payables (trade, not insurance) are valued at the fair value of the payables at the reporting date. The material items within the year-end balance of £41.9m are Insurance Premium Tax (“IPT”) payable and intercompany payables owed to VCSL. The SII valuation is materially the same as the financial statements with the difference being a small balance of employer cashback excluded under SII. IPT payable is valued on the written premiums for the April-June 2019 quarter. The IPT balance and VCSL intercompany balance are settled shortly after the reporting date and therefore the valuation is not adjusted for uncertainty over timing. From past experience, the final settled amount of the liabilities does not deviate materially from the original valuation.

D.3.1.4 Subordinated liabilities

Under IFRS, subordinated debt is valued either on an amortised cost basis or at nominal value. Under Solvency II, subordinated debt is valued on a fair value basis, with changes in own credit standing removed for subsequent measurement. A discounted cash flow model using the risk-free rate plus initial credit spread relevant to the subordinated debt has been used to assess the fair value. At 30 June 2019 there is no difference between the IFRS valuation and the Solvency II valuation and therefore no adjustment was made.

D.4 ALTERNATIVE METHODS OF VALUATION

There are no alternative methods of valuation used by the Company to value assets or liabilities. All investments are valued using quoted market prices or are cash investments.

D.5 VALUATION FOR SOLVENCY PURPOSES – ANY OTHER INFORMATION

No other information is provided.

E CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 Objectives, 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 Company's available own funds, eligible own funds and ratio of eligible own funds over SCR and MCR are disclosed in QRT S.23.01.01. The Company holds regular meetings of Senior Management, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. The Committees that review solvency are described in more detail in Section B.1.1 General Information on the system of governance and the responsibility ultimately rests with the Board. As part of own funds management, the Company prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA contains a five year projection of funding requirements as part of the business plan and this helps focus actions for future funding. There were no material changes in the objectives, policies and processes employed by the undertaking for managing its own funds.

E.1.2 Summary of own funds

The below table shows the Company's own funds which represents the net assets valued on a Solvency II basis (inclusive of subordinated liabilities allowable under Solvency II).

Own funds **Year ended 30 June**	**2019**	**2018**	**Change**	**Section**
	£'m	**£'m**	**£'m**	
Assets	209.4	196.0	13.4	D.1
Liabilities	(89.6)	(85.8)	(3.8)	D.2 and D.3
Net assets	**119.8**	**110.2**	**9.6**	
Subordinated liabilities	18.8	18.2	0.6	D.3.1.4
Available own funds	**138.6**	**128.4**	**10.2**	**E.1.3**
Capital tiering restrictions	(7.0)	(4.6)	(2.4)	E.1.3
Eligible own funds	**131.6**	**123.8**	**7.8**	**E.1.3**

The £7.8m increase in eligible own funds is driven by:

- Solvency II net assets increased by £9.6m:
  - SII profitability in the year of £4.8m which removes the impact of FinRe and DAC from the £35.8m IFRS profits for the year;
  - An increase in technical provision benefit of £3.1m when moving from IFRS to SII as a result of higher profits in the PTP; and
  - £1.7m higher DTA under SII compared to IFRS as described in D.1.1.2.
- £0.6m increase in the subordinated liabilities eligible as Tier 2 capital; and
- £2.4m reduction as the Tier 3 capital that is available to cover the SCR is restricted to 15% of the SCR. The DTA increased by £3.6m compared to last year and hence the capital restriction has increased.

E.1.3 Own funds classification by tiers

The table below shows the eligible own funds including the analysis of change over the year:

Year ended 30 June 2019	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**	**Total**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Ordinary share capital	4.0	0.0	0.0	0.0	4.0
Share premium	397.2	0.0	0.0	0.0	397.2
Reconciliation reserve	(302.6)	0.0	0.0	0.0	(302.6)
Subordinated debt	0.0	0.0	18.8	0.0	18.8
Deferred tax asset eligible for own funds covering SCR	0.0	0.0	0.0	14.2	14.2
Total eligible own funds to meet SCR	**98.6**	**0.0**	**18.8**	**14.2**	**131.6**
Less: Restrictions on eligible own funds to meet MCR	0.0	0.0	(14.1)	(14.2)	(28.3)
Total eligible own funds to meet MCR	**98.6**	**0.0**	**4.7**	**0.0**	**103.3**

