

Sharing the benefits  
of healthy living



# Solvency and Financial Condition Report.

**Vitality Health Limited**  
for the year ended 30 June 2023



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# SUMMARY

## 1 BUSINESS AND PERFORMANCE SUMMARY

### Company overview

Vitality Health Limited ("the Company", "VHL", "VitalityHealth") is a UK private medical insurer. VHL is part of the Discovery Group ("Discovery"), a global provider of insurance and financial services solutions, with operations in 40 countries and with over 30 million lives impacted worldwide. In its most recent financial year, Discovery generated annualised new business premium income of over £1bn.

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

### The Vitality model

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

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

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

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

increased activity was sustained over time. The report can be accessed [here](https://www.rand.org/pubs/research_reports/RR2870.html)<sup>1</sup>. The success of the Active Rewards program has led Discovery and its global insurance partners to develop an ambitious pledge to get 100 million people 20% more active by 2025.

2022-23 has seen a return to pre-pandemic members' engagement patterns in many respects, although some changes expected have persisted. For instance, the continued use of remote-working has led to an increased demand for both home-workout solutions, and also for gym locations closer to home as well as closer to the workplace. Targeting this trend, Vitality launched a PureGym partnership in January 2022 which has seen high levels of member take-up.

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

Sustainability is embedded into Vitality's culture and decision making. Vitality has committed to achieving carbon neutrality in its operations by 2025 with a longer-term ambition to achieve Net Zero emissions by 2050 or earlier. Vitality will publish a transition plan by 2025 and set interim Net Zero targets for 2030, in order to decarbonise its operations. Vitality continues to mature and embed its approach to the PRA's supervisory statement SS3/19 on managing the financial risks from climate change and has developed its Task Force on Climate-Related Financial Disclosures ("TCFD") report. Vitality is driving positive change through collaborating with key stakeholders such as suppliers, Vitality partners, charities, sponsors, asset managers and advisers. Vitality recognises that through its unique Vitality programme, the business can positively influence members' behaviours. Through these actions, and more, Vitality will set itself on a path to net zero emissions.

## Business overview

VHL is a United Kingdom regulated entity authorised to carry out short-term health insurance business. Discovery, the ultimate parent company, is an established and successful international insurance group equivalent in size 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 Limited ("Prudential", "PAC"). In November 2014 Discovery acquired the shares held by Prudential and owns 100% of Vitality Health Limited. VHL is 100% owned by Vitality Health Insurance Limited and in February 2020, Vitality Health Insurance Limited became 100% owned by Vitality Life Limited.

The Company continues to produce its financial statements in accordance with UK-adopted International Financial Reporting Standards ("IFRS"). In the year to 30 June 2023 on an IFRS basis the Company produced a pre-tax profit of £59.3m (2022: £64.3m).

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. As a result of the adoption of IFRS 17 at 1 July 2023, all of the financial reinsurance treaties were cancelled with effect from 1 July 2023 (see Section A.4.1). 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), short-term deposits, cash and deposits held with major UK banks and investment grade corporate and government bonds.

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<sup>1</sup> [https://www.rand.org/pubs/research\\_reports/RR2870.html](https://www.rand.org/pubs/research_reports/RR2870.html)

## Product overview

Details on Vitality's key product benefits are provided below.

### 1. Full Cover Promise

We want our members to have the peace of mind that they are covered in full. As part of our Core Cover, we promise to pay for Vitality recognised consultants' and anaesthetists' fees in full for in-patient and day-patient treatment. This means that members will never be faced with a shortfall, provided their treatment is eligible and that the consultants have either agreed to our tariff structure or our collective data can evidence that they deliver on cost-effective quality of care.

### 2. Digital Care Access

When members are seeking care, we empower them to access the support and treatment they need through a range of primary and digital care services. Vitality GP provides access to virtual GP consultations, as well as prescriptions and digital diagnostics. Members can also self-refer online or by phone into face-to-face or remote physiotherapy or mental wellbeing treatments like Cognitive Behavioural Therapy. They can request care and manage their claims through the online Care Hub, putting them in control of their treatment journey.

### 3. Advanced Cancer Cover and screenings

All VitalityHealth Personal and Business Healthcare plans include Advanced Cancer Cover. This provides comprehensive cover for the treatment of the cancer, including full cover for biological and targeted therapies, as well as discounts on targeted cancer screenings and risk assessments for breast, bowel and cervical cancer. The product also provides access to palliative care as well as to a cancer recovery partner, OnkoHealth, that provides nutritional, exercise and psychological support to members during their cancer journeys to optimise their recovery and health state in 'living with cancer'.

### 4. Mental Health Support

We offer a comprehensive end-to-end approach to mental health – from prevention and maintenance to early intervention, and comprehensive treatment for more severe conditions. As part of Core Cover, members have access to the Vitality Programme and Vitality Healthy Mind, as well as eight Talking Therapies sessions. Plus, our Mental Health cover option provides additional comprehensive cover for out-patient, in-patient and day-patient treatment. All members have access to mental health support through talking therapies and there are no exclusions applied for using this support.

### 5. Vitality Programme

All members get access to the Vitality Programme, which is evidenced to drive improvements in physical activity<sup>2</sup> and long-term health, with engaged members benefiting from an additional 1.5 years of improved life expectancy<sup>3</sup> due to their healthier lifestyle choices. Members get the tools to help understand their health risks and engage in healthy behaviour, as well as the incentive to do so through compelling discounts and rewards.

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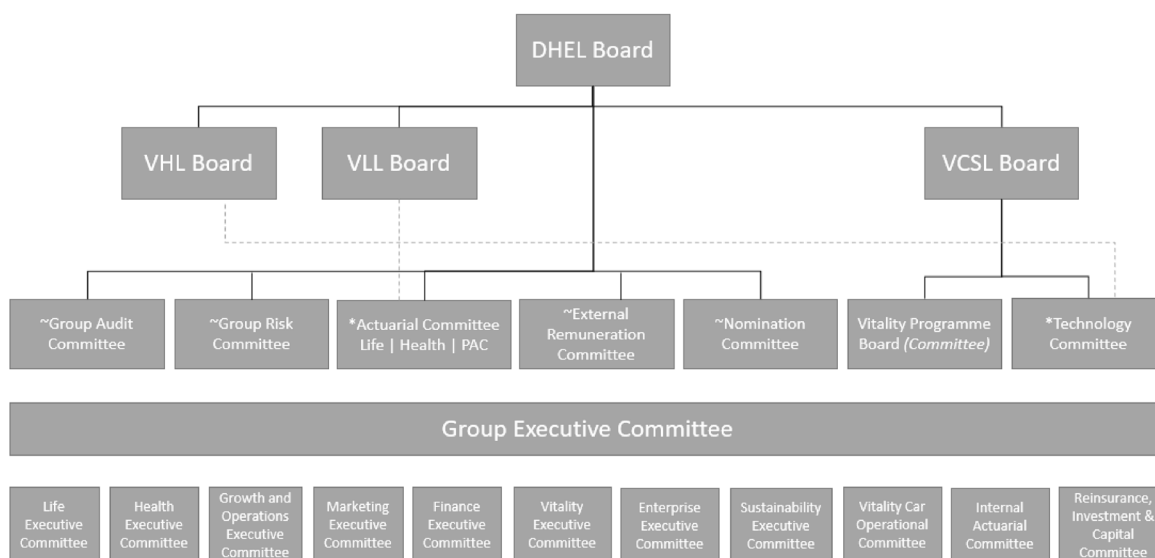
<sup>2</sup> [https://www.rand.org/pubs/research\\_reports/RR2870.html](https://www.rand.org/pubs/research_reports/RR2870.html)

<sup>3</sup> Vitality internal data

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.

This system of governance is common to all of Vitality's UK businesses, including Health, Life, Invest and Car as well as the Vitality programme.

## Overview of the Board, Board Sub-Committees and Advisory Committees



~ Responsibilities for all UK operating entities

The Committees report to the Group Board and Boards of VLL and VHL where appropriate. The roles and responsibilities of these Committees are outlined in Section B.1.1. Changes in the Directors of the business and individuals in positions of influence 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 Group adopts the ‘three lines of defence’ governance model:

## The 1st line of defence – business management

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



### The 2nd line of defence – oversight

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

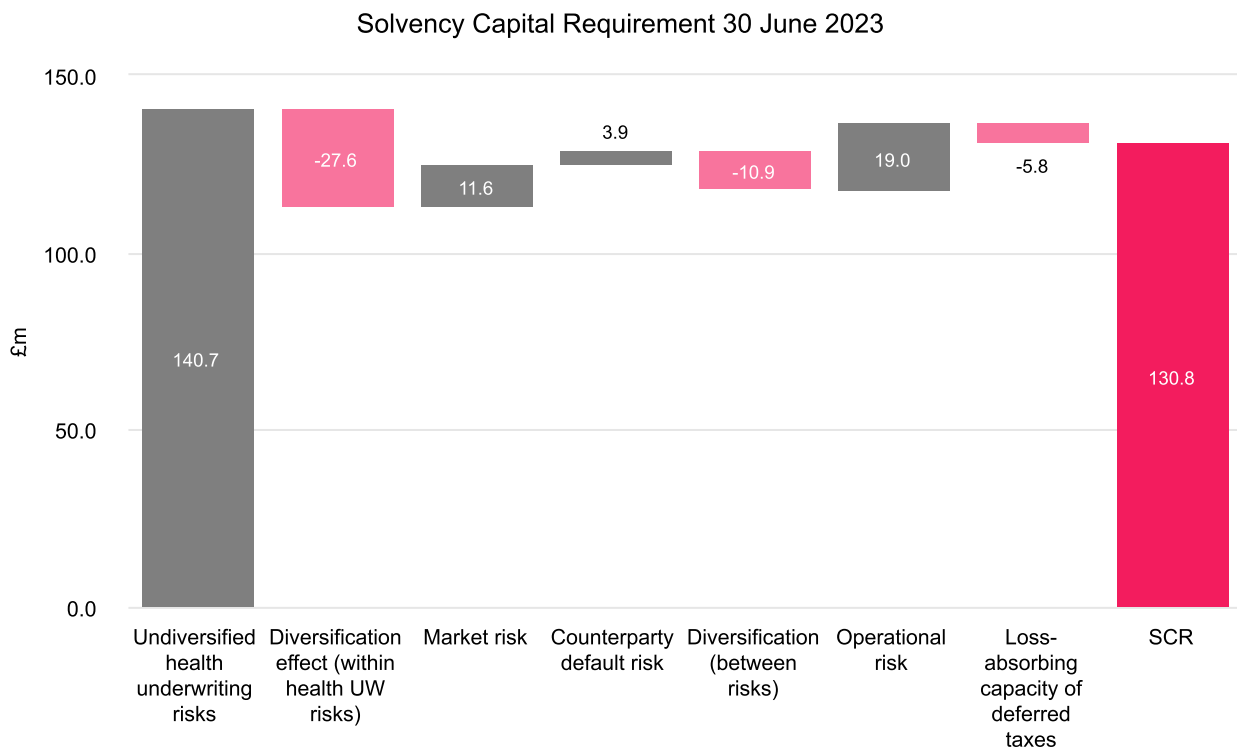
### The 3rd line of defence – assurance

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

## 3 RISK PROFILE SUMMARY

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

The Company's risk profile drives its Solvency Capital Requirement ("SCR"). The chart below shows the split of the Company's SCR at 30 June 2023, which totals £130.8m.



There has been no material change to how the SCR of the Company is broken down, as health underwriting risk remains the biggest risk followed by operational risk and then market risk. The Company does not have significant exposure to counterparty default risks. The detailed description of each risk is found in Section C.

The key movement in the SCR over the year has been driven by the increase in underwriting risk due to the growth in the business's premium volume. The description of these movements is covered in Section C.

The Company carries out sensitivity testing, and in each sensitivity conducted, the business maintained SCR coverage of over 100% within the business planning timeline. The Company also carries out stress and scenario testing, including reverse stress testing, as part of its Own Risk and Solvency Assessment ("ORSA") process.



## 4 SUMMARY OF VALUATION FOR SOLVENCY PURPOSES

The rules regarding the valuation for solvency purposes, known as Solvency II, requires a market consistent approach in the valuation of assets and liabilities. This approach creates a number of differences when compared with the financial statements prepared under IFRS. The valuation differences are:

- Replacing the IFRS technical provisions with Solvency II technical provisions;
- The removal of FinRe assets recognised in IFRS;
- The removal of the deferred acquisition cost ("DAC") asset recognised in IFRS;
- The removal of other minor IFRS asset differences; and
- The difference in valuation of the deferred tax assets ("DTA") recognised under Solvency II.

The table below summaries each of the valuation differences in 2023 and 2022:

Year ended 30 June	2023	2022
	£'m	£'m
<b>IFRS net asset value</b>	<b>408.2</b>	<b>358.2</b>
Add – Move to Solvency II technical provision	66.9	68.6
Remove – Financial reinsurance asset under IFRS	(245.9)	(198.5)
Remove – Deferred acquisition costs under IFRS	(53.3)	(49.0)
Remove – Other IFRS valuation differences	(0.1)	(0.3)
Add – Solvency II DTA adjustment	14.7	28.3
<b>Total Solvency II excess asset over liabilities</b>	<b>190.5</b>	<b>207.3</b>

Overall, the total Solvency II excess assets over liabilities has decreased throughout the financial year, although eligible own funds for backing the SCR has increased, as discussed below. There has been an increase in the FinRe asset balance which is used to support the strong growth in new business seen over the last year, as well as a decrease in the Solvency II DTA due updates to the probability weighted projection of future profits available to support the DTA. More detail is provided in Section D.

