

SOLVENCY AND FINANCIAL CONDITION REPORT

VITALITY LIFE LIMITED
FOR THE YEAR ENDED
30 JUNE 2018



Positively different.

Validity

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SUMMARY

1. BUSINESS AND PERFORMANCE SUMMARY

Company background

Vitality Life Limited (“the Company”, “VLL”) is a United Kingdom (“UK”) regulated entity authorised to carry out long-term insurance business. The ultimate parent company, Discovery Limited (“Discovery”), is an established and successful international insurance group. Discovery and the Prudential Assurance Company Limited (“PAC”) formed a joint venture in the UK, PruProtect, in 2007. In November 2014, Discovery acquired the remaining shares held by PAC and so owns 100% of the economic interest in the PruProtect business.

Following the termination of the joint venture, PruProtect was rebranded as ‘VitalityLife’. Communications took place to make existing customers aware of the new Vitality brand. A major marketing programme was also undertaken to promote the brand in the market place.

On 23 December 2015, Vitality Life Limited received authorisation from the Prudential Regulation Authority (“PRA”) to write long-term protection insurance business. Hence in 2016 VLL started to underwrite policies itself under the VitalityLife brand (until that point policies had been underwritten by PAC and continue to be liabilities of PAC). In this document, “business written on the PAC licence” will refer to the contracts for which Discovery owns the economic interest but which are currently liabilities of PAC. This long-term protection business written on the PAC licence will be transferred to VLL via a Part VII (of the Financial Services and Markets Act 2000) transfer by May 2020, subject to the relevant legal and regulatory approvals. In December 2017, VLL received authorisation to write linked long-term business and in late June 2018 VLL began to write investment business under the VitalityInvest brand.

The scope of this Solvency and Financial Condition Report (“SFCR”) is Vitality Life Limited and so comprises the VitalityLife business written in VLL and the VitalityInvest business. Hence unless explicitly stated otherwise, only business written in VLL will be relevant to this report.

VitalityInvest

VitalityInvest offers three ways to invest: a Retirement Plan; a Stocks and Shares ISA; and a Junior ISA. The Retirement Plan is a personal pension which allows customers to save towards their retirement and access their savings flexibly when they retire. Customers can link their investment to a range of unit-linked funds. VitalityInvest offers a range of Vitality funds in addition to complementary funds from other fund managers. When clients invest in Vitality funds, value is shared with them through three unique benefits:

- **Healthy Living Discount** which encourages clients to take steps to improve their health by reducing their monthly product charge – if they have a qualifying VitalityLife or VitalityHealth policy and engage in our healthy living programme they could pay no product charge at all.
- **Investment Booster** which encourages clients to invest sooner and for longer. When the client invests in Vitality funds continuously for five years, Vitality will boost investments with extra money - on top of any growth. As long as the client stays invested in Vitality funds, every five years they’ll receive another boost which could amount to a cumulative boost of 15%, over 25 years.
- **Retirement Booster** which encourages clients to manage their health and wealth in retirement. If clients keep more of their money invested in Vitality funds in retirement, join Vitality’s healthy living programme and look after their health, the Retirement Booster could boost their savings by up to 50% of the income drawn each year.

All products also automatically include the accidental death benefit, which increases the value of the client’s plan by 5% on death due to accident.

The Vitality model

VLL is part of the Discovery Group, one of the leading providers of insurance solutions in the world, operating in 17 global markets, and impacting over 11 million lives worldwide.

At the centre of the VLL business is a core purpose to make people healthier and enhance and protect their lives. This is delivered through a proprietary Shared Value Insurance model. Recognising that in modern society health risk is primarily driven by lifestyle behaviours, Vitality believes that through incentivising healthier behaviours from its members, and providing them with the tools to make positive changes in their lives, it can deliver value on multiple fronts. As an insurer, VLL benefits from reduced claims from a healthier member base; Vitality members benefit from the resultant lower premiums, as well as improved health, 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. In addition, policyholders can also select the Vitality Optimiser ("VO") and Wellness Optimiser ("WO") options, which provides an initial premium discount compared to policyholders who do not select VO or WO. The VO and WO policyholders' future protection premiums then change annually at a rate which is linked to their Vitality status and, for WO, Wellness status.

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

In early 2015, Vitality further enhanced its proposition through its new Active Rewards programme, which has now become an established pillar of the Vitality model. Active Rewards links short-term activity goals to regular rewards, incentivising members to get active. The behavioural impact of Active Rewards has been unprecedented, with more than a 10-fold increase in the number of members reaching their weekly activity targets since its introduction. The Active Reward programme continues to evolve and now allows members to purchase an Apple Watch at a significant upfront discount, with monthly repayments over the next two years which themselves are discounted on the basis of members' physical activity levels. The Apple Watch benefit has driven an increase in physical activity points earned among members who were already engaging, clearly indicating that offering a choice of compelling benefits is key to continuing to improve physical activity behaviours.

Something which Vitality prides itself on as a business is that it is always looking to innovate in terms of its approach. In order to ensure that its model remains relevant, and backed up by the latest research on health and wellbeing, Vitality has for the last five years been running, in partnership with University of Cambridge and Rand Europe, Britain's Healthiest Workplace, a study on the drivers and impacts of ill-health on the UK workforce. Since inception in 2013, over 350 unique organisations and over 120,000 distinct individuals have taken part, making this one of the largest and most comprehensive studies of workplace health in the UK.

In 2017, VLL launched Vitality Nurse, offering an in house range of medical screening and nurse services whose purpose is to improve the underwriting process and customer journey. By giving people the convenience of a medical screening by a clinically qualified nurse in the comfort of their own home, Vitality Nurse aims to address the inefficient medical underwriting process often seen in the market.

Vitality continues to invest in growing its brand in the UK through sponsorship, advertising and PR. Through sponsorship, the Vitality brand is aligned with a broad portfolio of elite teams and benefits from promotion nationally through sport; including six Premier League football clubs, Scottish Rugby, T20 and Test cricket, England Hockey and England Netball. In addition, mass participation events have included the Vitality Big Half, Vitality Big Mile, Vitality London 10,000, Vitality Westminster Mile, and parkrun, which promote the benefits of activity to consumers, members and intermediaries across the UK.

Vitality has also extended its Ambassador portfolio, securing partnerships with new brand Ambassadors, Heather Knight and Jos Buttler, who join current Ambassadors Ellie Simmonds, Jessica Ennis-Hill, Joe Root, Maro Itoje and Jonny Wilkinson. Vitality Ambassadors continue to exemplify the benefits of a healthy lifestyle, authentically encourage the involvement of others and create more strength of differentiation from the brand strategies of our competitors.

Business review

The Company continues to produce its financial statements in accordance with International Financial Reporting Standards ("IFRS"). In the year to 30 June 2018, the Company performed in line with expectations and on an IFRS basis produced a pre-tax profit of £13.1m (2017: £20.7m). The key driver for the reduction in pre-tax profits year on year was an increase in expenses due to the investment in developing the products, systems and marketing associated with VitalityInvest. Gross premiums increased to £86.7m from £45.8m in the prior year. The growth is driven by strong sales in the year, a growing in-force book of policies and management initiatives to reduce lapse rates.

During the year annual premium equivalent sales ("APE") were £64.6m (2017: £58.2m). Despite a competitive environment, sales were in line with expectations. This is as a result of an innovative product offering alongside a strong distribution network through the Vitality sales franchise network.

The second half of the financial year saw the highest sales on record for the Company. A particular success was the direct to consumer sales channel which now represents c. 10% of total sales volumes. During the financial year the Vitality UK group, comprising of both VitalityLife and VitalityHealth, reached the significant milestone of insuring 1 million lives across the UK.

A major success for the business in the year was the successful launch of the VitalityInvest proposition after receiving approval from the regulators on 1 December 2017 to write investment business in Vitality Life Limited. The business was launched in late June 2018, shortly before year end. Further details of the proposition can be seen earlier in this section.

Reinsurance has continued to be a key part of the business' strategy to limit overall risk exposure, the volatility of underwriting performance (and therefore pre-tax profitability) as well as to offset the liquidity strain of writing new business. There have been no material changes in reinsurance arrangements in the year. The reinsurer's share of gross claims was 57% (2017: 53%). Total funding received under financial reinsurance contracts was £111.0m (2017: £81.8m).

The company has continued to invest in maintaining the Vitality brand awareness through a number of sponsorship initiatives. This, alongside continued investment in the Company's distribution channels, customer on-boarding processes and product proposition will ensure the business is well placed to capitalise on its shared value insurance model going forward.

Writing new business requires sufficient liquid resources in order to fund new business commission and other acquisition costs, and hence for a fast growing company such as VLL regular capital injections will be required until such time as the in-force business is large enough for the business to be cash flow positive overall. During the year, £43.5m (2017: £54.7m) of share capital was injected into the Company from its parent company, Discovery Holdings Europe Limited ("DHEL"), alongside £16.5m (2017: £24.7m) of tier 2 subordinated loans so as to fund the writing of new business and to maintain sufficient solvency cover over the regulatory capital requirements.

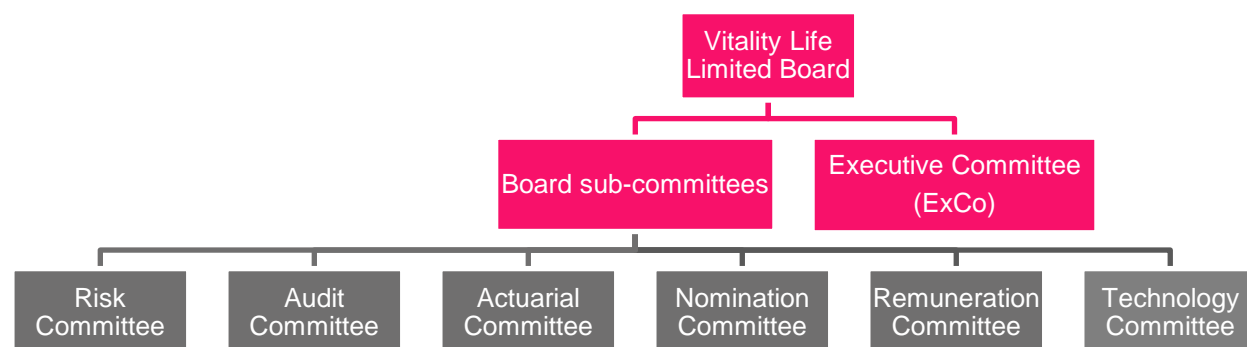
The Company's assets are prudently invested with the majority of assets being invested in liquid money market funds and short notice banking facilities. At 30 June 2018, total cash and investments was £79.4m (2017: £82.8m). As part of the launch of VitalityInvest the Company invested £2.5m of shareholder funds into a number of diversified Open Ended Investment Company ("OIEC") funds. These comprise of a well-diversified portfolios of assets, mainly UK and overseas listed equities. The composition of the Company's investments takes into account the liquidity requirements of the business and the nature and timing of insurance liabilities.

2. SYSTEM OF GOVERNANCE SUMMARY

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

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

Overview of the Board and Sub-Committees



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

The 1st Line of Defence – Business Management

Business management makes up the first line of defence. Overall, the first line of defence is responsible for the day to day management of risk and control 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 functions comprise of the risk management function and the compliance function. These are independent functions that provide assurance to the Board with regard to the adequacy and effectiveness of the overall risk management system.

The 3rd Line of Defence – Assurance

The third line of defence comprises the Company's independent internal and external assurance functions, i.e. internal and external audit, that provide an independent and balanced view of the effectiveness of the first and second line functions as defined above.

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

The governance structure of the Company has not changed materially in the year to 30 June 2018. Changes in the directors of the business are outlined in section B.1.2. Ultimate responsibility for the performance and strategy of the Company resides with the Board of Directors and they delegate authority within the organisation as they see fit.