Year ended 30 June 2018	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**	**Total**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Ordinary share capital	4.0	0.0	0.0	0.0	4.0
Share premium	397.2	0.0	0.0	0.0	397.2
Reconciliation reserve	(308.6)	0.0	0.0	0.0	(308.6)
Subordinated debt	0.0	0.0	18.2	0.0	18.2
Deferred tax asset eligible for own funds covering SCR	0.0	0.0	0.0	13.0	13.0
Total eligible own funds to meet SCR	**92.6**	**0.0**	**18.2**	**13.0**	**123.8**
Less: Restrictions on eligible own funds to meet MCR	0.0	0.0	(13.8)	(13.0)	(26.8)
Total eligible own funds to meet MCR	**92.6**	**0.0**	**4.4**	**0.0**	**97.0**

Analysis of Change	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**	**Total**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Ordinary share capital issued	0.0	0.0	0.0	0.0	0.0
Share premium issued	0.0	0.0	0.0	0.0	0.0
Reconciliation reserve	6.0	0.0	0.0	0.0	6.0
Subordinated debt	0.0	0.0	0.6	0.0	0.6
Deferred tax asset eligible for own funds covering SCR	0.0	0.0	0.0	1.2	1.2
Total movement in eligible own funds to meet SCR	**6.0**	**0.0**	**0.6**	**1.2**	**7.8**
Less: movement in restriction on eligible own funds to meet MCR	0.0	0.0	(0.3)	(1.2)	(1.5)
Total movement in eligible own funds to meet MCR	**6.0**	**0.0**	**0.3**	**0.0**	**6.3**

E.1.3.1 Tier 1 unrestricted

Tier 1 unrestricted funds comprised of ordinary share capital, share premium related to ordinary share capital and the reconciliation reserves. Tier 1 unrestricted capital includes high quality instruments with features such as permanence, subordination, undated, absence of redemption incentives, mandatory costs and encumbrances.

During the year, the Company did not issue any ordinary share capital.

The reconciliation reserve comprised of:

Year ended 30 June	2019	2018	Change
	£'m	£'m	£'m
Solvency II excess of assets over liabilities	**119.8**	**110.2**	**9.6**
Less other basic own fund items	(422.4)	(418.8)	**(3.6)**
Reconciliation reserve	**(302.6)**	**(308.6)**	**6.0**

Basic own fund items comprised of:

Year ended 30 June	2019	2018	Change
	£'m	£'m	£'m
Ordinary share capital	4.0	4.0	0.0
Share premium	397.2	397.2	0.0
Net deferred tax asset	21.2	17.6	3.6
Total basic own fund items	**422.4**	**418.8**	**3.6**

E.1.3.2 Tier 2

Subordinated debt

Total available Tier 2 own funds consists of a £18.8m subordinated liability at the reporting date.

£12.0m of the subordinated debt is a basic own fund item subject to transitional arrangements (see Section E.1.7). A long term subordinated loan has been provided to the Company by Vitality Health Insurance Limited. The loan is repayable in December 2020, and accrues interest at a floating rate of 400 basis points over 3 month GBP LIBOR. The subordinated loan is available, fully subordinated and forms a part of basic own funds.

£6.8m of the subordinated debt is a subordinated loan issued on the 31 December 2016. This is a long term subordinated loan provided to the Company by Discovery Holdings Europe Limited. The loan is repayable on January 2027, and accrues interest at a floating rate of 465 basis points over 3 month GBP LIBOR. The subordinated loan is available, fully subordinated and forms a part of basic own funds. This was approved by the PRA to be included in the Company's eligible own funds effective from 31 December 2016.

E.1.3.3 Tier 3

Total available Tier 3 own funds consist of the net deferred tax assets. This is consistent with Articles 76 and 77 of the Delegated Regulation and 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.

E.1.4 Eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers

The limits on eligible Tier 3 capital per Article 82 of the Delegated Regulation are the only restrictions on available own funds to meet the SCR. Total available Tier 3 own funds to meet the SCR are £21.2m. The eligible Tier 3 own funds to meet the SCR is reduced to £14.2m due to the limit of 15% of the SCR, a reduction of £7.0m. This leaves total eligible own funds to meet the SCR of £131.6m.

The eligible own funds over SCR ratio was 138.6% as at 30 June 2019.