## 5 CAPITAL MANAGEMENT SUMMARY

The objective of own funds management is to hold sufficient capital to ensure the SCR coverage ratio is within the Company's risk appetite. The Company calculates its SCR using the standard formula approach and has analysed the risk profile of the business to confirm that it is fit for purpose.

The tables below show the change in both the SCR and Minimum Capital Requirement ("MCR") coverage ratios over the past financial year. There has been an increase in the Company's SCR and MCR as well as an increase in the Company's eligible own funds. The increase in the Company's SCR and MCR is larger than the increase in the Company's eligible own funds hence the SCR and MCR coverage ratios have both decreased over the past year.

Year ended 30 June	2023	2022
	£'m	£'m
<b>Eligible own funds to meet the SCR</b>	<b>185.9</b>	<b>181.0</b>
Tier 1	166.3	163.4
Tier 2	—	—
Tier 3	19.6	17.6
<b>Solvency Capital Requirement</b>	<b>130.8</b>	<b>117.2</b>
<b>SCR coverage ratio</b>	<b>142.1%</b>	<b>154.5%</b>

The increase in the SCR is mainly driven by the strong business growth seen over the past year, which is discussed further in Section 4. The increase in the eligible own funds is detailed in section E.1.2. Other contributors to the increase in the SCR include movements in market and concentration risks due to

increases in the risk free rate and the Company's move towards a short-term deposit focussed investment strategy respectively.

The table below summarises the MCR ratio movement over the past year. The MCR coverage ratio has decreased due to a greater increase in the MCR relative to the increase in the eligible own funds to meet the MCR. The reasons for these movements are the same as for the SCR.

Year ended 30 June	2023	2022
	£'m	£'m
<b>Eligible own funds to meet the MCR</b>	<b>166.3</b>	<b>163.4</b>
Tier 1	166.3	163.4
Tier 2	—	—
Tier 3	—	—
<b>Minimum Capital Requirement</b>	<b>32.7</b>	<b>29.3</b>
<b>MCR coverage ratio</b>	<b>508.3%</b>	<b>557.9%</b>

# A BUSINESS AND PERFORMANCE

## A.1 BUSINESS

### A.1.1 Name and legal form of the undertaking

Vitality Health Limited (“the Company”, VHL”) is incorporated in England and Wales and is a company limited by shares. The address of the registered office is:

3 More London Riverside

London

SE1 2AQ

This Solvency and Financial Condition Report (“SFCR”) covers the Company 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, an insurance holding company which has its head office in the United Kingdom which is the top-most undertaking within the scope of Solvency II; and
- Discovery Limited, the ultimate insurance holding company, has its head office in the Republic of South Africa, a country outside the scope of Solvency II.

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 17 December 2021, 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 Prudential Authority. The South African Prudential Authority can be contacted at:

Prudential Authority

South African Reserve Bank

370 Helen Joseph Street

Pretoria

South Africa

0002

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

Prudential Regulation Authority

Bank of England

Threadneedle Street

London

EC2R 8AH

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

The independent auditors of the Company are:

KPMG

Chartered Accountants and Statutory Auditors

15 Canada Square

London

E14 5GL

### **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 Section A.1.5):

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

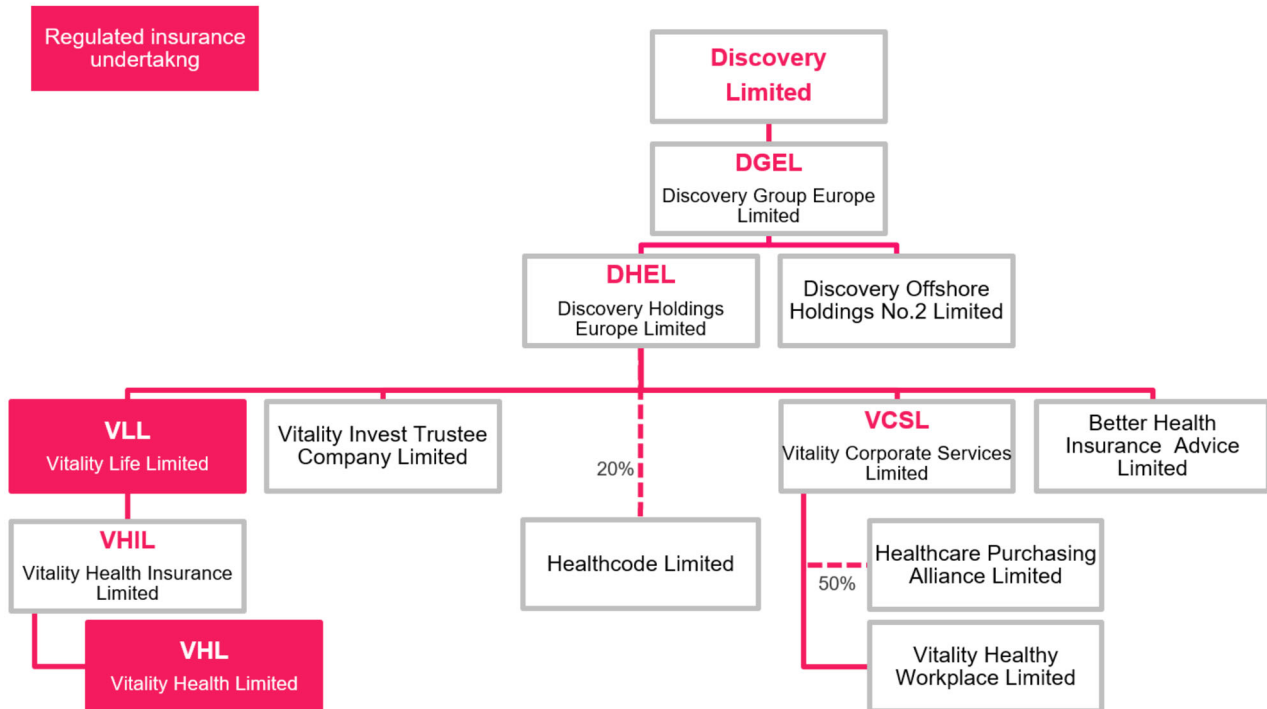
The Company is an insurance subsidiary undertaking of Discovery Limited, the ultimate world-wide parent undertaking and Discovery Group Europe Limited, the top-most undertaking within the scope of the Solvency II regulations. A list of related undertakings within the Discovery Group Europe Limited group are shown below.

Vitality Health Limited

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
<b>Discovery Limited</b>	Limited by shares	South Africa			
<b>Discovery Group Europe Limited</b>	Limited by shares	England and Wales	Discovery Limited	100%	100%
<b>Discovery Offshore Holdings No.2 Limited</b>	Limited by shares	England and Wales	Discovery Group Europe Limited	100%	100%
<b>Discovery Holdings Europe Limited</b>	Limited by shares	England and Wales	Discovery Group Europe Limited	100%	100%
<b>Vitality Invest Trustee Company Limited</b>	Limited by shares	England and Wales	Discovery Holdings Europe Limited	100%	100%
<b>Better Health Insurance Advice Limited</b>	Limited by shares	England and Wales	Discovery Holdings Europe Limited	100%	100%
<b>Vitality Life Limited</b>	Limited by shares	England and Wales	Discovery Holdings Europe Limited	100%	100%
<b>Vitality Corporate Services Limited</b>	Limited by shares	England and Wales	Discovery Holdings Europe Limited	100%	100%
<b>Vitality Health Insurance Limited</b>	Limited by shares	England and Wales	Vitality Life Limited	100%	100%
<b>Healthcode Limited</b>	Limited by shares	England and Wales	Discovery Holdings Europe Limited	20%	20%
<b>Vitality Health Limited</b>	Limited by shares	England and Wales	Vitality Health Insurance Limited	100%	100%
<b>Healthcare Purchasing Alliance Limited</b>	Limited by shares	England and Wales	Vitality Corporate Services Limited	50%	50%
<b>Vitality Healthy Workplace Limited</b>	Limited by shares	England and Wales	Vitality Corporate Services Limited	100%	100%

## Vitality Health Limited

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



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

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

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

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

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

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

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

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

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

The Company only has one material line of business, that is medical expense insurance. All business is conducted in the United Kingdom.

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

Financing reinsurance was an important part of the Company's strategy prior to the implementation of IFRS 17 reporting on 1 July 2023. 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 Company has fourteen cashless treaties in place as at 30 June 2023. The amount of new cashless financing received in the year to 30 June 2023 was £61.6m (June 2022: £51.4m). Two years ago, a number of reinsurance treaty amendments were signed with the reinsurers. This was to change the repayment profile of the treaties to reflect the economic profile of the reinsured business due to the pandemic. As a result of the adoption of IFRS 17 at 1 July 2023, all of the financial reinsurance treaties were cancelled with effect from 1 July 2023 (see Section A.4.1).

The uncertainty around claims experience continues as the challenges facing the NHS since late 2022 are persisting. The demand for private medical insurance is high, with more individuals and companies looking for ways to protect their health and wellbeing after the COVID-19 pandemic. Further, members are utilising private medical insurance differently, such as accessing GP appointments previously accessed in the NHS. Whilst the increased utilisation of private medical insurance is seen across the industry, Vitality remains well placed to provide a wide range of services to members alongside an expanded availability of Vitality GP appointments. The Company has continued to grow throughout this period which demonstrates that members continue to experience value and utility in our product.

The Company increased its investments in short-term deposits over the year, as the Company moved its investments to better match its risk appetite and limit exposure to changes in corporate bond values.

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

## A.2 UNDERWRITING PERFORMANCE

The financial statements have been prepared on the going concern basis and in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and therefore the underwriting performance information given in this section is presented on an IFRS basis. The IFRS presentation of underwriting performance also aligns closely to how management views the financial performance of the Company.

The table below shows the Company's IFRS premiums, claims and expenses for the period ended 30 June 2023. For Solvency II purposes, all of the Company's business is defined as "medical expenses insurance".

Year ended 30 June	2023	2022	Change
	£'m	£'m	£'m
Gross earned premium	634.6	557.2	77.4
Reinsurance share of premium	(99.8)	(76.7)	(23.1)
Gross claims incurred	(340.9)	(281.6)	(59.3)
Reinsurance share of claims	85.4	67.2	18.2
Expenses	(225.2)	(200.6)	(24.5)
<b>Underwriting result</b>	<b>54.1</b>	<b>65.5</b>	<b>(11.4)</b>
Investment and other income	5.2	(0.7)	5.9
Unsubordinated loan interest	—	(0.2)	0.2
Subordinated loan interest	—	(0.2)	0.2
<b>IFRS profit before tax</b>	<b>59.3</b>	<b>64.4</b>	<b>(5.1)</b>



Other than the factors mentioned in Section A.1.7 above, strong growth has also resulted in additional new business acquisition expenses, which are a driver of the higher overall expenses seen over the year. Thus, overall the Company's underwriting performance decreased over the year mainly as a result of the additional new business strain.

The IFRS profits shown include the benefit of FinRe and deferred acquisition costs ("DAC") used under IFRS 4 to offset the impact of new business strain. As a result of the adoption of IFRS 17 at 1 July 2023, all of the financial reinsurance treaties were cancelled with effect from 1 July 2023. However, the benefits 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 30 June 2023:

#### 1. **Collective investment undertakings** (£110.0m, 30 June 2022: £126.0m)

Funds invested in short-term money market funds have decreased as the Company increased investment in short-term deposits, discussed below. In the year, the Company also received £2.3m of investment income over the period (£0.4m in prior year). No material expenses were incurred in respect of these assets.

#### 2. **Cash and cash equivalents** (£12.4m, 30 June 2022: £9.7m) **and Short-term deposits** (£50.9m, 30 June 2022: £29.7m)

Cash and cash equivalents relate to amounts held in the Company's own bank accounts. The amount held increased by £2.7m over the year. The Company increased its investments in short-term deposits over the year by £20.5m, as the Company moved its investments to better match its risk appetite and limit exposure to changes in corporate bond values. These assets generated £1.4m of interest income during the current year (£0.0m in prior year). No material expenses were incurred in respect of these assets.

#### 3. **Bonds** (£24.6m, 30 June 2022: £30.8m)

The Company is invested in funds with exposure to a range of corporate bonds. All bond issues are Sterling denominated and have an average duration of less than 4 years. During the year, the Company decreased exposure towards investment grade bonds by £(6.2)m. Maturing bonds were not reinvested. An investment loss of £1.7m together with £0.2m of investment management expenses were incurred in the year (2022: net combined investment loss of £3.9m). In addition, £1.7m of interest was earned on the bonds in the year (2022: £1.6m).

Vitality has continued to take steps to reduce the carbon intensity of its investment portfolio. This portfolio is managed by asset managers who have adopted principles for responsible investment and engage with companies on our behalf.

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

All gains and losses are recognised in the statement of comprehensive income.

### A.3.3 Information about any investments in securitisation

The Company does not have any direct investments in securitisations.

## A.4 PERFORMANCE OF OTHER ACTIVITIES

### A.4.1 Other material income and expenses

Financing reinsurance was an important part of the Company's strategy prior to the implementation of IFRS 17 reporting on 1 July 2023. 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 £47.4m of income compared to £42.5m of income in the prior year. The higher sales seen over the financial year resulted in more new financing reinsurance being taken than in the previous year. Two years ago, a number of reinsurance treaty amendments were signed with the reinsurers. This was to change

the repayment profile of the treaties to reflect the economic profile of the reinsured business due to the pandemic.