3. RISK PROFILE SUMMARY

Vitality Life Limited writes long term protection business which provides the core benefits of life, serious illness and income protection cover to policyholders, either for whole of life or a specified term. The launch of VitalityInvest in late June 2018 means that VLL also now writes unit-linked business although it has not been included in VLL's standard formula capital requirements at 30 June 2018 as its impact would have been immaterial. The standard formula Solvency Capital Requirement ("SCR") for VLL as at 30 June 2018 and 30 June 2017 is shown below.

Vitality Life Limited £'m	2018	2017
Health underwriting	42.9	22.0
Life underwriting	105.4	66.8
Market risk	11.1	5.4
Counterparty default risk	5.6	1.7
Undiversified Basic SCR	165.0	95.8
Diversification credit	(36.0)	(18.2)
Basic SCR	129.0	77.6
Operational risk	4.7	3.4
Final Standard Formula SCR	133.7	81.0

Underwriting risk is the main standard formula SCR risk and there have been no material changes to the risk profile over the reporting period. Reinsurance risk mitigation for mortality and morbidity risks is in place via the use of quota share reinsurance arrangements with a retention limit and hence the material underwriting risk is lapse risk. Market risk as a component of the SCR is small relative to the underwriting risk component.

Given the nature and duration of VLL's book of business, the best estimate liabilities ("BEL") and hence technical provisions are currently negative. VLL's assets are therefore held primarily to meet operational and new business funding requirements as well as any solvency capital requirements. More than 95% of these assets are held in cash and in short-term high quality liquid assets within collective investment funds, hence market risk exposure arising from these assets is low. Counterparty default risk is relatively low since reinsurance is spread across different reinsurers with high credit ratings, and the banks are highly creditworthy.

4. VALUATION FOR SOLVENCY PURPOSES SUMMARY

The valuation of assets and liabilities for Solvency II purposes is the same as IFRS except for:

- differences in the valuation of technical provisions and associated reinsurance recoverables;
- the financial statements include intangibles under assets, which are valued at zero under Solvency II;
- the difference in the valuation of deferred tax assets as a result of the two valuation differences above.

These differences are summarised in the table below:

£'m	As at 30 June 2018
Total equity in financial statements	239.6
Adjustments for Solvency II:	
Valuation adjustment for Technical Provisions under SII, net of recoverables	(19.3)
Valuation adjustment for intangible assets under SII	(11.6)
Valuation adjustment for deferred tax assets under SII	5.2
Solvency II value of assets over liabilities	214.0
Add subordinated loans	41.2
Solvency II Own Funds	255.1

5. CAPITAL MANAGEMENT SUMMARY

The SCR coverage ratio at 30 June 2018 position was 191%, with total basic own funds of £255.1m and a SCR of £133.7m. Solvency coverage was fairly high owing to the volume of in-force business being low relative to the level of available capital necessary to fund the writing of future new business. The financing of new business for a fast growing company such as VLL requires regular capital injections until such time as the in-force business is large enough for the business to be cash flow positive overall. The company received £60m in capital injections during the reporting period to support the growth of the business.

The capital management objective is to maintain sufficient own funds to cover both the SCR with an appropriate buffer. Vitality Life Limited carries out regular reviews of the solvency ratio as part of its risk monitoring and capital management system. The Company has complied continuously with both the MCR and the SCR throughout the reporting period.

A BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Name and legal form of the undertaking

Vitality Life Limited ("the Company", "VLL") is incorporated in the United Kingdom and is a company limited by shares. The address of the registered office is:
3 More London Riverside
London
SE1 2AQ

This Solvency and Financial Condition Report ("SFCR") covers Vitality Life Limited on a solo basis.

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

The Company is an undertaking of:

- a. Discovery Group Europe Limited ("DGEL"), the ultimate insurance holding company which has its head office in an EEA State, the United Kingdom; and
- b. Discovery Limited, the ultimate insurance holding company, which does not have its head office in an EEA State, the Republic of South Africa.

The group supervisor of Discovery Group Europe Limited is the PRA.

Under Solvency II, the group supervisor of Discovery Limited is the PRA as the Republic of South Africa is not an equivalent country for Solvency II group supervision purposes. In the absence of equivalence, Discovery Limited is subject to full Solvency II group supervision or the Company can apply to the PRA to use another method. The Company has a waiver in place, effective 1 January 2016, from the PRA modifying the PRA Rulebook on Group Supervision to use another method.

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

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

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

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

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

The independent auditors of the Company are:

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

A.1.4 Holders of qualifying holdings in the undertaking

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

- a. 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 Vitality Life Limited and was able to exercise 100% of the voting power at any general meeting.
- b. Discovery Group Europe Limited - a limited company incorporated in the United Kingdom. As at the reporting date, Discovery Group Europe Limited owned 99.0% of the shares of Discovery Holdings Europe Limited, a company of which Vitality Life Limited is a subsidiary undertaking.
- c. 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, a company of which Vitality Life Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

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

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

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

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

SII Summary Group Structure Showing Control

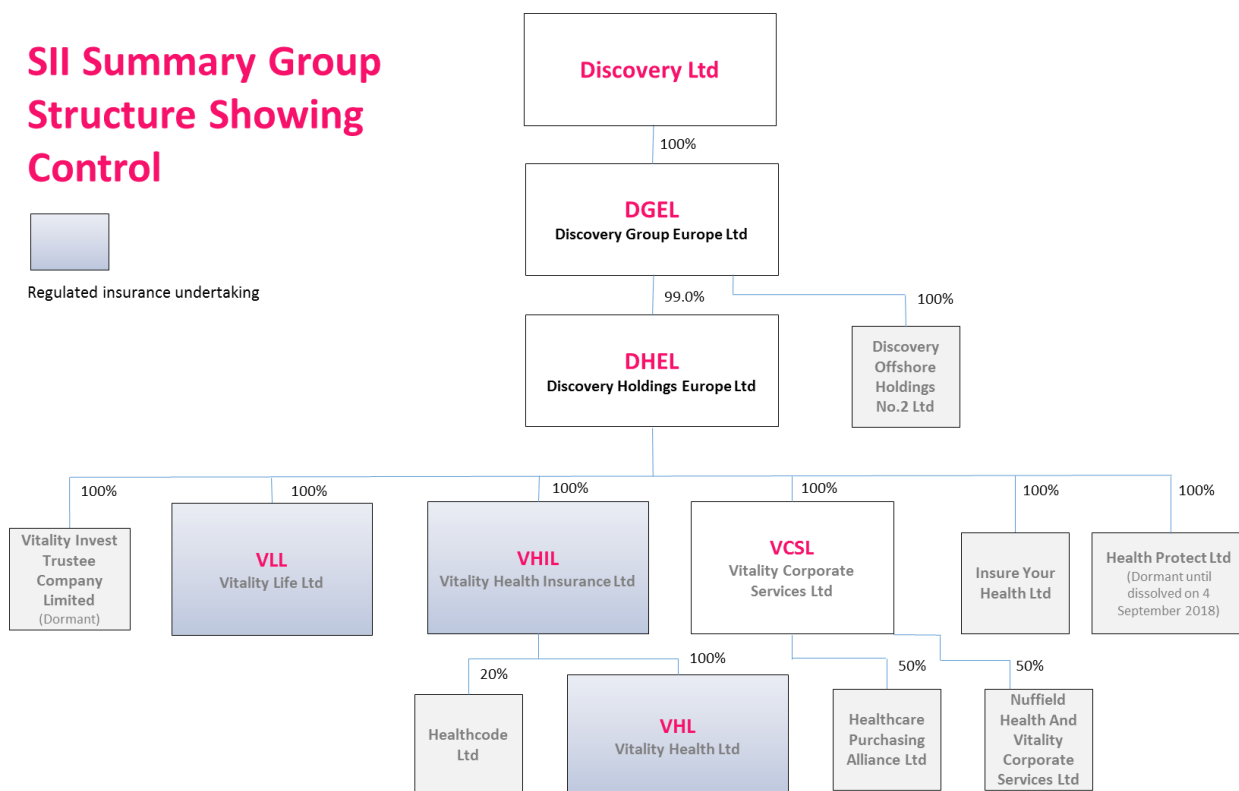


Figure 1

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

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

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

DHEL itself is not a regulated insurance entity, and thus has no capital requirement. VCSL, IYHL and KYS similarly have no insurance capital requirements, although as VCSL is an intermediary it requires small amounts of net assets to be held.

Healthcode Limited is a joint venture of which VHIL owns 20%. It is not a regulated insurance entity, and thus has no capital requirement.

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

VCSL owns 50% of Nuffield Health And Vitality Corporate Services Ltd, a new joint venture incorporated on 28 June 2017 and began to trade under the "Healthy Workplace" brand during the year ended 30 June 2018.

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

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

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

Vitality Life Limited's primary business is long-term insurance business providing death, serious illness and disability cover. The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). Under IFRS (and also for management reporting purposes), all business is considered to be one type of business, namely 'protection business'.

For SII purposes at 30 June 2018, the Company's protection business includes life insurance obligations that fall into two of the defined Solvency II lines of business:

- i. Other Life Insurance ("Other Life")
- ii. Health insurance similar to Life ("Health SLT")

These SII lines of business are used when reporting the premium, claims, expenses and technical provisions in the 30 June 2018 SII QRTs.

The business is all 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

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

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

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

A.2 UNDERWRITING PERFORMANCE

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

£'m	Year ended 30 June 2018			Year ended 30 June 2017		
	Other Life	Health SLT	Total	Other Life	Health SLT	Total
Gross premiums	73.4	13.3	86.7	39.1	6.8	45.8
Reinsurers' share of premiums	(43.3)	(7.9)	(51.2)	(22.7)	(3.9)	(26.6)
Gross claims	(11.6)	(3.0)	(14.6)	(5.6)	(1.4)	(7.0)
Reinsurers' share of claims	6.8	1.5	8.3	3.1	0.7	3.8
Expenses	(149.3)	(32.6)	(181.9)	(138.0)	(26.4)	(164.4)
Reinsurance financing received	87.1	23.9	111.0	69.8	12.1	81.9
Movement in insurance contract reserves			69.7			91.4
Pre-tax underwriting performance			28.0			24.8
Other income and expenses			(14.9)			(4.1)
Pre-tax IFRS profit			13.1			20.7

All business is underwritten in the UK.

The year ended 30 June 2018 has seen an increase in gross premiums from £45.8m to £86.7m. Growth was in both the Health SLT and Other Life lines of business. The key drivers of the increase year on year was the sale of £64.6m (2017: £58.2m) of new business (measured as annual premium equivalent). VLL only began writing business in January 2016 and so premiums are expected to continue to grow materially.

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

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

The Company utilises reinsurance to limit its overall risk exposure as well as to reduce the volatility of its claims and hence underwriting performance. During the year the reinsurer's share of claims was 57% compared to 53% for the prior period. The higher reinsurers share was caused by an increase in the average size of claims compared to the prior year and therefore a larger element of each claim being ceded to the reinsurer. The use of risk reinsurance is of particular importance since the Company only started underwriting policies on 1 January 2016 and hence the overall volume of business to date is small, increasing the likelihood of volatility. Further details of this risk mitigation are set out in C.1.2.

The Company uses reinsurance financing to help offset the financial strain of writing new business, which is then repaid in future periods contingent on policyholders' premium payments. Income from reinsurance financing during the year was £111.0m (2017: £81.8m), which, in the Company's financial statements, is offset against expenses. Repayment of reinsurance financing in the year was £38.5m, these repayments are made by ceding premiums to the reinsurers and are therefore included in reinsurers' share of premiums in the Company's financial statements. The Company's insurance contract reserves allow for the future repayments of reinsurance financing received by the Company.