E.1.5 Eligible amount of own funds to cover the Minimum Capital Requirement, classified by tiers

The total available own funds to meet the MCR are £117.3m. Tier 3 own funds cannot form part of total available own funds to meet the MCR. Article 82 of the Delegated Regulation limits Tier 2 items to 20% of the MCR and therefore this reduces the Tier 2 own fund items by £14.0m to £4.7m. The total eligible own funds to meet the MCR are £103.3m, with each Tier contributing the following: Tier 1 unrestricted £98.6m and Tier 2 £4.7m.

The eligible own funds over MCR ratio was 435.4% as at 30 June 2019.

E.1.6 Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

Total equity per the financial statements was £264.2m as at 30 June 2019. Excess of assets over liabilities as calculated for solvency was £119.8m. There are no differences between ordinary share capital or share premium related to ordinary share capital in the financial statements and the amount reported in basic own funds. The difference of £144.4m between the net assets of the Company in the financial statements 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. The adjustments are documented in Section D covering valuation of material assets and liabilities per Article 296 of Delegated Regulation. The summary of the adjustments to the Statutory Accounts Value to give the Solvency II value [S.02.01.01.C0010] are listed below:

Year ended 30 June	2019	2018
	£'m	£'m
IFRS net asset value	**264.2**	**228.4**
Add - Move to SII technical provision	48.0	44.8
Remove – Financial reinsurance asset under IFRS	(154.2)	(126.3)
Remove – Deferred acquisition costs under IFRS	(39.5)	(36.3)
Remove – Other IFRS valuation differences	(0.4)	(0.4)
Add – SII DTA adjustment	1.7	0.0
Total SII excess asset over liabilities	**119.8**	**110.2**

E.1.7 Basic own-fund items subject to transitional arrangements

The Tier 2 subordinated loan described in Section E.1.3.2 is subject to the transitional arrangements.

The subordinated loan agreement consisted of 4 tranches that were issued during the financial year to 30 June 2012, one of these tranches was repaid in full in June 2018. The value of the subordinated loan recognised in own funds at 30 June 2019 is £12.0m. The loan is repayable on 31 December 2020 and that is also the first and only call date. While the duration would ordinarily be insufficient to meet the requirements for classification as Tier 2 basic own funds, the loan is eligible for transitional recognition.

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

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

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

The table below shows the SCR and MCR year-end positions:

Year ended 30 June	2019	2018
	£'m	£'m
SCR	94.9	87.0
MCR	23.7	21.8

The overall SCR and MCR have increased slightly and this is in line with the business growth over the period. The next section outlines the movement in each risk module further.

E2.2 Solvency Capital Requirement split by risk modules

The Solvency Capital Requirement and Minimum Capital Requirement for the Company are set out in templates S.25.01.01 (Solvency Capital Requirement – for undertakings on standard formula) and S.28.01.01 (Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity) respectively. The templates provide for a split by risk modules. The Company applies the standard formula, without modification for undertaking-specific parameters, and has not used any simplifications allowed by the regulations. The final amounts remain subject to supervisory assessment. The Company has not received any imposed capital add-ons or imposed undertaking-specific parameters.

Following the calculations specified in the regulations, the calculation of the Company's 'combined minimum capital requirement' is less than 0.25 times the Solvency Capital Requirement and so the Minimum Capital Requirement is equal to 0.25 times the SCR.

Year ended 30 June	2019	2018	Change
	£'m	£'m	£'m
Market risk	7.9	3.3	4.6
Counterparty default risk	2.9	2.5	0.4
Health underwriting risk	80.5	72.5	8.0
Diversification	(7.7)	(4.2)	(3.5)
Operational risk	13.8	12.9	0.9
Loss-absorbing capacity of deferred taxes	(2.5)	0.0	(2.5)
SCR	**94.9**	**87.0**	**7.9**

The health underwriting risk module at 30 June 2019 contains non-SLT premium and reserve risk of £76.8m, non-SLT lapse risk of £23.9m, health catastrophe risk of £0.2m and a diversification benefit of £(20.4)m to result in the total of £80.5m shown above.