The Company terminated all reinsurance based financing quota share treaties on 1 July 2023, after the end of the reporting period, due to the impact of IFRS 17 on the Company's reinsurance strategy. The IFRS 4 valuation of the reinsurance based financing asset in respect of these treaties was £246.0m as at 30 June 2023. The transition to IFRS 17 revalued this asset retrospectively to nil on 1 July 2023. The termination on 1 July 2023, following the retrospective revaluation under IFRS 17, is expected to have a nil impact in the financial year commencing 1 July 2023.

In November 2022, the Company paid a dividend of £12.5m through VHIL to VLL. In June 2023, the Company issued 150,000 ordinary shares which were all purchased by Vitality Health Insurance Limited and carried a share premium of £14.9m. The shares were issued on the following dates: 9 June 2023 (100,000) and 29 June 2023 (50,000).

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

#### **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 acts as a lessor and recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

#### **A.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION**

No other information is provided.

# B SYSTEM OF GOVERNANCE

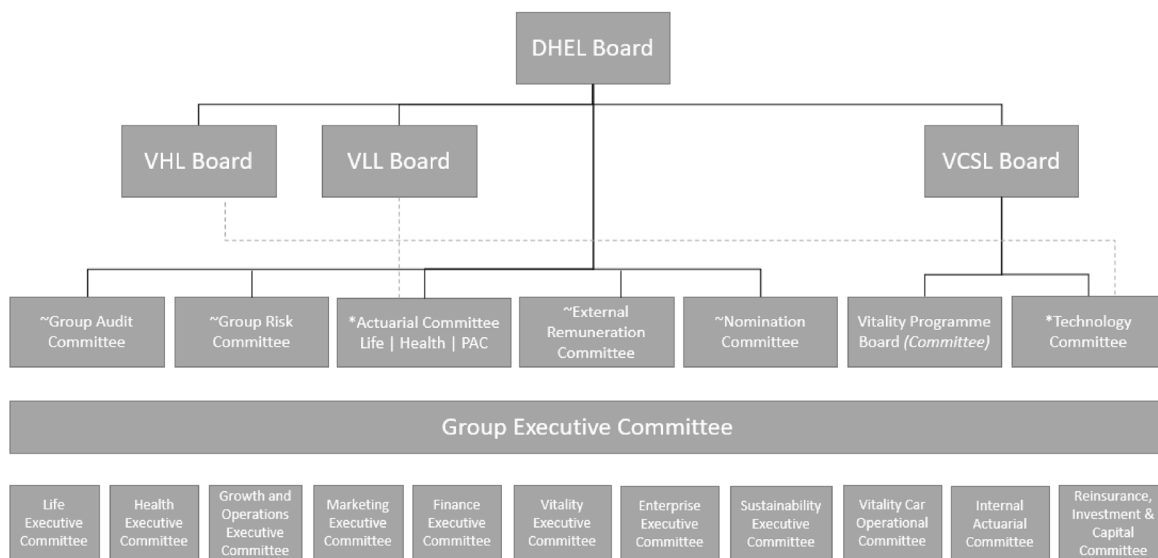
## B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The system of governance outlined in this section is common to all of Vitality's UK businesses, including Health, Life, Invest and Car as well as the Vitality programme. For an overview of the legal structure of Vitality's companies see section A.1, above. This provides consistency within an efficient framework while ensuring that the individual Companies meet their individual statutory and regulatory requirements.

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

The core purpose of Vitality 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 sound uncompromising good governance are observed.

#### Overview of the Board, Board Sub-Committees and Advisory Committees



\* Advisory Committee

~ Responsibilities for all UK operating entities

The Committees report to the Group Board and other Boards as appropriate.

### The Board

The Company Board ("the Board") is ultimately responsible for the performance and strategy of the Company. It may delegate responsibility for particular matters to one or more Committees of the Board, but it does not absolve itself from its own responsibility for the Company.

#### It is the Board's responsibility to:

- Ensure that the Company has an effective system of internal control and management of business risks and that they are conducted in accordance with the regulators' principles for business;
- Validate that the solvency capital requirement calculation is appropriate for the Company and the output from it is used effectively;
- Ensure that the statutory required minimum solvency margin is maintained for the Companies at all times and that the solvency capital requirements and minimum capital requirements are maintained at all times;

- Ensure that the Risk and Compliance function and internal and external auditors are capable of undertaking their duties;
- Determine the strategy and approve the business plan;
- Ensure that an integrated system of planning and budgeting is established within each Company to ensure that it can efficiently and effectively achieve its strategic objectives;
- Ensure that an appropriate Sustainability strategy is determined for the Company including ensuring there is effective oversight of the management of the Companies' financial and other risks related to climate change;
- Ensure that the composition of the Boards are reviewed and recommendations for amendments are made to the Shareholder to reflect current and future business requirements of the Group;
- Ensure that the Companies' values and priorities are established and known throughout the Group, and the strategic decisions relating to the Group's People are overseen;
- Ensure that each Board is able to provide sound and prudent management of its particular businesses, with appropriate documentary evidence of its ability to provide this management;
- Ensure there is an adequate succession plan in place for the Group, and that the Group is meeting its diversity objectives;
- Approve the Annual Consumer Duty Board Report; and
- Receive quarterly Consumer Duty updates within the CEO and CRO report at the respective Boards.

## 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 membership consists of a minimum of three independent Non-Executive Directors, with members of senior management attending the meeting. Only Members of the Committee can vote on matters and a quorum of two is required for all decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, investments, accounting, economics and management skills.

The Committee meets a minimum of 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 and monitoring plans;
- Recommend to the Boards, 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 Boards, 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 Companies;
- Oversee the periodic review of the format, content and frequency of risk information;

- Review MI and challenge any conduct issues in relation to VCSL's Sales channels including Appointed Representatives and the employed sales channels across the business;
- Receive, review and challenge summary reports from the Unit-linked Committee, 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;
- Oversee the management of the Companies' sustainability risks, including the management of risks from climate change, with a particular focus on climate related financial risks;
- Review and if appropriate, recommend approval to the Board of the Annual Consumer Duty Board Report;
- Review and if appropriate, recommend approval to the Board, the Annual Consumer Duty KRIs; and
- Consider quarterly updates on Consumer Duty within the Group Compliance Directors report and the CRO report and challenge where appropriate.

### 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 membership consists of a minimum of three independent Non-Executive Directors, with members of senior management attending the meeting. Only the Members of the Committee can vote on matters and a quorum of two is required for all decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, investment, accounting, economics and management skills.

The Committee meets a minimum of 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 Compliance and Internal Audit Function leaders and with external audit without members of management present.

### The responsibilities of the Audit Committee are to:

- Review of Financial Reporting: 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; and
  - The accounting for significant, unusual or complex transactions or items.
- The Committee reviews the Company's systems of internal financial controls, including receiving reports from management on the effectiveness of the systems they have established and the results of controls and testing carried out by Internal and External Audit;
- Oversee the work of Internal Audit by reviewing:
  - The Internal Audit Charter to ensure it is fit for purpose for the business;
  - The scope of the Internal Audit plan and the process for developing it. It monitors progress against the plan throughout the year;
  - Internal Audit reports, in particular any significant findings; and reviews the responses from management to audit recommendations and their progress and timeliness in implementing them; and

- The resources available to the Chief Internal Auditor. It reviews the effectiveness of internal audit and confirms that it has the level of expertise, experience and quality appropriate to the business. It oversees the use of third party resources to assist the Internal Audit function.
- The Committee assists the Board in appointing the Chief Internal Auditor, who reports directly to the Chair of the Committee, including for performance evaluation and compensation;
- Oversee the performance of the external auditors, including:
  - Review of the external audit plan;
  - Review of the independence of the auditors and their proposed fees, making recommendations to the Board; and
  - Reports from the auditors on the preparation of the Company's financial results and financial statements; their letters to management; and management's responses and their progress and timeliness in implementing recommendations.
- The Committee reviews and approves the Combined Assurance Plan covering Compliance, Risk and Internal Audit to ensure that the assurance functions' activities are coordinated and operating effectively; and reviews progress against it:
  - The Committee reviews and challenges Compliance and Risk monitoring reports and monitors progress of the implementation of recommendations;
  - The Financial Crime Committee ("FCC") is a sub-committee of the Committee and the Committee receives and reviews a summary of matters arising from the FCC. The Committee reviews the reporting of financial crime and the annual Money Laundering Reporting Officer report and receives reports of any significant incidents of fraud; and
  - The Committee should review whistle-blowing procedures and policies and receive regular reports on issues raised by whistleblowers and on their resolution; and
- Consider the impact of Consumer Duty where relevant.

### Actuarial Committee

The objective of the Actuarial Committee is to assist the Board of Directors of the Company in discharging their fiduciary duties towards Policyholders, Regulators and Shareholders by ensuring that actuarial matters are given appropriate attention.

The Committee membership consists of an independent Non-Executive Director (the Chair), at least one other Non-Executive Director and at least one independent Actuary. Executive and senior management attend the Committee by invitation. The Chair of the Committee is an independent Non-Executive Director with extensive actuarial experience, who has a position on the Board and reports at each Board meeting on the activities of the Committee, as well as to the Risk Committee and Audit Committee as required.

#### The responsibilities of the Actuarial Committee include:

- On behalf of the Board, to review matters relating to the Company of an actuarial nature and, as appropriate, report on, advise and/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 Own Risk and Solvency Assessment ("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 overall underwriting policy in accordance with 6.1(1)(g) of Conditions Governing Business of the PRA Rulebook;
- Receive, review and report to the Board on the opinion to be expressed by the Actuarial Function on the adequacy of the reinsurance arrangements in accordance with 6.1(1)(h) of Conditions Governing Business of the PRA Rulebook;
- Receive, review and, if appropriate, recommend approval by the Board of the annual report from the Actuarial Function produced in accordance with the PRA Rulebook;
- To make recommendations to the Discovery Limited Actuarial Committee on the Company's embedded value assumptions and methodologies on behalf of the Boards of the Companies within scope;
- Review the performance of the Chief Actuary and actuarial function and report this to the Board and Remuneration Committee, as appropriate; and
- Consider the impact of Consumer Duty where relevant, and specifically the pricing aspects contained within the Consumer Duty Board Report.

### Technology Committee

The purpose of the Committee is to assist the Board of Directors with overseeing the IT operations and technology strategy and any significant investments in support of such strategy; and to support the Risk Committee in understanding the Companies' exposure to, and management of, IT operations and technology risk.

The Committee membership consists of one independent Non-Executive Director, at least two other Executive and Non-Executive Directors and one independent external advisor. The Committee is attended by members of senior management. The Committee is chaired by an independent Non-Executive Director with extensive experience in information technology and security management and has a position on the Board, is a member of the Risk Committee, and reports at each Board meeting on the activities of the Committee.

#### The responsibilities of the Technology Committee include:

- Consider the Companies' future IT plan for meeting the business strategy and endorse the approach taken to meet these goals, including reviewing the Companies' IT operations and technology strategy and associated budget approach for the Companies and their business segments.
- Consider the Companies' future service trends and demands on technology. Review the Companies' overarching technology and process strategy, architecture and roadmaps (including core technology and vendor choices and delivery roadmaps). Endorse the Companies' approach to research and innovation and technology Intellectual Property Rights;
- Review and recommend approval of the Companies' IT operations and technology policies to the Board;
- Consider and, as appropriate, make recommendations to the Executive Committees and Boards regarding significant and/or strategic technology investments which support the Companies' strategies, for both the long-term goals and considering changes and advancements in the wider industry. Review and agree significant technology investments;
- Consider and advise mitigations against Sustainability and Climate Change risks relating to IT operations and strategy with a particular focus on climate related financial risks;
- Monitor and evaluate existing and future trends in technology that may affect the Companies' strategic plans, including monitoring of overall industry trends. Receive reports on future technologies and, in particular, the direction, opportunities and threats;
- Receive reports from management, as and when appropriate, on IT operations and technology metrics. Provide input and guidance to management based on the experience of the Committee members, addressing both opportunities and challenges;



- Review the major IT operations and technology risk exposures of the Companies, including information security, cybersecurity and fraud risks, and the steps management has taken to monitor and control such exposures. Agree, with management, including the Chief Risk Officer, the Companies' risk management and risk assessment guidelines and policies regarding technology risk. Periodically provide a report to the Risk Committee on the conclusions of such reviews;
- Perform any other activities consistent with these Terms of Reference as the Board shall specifically delegate to the Committee; and
- Consider the impact of Consumer Duty where relevant.

### Group Executive Committee

The Group 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 Group 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 meeting. The Group Executive Committee is supported by a number of other Executive Committees covering key elements of the business.