A.3 INVESTMENT PERFORMANCE

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

The assets invested by the Company fall into the following asset classes:

1. *Collective Investment Undertakings – Money Market - £47.7m at 30 June 2018*

The Company has invested in short-term money market funds, which provide access to a diversified pool of high credit quality assets. In the period ended 30 June 2018 the Company received interest on these assets of £0.3m. The fund management fees per annum range from 0.05% to 0.15% of funds under management.

2. *Investment in Open Ended Investment Company (OEIC) funds - £2.6m at 30 June 2018.*

As part of the launch of VitalityInvest, the Company invested £2.5m of shareholder funds into a number of diversified Open Ended Invest Company ("OIEC") funds. These comprise of a well-diversified portfolios of assets, mainly UK and overseas listed equities.

3. *Cash and cash equivalents: Bank deposits £19.1m at 30 June 2018*

The income arising from bank deposits totalled £0.9m in the period ended 30 June 2018. This amount represents interest received on the balances held in UK and South African bank accounts. No material expenses were incurred in respect of these assets.

4. *Deposits other than cash equivalents £10.0m at 30 June 2018*

The income arising from bank deposits totalled less than £0.1m in the period ended 30 June 2018. This amount represents interest received on the balances held in a 100 day notice deposit account with a UK bank. No material expenses were incurred in respect of these assets.

The average effective interest earned on investments in the year was 1.07%.

The Company's assets are prudently invested, providing access to funds at short notice taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities.

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

The Company does not have any investments in securitisations.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

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

A.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION

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

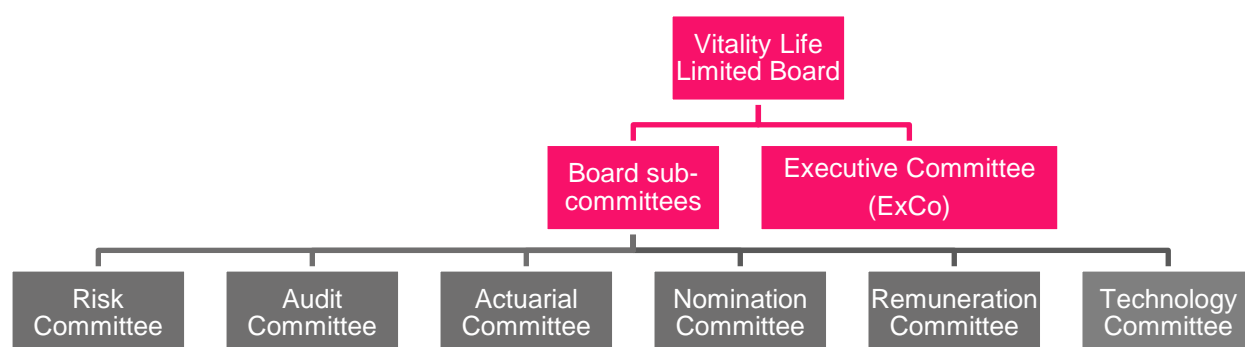
B SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

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

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

Overview of the Board and sub-committees



The Board

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

It is the Board's responsibility to:

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

Board Committees

Risk Committee

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

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

The Committee meets four times a year with the mandate to convene additional meetings as circumstances require. The Chairperson 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 Chairperson of the Committee regularly meets with the Chief Risk Officer without members of management present.

The responsibilities of the Risk Committee are to:

- Oversee the development of the risk and compliance framework to ensure that they are appropriate to the business and that risks are identified, managed and controlled. This includes overseeing the formulation of the high level risk management strategy to support the overall business strategy, and of an appropriate compliance universe, manual and monitoring plans;
- Recommend to the Board risk appetites, and monitor them on a regular basis. Consider, and monitor, remedial actions where the business is outside of risk appetite;
- Review and recommend to the Board risk policies covering each material risk faced by the Company;
- Support the embedding and maintenance of an open culture in relation to the management of risk across the Company;
- Oversee the periodic review of the format, content and frequency of risk information; and,
- Oversee the Policy Committee, Product Governance Committee and Conduct Risk Committee to support the Risk Committee in fulfilling its duties in relation to policy setting and attestation, product approval and conduct risk management and treating customers fairly. This includes receiving, reviewing and challenging upwards reporting from these Committees.

Audit Committee

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

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

The Committee meets four times a year with the mandate to convene additional meetings as circumstances require. The Chairperson 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 Chairperson of the Committee regularly meets with the risk, compliance and internal audit function leaders without members of management present.

The responsibilities of the Audit Committee are to:

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

Actuarial Committee

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

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

The responsibilities of the Actuarial Committee include:

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

Technology Committee

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

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

The responsibilities of the Technology Committee include:

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

Executive Committee

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

The main responsibilities of ExCo are to:

- Implement and monitor the business plan;
- Review business plans and recommend changes for approval by the Board;
- Structure the operations to maximise efficiency;
- Ensure that effective systems of controls are established and maintained which facilitate identification and effective management of all significant risks facing the business;
- Decide upon priorities for allocating capital and operating resources within the current business plan;
- Ensure the functional areas provide accurate and timely management information to enable the business to be effectively managed;
- Pass relevant and specific information to the Board, including any recommendations by the Executive Committee that require approval by the Board;
- Review financial and operational performance of the business and authorise appropriate actions;
- Review compliance, risk and internal audit reports to ensure that ownership is allocated and appropriate corrective action is taken;
- Ensure that any significant breaches or failings are dealt with in accordance with the rules of the relevant regulatory body;
- Consider whether the actions taken will damage the reputation of the group; and
- Delegate authority to sub-committees of the Executive Committee and to review the decisions and recommendations of such sub-committees.

Nomination Committee

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

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

The main responsibilities of the Nomination Committee are to:

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

Remuneration Committee

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

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

The main responsibilities of the Remuneration Committee are to:

- Review performance against targets and agree payments;
- Verify specific oversight and governance processes;
- Monitor remuneration policy; and
- Report and provide assurance of 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 risk function is headed by the Chief Risk Officer ("CRO") who is supported by a team that possesses skills ranging from risk management, actuarial, information technology, UK regulatory environment etc. 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 in 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 and 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 compliance function is headed up by the Compliance Director who is supported by a team with skills that include UK regulatory environment, financial crime, data protection, monitoring, compliance etc. More information on the implementation, authority and independence is provided in section B.4.2. The findings of the compliance function are reported to the Executive Committee, Risk Committee and

Audit Committee. The chairs of the Risk and Audit Committees are members of the Board and present summaries of the activities of their committees to the Board.

- **Actuarial function** – the actuarial function is headed by the Chief Actuary, information on the authority, resources and independence of the actuarial function is provided in section B.6. Activities of the actuarial function are tabled at the Actuarial Committee, which is chaired by an independent Non-Executive Director who subsequently provides a summary of the committee's activities to the Board.

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

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

There were no director resignations in the period.

The following director appointments took place in the period:

- Monty Hilkowitz, 30 January 2018
- Nicola McCabe, 24 May 2018

The following changes were made to committees in the last year:

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

The following changes were made in positions of significant influence over the last year:

- Nicola Burgess resigned as Chief Internal Auditor and the controlled function was led by John Adlam in the interim and will be led by Elaine Carr going forward.
- James Harrison replaced David Hare as VLL's Chief Actuary.

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

B.1.3.1 Principles of the remuneration policy

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

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

The key factors that underpin the Company's reward policy, rewards structures and individual rewards are:

- Offering pay packages that are competitive in the market to attract and retain the right people;
- Pay for performance is at the heart of VLL's remuneration philosophy – exceptional performance is recognised and rewarded;
- VLL is non-discriminatory – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin;
- Short-term incentive schemes that are designed to encourage, recognise and reward performance and allow sufficient flexibility to respond to different business needs;

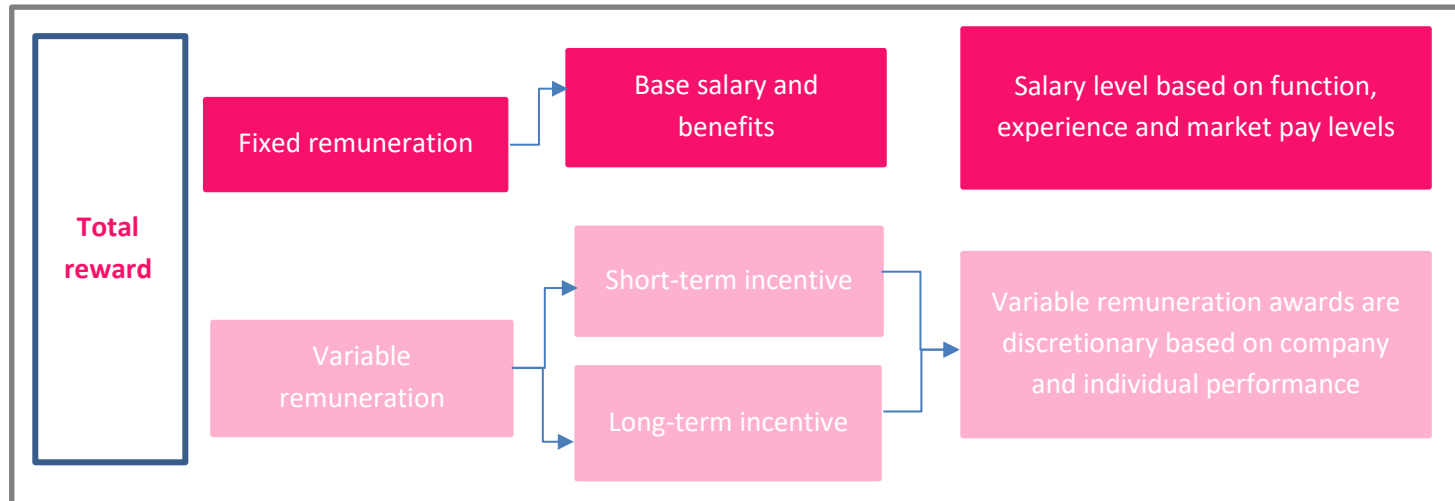
- Individual performance appraisals to identify talent at all levels in the business and enable fair and competitive pay;
- The corporate bonus pool does not focus solely on sales results to the extent that management is unduly influenced in their decision making;
- Corporate performance scorecards are reviewed each year to ensure that they remain balanced and appropriate;
- Pay designs comply with all tax and regulatory requirements;
- VLL believes in pay that is right and fair – VLL conducts regular internal and external surveys to ensure fairness and consistency across the business. The long term incentive schemes create a sense of ownership in the Company; and
- All remuneration decisions are governed by the Internal Remuneration Committee, and all senior management remuneration decisions are subject to further governance executed by the External Remuneration Committee.

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

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

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

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



Fixed remuneration

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

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

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

Variable remuneration – short term incentive

The short term incentive is in the form of a bi-annual bonus payment. The bonus is designed to reward and incentivise those who have achieved pre-determined individual and collective business targets over the preceding six month period. It is designed to encourage a performance culture aligned to the Company'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 is agreed contractually with each individual, including senior executives and Directors.

The collective criteria used to determine the level of bonus is determined using key performance indicators (both financial and non-financial) in the form of a scorecard.

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

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

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

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 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

- Discovery Holdings Europe Limited ("DHEL") injected £6,000k ordinary share capital on 31 October 2017 into the Company for solvency and liquidity capital purposes;
- DHEL injected £10,000k ordinary share capital on 16 February 2018 into the Company for solvency and liquidity capital purposes;
- DHEL injected £8,000k ordinary share capital on 31 May 2018 into the Company for solvency and liquidity capital purposes;
- DHEL injected £19,500k ordinary share capital on 29 June 2018 into the Company for solvency and liquidity capital purposes;
- DHEL provided a Tier 2 subordinated loan to the Company for £6,000k on 31 October 2017 for solvency and liquidity capital purposes;
- DHEL provided a Tier 2 subordinated loan to the Company for £8,000k on 31 May 2018 for solvency and liquidity capital purposes;
- DHEL provided a Tier 2 subordinated loan to the Company for £2,500k on 29 June 2018 for solvency and liquidity capital purposes.