The SCR has grown by £7.9m driven by the movement of the following risk modules:

- £4.6m increase in market risk as a result of increase in investment in longer term assets such as bonds and the purchase of the Stockport property which is approximately 70% occupied for the benefit of the Company with the remainder occupied by third party tenants;
- £0.4m increase in counterparty default risk as a result of higher cash and debtor balances compared to the prior year;
- £8.0m increase in health underwriting risk driven by the growth in the business as observed in the greater earned premium, greater expectation of future earned premium and higher lapse risk from increased future profits in the premium technical provision;
- £0.9m increase in operational risk driven by the general growth in earned premium; and
- £2.5m decrease due to the inclusion of the loss-absorbing capacity of deferred taxes as described in Section C.
- £3.5m decrease in the result as our risk is less concentrated in health underwriting, meaning the standard formula defined correlations lead to a higher diversification benefit when compared to the prior year;

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

Not applicable

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

Not applicable

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

The Company has complied continuously with both the Minimum Capital Requirement and Solvency Capital Requirement throughout the reporting period.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

Not applicable

F ADDITIONAL VOLUNTARY INFORMATION

F.1 TRANSITIONAL INFORMATION

The Company has no other voluntary material information to disclose.

F.2 OTHER ADDITIONAL VOLUNTARY INFORMATION

The Company has no other voluntary material information to disclose.

G TEMPLATES

The templates are provided as an appendix to this document, following Section I. The Company 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
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own funds
S.25.01.21	Solvency Capital Requirement – for undertakings on standard formula
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

H DIRECTORS' RESPONSIBILITIES STATEMENT

Vitality Health Limited

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

Financial period ended 30 June 2019

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.

Neville Stanley Koopowitz
Director and Chief Executive Officer
Date: 25 September 2019

I EXTERNAL AUDIT REPORT

Report of the external independent auditors to the Directors of Vitality Health 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 Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 30th June 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30th June 2019, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**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 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', 'Risk profile' and 'Additional voluntary information' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01and S.19.01.21;
- 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 Solvency and Financial Condition Report of the Company as at 30th June 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the 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 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

ISAs (UK) require us to report to you where:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The 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 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 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 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 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 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 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 Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a 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 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 Solvency and Financial Condition Report is prepared, in all material respects, in accordance with 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 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 Solvency and Financial Condition Report.

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

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

25 September 2019

Vitality Health Limited

Solvency and Financial Condition Report

Disclosures

30 June

2019

(Monetary amounts in GBP thousands)

General information

Undertaking name	Vitality Health Limited
Undertaking identification code	213800D5I9HUP34WJ971
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	30 June 2019
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
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.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	21,217
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	9,688
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	135,263
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	60,991
R0140	*Government Bonds*	2,111
R0150	*Corporate Bonds*	58,879
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	64,006
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	10,266
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	6,100
R0280	*Non-life and health similar to non-life*	6,100
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	6,100
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	15,928
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	405
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	20,780
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	209,381

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	19,478
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	19,478
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	13,606
R0590	*Risk margin*	5,872
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	3,423
R0830	Reinsurance payables	6,056
R0840	Payables (trade, not insurance)	41,884
R0850	Subordinated liabilities	18,747
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	18,747
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	89,588
R1000	**Excess of assets over liabilities**	119,793

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	504,613																504,613
R0120	Gross - Proportional reinsurance accepted	0																0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share	81,230																81,230
R0200	Net	423,383																423,383
	Premiums earned																	
R0210	Gross - Direct Business	460,147																460,147
R0220	Gross - Proportional reinsurance accepted	0																0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share	76,070																76,070
R0300	Net	384,077																384,077
	Claims incurred																	
R0310	Gross - Direct Business	253,560																253,560
R0320	Gross - Proportional reinsurance accepted	0																0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share	58,992																58,992
R0400	Net	194,568																194,568
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0																0
R0420	Gross - Proportional reinsurance accepted	0																0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share	0																0
R0500	Net	0																0
R0550	**Expenses incurred**	155,565																155,565
R1200	**Other expenses**																	
R1300	**Total expenses**																	155,565