#### The responsibilities of the Group Executive Committee include:

- Oversee the overall business plans for the businesses. Recommend any material change for approval by the Board;
- Oversee and make decisions on overall plans for functions which operate at a Group level, including but not limited to People, Finance, Risk, Marketing, Technology, Digital, R&D, Distribution, Distribution Operations, Customer Services, and Adviser Services. Business specific decisions which do not directly impact Vitality UK at the Group level are to be made by the business Executive Committees;
- Decisions on prioritisation of Group projects and operating resources within current business plan:
  - Prior to the end of the accounting period the Committee shall present at least a 5-year business plan to the Boards.
- Structure overall Group operations for maximum efficiency and effectiveness while maintaining a view of the individual businesses' operations;
- Ensure that effective systems of controls are established and maintained which facilitates identification and effective management of all significant risks facing the business. This includes but is not limited to:
  - Reputational risk to Vitality UK or the Discovery Group.
  - Financial risk
  - Review of compliance, risk and internal audit reports to ensure that ownership is allocated and appropriate corrective action is taken.
  - Ensuring that any significant breaches or failings are dealt with in accordance with the rules of the relevant regulatory body;
- Resolve any issues with the prioritisation of capital and operating resources across the businesses;
- 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 Boards, including any recommendations by the Committee that require approval by the Boards;

- 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;
- Consider the impact of Consumer Duty where relevant;
- Approval and regular review of the Company's performance management and bonus framework;
- Review of material third party contracts or agreements which may carry a reputational risk to Vitality UK or the Discovery Group;
- Review of any material product changes, including new partner contracts – these will take the form of recommendations to the Boards;
- Review of any new financial incentive programmes (including staff incentive schemes, broker incentives etc.) which may impact on behaviours;
- Monitoring of fraud and financial crime; and
- The Committee will escalate to the DHEL Board any material matters relating to the Committee that it believes should be brought to its attention.

The Group Executive Committee is supported by a number of other Executive Committees covering key elements of the business:

- Health, Life and Car Executive Committees manages each of their respective business areas;
- Vitality Executive Committee that manages the Vitality programme implementation in the UK;
- Growth and Operations Executive Committee reviews and manages the implementation of the operations and distribution strategy;
- Marketing Executive Committee manages the marketing activities of the business;
- Finance Executive Committee to support the management of the financial performance;
- Reinsurance, Investment and Capital Committee to assist in reviewing the group's reinsurance, investment and capital.
- Sustainability Committee to support the business in setting and monitoring its overall sustainability strategy;
- Enterprise Executive Committee to oversee the portfolio delivery against agreed strategic objectives; and
- Internal Actuarial Committee to review actuarial judgements and papers ahead of the Actuarial Committee.

### **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 three independent Non-Executive Directors, the Discovery CEO and another Non-Executive Director and the CEO is invited to attend. Only the Members of the Committee can vote and a quorum of three is required for 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 and reports to the Board 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 and the long term success of the Group;

- Ensure the appointments of Directors are linked to the Group's strategy;
- Ensure the quality of nominees to the Boards, which should include a diverse pool of candidates;
- Ensure that the current Directors of the Group have sufficient time to fulfil their roles effectively;
- 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;
- To ensure that the Group is setting and meeting its diversity objectives, and to monitor the impact of such diversity initiatives;
- Ensure an adequate and up to date succession plan is in place for each Board and for the senior management teams of the business within the Group, and to oversee the development of a diverse pipeline for succession;
- Ensure the Directors receive induction training and on-going training;
- Make recommendations to the DHEL Board with regard to all the Companies within the Group; and
- Evaluate the Board's effectiveness.

### External Remuneration Committee

The External 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, a Non-Executive Director, two Discovery Executive Directors and is attended by members of senior management. Only Members can vote on decisions and a quorum of three is required. The Committee meets at least twice a year with the mandate to convene additional meetings as circumstances require. The Chair of the Committee is a Non-Executive Director and reports to the Board on the activities of the Committee.

#### The main responsibilities of the External Remuneration Committee are to:

- Review performance against targets and agree payments;
- Set the remuneration policy and principles that should be applied by the Internal Remuneration Committee relating to remuneration policy and strategy; package structures, bi-annual and sales bonus structures (including any significant structural change to existing schemes or creation of new ones) and longer term performance related pay schemes;
- Verify specific oversight and governance processes;
- Monitor the Remuneration Policy; 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 Group 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, IT Auditors 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 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 Group, taking into account the nature, scale and complexity of the risks inherent in the businesses.

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

There were no material changes to the system of governance over the reporting period.

No Director changes took place in the year.

The following Director changes took place after year end:

- Joanne Kenrick has been appointed as an additional Director to the Boards of DHEL, VHL, VLL and VCSL with effect from 1 August 2023

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

There were no changes made to positions of influence during the year

### **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 attract, recruit and retain employees whose values are aligned to its culture and core purpose. The Company aims to create an environment that motivates high performance so that all employees can positively contribute to the Company's strategy and values. The Company philosophy is to adopt a flexible approach that recognises differences in individual performance, value and contribution to the organisation.

The Company achieves this through its pay philosophy, which ensures equitable and competitively benchmarked pay levels with incentives designed to reward high performance.

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

- Offering pay packages that promote internal equity and are competitive in the market to attract, recruit and retain great people;
- Ensuring that pay decisions are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin;
- Reviewing salaries annually against internal and external salary data to ensure fairness and consistency across the business.

- Rewarding great performance through short-term incentive schemes, which are designed to reward achievement of business objectives and role requirements, as well as behaviours in line with Vitality values. Bonus payments are non-contractual and at Vitality's discretion.
- Conducting annual compliance reviews of performance scorecards to ensure that they remain balanced and appropriate;
- Ensuring that pay designs comply with all tax and regulatory requirements;
- All remuneration decisions are governed by the Internal Remuneration Committee, which is a sub-committee of the External Remuneration Committee. Interim salary increases are governed by the Interim Increase Committee, led by HR and attended by the Chief Financial Officer and Managing Directors. All senior management remuneration decisions are subject to further governance executed by the External Remuneration Committee; and
- The External Remuneration Committee ensure that undue risk is not incentivised by the business and consider the governance performance of the business in their decision making.

### **B.1.3.2 Total rewards offering**

Vitality's total rewards offering is designed to align with the Company's ambitions of:

- Attracting, retaining and motivating high performing 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.

Our total rewards offering includes:

- Pay (salary and performance-based short-term and long-term incentives);
- Benefits:
  - Core benefits available to all employees (private medical insurance, pension plans, and death in service and income protection schemes);
  - Flexible benefits (including travel cover and childcare vouchers);
  - Other benefits (e.g. free meals, discounted gym membership, and Peppy support services); and
  - Green benefits (e.g. lift-sharing and cycle schemes and an electric vehicle salary sacrifice benefit).
- Wellbeing services (including the Vitality programme)
- A recognition programme (including Star Awards); and
- Career development:
  - Learning and development opportunities; and
  - Challenging and meaningful work.

The sections below provide more information on the remuneration components of our total rewards offering.

### **Pay and benefits**

This is the core element of remuneration that gives the Executive Management and individuals who are 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 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 Financial Services industry.

It is the Company's policy to provide a wide range of benefits that may be personalised based on employee choice. The suite of benefits on offer are the same for all employees and executives take part with no special arrangements being made.

### Short-term incentive schemes

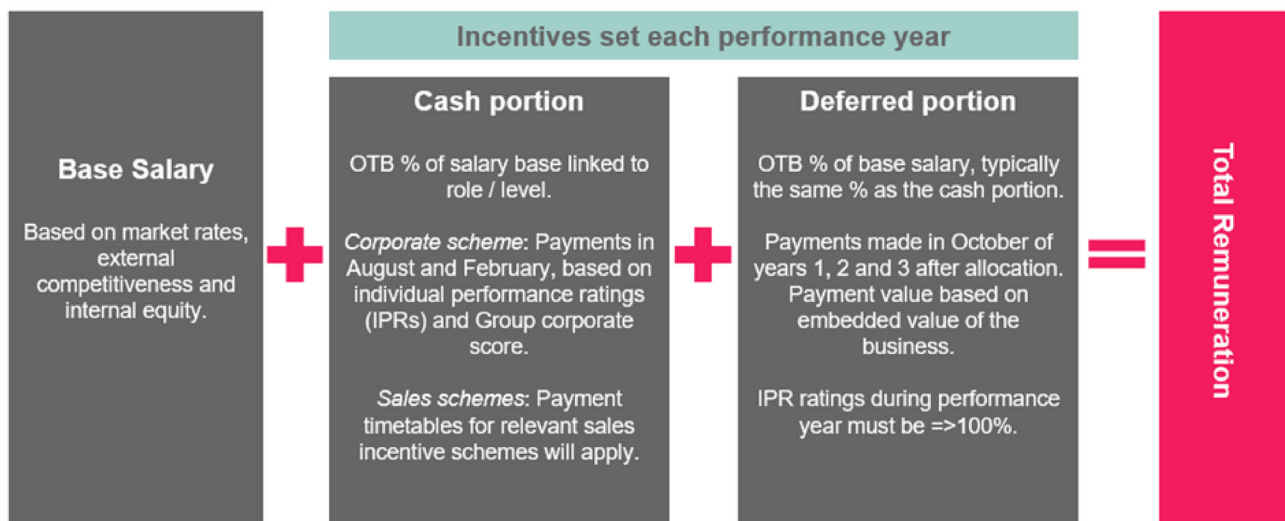
The short-term incentive is in the form of a biannual bonus payment. The CEO receives their bonus annually. The bonus is designed to reward and incentivise those who have achieved pre-determined individual and collective business targets over the preceding six-month period. It is designed to encourage a performance culture aligned to Vitality's 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 level is based on job level, including those for 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 paid is based on individual performance ratings and the corporate scorecard. For sales employees, the level of bonus paid 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.

### Single Incentive scheme ("SI")

The purpose of the SI is to incentivise members of the Executive Committee and key individuals to deliver improvements in performance, by aligning their interests with Vitality's longer-term strategic goals. Each financial year, participants receive confirmation of their total remuneration, which comprises three components:



Performance against the Group scorecard determines participants' incentives for each financial year, which works like this:

- Cash portion: payments follow the six-monthly corporate bonus timetable and are based on the corporate score and employees' individual performance ratings; and
- Deferred portion: at the end of each financial year, the average of the two scores for that year is used to calculate the deferred portion of the incentive, which is paid out after one year, two years, and three years, and grows if the embedded value of the business increases.

Participants in the scheme are nominated by Group Executive members and confirmed by the Group CEO. The ERC has the discretion to moderate incentive allocations and business performance scores.

#### **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**

In November 2022, the Company paid a dividend of £12.5m through VHIL to VLL. In June 2023, the Company issued 150,000 ordinary shares which were all purchased by Vitality Health Insurance Limited and carried a share premium of £14.9m. The shares were issued on the following dates: 9 June 2023 (100,000) and 29 June 2023 (50,000). The Company did not issue any 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 (Solvency II staff) 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 checks and
- 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;
- Financial Conduct Authority 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; and
- Standard disclosure checks.

Further, there is an annual process 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 to assess its Solvency Capital Requirement.

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

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

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

#### **The 1st line of defence – business management**

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

### The 2nd line of defence – oversight

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

### The 3rd line of defence – assurance

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

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

Requirement	Description
Risk Taxonomy	The Company maintains a Risk Taxonomy that defines the risks that it is exposed to through conducting its business. This taxonomy is used throughout the implementation of the ERMF to consolidate and escalate risks to the Board in a consistent manner.
System and Control Policies (“SYSC”)	The Company maintains a series of SYSC policies that cover each of the risk classes defined in the risk taxonomy, outlining the minimum standards expected to be applied by the business to ensure they are appropriately mitigated. Each policy and the corresponding minimum standards are attested to annually by the Policy Owner, but also subjected to a detailed review and update at least once every two years to ensure they are appropriate and remain fit for purpose.
Risk Appetite Statement	The Board is responsible for setting the overall Risk Appetite. The statement outlines a series of risk appetite principles and statements for the Company that are supported by a broad range of key risk indicators across the full taxonomy including capital and liquidity. The statement is formally reviewed annually and agreed by the Risk Committee and Board to ensure it remains aligned to the business strategy and appetite of the Board.
Risk monitoring – key risk indicators (“KRIs”)	The Risk Function has implemented a series of KRIs against risk appetite, in order to report to the Risk Committee both breaches of risk appetite, and also early-warning indicators that a risk appetite may be breached in the future. These are monitored on a monthly basis and reviewed by the CRO. Those which are outside of appetite as reported within the CRO report. The KRIs are formally reviewed at least annually and further developed if required. They are agreed by the Risk Committee and Board.
Emerging risk assessments	The Risk Function administer the emerging risk process and assessment with a full review of the profiles being completed and presented to the Risk Committee annually. Throughout the year individual risks are selected from these profiles for deep dives and submitted to the Risk Committee at the request of the Chair for review. The emerging risk profiles accompany the CRO report on a quarterly basis for information and update on any material changes in the external environment.
Risk Assessments (top down and bottom up)	The first line is responsible for carrying out the risk and control assessment process; however, oversight and challenge is provided by the second line. 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 risks and controls, along with their ratings, as well as action plans are complete, the top risks are presented to the Executive Committee for review and discussion. Following the Executive Committee review, the risk assessments are presented to the Risk Committee through the CRO report.