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 Check; 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 assessment, including:

- Credit checks
- Identity checks (including passport)
- Financial Sanctions & Anti-money Laundering check
- FCA Register search
- UK Directorship search
- Five Years Employment History (including gap activity over 30 days)
- International Adverse Media check
- Social Media checks
- Criminal History checks
- Standard Disclosure checks

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

B.3.1 Risk management system

The Company uses the Standard Formula without Undertaking Specific Parameters to assess the solvency capital requirements and the partial or full internal model is not used.

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

The Company has developed a comprehensive set of risk policies, frameworks and guidelines to ensure that adequate processes and procedures are in place to manage all types of risk. These documents are aligned with the current regulatory requirements under the Solvency II regime and adopted by the PRA and FCA.

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 control 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 functions comprise of the risk management function and the compliance function. These are independent functions that provide assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain timely access to any records required to carry out its responsibilities.

The 3rd Line of Defence – Assurance

The third line of defence comprises of the Company's independent internal and external assurance functions, i.e. internal and external audit, that provide an independent and balanced view of the effectiveness of the first and second line functions as defined above.

The risk management process requirements, as specified in the ERM framework, are defined in the table below:

Requirement	Description
Risk Assessments	<p>The first line is responsible for carrying out the risk assessment process to identify, measure, monitor, manage and report. However, oversight and challenge is provided by the second line in doing so.</p> <p>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 and action plans, are complete, the top risks are presented to ExCo for review and discussion.</p> <p>This includes both the Bottom Up and Top Down risk assessment.</p> <p>Following ExCo review, the risk assessments are presented to the Risk Committee.</p>

Requirement	Description
Independent Risk Assurance Reviews	Independent risk assurance reviews are performed when there is a specific need to obtain an in-depth understanding of a particular risk, including the controls, actions and mitigation strategies in place. A review may be initiated by the business or CRO.
Emerging Risk Assessments	The risk function is responsible for carrying out an emerging risk assessment which is presented to the Risk Committee.

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

The output of these exercises in the year are also captured in the ORSA report which is owned by the Board and reviewed by the Risk Committee, with the quantitative elements reviewed by the Actuarial Committee. The ORSA is reviewed and approved at least annually by the Board.

B.3.2 Implementation of Risk management system

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

The Company's Board is responsible for taking key decisions across the organisation, but delegates some of its decision making responsibilities to the Executive Committee, Risk Committee and Audit Committee. The output of the risk management system is 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, and distribution strategy, follow internal governance processes, which include an assessment of the risk exposure and mitigation strategies.

B.3.3 ORSA 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
- Stress and scenario testing
- Strategic, planning and budgeting processes
- 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 ExCo, Risk Committee and the Board at various points in the year.

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

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

The Company maintains a financial control framework that governs financial and regulatory reporting in the company. This framework aims to ensure that:

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

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

The IFRS financial statements are also subject to rigorous controls in the production and review leading up to publishing. The actuarial liabilities are produced using best practice actuarial practices that are subject to review by the Risk function and the Actuarial Committee. The statements are also subject to internal review and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publishing.

B.4.2 Implementation of the compliance function

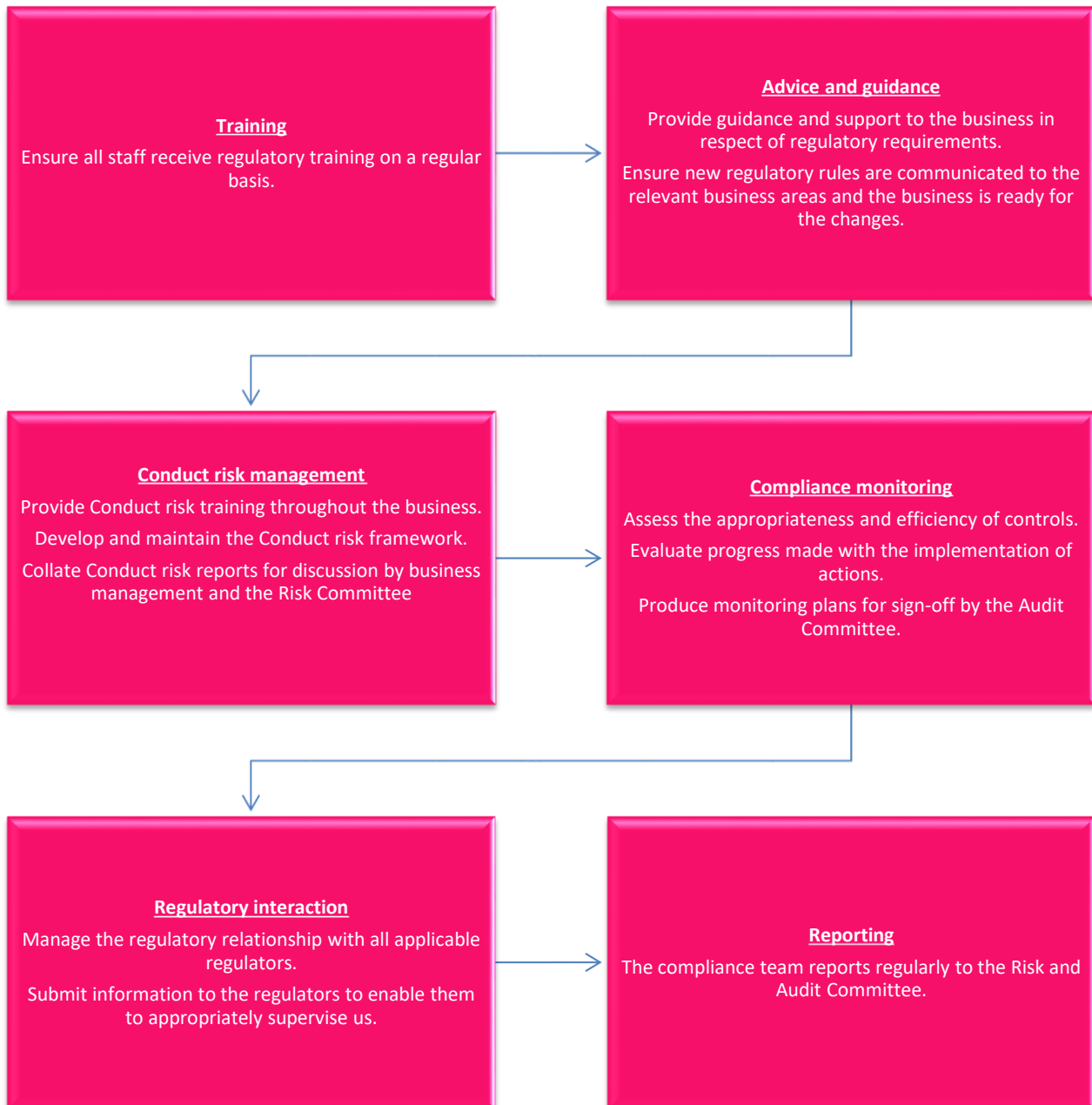
The Compliance function is established as an independent second line control function:

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

To provide for the independence of the Compliance function, the Compliance Director reports to a member of the Executive Committee 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 policy or any other relevant policy, rules and regulations. This means that the Compliance function shall be able to carry out its functions on its own initiative without obstruction from management and other staff members.

The main Compliance activities are described in the following diagram:



B.5 INTERNAL AUDIT FUNCTION

B.5.1 Implementation of the internal audit function

The internal audit function, headed by the Chief Internal Auditor, is part of the third line of defence in the Company.

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

- An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the risk management and control processes across the business. The plan includes a review of the major risk management processes operating across the business and a selection of the key risks identified from those processes. The audit plan also gives special consideration to those operations most affected by recent or expected changes, for example changes following acquisitions, restructures and new ventures. The proposed plan is flexible so that adjustments can be made during the year as a result of changes in management strategies, external conditions, major risk areas, or revised expectations in respect of achieving the business' objectives. Any proposed changes or updates to 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 Chief Internal Auditor considers relevant work that will be performed by other areas, e.g. compliance assurance, risk deep dives and external audit. To minimise duplication of effort and inefficiencies, 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 requires that the Chief Internal Auditor performs sufficient audit work and gathers other available information during the year so as to form a judgement regarding the adequacy and effectiveness of the risk management and control processes. The Chief Internal Auditor communicates overall judgement regarding the Company's risk management process and system of controls to the Executive and Audit Committees.

B.5.2 Independence of the internal audit function

The internal audit function of 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 a Non-executive Director role. Internal audit has full access to all activities, documents, meetings and personnel necessary to carry out their duties.

B.6 ACTUARIAL FUNCTION

The PRA requires that firms should have a Chief Actuary function, which is the function of having responsibility for the Actuarial Function, and has specified that firms should appoint a Chief Actuary as set out under the PRA's senior insurance managers regime. The Company's Chief Actuary is a PRA SIMF, reports functionally to the Deputy CEO, and is also a member of the Executive Committee. 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 Article 48 of the Solvency II Directive. The requirements relating to technical provisions are primarily fulfilled by the teams responsible for actuarial reporting and actuarial capital management, whilst the actuarial reinsurance, pricing and product development teams help contribute the information necessary for the Actuarial Function to form its opinion on the overall underwriting policy and on the adequacy of reinsurance arrangements.

The Company's Chief Actuary presents two annual reports to the Board or the Actuarial Committee, each comprising a component report of the overall Actuarial Function report. The first summarises the activities of the Actuarial Function that supported compliance with the requirements for the calculation of the technical provisions, while the second provides the opinions on the overall underwriting policy and the adequacy of the reinsurance arrangements.

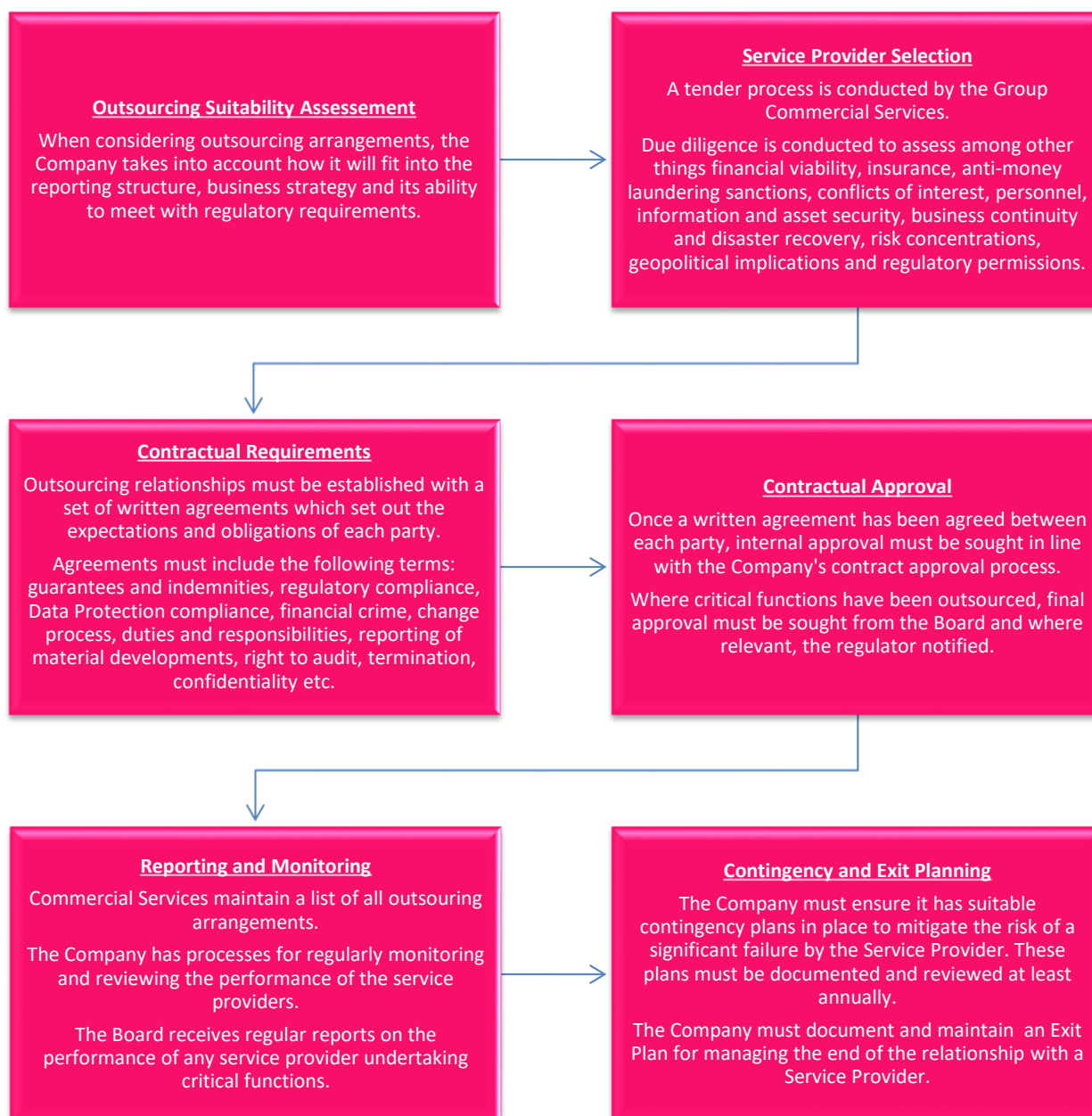
The requirements covering technical provisions are addressed through various activities, including the Chief Actuary's review and challenge of the actuarial reporting team's proposed valuation methodology and assumptions before they are presented to the Actuarial Committee for approval, and review of the technical provisions calculations by the actuarial capital management team. Oversight of underwriting and reinsurance by the Actuarial Function is provided through membership of the Actuarial, Product and Underwriting Committee and the Reinsurance, Investment and Capital Committee, and through attendance at the Actuarial Committee.