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	504,613						504,613
R0120	Gross - Proportional reinsurance accepted	0						0
R0130	Gross - Non-proportional reinsurance accepted	0						0
R0140	Reinsurers' share	81,230						81,230
R0200	Net	423,383	0	0	0	0	0	423,383
	Premiums earned							
R0210	Gross - Direct Business	460,147						460,147
R0220	Gross - Proportional reinsurance accepted	0						0
R0230	Gross - Non-proportional reinsurance accepted	0						0
R0240	Reinsurers' share	76,070						76,070
R0300	Net	384,077	0	0	0	0	0	384,077
	Claims incurred							
R0310	Gross - Direct Business	253,560						253,560
R0320	Gross - Proportional reinsurance accepted	0						0
R0330	Gross - Non-proportional reinsurance accepted	0						0
R0340	Reinsurers' share	58,992						58,992
R0400	Net	194,568	0	0	0	0	0	194,568
	Changes in other technical provisions							
R0410	Gross - Direct Business	0						0
R0420	Gross - Proportional reinsurance accepted	0						0
R0430	Gross - Non-proportional reinsurance accepted	0						0
R0440	Reinsurers' share	0						0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	155,565						155,565
R1200	**Other expenses**							
R1300	**Total expenses**							155,565

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0																0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0																0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	-16,008																-16,008
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-21																-21
R0150	**Net Best Estimate of Premium Provisions**	-15,987																-15,987
	Claims provisions																	
R0160	Gross	29,614																29,614
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	6,121																6,121
R0250	**Net Best Estimate of Claims Provisions**	23,493																23,493
R0260	**Total best estimate - gross**	13,606																13,606
R0270	**Total best estimate - net**	7,506																7,506
R0280	**Risk margin**	5,872																5,872
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole	0																0
R0300	Best estimate	0																0
R0310	Risk margin	0																0
R0320	**Technical provisions - total**	19,478																19,478
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	6,100																6,100
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	13,378																13,378

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	2010	0	0	0	36	30	10	0	0	0	0		0	76
R0170	2011	0	0	234	53	20	5	0	0	0			0	313
R0180	2012	0	8,045	223	34	512	0	0	0				0	8,815
R0190	2013	91,676	10,721	196	45	400	0	0					0	103,038
R0200	2014	116,695	17,081	381	62	3	0						0	134,221
R0210	2015	172,426	55,868	1,064	74	24							24	229,455
R0220	2016	233,377	32,209	791	71								71	266,447
R0230	2017	225,775	21,254	720									720	247,750
R0240	2018	214,759	19,606										19,606	234,365
R0250	2019	235,534											235,534	235,534
R0260												**Total**	255,955	1,460,016

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	2010	0	0	0	6	0	0	0	0	0	0		0
R0170	2011	0	0	42	3	0	0	0	0	0			0
R0180	2012	0	275	31	0	2,594	0	0	0				0
R0190	2013	11,953	179	19	1	1,809	0	0					0
R0200	2014	17,216	210	33	0	1,388	0						0
R0210	2015	50,754	503	1,492	381	1,121							1,119
R0220	2016	40,573	2,855	445	11								11
R0230	2017	31,787	1,692	73									73
R0240	2018	23,245	626										625
R0250	2019	27,837											27,787
R0260												**Total**	29,614

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	4,013	4,013		0	
R0030	Share premium account related to ordinary share capital	397,238	397,238		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-302,674	-302,674			
R0140	Subordinated liabilities	18,747		0	18,747	0
R0160	An amount equal to the value of net deferred tax assets	21,217				21,217
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	138,540	98,576	0	18,747	21,217
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	138,540	98,576	0	18,747	21,217
R0510	Total available own funds to meet the MCR	117,323	98,576	0	18,747	
R0540	Total eligible own funds to meet the SCR	131,561	98,576	0	18,747	14,238
R0550	Total eligible own funds to meet the MCR	103,322	98,576	0	4,746	
R0580	**SCR**	94,921				
R0600	**MCR**	23,730				
R0620	**Ratio of Eligible own funds to SCR**	138.60%				
R0640	**Ratio of Eligible own funds to MCR**	435.40%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	119,793
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	422,467
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-302,674
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	59,704
R0790	**Total Expected profits included in future premiums (EPIFP)**	59,704

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	7,870		
R0020	Counterparty default risk	2,945		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	80,472		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-7,662		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	83,625		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	13,804
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-2,508
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	94,921
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	94,921
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

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

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

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

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	20,505

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	7,506	428,772
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		0

	Overall MCR calculation	C0070
R0300	Linear MCR	20,505
R0310	SCR	94,921
R0320	MCR cap	42,715
R0330	MCR floor	23,730
R0340	Combined MCR	23,730
R0350	Absolute floor of the MCR	2,222
R0400	**Minimum Capital Requirement**	23,730