Combined Assurance - independent assurance reviews	As part of the three lines of defence model the Risk, Compliance and Audit functions will complete independent reviews of business processes, risks and controls. This activity is coordinated through the combined assurance process and they report their findings to the Audit Committee. This plan and coordinated activity ensures that when and where there is a specific need to obtain an in-depth understanding of a particular risk, specific controls, actions and mitigation strategies in place it can be accommodated. These reviews may be initiated by the business, a Board or its sub-Committees, or the CRO. As well as these reviews, the Risk, Compliance and Audit functions also engage in a number of 'close and continuous' activities each year.
Incident management	The business maintains a Group-wide incident management standard. An internal reporting tool is also in place to enable the instant reporting and escalation of incidents to the relevant subject matter experts for assessment and challenge. This ensures appropriate action and mitigation is taken to limit impacts and prevent further recurrence. Each incident is rated and escalated as per its severity as defined in the standard. The severity of incidents is determined against a range of categories via an impact harm table that includes the following categories: financial, member, operations (resource), regulatory, reputational, IT infrastructure, and legal.
Operational resilience	The business continues to evolve its operational resilience framework assisted by the required self-assessment and lessons learned report in line with the regulatory requirements PRA SS1/21 and FCA PS21/3. The Important Business Services, Impact Tolerances and an assessment of the organisational capability of remaining within these measures were identified along with justifications which was shared with the relevant business owners, SMEs, Risk Committee and Board for guidance, clarification and approval. The organisational resource capabilities and scenario analysis is maturing with a focus on ensuring the appropriate level of intolerable harm is captured, ensuring the business is fully operationally resilient to prevent harm to our members' service, our business and the wider market.
Recovery and resolution plan	The recovery and resolution plan outlines the situations and triggers that may impact the Company's ability to remain viable, whether that be from a regulatory or financial stability point of view. These triggers (or 'early warning indicators') are set with reference to Vitality's risk appetite as well as its view of regulators' expectations and based around a 'ladder of intervention'. The plan sets out a range of actions that should be taken into consideration in these situations, the potential impact on solvency and liquidity, and the feasibility of their implementation. It also sets out the governance required if the plan is triggered.
Stress and scenario testing	The Risk Function engages with the Finance and Actuarial teams to develop a range of sensitivity tests, scenarios and reverse stress tests to be performed in order to understand the impact of risk drivers on planned earnings, liquidity and solvency levels under stressed conditions. Scenarios are considered against the background of current and emerging risks, alongside an examination of potential management actions. Reverse stress tests consider stresses and scenarios that could challenge the viability of the organisation. Vitality continues to mature its approach to scenario testing in regard to the financial risks arising from climate change.
Risk reporting	The Risk Function produces the CRO report every quarter. This report is designed to provide the Board, Risk and Audit Committees with sufficient oversight of the ERMF and risk exposures, focusing on the out-of-appetite and watch-list risks. The second line also ensures that other Governance Forums maintain suitable oversight of key risks or control processes.
Documentation and Record Keeping	<p>The ERMF exists to empower management to have more effective risk insight, which is encouraged by the identification, analysis and reporting of risks, controls, findings, incidents and corresponding actions across the business. The Risk Management Function oversees the implementation of the ERMF and ensures that relevant activity as described in the ERMF is captured and managed with appropriate actions being tracked.</p> <p>The business has migrated to a new risk management tool to support the next stage of risk management maturity. This includes elements of automation and tighter integration with business systems and metrics tracking.</p>

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

### **B.3.2 Implementation of risk management system**

The Company's 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 and Remuneration Committee. The Board is also advised by the Actuarial Committee and the Technology Committee. The outputs from the risk management system are reviewed by the Executive and Risk Committees with a summary of key items taken to the Board. This is taken to the decision making committees by the Risk Function following their review. This process facilitates the integration of the risk management system in the decision making process.

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 process is conducted throughout the year to facilitate integration with decision making, culminating in the annual ORSA report, which is owned by the Board. The ORSA processes include:

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

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

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

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

## **B.4 INTERNAL CONTROL SYSTEM**

### **B.4.1 Internal control system**

The Company maintains an internal control system that governs financial and regulatory reporting. 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 and Solvency II regulatory reporting 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 in line with industry best practice and are subject to review by internal Committees (which include members from the Risk, Actuarial, Finance and Operational Functions) and the Actuarial Committee. The IFRS financial 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 an independent 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 in a way 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, who is not directly involved in the day-to-day business operations.

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 by the following steps

- 1. Training:** Ensure all staff receive regulatory training on a regular basis
- 2. Advice and guidance:**
  - Provide regulatory guidance and support to the business.
  - Ensure new regulatory rules are communicated to the relevant business areas and support the business in implementing any changes.
- 3. Conduct Risk Management:**
  - Provide Conduct risk training throughout the business.
  - Develop and maintain the Conduct risk framework.



- Collate Conduct risk reports for discussion by business management and the Risk Committee

#### **4. Compliance Monitoring:**

- Assess the appropriateness and efficiency of controls.
- Evaluate progress made with the implementation of actions.
- Produce monitoring plans for sign-off by the Audit Committee.

#### **5. Regulatory Interaction:**

- Manage the regulatory relationship with all applicable regulators.
- Submit information to the regulators to enable them to appropriately supervise us.
- Notify the regulator of any significant changes or updates to Vitality's business in line with SUP 15.

#### **6. Reporting:** The compliance team reports regularly to the Risk and Audit Committee.

### **B.5 INTERNAL AUDIT FUNCTION**

#### **B.5.1 Implementation of the internal audit function**

The Group Internal Audit 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 a selection of key controls related to the key risk management processes operating across the business. The audit plan also gives additional 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 updates 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.
- 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 and external audit and to what extent this work can be relied on. The CIA also considers the work planned, or recently completed, by management in its assessments of the risk management process, controls and quality improvement processes, as well as the work planned by the external auditors, are considered in determining the expected coverage of the audit plan for the coming year.
- The Executive Committee and the Board require 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 PRA requires that firms should have an Actuarial function and has specified that firms should appoint a Chief Actuary as set out under the PRA's senior managers' regime. The Company's Chief Actuary is a Senior Management Function ("SMF"), reports functionally to the Company's Group Chief Executive Officer and is a member of the Group and Executive Committees. The Company has various actuarial teams that perform the work and provide the information necessary to fulfil the requirements of the Actuarial function as set out in the PRA Rulebook.

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

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

## **B.7 OUTSOURCING**

VCSL provides management services to the Company including the recharge of expenses incurred on its behalf. All staff costs incurred by VCSL in respect of the Company branded products are allocated and recharged to the Company. The jurisdiction of the contract with VCSL is England and Wales.

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

### **1. 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.

### **2. Service Provider Selection:**

- A competitive tender process is conducted by the Group Sourcing team for all arrangements except those where Discovery provide the services under intragroup arrangements.
- 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.

### **3. 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.



#### **4. 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.

#### **5. Reporting and Monitoring:**

- Group Sourcing 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.

#### **6. 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 business process outsourcing, document management, IT cloud and data centres, and payroll services within the UK; business process outsourcing, IT development and software maintenance in India; and intragroup IT and business process outsourcing services in South Africa.

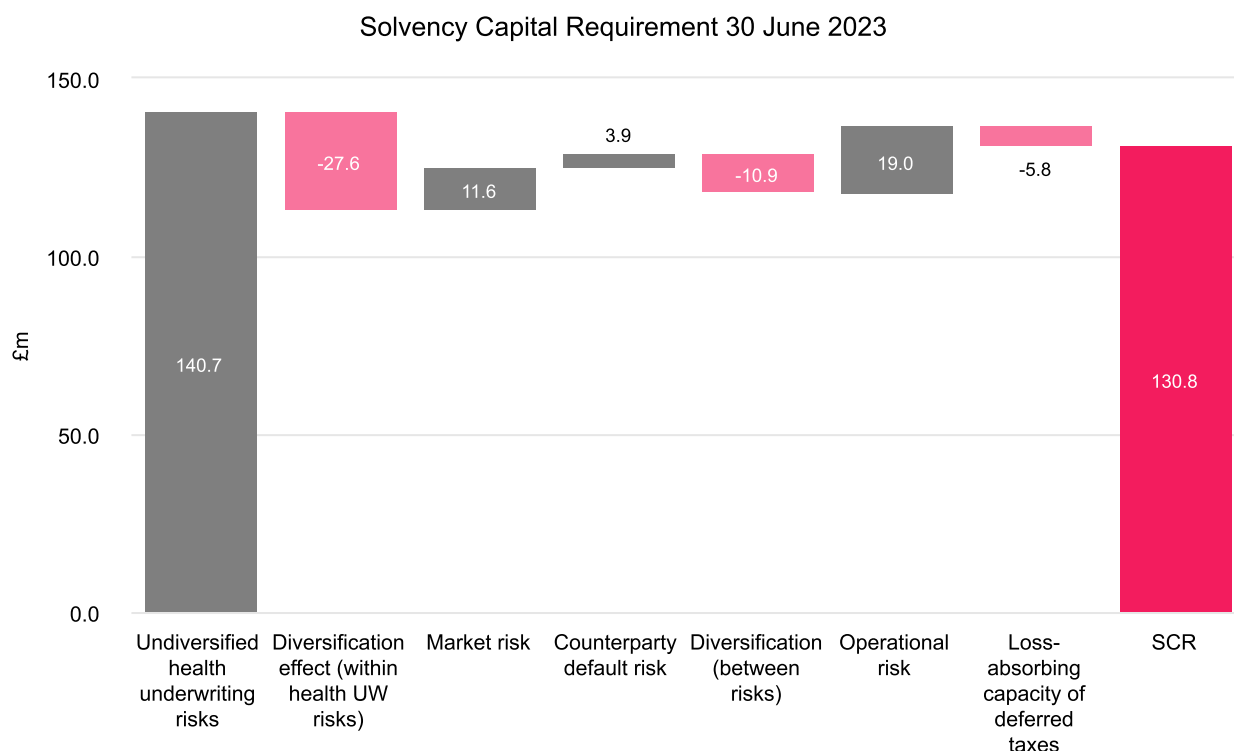
The Outsourcing Committee monitors the efficiency and effectiveness of the outsourced providers and reports to the Risk Committee.

### **B.8 SYSTEM OF GOVERNANCE – ANY OTHER INFORMATION**

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

# C RISK PROFILE

The Company's risk profile drives its SCR. The chart below shows the split of the Company's SCR at 30 June 2023, which totals £130.8m.



The standard formula SCR risk profile is dominated by health underwriting risk, as seen in prior years. There have been no material changes to the components of the Company's SCR in the reporting period.

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, pre-authorisation of claims, 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 defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The Company operates a 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 as: cash in bank accounts, short-term deposits, and 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 remains low for the Company 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.

Looking ahead, the risk of the Company is also impacted by the general healthcare environment. The uncertainty around claims experience continues as the challenges facing the NHS since late 2022 are persisting. The demand for private medical insurance is high, with more individuals and companies looking for ways to protect their health and wellbeing after the COVID-19 pandemic. Further, members are utilising private medical insurance differently, such as accessing GP appointments previously accessed in the NHS. Whilst the increased utilisation of private medical insurance is seen across the industry, Vitality remains well placed to provide a wide range of services to members alongside an expanded availability of Vitality GP appointments.

## C.1 UNDERWRITING RISK

Underwriting risk makes up 79.9% of the undiversified SCR at 30 June 2023 (30 June 2022: 81.2%). This is predominantly premium and reserve risk, followed by lapse risk and health catastrophe risk at 61.5%, 18.2% and 0.1% respectively (30 June 2022: 63.7%, 17.3% and 0.2%).

### 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 claim 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 a method 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 Committee and the Actuarial Committee before being approved by the Audit Committee;
- Risk and control assessments – the Company has a 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 through pre-authorisation of claims. 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 Health 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
- Mix of business - the Company actively manages the portfolio mix and has a structured pricing strategy to improve the underwriting and portfolio mix.

### C.1.3 Risk concentration

The Company writes both individual and group business in the UK but concentration of risk through geographic and other demographic factors is well diversified in the UK. The risk is controlled through underwriting controls and frequent monitoring of the business mix and lapses, 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 our liabilities, a large proportion of investments are held in cash, short-term deposits or liquidity funds, with a single longer term investment in property, namely the office building and related land 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 Requirement 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 2023, the largest concentration with one counterparty was 29% (30 June 2022: 19%) 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 5.8% (30 June 2022: 4.3%) of the undiversified SCR and this risk was not material for the Company.

## C.3 CREDIT RISK

### C.3.1 Exposure

At 30 June 2023, credit risk in the form of counterparty default, spread and concentration risk comprised 2.2%, 2.1% and 5.8% respectively (30 June 2022: 2.6%, 2.6% and 4.3%) 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 as “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. The Company has increased its asset exposure to a single counterparty in the year to 29% (30 June 2022: 19%). This increased investments in short-term deposits as the Company moved its investments to better match its risk appetite and limit exposure to changes in corporate bond values. The counterparty is one with an ‘A-1’ rating by a leading credit ratings agency. This higher concentration risk is reflected in the SCR. The Company ensures it closely monitors the credit rating of the counterparty as well as any material impact of movements in the concentration.

## 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 2023 the majority of its investment assets are held in cash in the Company’s own bank account, UK based bank accounts, short-term deposits, 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. Under IFRS no future profit beyond the valuation date is recognised. Future profit beyond the valuation date and up until the end of the contract period is recognised. The EPIFP amount stood at £80.2m for 30 June 2023 (£67.1m for 30 June 2022) driven by the increased book size, increasing the projection of future premiums received.

## C.5 OPERATIONAL RISK

Operational risk makes up 10.8% of the undiversified SCR at 30 June 2023 (30 June 2022: 10.8%).