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

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

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



The Company is currently utilising several service providers to undertake critical or important functions on its behalf. These include data centre, document handling, payroll and facilities management services within the UK; business process outsourcing; and intragroup IT and business process outsourcing services in South Africa. IT development for VitalityInvest is undertaken by a service provider in Australia.

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

B.8 SYSTEM AND GOVERNANCE – ADEQUACY OF SYSTEM

The system of governance is considered to be appropriate for the Company, taking into account the nature, scale and complexity of the risks inherent in the business. Where appropriate, the existing governance forums set out in the above sections have been extended to provide oversight of VitalityInvest which was launched in the UK market in June 2018.

C RISK PROFILE

Summary of business written

Vitality Life Limited writes business in the UK only. It offers protection products which provide the following core benefits:

- life cover;
- serious illness cover; and
- income protection cover

Customers are able to combine different types of cover. Cover can be on a term or whole of life basis and benefits can be level, indexed or decreasing depending on the cover type and policyholder benefit selection. There are single and joint life cover options. Serious illness cover can be an acceleration of the life cover, with the policyholder selecting his/her serious illness cover as a proportion of the life sum assured, or the serious illness cover can be independent of the life cover.

Various additional covers and options (riders) are also available, for example, waiver of premium (on incapacity, on death in a joint life plan and on serious illness).

VLL also offers access to the unique Vitality healthy living programme which is a wellness programme designed to encourage members of the programme to lead a healthier life and reward them for doing so. For example, members can obtain discounts from Vitality's specified health partners on health screening, fitness assessments, selected exercise equipment, dieting and stopping smoking courses. Policyholders can also obtain future premium discounts depending on their Vitality status.

In addition, policyholders can also select either the Vitality Optimiser ("VO") or Wellness Optimiser ("WO") options which provide an initial premium discount compared to policyholders who do not select VO or WO. The VO policyholders' future protection premiums then change annually at a rate which is linked to their Vitality status, while for WO policyholders, future premiums change in line with their Vitality status and Wellness status. For whole of life products there is also the Premium Optimiser option where premiums increase annually at a fixed rate and the Interest Rate Optimiser option where premiums increase annually at a rate linked to long term interest rates (the higher long term interest rates the lower the annual premium increase) – the initial premium for both of these products is discounted compared to policies where these options are not selected.

VitalityInvest offers three ways to invest: a Retirement Plan; a Stocks and Shares ISA; and a Junior ISA. The Retirement Plan is a personal pension which allows customers to save towards their retirement and access their savings flexibly when they retire. The unit-linked benefits are linked to funds chosen by the customer. VitalityInvest offers a range of Vitality funds in addition to complementary funds from other fund managers. Policyholders can benefit from the healthy living programme if they also have a policy with one of the core benefits listed above.

Summary of investments

Other than assets held in respect of the VitalityInvest business, mainly comprising unit-linked assets matching unit-linked liabilities, Vitality Life Limited's investment assets are held in cash and in short term high quality liquid assets within collective investment undertakings. In addition, VLL has a small amount (less than 5% of total investment assets) of seed capital in respect of the VitalityInvest business invested in various investment funds with exposure to UK and overseas equities. Further details are available in section A.3.

Summary of risk

The split of VLL's SCR as at 30 June 2018 is as follows:

Vitality Life Limited £'m	2018	2017
Health underwriting	42.9	22.0
Life underwriting	105.4	66.8
Market risk	11.1	5.4
Counterparty default risk	5.6	1.7
Undiversified Basic SCR	165.0	95.8
Diversification credit	(36.0)	(18.2)
Basic SCR	129.0	77.6
Operational risk	4.7	3.4
Final Standard Formula SCR	133.7	81.0

The standard formula SCR risk profile is dominated by underwriting risk and there have been no material changes in risk profile over the reporting period. Reinsurance risk mitigation for mortality and morbidity risks is in place via the use of quota share reinsurance arrangements with a retention limit. The material underwriting risk is therefore lapse risk. Market risk as a component of the SCR is small relative to the underwriting risk component.

Given the nature and duration of the Company's book of business, the best estimate liabilities ("BEL") and hence technical provisions are currently negative. The Company's invested assets are therefore held primarily to meet operational and new business funding liquidity requirements. These assets are held in cash in bank accounts and in short-term high quality liquid assets within collective investment funds, hence market risk exposure arising from these assets is low. Counterparty default risk is relatively low since the banks are highly creditworthy and reinsurance is spread across different reinsurers with high credit ratings.

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

C.1 UNDERWRITING RISK

C.1.1 Exposure

Underwriting risk at 30 June 2018 comprises 87% of the undiversified basic SCR. The key underwriting risks which the Company is exposed to are set out below.

Lapse risk

The Company is exposed to the risk of lapse rates being higher than expected and also of lapses being lower than expected depending on the type and duration of the policy. It is also exposed to mass lapse, which is an instantaneous one-off shock lapse event. The risk from higher lapses or a mass lapse event is mainly at early durations when the policy has lapsed before acquisition costs have been recouped or expected future profits have been able to emerge. The risk of lower than expected lapses is at later policy durations. Lower than expected lapses mean that more policies are in-force at later durations when claims costs and reinsurance premiums are higher.

Lapse risk can arise due to misestimation, trends, economic shocks, competitor activity (lapse and re-entry), changes in policyholder behaviour and reputational damage.

Mortality and Morbidity risk

As VLL is a writer of protection business, it is exposed to mortality and morbidity experience being higher than expected. Higher mortality leads to a higher incidence of claims from policies providing death cover. Similarly, higher morbidity leads to higher incidence of claims from serious illness and income protection cover. The result in both cases is higher claims outgo than expected.

Higher mortality and morbidity can arise through misestimation, adverse trends, selective withdrawals and risk concentrations (geographic and occupational). Anti-selection is the risk that policyholders with worse risk characteristics than allowed for in the pricing are accepted. VLL is also exposed to the risk of certain kinds of catastrophic events, for example a pandemic.

Expense risk

VLL is exposed to the risk that future maintenance expenses are higher than expected. Expense risk can arise through misestimation, higher than expected inflation, lower volumes of business than expected, expense overruns, regulatory change and changes in the mix of business.

C.1.2 Risk mitigation

VLL monitors and controls underwriting risks via various methods, including:

- using reinsurance to reduce exposure to mortality and morbidity risks;
- underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk;
- monthly performance reporting highlights performance of key underwriting metrics;
- ExCo overview of financial performance;
- a risk register is kept and an assessment is performed at least quarterly and reported through the CRO report;
- the ORSA includes stress and scenario testing which is used to assess the risks under stressed conditions;
- lapse monitoring is conducted monthly;
- experience investigations covering mortality, morbidity, and expenses are conducted at least half yearly; and
- product design and pricing aims to minimise adverse selection and use appropriate rating factors to differentiate between different levels of risk. The Vitality Optimiser and Wellness Optimiser products incentivise engagement in the Vitality healthy living programme which should have a positive impact on risk experience.

The Company's reinsurance arrangements serve to limit its overall risk exposure as well as reduce the volatility of its claims and enhance underwriting performance. The volume of business underwritten by the Company is relatively small, as the Company only started underwriting policies in 2016. Small portfolios typically exhibit higher claims volatility than large ones and so reinsuring mortality and morbidity risk is appropriate for VLL given its current maturity.

VLL's reinsurance programme in relation to mortality and morbidity risk is on a quota share basis with a maximum retention per life and is split among a number of different reinsurance counterparties depending on the type of cover. There is also risk transfer within the reinsurance financing arrangements since repayments are contingent on policyholders' future premium payments. The appropriateness of the reinsurance programme is assessed at least once a year.

C.1.3 Risk concentration

VLL writes only individual and joint life business in the UK. The Company does not write group policies so there is no concentration of risk, policyholders are spread throughout the UK and other demographic factors are well diversified. The risk is controlled through frequent monitoring of the business mix and lapse monitoring, as well as

regular experience investigations. In addition, reinsurance is used to manage the level of risk and financial underwriting limits are in place for large cases.

C.2 MARKET RISK

C.2.1 Exposure

Interest rate risk at 30 June 2018 comprises 5% of the undiversified basic SCR. The remaining market risks including currency risk and spread risk account for 2% of the undiversified basic SCR.

As at 30 June 2018 VLL's investment assets are held in cash (including short term deposits) in both UK and South African based bank accounts and in short term high quality liquid assets within collective investment undertakings. In addition, VLL has a small amount (less than 5% of total investment assets) of capital invested in various investment funds with exposure to local and overseas equities for the purposes of seeding certain VitalityInvest products. The Sterling-denominated liquidity investment funds invest in 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 single A (or equivalent). Given the short-dated nature of the assets, there is minimal interest rate risk on the assets. As the funds are partially invested in short-dated non sovereigns, there is a risk of spread widening. However, this risk is small given the credit quality and the short maturities of the holdings.

The currency risk arises from a weakening of the South African Rand ("ZAR") against the Great Britain Pound ("GBP"). When the ZAR weakens then the cash held in South Africa at 30 June 2018 reduces in value in GBP. This is partially offset by lower technical provisions when the ZAR weakens because part of the Company's expense base is in South Africa since some operations are outsourced to other Discovery group companies in South Africa.

Writing long-term business means there is an exposure to a reduction in interest rates - the risk margin increases when interest rates reduce leading to a decrease in own funds. In addition, a low interest rate environment exacerbates the SCR for certain underwriting risks. Hence the overall Solvency II balance sheet is sensitive to interest rate risk, although the BEL itself is largely unaffected by a change in interest rates due to the offsetting impact of premiums and claims, and hence interest rate risk is a relatively small component of VLL's SCR.

VLL is exposed to a small amount of equity risk, representing less than 1% of the undiversified basic SCR, relating to the investment of the seed capital for the VitalityInvest business. The Company has no exposure to property or derivatives.

C.2.2 Risk mitigation

There is monthly monitoring of interest rate risk, which, together with the results of regular profitability analyses, could trigger consideration of changes to product design or pricing. In addition a risk register is kept and an assessment of market risk performed at least quarterly and reported through the CRO report. The ORSA includes stress and scenario testing which is used to assess market risks under stressed conditions.

An internal committee responsible for investment meets weekly and oversees the investments and makes decisions on tactical asset allocation (within the constraints of Vitality Life Limited's overall investment strategy).

There is no material exposure to equity holdings and no exposure to property holdings.

C.2.3 Risk concentration

Concentration risk is limited within the collective investment undertakings and the short term deposits. Given the short-dated nature of the assets, there is minimal interest rate risk on the assets. As the funds are partially invested

in short-dated non sovereigns, there is a risk of spread widening. However, this risk is small given the credit quality and the short maturities of the holdings.

C.3 CREDIT RISK

C.3.1 Exposure

At 30 June 2018, credit risk in the form of counterparty default, spread and concentration risk comprised 2.6%, 0.3% and 0.9% respectively of the undiversified basic SCR ("BSCR"). Credit risks could arise from exposure to various reinsurance counterparties and two banking counterparties, one UK-based and one South Africa-based.

All of the reinsurance counterparties with which Vitality Life Limited has treaties are highly rated and all have a credit quality step of 1. At 30 June 2018 there was no loss given default for any of the reinsurance counterparty exposures because the negative reinsurance recoverables outweighed any loss in risk mitigating benefit. The credit risk is therefore not material.

The banks are highly reputable and creditworthy with credit quality steps of 1 and 4 respectively – the credit quality step of the South African bank is constrained by the fact that it is a South African company where the sovereign rating is BB.

C.3.2 Risk mitigation

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

As the funds are partially invested in short dated non sovereigns, there is a risk of spread widening. However, this risk is small given the credit quality and the short maturities of the holdings.

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

No derivatives are employed to manage credit risk.

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. In addition, counterparties are chosen such that they are highly reputable and creditworthy to further reduce credit risk exposure.

C.4 LIQUIDITY RISK

C.4.1 Exposure

Vitality Life Limited has limited liquidity risk as a result of its investment strategy. At 30 June 2018 more than 95% of its investment assets are held in cash in both UK and South African based bank accounts and in short term high quality liquid assets within collective investment undertakings. The liquidity investment funds invest in Sterling denominated short dated fixed and variable interest securities both sovereign and non-sovereign. Maturities range

from overnight to a maximum of under one year and the funds have a credit rating of at least Standard and Poor's single A (or equivalent). The liquid investment assets reflect the fact that Vitality Life Limited only started writing life insurance business in 2016 and so doesn't have a large in-force book to fund the writing of new business.

C.4.2 Risk mitigation

Liquidity requirements are assessed monthly in order to meet Vitality Life Limited's stated liquidity objectives. In addition, the ORSA Stress and Scenario testing assesses 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. Investment assets take into account the liquidity requirements of the business. A sizeable level of assets is held as cash in bank accounts and in short term high quality liquid assets within collective investment undertakings.

C.4.3 Risk concentration

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

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

The EPIFP as at 30 June 2018 is £251.3m. The EPIFP is calculated in line with Article 260 of the Commission Delegated Acts (EU) 2015/35 (referred to as Delegated Acts in the remainder of the document). For all VitalityLife policies, there is no surrender value on discontinuance, but discontinuance would lead to commission clawback being received by the Company. The EPIFP is therefore equal to the negative BEL (net of recoverables) less an allowance for the commission clawback that would be received if the entire book discontinued. While EPIFP contributes to own funds, it is highly illiquid and so VLL's holdings in highly liquid investments take this into account.

C.5 OPERATIONAL RISK

C.5.1 Exposure

The following measures are used to assess operational risks:

- Risk and control assessments – the ERM framework of the business requires all teams across the business to carry out a risk and control self-assessment which would highlight any operational risk issues that need to be taken into account when assessing the risk profile for the business.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the operational risk exposure.

The key material operational risks that the business continued to actively manage over the period for both the life business and the investment business (and in particular the development and set-up of this business which launched in late June 2018) include:

- Cyber/ Data security – the risk of the inability to protect data and systems from unauthorised access, use, disclosure, disruption, modification and/or destruction. In line with the increase in the cyber threat level, our focus on this risk has increased in the year;
- IT Infrastructure – the risk arising from lack of effectiveness, integrity, reliability, capacity and/or availability of IT infrastructure;
- Mis-selling – the risk of deliberate, reckless or negligent sale of products or services in circumstances where the contract is either misrepresented, or the product/service is unsuitable for the customer's needs;

- Outsourcing – the risk of failure, non-performance, ineffective management and/or oversight of an outsourcing partner or a binder agreement;
- People – the risk of inadequate recruitment practices, development, management or retention of employees and/ or contractors;
- Execution, Delivery and Process Management - the risk to a business unit's service provision arising from a failure to carry out operational processes in an accurate, timely and complete manner;
- Legal – the risk of a defective transaction arising; a claim (including a defence to a claim or a counterclaim) being made; inadequate contract management or any other event occurring which results in liability for the Company;
- Fraud – the risk of deliberate acts by internal or external parties obtaining advantage or causing harm to the organisation; and
- Reputational – the risk of loss or damage to the Company's reputation or brand confidence, including impacts from conduct risk, liquidity risk and knock-on impacts on underwriting risks such as persistency and expenses.

C.5.2 Risk mitigation

All material operational risks which the 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 mitigating 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 – VLL outsources a number of activities and in some cases the associated risks with carrying out those activities. Whilst the company can outsource activities, it can't transfer responsibility and therefore manages its outsourcing relationships accordingly.
- Risk acceptance – where the company has considered all other mitigation techniques and the risk remains out of appetite, it may proceed to accept the risk with the approval of the Risk Committee.
- Reporting – the material operational risks which VLL is exposed to are identified and recorded in the risk register. The risks are assessed and once the actions required to manage the risks have been agreed, the risks are reported to senior management, the Risk Committee and the Board.

C.5.3 Risk concentration

Operational risk is inherent within the business. It is managed through the ERM framework and a number of workshops to identify the key sources of operational risk as well as the likelihood and impact. No material concentrations of operation 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 risks worthy of mention:

- Funding liquidity risk
- Vitality status distribution risk
- "Brexit" risk

New business funding liquidity risk

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

A key source of liquidity for the writing of new business is reinsurance based financing. This financing helps offset part of the strain of writing new business, and is then repaid in future periods contingent on policyholders' premiums payments. Hence there is the risk that reinsurer failure or the reinsurers reducing their capacity could lead to the loss of funding to write new business, until such time as replacement funding can be organised. The high levels of liquid investment assets help to mitigate the risk of reinsurer failure. Another key source of liquidity for the writing of new business are capital injections from its ultimate parent company, Discovery Limited. Risks to Discovery Limited's ability to provide appropriate financing would affect the Company's ability to write future new business.

Liquidity requirements are assessed frequently in order to meet Vitality Life Limited's stated liquidity objectives. As part of the ORSA, stress and scenario testing is conducted to assess the liquidity risk under stressed conditions. The high level of liquid assets and the existing commitments from reinsurers to provide the agreed future financing helps to mitigate new business financing liquidity risk. In extreme situations Vitality Life Limited could reduce or stop writing new business in order to control this risk.

The ORSA scenario testing demonstrated that Vitality Life Limited maintains sufficient liquid resources to withstand severe liquidity shocks.

Vitality status distribution risk

VLL is exposed to Vitality status distribution risk.

For certain VLL plans, the future annual premium increases/decreases depend upon the planholder's Vitality status.

Vitality status distribution risk is the risk that more policyholders than expected are on the higher statuses without a commensurate improvement in claims experience. The impact is that future premiums are lower than expected but without the expected reduction in claims.

Vitality status distribution risk is monitored periodically by considering the actual Vitality status distribution including trends compared with that assumed in pricing and reserving. Any issues highlighted in the periodic review can be allowed for in future pricing and reserving exercises. Further, subject to certain terms and conditions, adjustments could be made to the points required in order to reach each status.

"Brexit" risks

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

C.7 RISK PROFILE – ANY OTHER INFORMATION

C.7.1 Risk Sensitivity

The Company carries out stress and scenario testing as part of its risk management framework, 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 VLL's risk profile. For the most material risks, the analysis indicated that the Company was able to withstand severe shocks.

The stress tests performed for material underwriting risks and market risks are described in Section 7.2. Although credit risk is not a material risk for VLL, the sensitivity of the SCR coverage to credit rating downgrades of its counterparties was assessed. This resulted in a small reduction in solvency coverage.

The scenario testing includes assessing the new business funding liquidity risk under stressed conditions. This testing demonstrated that the Company maintains sufficient liquid resources to withstand severe short-term liquidity shocks with sufficient time available to seek additional funding or in extreme conditions reduce or stop writing new business.

The scenario testing also assesses the impact on the SCR cover of a change in Vitality status distribution without the expected commensurate improvement in claims. The adverse scenario considered a shift of policyholders to higher Vitality statuses, and hence lower future premium increases. The results of the analysis showed that the Company's solvency cover can comfortably withstand such a stress.

Reverse stress testing was also used to determine what combination of extremely low interest rates and other relevant factors might lead to a breach of the SCR.

C.7.2 Specific stress tests

The stress tests conducted in VLL's 2018 ORSA were selected by considering the risks which are known to materially affect VLL's solvency position. The stress tests considered in VLL's ORSA included:

Risk driver and stress description	Stress	Impact
Lapse rates: An immediate and permanent increase in lapse rates applied to all policies	+20%	Lapse stresses have the most material impact on the SCR cover, which is consistent with lapse risk being a key driver of the overall SCR. An increase in lapse rates has a positive impact on SCR coverage as the firm's existing financial resources are needed to cover a smaller future in-force portfolio, particularly since there are no surrender values for protection business
Lapse rates: An immediate and permanent decrease in lapse rates applied: a) to all policies; and b) selectively to only those policies where a lower lapse is adverse	-20%	A decrease in lapse rates leads to a reduction in SCR cover due to more policies being in-force at later durations when the claims risk exceeds the premiums. A selective lapse down scenario leads to an even larger reduction in the SCR coverage.
Mortality: An immediate and permanent increase in mortality rates.	+10%	There is a small decrease in SCR cover. The small impact is consistent with the reinsurance risk mitigation in place.
Morbidity: An immediate and permanent increase in morbidity rates.	+20%	There is a small decrease in SCR cover. The small impact is consistent with the reinsurance risk mitigation in place.

Risk driver and stress description	Stress	Impact
Expenses: An immediate and permanent increase in renewal expenses as well as a 1% increase in expense inflation.	+10% /+1%	Higher expenses leads to a small reduction in SCR cover.
Interest Rates: An immediate and permanent decrease in nominal interest rates	-25bps and -50bps	SCR cover reduces when interest rates decrease. This is primarily via their impact on the risk margin.

In all cases, SCR coverage exceeded 100% at 30 June 2018 with the lapse down and lower interest rate stresses having the largest impact as expected.

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 SII Directive. It only invests in assets whose risks it can properly identify, manage, control and report and appropriately taken into account in the company's overall solvency needs assessment which is documented in its ORSA report.

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

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

The Company has a small number of unit-linked policies where the investment risk is borne by the policyholders and ensures that the unit-linked assets and liabilities are appropriately matched.

The Company does not invest in derivative instruments for investment income purposes. The collective investment undertakings may from time-to-time purchase limited amounts of derivatives to contribute to a reduction of risks or facilitate efficient portfolio management.

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

Throughout the reporting period, Vitality Life Limited did not make use of special purpose vehicles for the purpose of transferring risk.

D VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

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

The table below sets out the valuation and classification of assets for the purposes of Solvency II and the statutory account value as reported in the Company's IFRS financial statements:

Assets as reported in S.02.01.b (£'m)	IFRS Valuation	Classification Differences	Valuation Difference	Solvency II Valuation
Investments	2.6	57.7	-	60.3
Insurance and intermediaries receivables	8.6	-	-	8.6
Cash and cash equivalents	76.8	(57.7)	-	19.1
Reinsurance receivables	9.4	(6.2)	-	3.2
Deferred tax assets	0.1	-	5.2	5.3
Reinsurance recoverable	(225.9)	-	(46.4)	(272.3)
Intangible assets	11.6	-	(11.6)	-
Receivables (trade, not insurance)	1.5	-	-	1.5
Any other assets, not elsewhere shown	-	6.2	-	6.2
Total assets	(115.3)	-	(52.8)	(168.1)

D.1.1.1 Investments

The investments are held in collective investment undertakings (£50.3m) and deposits other than cash equivalents (£10.0m).

The collective investment undertaking are externally-managed funds and primarily contain underlying assets with high credit ratings and of short duration. £2.5m of the holdings are held in open ended investment company funds comprising primarily of a diversified portfolio of UK and global equities. 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 deposits other than cash equivalents are cash deposits held in a single 100 day notice account. The Company cannot access this cash without giving 100 day notice to the financial institution holding the funds. This investment is valued at fair value and the Company receives monthly statements at the period end to confirm the balances held.

The value of all investments in the financial statements is the same as for Solvency II and no significant estimates or judgements are used in the valuation of these investments.

Classification differences

The IFRS financial statements discloses all investments as cash and cash equivalents or financial assets at fair value through profit and loss.

Under SII all investments held in collective investment undertakings with externally-managed funds are reported as Investments and therefore a £47.7m classification adjustment has been made between cash and cash equivalents and investments for this. Furthermore, in the IFRS financial statements amounts held in the 100 day notice account are disclosed as cash and cash equivalents. Under SII, as this cash is not immediately accessible it has been reported as deposits other than cash equivalents within investments. A £10.0m classification adjustment between cash and cash equivalents and investments has been made for this.

D.1.1.2 Insurance and Intermediaries receivables

Insurance and intermediaries receivable balances represent premiums owed by policyholders and commission clawback due from intermediaries that are past due. These receivables are measured at amortised cost less impairment provision and this is a reasonable proxy for the fair value for Solvency II valuation given the short term nature of these assets. These receivables are valued at fair value and due to the short-term nature of the receivable no adjustments to valuation are required. As these receivables are past due an impairment provision is held where recoverability is uncertain. The valuation of insurance and intermediaries receivables in the Company's financial statements is the same as for Solvency II.

D.1.1.3 Cash and cash equivalents

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

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

Classification differences

As noted in D.1.1.1., the IFRS financial statements disclose all investments as cash and cash equivalents or financial assets at fair value through P&L whereas under SII amounts held in collective investment undertakings or deposit accounts that are not immediately accessible without penalty or restriction are instead reported as investments.

D.1.1.4 Reinsurance receivables

Reinsurance receivables represent amounts past due from reinsurance providers in respect of settled claims and funding due from but not yet received from reinsurers. The amounts relate to reinsurance agreements in force at the reporting date. Where there is a contractual right of offset with each reinsurance provider then reinsurance receivables and reinsurance payables have been recorded on a net basis. These receivables are valued at fair value and due to the short-term nature of the receivables no adjustments to valuation are required. The amounts receivable are calculated in accordance with reinsurance agreements; no estimation methods, adjustments for future value or valuation judgements are required for these balances. The value of reinsurance receivables in the Company's financial statements is the same as for Solvency II.

D.1.1.5 Deferred tax assets

Deferred tax assets are recognised where there is a timing difference between the tax base of assets and liabilities and the IFRS/Solvency II valuation of assets and liabilities. Deferred tax assets may be recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The valuation of the deferred tax asset takes into account the reduction in the UK main corporation tax rate from 19% to 17%, substantively enacted on 6 September 2016 and effective from 1 April 2020.

The IFRS value of the deferred tax asset arises as the result of the timing difference between the IFRS and tax bases of certain assets and liabilities. The Solvency II valuation difference arises as a result of the difference between the IFRS and SII valuation of certain assets and liabilities. This is mainly caused by the valuation difference of technical provisions (See D.2) and intangible assets (See D.1.1.7).

D.1.1.6 Reinsurance recoverable

See section D.2 for valuation of reinsurance recoverable under Solvency II. The differences between the IFRS and Solvency II valuation are due to the different bases. This is covered under section D.2.3.

D.1.1.7 Intangible Assets

Under Solvency II only those intangible assets that can be sold separately and where it can be demonstrated that there is a value for the same or similar assets in an active market can be recognised. Based on the Company's assessment, the intangible assets recognised under IFRS are not deemed to meet the Solvency II criteria. This valuation difference results in a reduction in the Solvency II net assets by £11.6m.

D.1.1.8 Receivables (trade, not insurance)

Receivables (trade, not insurance) comprises of amounts paid to HMRC in excess of the liability due to HMRC for corporation tax. The value of this asset is the same in the Company's IFRS financial statements as under Solvency II.

D.1.1.9 Any other assets, not elsewhere shown

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

D.2 TECHNICAL PROVISIONS

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

The table below shows the technical provisions at 30 June 2018 by line of business:

£'m	Other Life	Health SLT	Total
Gross Best Estimate Liabilities	(423.5)	(135.3)	(558.8)
Risk Margin	80.9	23.5	104.4
Technical Provisions	(342.6)	(111.8)	(454.4)
Recoverables	222.8	49.5	272.3
Technical Provisions allowing for recoverables	(119.8)	(62.3)	(182.1)

Note, the VitalityInvest business was launched in late June 2018 and so has not been included in the calculation of technical provisions on the grounds of immateriality.

For comparison, the table below shows the technical provisions at 30 June 2017 by line of business:

£'m	Other Life	Health SLT	Total
Gross Best Estimate Liabilities	(262.2)	(72.4)	(334.6)
Risk Margin	57.5	12.7	70.2
Technical Provisions	(204.7)	(59.8)	(264.5)
Recoverables	126.0	23.4	149.4
Technical Provisions allowing for recoverables	(78.7)	(36.4)	(115.1)

Since VLL only began writing business in January 2016, new business written over the year has a material impact on total business volumes and is therefore the main driver behind the change in technical provisions from 2017 to 2018.

Technical provision calculation methodology

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

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

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

Segmentation of business

The technical provisions are segmented into two categories, Other Life and Health SLT, where the segmentation is carried out at a per policy level depending on the types of benefit attached to each policy. The assumptions and methodology are the same for both categories of business.

Once material and included in the valuation of the technical provisions, VitalityInvest will fall into its own segment.

Main assumptions

Interest rates and inflation

The risk-free interest rate term structure used for discounting the projected cash flows in the technical calculation is the GBP relevant risk-free structure as specified by the Solvency II regulations. Vitality Life Limited used the rates as provided by European Insurance and Occupational Pensions Authority ("EIOPA"). The Company does not use the matching adjustment nor the volatility adjustment.

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

Expenses

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

Lapse assumptions

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

Claims Assumptions

Claims rate assumptions take account of relevant reinsurance and industry information and, where credible, internal experience including experience from the business written on the PAC licence.

D.2.2 Uncertainty associated with the value of technical provisions

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

D.2.3 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 2018:

£'m	Other Life	Health SLT	Total
<i>Gross IFRS Insurance contract liabilities</i>	(347.1)	(80.2)	(427.3)
<i>Adjustments for Solvency II</i>	(76.4)	(55.1)	(131.5)
Gross BEL	(423.5)	(135.3)	(558.8)
<i>Add risk margin</i>	80.9	23.5	104.4
Technical Provisions	(342.6)	(111.8)	(454.4)

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

- Solvency II uses best estimate assumptions while the IFRS assumptions included margins for adverse deviation;
- the discount rate for Solvency II technical provisions is specified by regulation (the relevant risk-free interest rate is provided by EIOPA), while that for IFRS is based on the expected long term return for VLL's expected investment portfolio;
- the Solvency II inflation assumption is derived from market information, while for IFRS it is based on an expected long term rate; and
- Solvency II technical provisions include the risk margin.

D.2.4 Recoverables from reinsurance contracts and special purpose vehicles

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

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

D.3 OTHER LIABILITIES

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

The table below sets out the valuation and classification of liabilities for the purposes of Solvency II and the statutory account value as reported in the Company's IFRS financial statements:

Liabilities as reported in S.02.01.b (£'m)	IFRS Valuation	Classification Differences	Valuation Difference	Solvency II Valuation
Provisions, other than technical provisions	10.9			10.9
Insurance and intermediary payables	5.5	-	-	5.5
Reinsurance payables	5.8	-	-	5.8
Payables (trade, not insurance)	8.2	-	-	8.2
Subordinated liabilities	41.2	-	-	41.2
Any other liabilities, not shown elsewhere	0.8			0.8
Total other liabilities	72.4	-	-	72.4

D.3.1.1 Provisions, other than technical provisions

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

D.3.1.2 Insurance & intermediaries payables

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

D.3.1.3 Reinsurance payables

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

D.3.1.4 Payables (trade, not insurance)

Payables (trade, not insurance) relate to balances owed to other group companies in respect of salaries and other services recharged to the Company, accrued expenditure and taxes payable to HMRC; no estimation methods, adjustments for future value or valuation judgements are required for these balances.

D.3.1.5 Subordinated liabilities

A number of long term subordinated loans have been provided to the Company by DHEL. The relevant terms of these loans are detailed in Section E.

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

The interest rate payable on the loan has both a fixed and variable element. The fixed element includes an allowance for the Company's own credit standing and the variable element is designed to reflect changes in risk-free interest rates. Changes in interest rates between the dates the loans were issued and the reporting date of 30 June 2018 did not result in a material change in the fair value of the loan. As a result, there were no material differences between the IFRS valuation and Solvency II valuation of this loan at 30 June 2018.

D.3.1.6 Any other liabilities, not shown elsewhere

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

D.4 ALTERNATIVE METHODS OF VALUATION

No alternative methods of valuation are used.

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 funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. The committees that review solvency are described in more detail in section B.1.1 General Information on the System of Governance, and responsibility ultimately rests with the Vitality Life Limited 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 and this helps focus actions for future funding.

E.1.2 Own funds classified by tiers

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

£'m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
At 30 June 2018					
Ordinary share capital	2.0	-	-	-	2.0
Share premium	200.6	-	-	-	200.6
Subordinated debt	-	-	41.2	-	41.2
Reconciliation reserve	6.0	-	-	-	6.0
Net deferred tax assets	-	-	-	5.3	5.3
Total eligible own funds to meet SCR	208.6	-	41.2	5.3	255.1
Less: restrictions on eligible own funds to meet MCR	-	-	(34.4)	(5.3)	(39.7)
Total eligible own funds to meet MCR	208.6	-	6.8	-	215.4
At 30 June 2017					
Ordinary share capital	1.6	-	-	-	1.6
Share premium	157.6	-	-	-	157.6
Subordinated debt	-	-	24.7	-	24.7
Reconciliation reserve	5.0	-	-	-	5.0
Net deferred tax assets	-	-	-	0.1	0.1
Total eligible own funds to meet SCR	164.1	-	24.7	0.1	188.9
Less: restrictions on eligible own funds to meet MCR	-	-	(20.6)	(0.1)	(20.7)
Total eligible own funds to meet MCR	164.1	-	4.1	-	168.2
Analysis of Change: 30 June 2017 to 30 June 2018					
Ordinary share capital issued	0.4	-	-	-	0.4
Share premium issued	43.0	-	-	-	43.0
Subordinated debt issued	-	-	16.5	-	16.5
Reconciliation reserve movement	1.0	-	-	-	1.0
Net deferred tax assets recognised	-	-	-	5.2	5.2
Total movement in eligible own funds to meet SCR	44.4	-	16.5	5.2	66.1
Less: movement in restrictions on eligible own funds to meet MCR	-	-	(13.8)	(5.2)	(19.0)
Total movement in eligible own funds to meet MCR	44.4	-	2.7	-	47.1

Tier 1 unrestricted:

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

During the year, a total of 435,000 ordinary shares were issued of £1 each and a share premium of £99 each.