### C.5.1 Exposure

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

The following measures are used to assess operational risks:

- Risk and control assessments – the ERMF requires all teams across the business to carry out a risk and control self-assessment which would highlight any operational risk issues that need to be taken into account when assessing the risk profile for the business.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the operational risk exposure.
- The Company also carries out operational risk scenario workshops to develop scenarios for each operational risk category. This involves estimating the severity and likelihood of each scenario based on the information captured in the Company's risk and control registers, business incidents, assurance findings, and risk indicators 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.
- The top three operational risks included in the assessment are shown below.
  - Cyber risk, including fraud and information risks - the risk of financial loss, business disruption and data leakage or loss due to the malicious or fraudulent exploitation of security vulnerabilities within Information Technology systems.
  - Model risk - the risk of loss resulting from using insufficiently accurate models to make decisions.
  - Outsourcing risk - 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.

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

### 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 with carrying out those activities. Whilst the Company can outsource activities, it does not transfer responsibility and therefore manages its outsourcing relationships accordingly;
- Risk acceptance – where the Company has considered all other mitigation techniques and a material risk remains out of appetite, it may proceed to accept the risk with the approval of Senior Management, the Risk Committee, or Board as appropriate; and



- Reporting – the material operational risks which the Company 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.

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

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

### **C.5.3 Risk concentration**

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

## **C.6 OTHER MATERIAL RISKS**

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

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

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

The above risks are subject to the same ERMF as underwriting, market, credit, liquidity and operational risks, and are recognised within Vitality's risk taxonomy. Controls and other risk mitigating activities are implemented and regularly assessed by management as part of the quarterly RCSA. Depending on the nature of the risk, the monitoring of risk indicators or other performance metrics is reported internally to the Executive Committee on a regular basis. If appropriate, they are subject to a risk, compliance or internal audit review, with any adverse findings reported to the Audit Committee. A summary of the effectiveness of the techniques used to mitigate these risks is reported within the quarterly CRO Report to the Risk Committee.

## **C.7 RISK PROFILE – ANY OTHER INFORMATION**

### **C.7.1 Risk sensitivity**

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

For the 2023 ORSA, the projected solvency positions over the business planning period were re-calculated, with each risk's sensitivity conducted individually. In each sensitivity conducted, the business maintained SCR coverage of over 100% within the business planning timeline.

It is also worth noting that VitalityHealth has demonstrated financial strength and resilience through the recent global pandemic, which can be seen as an extreme event.

### C.7.2 Specific tests

The table below shows the impacts of stresses on the Company's SCR and solvency coverage ratio. Due to the investment strategy of the Company described below in Section C.7.3, there is no material impact to the SCR or solvency coverage ratio from economic shocks such as movements in equity market values, interest rates, credit spreads of Government or corporate bonds, or real estate values. As such, no SCR coverage impacts are shown for these stresses.

The stresses below have been calculated as the one year impact on coverage if the stress event was to happen independently in the 2023-24 financial year, and hence impact the June 2024 SCR and SCR coverage ratio.

Risk driver and stress description	SCR impact	Change in SCR coverage	Commentary
15% increase in expenses	£(0.7)m	(17)%	A multiplicative increase in functional expenses leads to a small decrease in the SCR driven by the resulting fall in the lapse risk component of the Health underwriting risk. Own funds are also impacted by the reduced profit, resulting in a fall in the SCR coverage ratio.
10% increase in gross loss ratio	£0.4m	(26)%	A multiplicative increase in the gross loss ratio results in a small increase in the SCR driven by increased reserve risk from higher payments. Own funds are also impacted by the reduced profit, resulting in a fall in the SCR coverage ratio.
10% increase in lapse rates	£(1.4)m	(0.5)%	A multiplicative increase in the total lapse rates results in a decrease in the SCR due to less future profit and premium projected affecting the health underwriting risk module. The fall in own funds, however, is similar, resulting in limited impact on the coverage ratio.

### C.7.3 Prudent Person Principle

The Company ensures that its assets are invested in accordance with the Prudent Person Principle set out in the PRA Rulebook. It only invests in assets whose risks it can properly identify, manage, control and report and which can be appropriately taken into account in the Company's overall solvency needs assessment as 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 Policy is supported by a Responsible Investment Standard which covers environmental, social and governance requirements for shareholder invested assets. Internal reporting on defined risk metrics such as minimum credit ratings and risk concentration checks are performed each month.

The majority of the investment assets are held in short-term high quality liquid holdings and are a consequence of the investment assets being prudently invested, taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities. 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 very short-term 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. Investment in liquidity funds is split between three providers to provide 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 the statutory account values for both the current and prior year ends. The detailed explanation of each reported item can be found in the forthcoming section.

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

Year ended 30 June	Solvency II		Statutory account value		Difference		Section Reference
	2023	2022	2023	2022	2023	2022	
Assets	£'m	£'m	£'m	£'m	£'m	£'m	
Deferred acquisition costs	0.0	0.0	53.3	49.0	(53.3)	(49.0)	D.1.1.1
Deferred tax assets	24.2	43.9	9.5	15.6	14.7	28.3	D.1.1.2
Investment assets	185.4	186.5	184.2	185.9	1.2	0.6	D.1.1.3
Property, plant and equipment	6.7	9.0	6.7	9.0	0.0	0.0	D.1.1.4
Reinsurance recoverables	12.3	9.4	95.2	84.0	(82.9)	(74.6)	D.1.1.5
Insurance and intermediaries receivables	19.7	17.2	322.2	286.0	(302.5)	(268.8)	D.1.1.6
Reinsurance receivables	0.1	0.0	246.0	198.5	(245.9)	(198.5)	D.1.1.7
Receivables (trade, not insurance)	0.5	5.7	2.1	6.6	(1.6)	(0.9)	
Cash and cash equivalents	12.4	9.7	12.4	9.7	0.0	0.0	D.1.1.8
<b>Total assets</b>	<b>261.3</b>	<b>281.4</b>	<b>931.6</b>	<b>844.3</b>	<b>(670.3)</b>	<b>(562.9)</b>	
<b>Liabilities</b>							
Technical provisions - health (similar to non-life)	24.5	28.3	394.6	366.8	(370.1)	(338.5)	D.2
<i>Best Estimate</i>	16.9	21.3	0.0	0.0	16.9	21.3	
<i>Risk margin</i>	7.6	7.0	0.0	0.0	7.6	7.0	
Insurance & intermediaries payables	5.4	5.5	5.7	5.5	(0.3)	0.0	D.3.1.1
Reinsurance payables	12.4	9.5	94.6	83.0	(82.2)	(73.5)	D.3.1.2
Payables (trade, not insurance)	28.5	30.8	28.5	30.8	0.0	0.0	D.3.1.3
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	D.3.1.4
<b>Total liabilities</b>	<b>70.8</b>	<b>74.1</b>	<b>523.4</b>	<b>486.1</b>	<b>(452.6)</b>	<b>(412.0)</b>	
<b>Total excess assets over liabilities</b>	<b>190.5</b>	<b>207.3</b>	<b>408.2</b>	<b>358.2</b>	<b>(217.7)</b>	<b>(150.9)</b>	

## 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 Solvency II and is therefore valued at nil.

### D.1.1.2 Deferred tax assets (“DTA”)

The Company recognises a deferred tax asset (“DTA”) in respect of unutilised trading losses incurred by the Company. The value of the DTA in the financial statements is different to the Solvency II value, which is calculated consistent with the methodology prescribed in Article 15 of the Delegated Regulation. This is because the adjustments recognised under Solvency II create additional temporary differences under IAS12 principles, which give rise to a larger DTA under Solvency II compared to IFRS.

The maximum potential DTA under Solvency II, before assessment of probable utilisation, was £38.3m at 30 June 2023. After assessment of probable utilisation, the actual DTA recognised under Solvency II was £24.2m.

The recognition of the DTA 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 DTA recognised is modelled with reference to the 10 year expected future taxable profits. The key assumptions within the assessment of probable utilisation are that the growth in gross earned premiums and the underlying profit margin will remain similar to that experienced pre-pandemic. Allowance is made for the legislation changes restricting the ability to offset taxable profits against prior year taxable losses incurred before April 2017, and for the estimated tax impact of the future implementation of IFRS 17. Probability weightings are then applied to the expected future taxable profits, as set out in the table below, to acknowledge the increasing levels of uncertainty the further into the future the projection extends.

Financial	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Probability weighting	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was enacted on 24 May 2021. Current and deferred taxes at the balance sheet date have been measured using these enacted tax rates.

### D.1.1.3 Investments

#### Bonds

The Company holds investments in a portfolio of corporate bonds, valued at £24.6m at 30 June 2023. The bonds are recorded at fair value based on valuation techniques based significantly on observable market data, using either:

- Quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
- Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Under Solvency II, £0.6m of accrued interest is included with the value of corporate bonds, resulting in the Solvency II valuation of bonds being £0.6m greater than the IFRS valuation. The accrued interest amount of £0.6m is included in Receivables (trade, not insurance) under IFRS.

#### Collective investment undertakings

The collective investment undertakings are externally-managed funds and primarily contain underlying assets with high credit ratings and of short duration. These investments are valued at fair value under Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets. As these are publicly traded securities, the market prices are readily available and are actively traded – details of which are provided in a statement from the investment manager.

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 as required.

The value of these funds is £110.0m at 30 June 2023 in the financial statements and is the same value under Solvency II. 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 £50.9m at 30 June 2023. The £50.9m valuation includes £0.7m of accrued interest from the assets. Under Solvency II accrued interest is included with the value of the fixed-term deposits, whereas it is included in Receivables (trade, not insurance) under IFRS.

#### D.1.1.4 Property, plant and equipment

The Company continues to own the land and office building purchased in late 2018 in Stockport. VCSL is the principal tenant of the building with the remainder of the tenants being third parties. An impairment test was performed in June 2023 with an independent valuation of the property obtained, resulting in a total impairment to the value of £2.1m. The value of this property, after allowing for the impairment, at 30 June 2023 is £6.7m. The Company has recognised the Stockport property at the same value in both Solvency II and IFRS, in line with the independent valuers opinion of fair value.

#### D.1.1.5 Reinsurance recoverables

Reinsurance recoverables totalling £12.3m relate mainly to the 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"). The PTP liability is negligible and the CTP asset is £11.9m, giving a net positive reinsurance recoverable of £11.9m. The remaining £0.4m 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 4 purposes. Under Solvency II, the overall best estimate valuation of future income and outgoing (excluding fees to the reinsurer) is zero. This valuation is consistent with the Solvency II 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 Solvency II valuation of the reinsurance recoverables differs to the financial statements as IFRS only recognises the gross and reinsurance share of earned premiums and claims incurred up to the balance sheet date, with the expected levels of future earned premiums and claims incurred beyond the balance sheet date ignored. 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 FinRe contracts, both of which are with an existing provider. The valuation of the FinRe contracts are valued at nil given they are expected to provide no tangible future cash flows except under adverse scenarios. As a result of the adoption of IFRS 17 at 1 July 2023, all of the financial reinsurance treaties were cancelled with effect from 1 July 2023 (see Section A.4.1). The cancellation of the contracts results in the future fees payable to the reinsurer being removed from 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. 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 of £19.7m at 30 June 2023 under Solvency II relate to premiums outstanding from policyholders. This balance is valued using a look through of IFRS outstanding premiums. Where outstanding premiums relate to future premium collection dates these are included in the PTP. Where the premium collection date falls before the reporting date, but the cash has not been received at the reporting date, this amount falls in premiums outstanding.

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

### D.1.1.7 Reinsurance receivables

The Solvency II value of reinsurance receivables is £0.1m for the legacy business, for the normal business it is nil. The difference to the financial statements of £246.0m relates to the cashless FinRe balance that is recognised under IFRS, but not under Solvency II.

### D.1.1.8 Cash and cash equivalents

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 given that cash is held in British Pound Sterling ("GBP"). The cash holdings are in 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'. The Company has a small portfolio of Trust policies which have aggregate stop loss agreements, meaning the business has some inwards reinsurance. These policies are grouped and reported under 'medical expense insurance' with the private medical business due to the immaterial size of the portfolio. All other business is direct.

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

Year ended 30 June	2023	2022
	£'m	£'m
Gross claims technical provision	51.2	46.0
Gross premium technical provision	(34.3)	(24.7)
<b>Best Estimate Liabilities</b>	<b>16.9</b>	<b>21.3</b>
Risk margin	7.5	7.0
Total reinsurance recoverables	(12.3)	(9.4)
<b>Net technical provision</b>	<b>12.1</b>	<b>18.9</b>

### D.2.2 Technical provisions calculation methodology

The Company'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 the Company this is the next renewal date.

### **D.2.3 Claims technical provision (“CTP”)**

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

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

The CTP has increased over the last year due to growth in the Company's policyholder base and the increase in claims authorisations. This is discussed below in Section D.2.8.

The Company'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 the Company's in-force policies up until their next renewal date and discounting these cash flows back at the risk free rate published by the PRA. These projections are performed for each homogenous group.

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

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

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

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

The PTP is a negative liability, or an asset, as the total future claims, benefits and expenses are expected to be lower than the future premiums received. The PTP has increased over the year due to the book growth from the strong demand for private medical insurance in the year.

## D.2.5 Risk margin

The risk margin is set as the cost of the non-hedgeable 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 increased over the year, in line with the SCR. For the Company, 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 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

There have been no methodology changes in the year.

In general, 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

The uncertainty around claims experience continues, as discussed in Section A.1.7 above.