The reconciliation reserve comprised of:

£'m	30 June 2018	30 June 2017	Movement
SII excess of assets over liabilities	214.0	164.3	49.7
Other basic own fund items	(202.7)	(159.2)	(43.5)
Net deferred tax assets	(5.3)	(0.1)	(5.2)
Reconciliation reserve	6.0	5.0	1.0

Basic own fund items comprised of:

£'m	30 June 2018	30 June 2017	Movement
Ordinary share capital	2.0	1.6	0.4
Share premium	200.6	157.6	43.0
Total basic own fund items	202.6	159.2	43.4

Tier 1 restricted:

There are no tier 1 restricted own funds.

Tier 2:

The Company has received a number of long term subordinated loans from its parent Company, Discovery Holdings Europe Limited. These loans are eligible for treatment as Tier II own funds under the Solvency II regulatory regime.

With consent from the Company's regulator (Prudential Regulation Authority) the Company has the right to repay the loan at any date on the condition that is exchanged or converted to an equal or higher quality form of regulatory capital under Solvency II regulations ("regulatory restrictions").

The loans cannot be repaid where, at the date of the repayment, the Company does not comply with its Solvency II capital requirements or would do so as a result of the repayment.

Loan commencement date	Principal value of Loan £'m	Loan maturity date
31 March 2017	24.7	1 April 2027
31 October 2017	6.0	1 November 2027
31 May 2018	8.0	1 June 2028
29 June 2018	2.5	30 June 2028
Total at Tier 2 own funds	41.2	

The subordinated loan is available, fully subordinated and is eligible to be recognised as Tier 2 own funds.

Tier 2 funds eligible to meet the MCR are restricted to 20% of the value of the MCR.

Tier 3:

Tier 3 funds comprised of deferred tax assets of £5.3m in respect of tax timing differences and differences between the IFRS base balance sheet and the Solvency II base balance sheet.

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

£'m	Total eligible own funds
Tier 1 unrestricted	208.6
Tier 1 restricted	-
Tier 2	41.2
Tier 3	5.3
Total eligible own funds to meet SCR	255.1

The total available own funds to meet the SCR are £255.1m.

The eligible own funds over SCR ratio was 191% as at 30 June 2018.

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 £5.3m. The limit of tier 3 funds covering a maximum of 15% of the SCR is not reached and therefore the full value of tier 3 funds can be used to cover the SCR.

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

£'m	Total eligible own funds	Restriction to cover MCR	Total eligible own funds to cover MCR
Tier 1 unrestricted	208.6	-	208.6
Tier 1 restricted	-	-	-
Tier 2	41.2	(34.4)	6.8
Tier 3	5.3	(5.3)	-
Total	255.1	(39.7)	215.4

The total available own funds to meet the MCR are £215.4m.

The eligible own funds over MCR ratio was 644% as at 30 June 2018.

Tier 3 own funds cannot form part of total available own funds to meet the MCR and therefore this reduces tier 3 items to nil. Furthermore, Article 82 of the Delegated Regulation limits tier 2 items to 20% of the MCR and therefore this reduces the tier 2 own fund items by £34.4m to £6.8m.

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

Reconciliation of IFRS net assets to SII excess of assets over liabilities	As at 30 June 2018 £'m
Net assets under IFRS	239.6
Valuation adjustment for Technical Provisions under SII, net of reinsurance recoverables	(19.3)
Valuation adjustment for intangible assets under SII	(11.6)
Valuation adjustment for deferred tax assets under SII	5.3
Excess of assets over liabilities	214.0

The valuation adjustment for Technical Provisions under SII, net of reinsurance recoverables is calculated as follows:

£'m	IFRS valuation	Solvency II valuation	Difference
Technical provisions	(427.3)	(454.4)	
Reinsurance recoverables	225.9	272.3	
Technical provisions net of recoverables	201.4	182.1	(19.3)

Total equity per the financial statements was £239.6m as at 30 June 2018. Excess over liabilities as calculated for solvency was £214.0m. The difference of £25.6m between the IFRS net assets and SII excess of assets over liabilities is due to valuation differences between IFRS and Solvency II as set out above and in section D.

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

No basic own-funds are subject to transitional arrangements

E.1.7 Ancillary own funds

There are no ancillary own funds at 30 June 2018.

E.1.8 Items deducted from own funds

There are no deductions from own funds at 30 June 2018.

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 total SCR and MCR at 30 June 2018 (the SCR and MCR at 30 June 2017 are also shown for comparative purposes)

Vitality Life Limited £'m	2018	2017
SCR	133.7	81.0
MCR	33.4	20.3

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

Since VLL only began writing business in January 2016, new business written over the year has a material impact on total business volumes and is therefore the main driver behind the increase in the SCR from 2017 to 2018.

Note, the VitalityInvest business was launched in late June 2018 and so has not been included in the calculation of the solvency capital requirement and the minimum capital requirement on the grounds of immateriality.

E.2.2 Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up Vitality Life Limited's SCR at 30 June 2018 and 30 June 2017.

Vitality Life Limited £'m	2018	2017
Health underwriting	42.9	22.0
Life underwriting	105.4	66.8
Market risk	11.1	5.4
Counterparty default risk	5.6	1.7
Undiversified BSCR	165.0	95.8
Diversification credit	(36.0)	(18.2)
Basic SCR	129.0	77.6
Operational risk	4.7	3.4
Final Standard Formula SCR	133.7	81.0

E.2.3 Which risk modules and sub-modules of the Standard Formula are using simplified calculations

VLL is not using any material simplifications in the calculation of the SCR.

E.2.4 Inputs used to calculate the Minimum Capital Requirement

The table below shows the inputs into the MCR calculation as at 30 June 2018 and at 30 June 2017. Note the Absolute Floor of the Minimum Capital Requirement ("AMCR") is prescribed by EIOPA and stated in Euros below.

£'m	2018	2017
AMCR (in Euros)	3.3	3.3
Linear MCR	12.6	7.0
SCR	133.7	81.0
Combined MCR	33.4	20.3
MCR	33.4	20.3

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 2018.

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

This is not applicable as at 30 June 2018.

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 2018.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

There is no other information to note.

F TEMPLATES

The following QRTs are requirement for the SFCR:

QRT ref	QRT template name
S.02.01	Balance sheet
S.05.01	Premiums, claims and expenses
S.05.02	Premiums, claims and expenses by country
S.12.01	Life and Health SLT Technical Provisions
S.23.01	Own Funds
S.25.01	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01	Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity

The templates are included at the end of this report.

G DIRECTORS' RESPONSIBILITY STATEMENT

Vitality Life Limited

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

Financial period ended 30 June 2018

We acknowledge our responsibility for preparing the 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 that reads "Herschel Mayers". The signature is written in a cursive, flowing style.

Herschel Mayers
Director and Chief Executive Officer
Date: 16 October 2018

H EXTERNAL AUDIT REPORT

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

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

Opinion

We have audited the following documents prepared by the Company as at 30 June 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 June 2018, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('the Templates subject to audit').

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02 and S.05.02.01;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Directors' 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 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or

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

Emphasis of Matter – 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. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit

conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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

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

Report on Other Legal and Regulatory Requirements

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

London

16 October 2018

Vitality Life Limited

Solvency and Financial Condition Report

Disclosures

30 June

2018

(Monetary amounts in GBP thousands)

General information

Undertaking name	Vitality Life Limited
Undertaking identification code	2138000647LRO31RG918
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	30 June 2018
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.12.01.02 - Life and Health SLT Technical Provisions
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
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	5,316
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	60,290
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>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	0
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	50,252
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	10,038
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	-272,303
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	-272,303
R0320	<i>Health similar to life</i>	-49,480
R0330	<i>Life excluding health and index-linked and unit-linked</i>	-222,823
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	8,618
R0370	Reinsurance receivables	3,184
R0380	Receivables (trade, not insurance)	1,501
R0390	Own shares (held directly)	
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	19,077
R0420	Any other assets, not elsewhere shown	6,241
R0500	Total assets	-168,075

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-454,404
R0610	<i>Technical provisions - health (similar to life)</i>	-111,809
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	-135,325
R0640	<i>Risk margin</i>	23,517
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	-342,595
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	-423,451
R0680	<i>Risk margin</i>	80,856
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	
R0750	Provisions other than technical provisions	10,874
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	5,490
R0830	Reinsurance payables	5,797
R0840	Payables (trade, not insurance)	8,167
R0850	Subordinated liabilities	41,150
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	41,150
R0880	Any other liabilities, not elsewhere shown	853
R0900	Total liabilities	-382,072
R1000	Excess of assets over liabilities	213,997

S.05.01.02

Premiums, claims and expenses by line of business

Life

Line of Business for: life insurance obligations						Life reinsurance obligations		Total
Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written								
R1410 Gross	13,339		73,402					86,742
R1420 Reinsurers' share	7,877		43,348					51,225
R1500 Net	5,462		30,055					35,516
Premiums earned								
R1510 Gross	13,339		73,402					86,742
R1520 Reinsurers' share	7,877		43,348					51,225
R1600 Net	5,462		30,055					35,516
Claims incurred								
R1610 Gross	2,991		11,600					14,591
R1620 Reinsurers' share	1,544		6,774					8,318
R1700 Net	1,447		4,825					6,273
Changes in other technical provisions								
R1710 Gross								0
R1720 Reinsurers' share								0
R1800 Net	0		0					0
R1900 Expenses incurred	9,868		62,224					72,092
R2500 Other expenses								12,542
R2600 Total expenses								84,634

S.05.02.01

Premiums, claims and expenses by country

Life

R1400

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

Life and Health SLT Technical Provisions

Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
									0						0
									0						0

Technical provisions calculated as a sum of BE and RM

Best estimate																
R0030 Gross Best Estimate						-239,970	-183,481			-423,451		-57,722	-77,603			-135,325
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-143,369	-79,454			-222,823		-24,089	-25,391			-49,480
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re						-96,602	-104,027			-200,629		-33,634	-52,212			-85,845
R0100 Risk margin					80,856					80,856	23,517					23,517
Amount of the transitional on Technical Provisions																
R0110 Technical Provisions calculated as a whole										0						0
R0120 Best estimate										0						0
R0130 Risk margin										0						0
R0200 Technical provisions - total					-342,595					-342,595	-111,809					-111,809

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
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds
R0230	Deductions for participations in financial and credit institutions
R0290	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
2,027	2,027		0	
200,624	200,624		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
6,031	6,031			
41,150		0	41,150	0
5,316				5,316
0	0	0	0	0

0				
0				
255,147	208,681	0	41,150	5,316

0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

255,147	208,681	0	41,150	5,316
249,831	208,681	0	41,150	
255,147	208,681	0	41,150	5,316
215,367	208,681	0	6,686	

133,711
33,428
190.82%
644.27%

C0060
213,997
0
207,966
0
6,031

251,325
251,325

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 **Solvency Capital Requirement excluding capital add-on**
R0210 Capital add-ons already set
R0220 **Solvency capital requirement**

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

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
11,085		
5,554		
105,429		
42,927		
0		
-36,001		
0		
128,995		
C0100		
4,716		
0		
0		
0		
133,711		
0		
133,711		
0		
0		
0		
0		

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

R0010 MCR_{NL} Result

C0010

0

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

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

12,596

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

C0050

C0060

R0210 Obligations with profit participation - guaranteed benefits
 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

	17,994,232

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

12,596
133,711
60,170
33,428
33,428
3,251
33,428