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

## D.2.9 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 2023.

Year ended 30 June	2023	2022
	£'m	£'m
Gross IFRS insurance contract liabilities*	92.4	98.0
Adjustment to Solvency II	(67.7)	(69.7)
<b>Solvency II gross technical provisions</b>	<b>24.7</b>	<b>28.3</b>
Gross claims technical provision	51.2	46.0
Gross premium technical provision	(34.3)	(24.7)
Risk margin	7.5	7.0
<b>Total RI recoverables</b>	<b>(12.3)</b>	<b>(9.4)</b>
<b>Solvency II - Net TPs</b>	<b>12.1</b>	<b>18.9</b>

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

The £67.7m adjustment from the gross IFRS insurance contract liabilities to the Solvency II gross technical provisions is from the following items:

- £38.6m reduction due to removing premium debtors and the related UPR applicable in IFRS which are replaced with premium technical provisions in Solvency II;
- £34.3m reduction from recognising the premium technical provision under Solvency II. This is made up of the EPIFP, as discussed in Section C.4.4, and the expected losses covered by premiums already received;

- £2.3m reduction from other minor adjustments related to different treatments of claims handling provisions and the use of discounting between IFRS and Solvency II; and
- £7.5m increase due to the inclusion in Solvency II technical provisions of the risk margin.

The main driver of the change in the adjustment from the gross IFRS insurance contract liabilities from £69.7m at 30 June 2022 to £67.7m at 30 June 2023 is the higher PTP liability at 30 June 2023 offset by the higher premium debtors and UPR figure as a result of strong book growth.

#### **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 FinRe treaties which consists of fourteen cashless treaties. Under Solvency II, 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 30 June 2023 had a solvency valuation of £5.4m. The material portions of this balance are £0.6m for fund share payments to our Corporate clients; £3.9m for outstanding claims payments; and £0.8m which is owed to independent financial advisors for items such as commission payments.

##### **D.3.1.2 Reinsurance payables**

The FinRe contracts taken out by the Company are structured for IFRS 4 purposes. Under Solvency II, the overall best estimate valuation of future income and outgo (excluding expenses / fees to the reinsurer) is zero. This valuation is deemed consistent with the Solvency II 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 £12.4m as shown in line 'Reinsurance payables' in the Solvency II balance sheet. £11.9m of this is related to the corresponding asset set up for the reinsurance recoverables (D.1.1.5) and is valued in line with methodology specified under D.1.1.6 to reflect the nil valuation / cash flow position of the FinRe contracts. As a result of the adoption of IFRS 17 at 1 July 2023, all of the financial reinsurance treaties were cancelled with effect from 1 July 2023 (see Section A.4.1).

##### **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 £28.5m are Insurance Premium Tax ("IPT") payable and intercompany payables owed to VCSL, mainly for recharged expenses. IPT payable relates to the written premiums for the April-June 2023 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**

The Company has no subordinated debt at 30 June 2023.

#### **D.4 ALTERNATIVE METHODS OF VALUATION**

All investments excluding the Stockport property are valued using either quoted market prices or where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data, as outlined in Section D.1.1.3, or are cash investments. An independent valuation of the property and land was performed as at 30 June 2023. The Company has recognised the Stockport property at the same value in both Solvency II and IFRS, in line with the independent valuers opinion of fair value, as discussed in Section D.1.1.4.

#### **D.5 VALUATION FOR SOLVENCY PURPOSES – ANY OTHER INFORMATION**

No other information is provided.

# E CAPITAL MANAGEMENT

## E.1 OWN FUNDS

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

The objective of own fund management is to hold sufficient capital to ensure the SCR ratio is within risk appetite. The 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 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 that 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	2023	2022	Change	Section
	£'m	£'m	£'m	
Assets	261.3	281.4	(20.1)	D.1
Liabilities	70.8	74.1	(3.3)	D.2 and D.3
<b>Net assets</b>	<b>190.5</b>	<b>207.3</b>	<b>(16.8)</b>	
Subordinated liabilities	—	—	—	D.3.1.4
<b>Available own funds</b>	<b>190.5</b>	<b>207.3</b>	<b>(16.8)</b>	
Capital tiering restrictions	(4.6)	(26.3)	21.7	
<b>Eligible own funds to meet the SCR</b>	<b>185.9</b>	<b>181.0</b>	<b>4.9</b>	<b>E.1.3</b>

The £4.9m increase in eligible own funds is driven by:

- Solvency II net assets decreased by £(16.8)m:
  - The IFRS pre-tax profit of £59.3m reduces to £47.5m post-tax. Removing the impact of FinRe, DAC and other small valuation differences from IFRS profits for the year reduces this by £51.5m. In November 2022, the Company paid a dividend of £12.5m through VHIL to VLL. In June 2023, the Company issued 150,000 ordinary shares which were all purchased by Vitality Health Insurance Limited and carried a share premium of £14.9m. The combination of these components results in Solvency II net assets in the year reducing by £1.5m.
  - A decrease in the technical provision benefit of £1.8m when moving from IFRS to Solvency II is driven almost entirely by the higher premium debtors provision for outstanding premiums. This amount is higher for 30 June 2023 due to strong growth; and
  - A £13.6m decrease in the DTA under Solvency II compared to IFRS as described in D.1.1.2. The Solvency II DTA value decreased by £19.7m to £24.2m at 30 June 2023, whilst the IFRS DTA decreased by £6.1m, resulting in a £13.6m reduction in Solvency II net assets in year.
- A £21.7m increase from higher capital tiering restrictions. Tier 3 capital that is available to cover the SCR is restricted to 15% of the SCR. The Solvency II DTA figure decreased over the year, which means a smaller tiering restriction applies for 30 June 2023.

### 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 2023	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m	£'m
Ordinary share capital	4.2	0.0	0.0	0.0	4.2
Share premium	332.1	0.0	0.0	0.0	332.1
Reconciliation reserve	(170.0)	0.0	0.0	0.0	(170.0)
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Deferred tax asset eligible for own funds covering SCR	0.0	0.0	0.0	19.6	19.6
<b>Total eligible own funds to meet SCR</b>	<b>166.3</b>	<b>0.0</b>	<b>0.0</b>	<b>19.6</b>	<b>185.9</b>
Less: Restrictions on eligible own funds to meet MCR	0.0	0.0	0.0	(19.6)	(19.6)
<b>Total eligible own funds to meet MCR</b>	<b>166.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>166.3</b>

Year ended 30 June 2022	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	317.2	0.0	0.0	0.0	317.2
Reconciliation reserve	(157.8)	0.0	0.0	0.0	(157.8)
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Deferred tax asset eligible for own funds covering SCR	0.0	0.0	0.0	17.6	17.6
<b>Total eligible own funds to meet SCR</b>	<b>163.4</b>	<b>0.0</b>	<b>0.0</b>	<b>17.6</b>	<b>181.0</b>
Less: Restrictions on eligible own funds to meet MCR	0.0	0.0	0.0	(17.6)	(17.6)
<b>Total eligible own funds to meet MCR</b>	<b>163.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>163.4</b>

Analysis of Change	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
	£'m	£'m	£'m	£'m	£'m
Ordinary share capital issued	0.2	0.0	0.0	0.0	0.2
Share premium issued	14.9	0.0	0.0	0.0	14.9
Reconciliation reserve	(12.2)	0.0	0.0	0.0	(12.2)
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Deferred tax asset eligible for own funds covering SCR	0.0	0.0	0.0	2.0	2.0
<b>Total movement in eligible own funds to meet SCR</b>	<b>2.9</b>	<b>0.0</b>	<b>0.0</b>	<b>2.0</b>	<b>4.9</b>
Less: movement in restriction on eligible own funds to meet MCR	0.0	0.0	0.0	(2.0)	(2.0)
<b>Total movement in eligible own funds to meet MCR</b>	<b>2.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.9</b>

#### 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.



The Company issued 150,000 ordinary shares which were all purchased by Vitality Health Insurance Limited and carried a share premium of £14.9m. The shares were issued on the following dates: 9 June 2023 (100,000) and 29 June 2023 (50,000).

The Tier 1 funds for the Company have grown, as a combined result of a £14.9m increase in share premium issued, a £0.2m increase in ordinary share capital, and a decrease of £(12.2)m in the reconciliation reserve.

The reconciliation reserve comprised of:

Year ended 30 June	2023	2022	Change
	£'m	£'m	£'m
Solvency II excess of assets over liabilities	190.5	207.3	(16.8)
Less other basic own fund items	(360.5)	(365.1)	4.6
<b>Reconciliation reserve</b>	<b>(170.0)</b>	<b>(157.8)</b>	<b>(12.2)</b>

Basic own fund items comprised of:

Year ended 30 June	2023	2022	Change
	£'m	£'m	£'m
Ordinary share capital	4.2	4.0	0.2
Share premium	332.1	317.2	14.9
Net deferred tax asset	24.2	43.9	(19.7)
<b>Total basic own fund items</b>	<b>360.5</b>	<b>365.1</b>	<b>(4.6)</b>

### E.1.3.2 Tier 2

#### Subordinated debt

The subordinated debt was previously a single subordinated loan issued by DHEL on 31 December 2016. This subordinated loan was repaid in full in January 2022 and the total available Tier 2 own funds remains nil at 30 June 2023.

### 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, and 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 £24.2m. The eligible Tier 3 own funds to meet the SCR is reduced to £19.6m due to the limit of 15% of the SCR, a reduction of £4.6m. This leaves total eligible own funds to meet the SCR of £185.9m.

The eligible own funds over SCR ratio is 142.1% as at 30 June 2023.

### 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 £166.3m. 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; at 30 June 2023 there are no Tier 2 own fund items. Therefore, the total eligible own funds to meet the MCR remain at £166.3m.

The eligible own funds over MCR ratio was 508.3% as at 30 June 2023.

### 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 £408.2m as at 30 June 2023. Excess of assets over liabilities as calculated for solvency was £190.5m. 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	2023	2022
	£'m	£'m
<b>IFRS net asset value</b>	<b>408.2</b>	<b>358.2</b>
Add – Move to Solvency II technical provision	66.9	68.6
Remove – FinRe asset under IFRS	(245.9)	(198.5)
Remove – Deferred acquisition costs under IFRS	(53.3)	(49.0)
Remove – Other IFRS valuation differences	(0.1)	(0.3)
Add – Solvency II DTA adjustment	14.7	28.3
<b>Total Solvency II excess asset over liabilities</b>	<b>190.5</b>	<b>207.3</b>

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 £217.7m 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 above are documented in Section D covering valuation of material assets and liabilities per Article 296 of Delegated Regulation.

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

No basic own funds are subject to transitional arrangements.

## 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 (£m)	2023	2022
<b>SCR</b>	130.8	117.2
<b>MCR</b>	32.7	29.3

The overall SCR and MCR have increased and this is in line with the business growth, changes in the risk-free rate and changes in the investments that have happened over the period. The next section outlines the movement in each risk module further.

### E.2.2 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 any 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.

The health underwriting risk module at 30 June 2023 contains non-SLT premium and reserve risk of £108.3m, non-SLT lapse risk of £32.1m, health catastrophe risk of £0.3m and a diversification benefit of £(27.6)m to result in the total of £113.0m shown below.

Year ended 30 June	2023	2022	Change
	£'m	£'m	£'m
Market risk	11.6	8.7	2.9
Counterparty default risk	3.9	4.0	(0.1)
Health underwriting risk	113.0	102.4	10.6
Diversification	(10.9)	(9.1)	(1.8)
Operational risk	19.0	16.7	2.3
Loss-absorbing capacity of deferred taxes	(5.8)	(5.7)	(0.1)
<b>SCR</b>	<b>130.8</b>	<b>117.2</b>	<b>13.6</b>

The SCR has increased by £13.6m driven by the movement of the following risks modules:

- £2.9m increase in market risk due to an increase in the risk free rate and the Company's move towards a short-term deposit focused investment strategy which increased the concentration risk. This has been partially offset by a decrease in spread risks and a decrease in the property risk as the property impairment which lowered the value of the Stockport property;
- £0.1m decrease in counterparty default risk due to an increase in asset holding with a single counterparty which is more than offset by the lower counterparty party risk for the premium and other debtors;
- £10.6m increase in health underwriting risk driven by the increase in earned premium expected in the coming year as the business continues to grow and higher lapse risk from increased future profits in the premium technical provision;
- £1.8m increase in total diversification between market risk, counterparty default risk and health underwriting risk;
- £2.3m increase in operational risk which is driven by the increase in earned premium recognised in 2022-23 compared to 2021-22; and
- £0.1m decrease due to the increase in loss-absorbing capacity of deferred taxes compared to 30 June 2022 as the Company has paid a higher amount of taxes in 2022-23 compared to 2021-22 and the loss-absorbing capacity of deferred taxes recognises the amount that would be able to be recovered if required in an extreme solvency event.

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

This is not applicable as at 30 June 2023.

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

This is not applicable as at 30 June 2023.

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

The Company has maintained eligible capital in excess of the Minimum Capital Requirement and Solvency Capital Requirement throughout the year ended 30 June 2023.

### E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

There is no other information to note.

## F ADDITIONAL VOLUNTARY INFORMATION

### F.1 TRANSITIONAL INFORMATION

There is no other information to note.

### F.2 OTHER ADDITIONAL VOLUNTARY INFORMATION

There is no other information to note.

# 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
<b>S.02.01.01</b>	Balance sheet
<b>S.05.01.02</b>	Premiums, claims and expenses by line of business
<b>S.17.01.02</b>	Non-Life Technical Provisions
<b>S.19.01.21</b>	Non-Life Insurance claims
<b>S.23.01.01</b>	Own funds
<b>S.25.01.21</b>	Solvency Capital Requirement – for undertakings on standard formula
<b>S.28.01.01</b>	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 2023

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.

A handwritten signature in black ink, appearing to be 'N. Stanley Koopowitz', with a large loop at the start and a long horizontal stroke extending to the right.

Neville Stanley Koopowitz

Director and Group Chief Executive Officer

Date: 28 September 2023



# I EXTERNAL AUDIT REPORT

**Report of the external independent auditor 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**

Except as stated below, we have audited the following documents prepared by Vitality Health Limited ('the Company') as at 30 June 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 June 2023, (**the Narrative Disclosures subject to audit**); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 (**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 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S19.01.21;
- the written acknowledgement by the Directors 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 30 June 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which it is based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations in effect as at the date of approval of the Solvency and Financial Condition Report.

## **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 *Auditor's 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 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.

## **Emphasis of Matter – special purpose basis of accounting**

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting of the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report. 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.

## Going concern

The Directors have prepared the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Solvency and Financial Condition Report ("the going concern period").

We used our knowledge of the Company, its industry and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- a deterioration in claims experience;
- a deterioration in expected growth levels; and
- failure to meet savings targets.

We considered whether these risks could plausibly affect the Company's regulatory capital or liquidity in the going concern period by assessing the impact of severe but plausible adverse effects that could arise from these risks individually and collectively on the Company's financial forecasts.

Our procedures also included:

- Evaluation of the consistency, arithmetical accuracy and reasonableness of the data and assumptions used in management's going concern assessment paper.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

## Fraud and breaches of laws and regulations – ability to detect

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors
- Using analytical procedures to identify any unusual or unexpected relationships

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet solvency targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

Accordingly, we also identified a fraud risk related to in response to accounting estimates and judgements related to best estimate liabilities (BEL) in the valuation of technical provisions given the opportunity for management to manipulate assumptions due to the subjectivity involved and given the long term nature of these assumptions which are more difficult to corroborate.

In order to address the risk of fraud specifically as it relates to the technical provisions within the Company's Relevant Elements of the Solvency and Financial Condition Reporting, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and in comparison to our understanding of various business areas.

To address the pervasive risk as it relates to management override, we performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included, but were not limited to, journals impacting cash balances that were identified as unusual or unexpected in our risk assessment procedures.
- Assessing significant accounting estimates for bias

#### *Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Company Relevant Elements of the Solvency and Financial Condition Report from our general commercial and sector experience and through discussion with the directors and others management (as required by auditing standards), from inspection of the Company's regulatory and legal correspondence, and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the Company Relevant Elements of the Solvency and Financial Condition Report varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Solvency and Financial Condition Report including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Relevant Elements of the Solvency and Financial Condition Report, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not required, and considered any implications for our audit.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Relevant Elements of the Solvency and Financial Condition Report, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Relevant Elements of the Solvency and Financial Condition Report, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **Other Information**

The Directors are responsible for the Other Information.

Our opinion on the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the information subject to audit in the Relevant Elements 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 information subject to audit in 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 information subject to audit 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 which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine it 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; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's 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, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it is based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report.

A fuller description of our responsibilities is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **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 for the year ended 30 June 2023. 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.

This engagement is separate from the audit of the annual financial statements of the Company and the report here relates only to the matters specified and does not extend to the Company's annual financial statements taken as a whole.

As set out in our audit report on those financial statements, that audit report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. The audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for that audit work, for the audit report, or for the opinions we have formed in respect of that audit.

### **The purpose of our audit work and to whom we owe our responsibilities**

This report of the external auditor is made solely to the Company's directors, as its governing body, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the Company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company through its governing body, for our audit, for this report, or for the opinions we have formed.



*Thomas Tyler*

*for and on behalf of KPMG LLP*

*Chartered Accountants*

*15 Canada Square London E14 5GL*

*Date: 28 September 2023*

**Appendix to Report of the external independent auditor 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 – relevant elements of the Solvency and Financial Condition Report that are not subject to audit**

**Solo standard formula**

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.



# Vitality Health Limited

## Solvency and Financial Condition Report

### Disclosures

30 June

2023

(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 2023
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	24,237
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	6,700
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	185,449
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	24,575
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	24,575
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	110,021
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	50,853
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	12,298
R0280	<i>Non-life and health similar to non-life</i>	12,298
R0290	<i>Non-life excluding health</i>	0
R0300	<i>Health similar to non-life</i>	12,298
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	19,666
R0370	Reinsurance receivables	55
R0380	Receivables (trade, not insurance)	432
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	12,438
R0420	Any other assets, not elsewhere shown	0
R0500	<b>Total assets</b>	<b>261,275</b>

## S.02.01.02

### Balance sheet

		Solvency II value
Liabilities		C0010
R0510	Technical provisions - non-life	24,423
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	0
R0550	<i>Risk margin</i>	0
R0560	<i>Technical provisions - health (similar to non-life)</i>	24,423
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	16,897
R0590	<i>Risk margin</i>	7,526
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	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	5,363
R0830	Reinsurance payables	12,448
R0840	Payables (trade, not insurance)	28,543
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	<b>Total liabilities</b>	70,778
R1000	<b>Excess of assets over liabilities</b>	190,497

**S.05.01.02**

### Premiums, claims and expenses by line of business

## Non-life

[illegible]

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
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
R0110	654,736						654,736
R0120	0						0
R0130	0						0
R0140	108,225						108,225
R0200	546,511						546,511
Premiums earned							
R0210	634,580						634,580
R0220	0						0
R0230	0						0
R0240	99,798						99,798
R0300	534,782						534,782
Claims incurred							
R0310	340,985						340,985
R0320	0						0
R0330	0						0
R0340	85,375						85,375
R0400	255,611						255,611
Changes in other technical provisions							
R0410	0						0
R0420	0						0
R0430	0						0
R0440	0						0
R0500	0						0
R0550	225,036						225,036
R1200							
R1300							225,036



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
0																0
																0
																0
-34,293																-34,293
9																9
-34,302																-34,302
51,191																51,191
12,290																12,290
38,901																38,901
16,897																16,897
4,599																4,599
7,526																7,526
																0
																0
																0
24,423																24,423
12,298																12,298
12,125																12,125

R0010 Technical provisions calculated as a whole

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

Technical provisions calculated as a sum of BE and RM

Best estimate

Premium provisions

R0060 Gross  
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default  
R0140  
R0150 Net Best Estimate of Premium Provisions

Claims provisions

R0160 Gross  
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default  
R0240  
R0250 Net Best Estimate of Claims Provisions

R0260 Total best estimate - gross  
R0270 Total best estimate - net

R0280 Risk margin

Amount of the transitional on Technical Provisions

R0290 Technical Provisions calculated as a whole  
R0300 Best estimate  
R0310 Risk margin

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

R0320  
R0330  
R0340 Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

S.19.01.21

## Non-Life insurance claims

## Total Non-life business

20020

Accident year / underwriting year

Accident Year	Number of Accidents
1980	12
1981	15
1982	18
1983	20
1984	22
1985	25
1986	28
1987	30
1988	32
1989	35
1990	38
1991	40
1992	42
1993	45
1994	48
1995	50
1996	52
1997	55
1998	58
1999	60
2000	62
2001	65
2002	68
2003	70
2004	72
2005	75
2006	78
2007	80
2008	82
2009	85
2010	88
2011	90
2012	92
2013	95
2014	98
2015	100
2016	102
2017	105
2018	108
2019	110
2020	112
2021	115
2022	118
2023	120
2024	122
2025	125
2026	128
2027	130
2028	132
2029	135
2030	138
2031	140
2032	142
2033	145
2034	148
2035	150
2036	152
2037	155
2038	158
2039	160
2040	162
2041	165
2042	168
2043	170
2044	172
2045	175
2046	178
2047	180
2048	182
2049	185
2050	188
2051	190
2052	192
2053	195
2054	198
2055	200
2056	202
2057	205
2058	208
2059	210
2060	212
2061	215
2062	218
2063	220
2064	222
2065	225
2066	228
2067	230
2068	232
2069	235
2070	238
2071	240
2072	242
2073	245
2074	248
2075	250
2076	252
2077	255
2078	258
2079	260
2080	262
2081	265
2082	268
2083	270
2084	272
2085	275
2086	278
2087	280
2088	282
2089	285
2090	288
2091	290
2092	292
2093	295
2094	298
2095	300
2096	302
2097	305
2098	308
2099	310
2100	312
2101	315
2102	318
2103	320
2104	322
2105	325
2106	328
2107	330
2108	332
2109	335
2110	338
2111	340
2112	342
2113	345
2114	348
2115	350
2116	352
2117	355
2118	358
2119	360
2120	362
2121	365
2122	368
2123	370
2124	372
2125	375
2126	378
2127	380
2128	382
2129	385
2130	388
2131	390
2132	392
2133	395
2134	398
2135	400
2136	402
2137	405
2138	408
2139	410
2140	412
2141	415
2142	418
2143	420
2144	422
2145	425
2146	428
2147	430
2148	432
2149	435
2150	438
2151	440
2152	442
2153	445
2154	448
2155	450
2156	452
2157	455
2158	458
2159	460
2160	462
2161	465
2162	468
2163	470
2164	472
2165	475

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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

R0010 Ordinary share capital (gross of own shares)  
R0030 Share premium account related to ordinary share capital  
R0040 Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings  
R0050 Subordinated mutual member accounts  
R0070 Surplus funds  
R0090 Preference shares  
R0110 Share premium account related to preference shares  
R0130 Reconciliation reserve  
R0140 Subordinated liabilities  
R0160 An amount equal to the value of net deferred tax assets  
R0180 Other own fund items approved by the supervisory authority as basic own funds not specified above

**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**

**Deductions for participations in financial and credit institutions**

**Total basic own funds after deductions**

**Ancillary own funds**

R0300 Unpaid and uncalled ordinary share capital callable on demand  
R0310 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
R0320 Unpaid and uncalled preference shares callable on demand  
R0330 A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
R0340 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
R0350 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
R0360 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
R0370 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
R0390 Other ancillary own funds  
R0400 **Total ancillary own funds**

**Available and eligible own funds**

R0500 Total available own funds to meet the SCR  
R0510 Total available own funds to meet the MCR  
R0540 Total eligible own funds to meet the SCR  
R0550 Total eligible own funds to meet the MCR

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

R0700 Excess of assets over liabilities  
R0710 Own shares (held directly and indirectly)  
R0720 Foreseeable dividends, distributions and charges  
R0730 Other basic own fund items  
R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds  
R0760 **Reconciliation reserve**

**Expected profits**

R0770 Expected profits included in future premiums (EPIFP) - Life business  
R0780 Expected profits included in future premiums (EPIFP) - Non- life business  
R0790 **Total Expected profits included in future premiums (EPIFP)**

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
4,163	4,163		0	
332,088	332,088		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
-169,989	-169,989			
0		0	0	0
24,237				24,237
0	0	0	0	0
0				
0				
190,497	166,261	0	0	24,237
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0
190,497	166,261	0	0	24,237
166,261	166,261	0	0	
185,888	166,261	0	0	19,627
166,261	166,261	0	0	
130,845				
32,711				
142.07%				
508.27%				
C0060				
190,497				
0				
360,487				
0				
-169,989				
80,168				
80,168				

## S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

R0010	Market risk
R0020	Counterparty default risk
R0030	Life underwriting risk
R0040	Health underwriting risk
R0050	Non-life underwriting risk
R0060	Diversification

R0070 Intangible asset risk

R0100 **Basic Solvency Capital Requirement****Calculation of Solvency Capital Requirement**

R0130	Operational risk
R0140	Loss-absorbing capacity of technical provisions
R0150	Loss-absorbing capacity of deferred taxes
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
R0200	<b>Solvency Capital Requirement excluding capital add-on</b>
R0210	Capital add-ons already set
R0220	<b>Solvency capital requirement</b>

**Other information on SCR**

R0400	Capital requirement for duration-based equity risk sub-module
R0410	Total amount of Notional Solvency Capital Requirements for remaining part
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
R0440	Diversification effects due to RFF nSCR aggregation for article 304

**Approach to tax rate**

R0590 Approach based on average tax rate

**Calculation of loss absorbing capacity of deferred taxes**

R0640	LAC DT
R0650	LAC DT justified by reversion of deferred tax liabilities
R0660	LAC DT justified by reference to probable future taxable economic profit
R0670	LAC DT justified by carry back, current year
R0680	LAC DT justified by carry back, future years
R0690	Maximum LAC DT

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
11,591		
3,869		
0		
113,033		
0		
-10,926		

**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

C0100
19,037
0
-5,759
0
130,845
0
130,845

0
0
0
0
0

C0109
No

<b>LAC DT</b>
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C0130
-5,759
0
0
-5,759
0
-34,151

## 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<sub>NL</sub> Result

25,902

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

4,599	546,511
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0

## Linear formula component for life insurance and reinsurance obligations

C0040

R0200 MCR<sub>L</sub> Result

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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C0050

C0060

R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations


## Overall MCR calculation

C0070

R0300	Linear MCR
R0310	SCR
R0320	MCR cap
R0330	MCR floor
R0340	Combined MCR
R0350	Absolute floor of the MCR
R0400	Minimum Capital Requirement

25,902
130,845
58,880
32,711
32,711
2,325
32,711