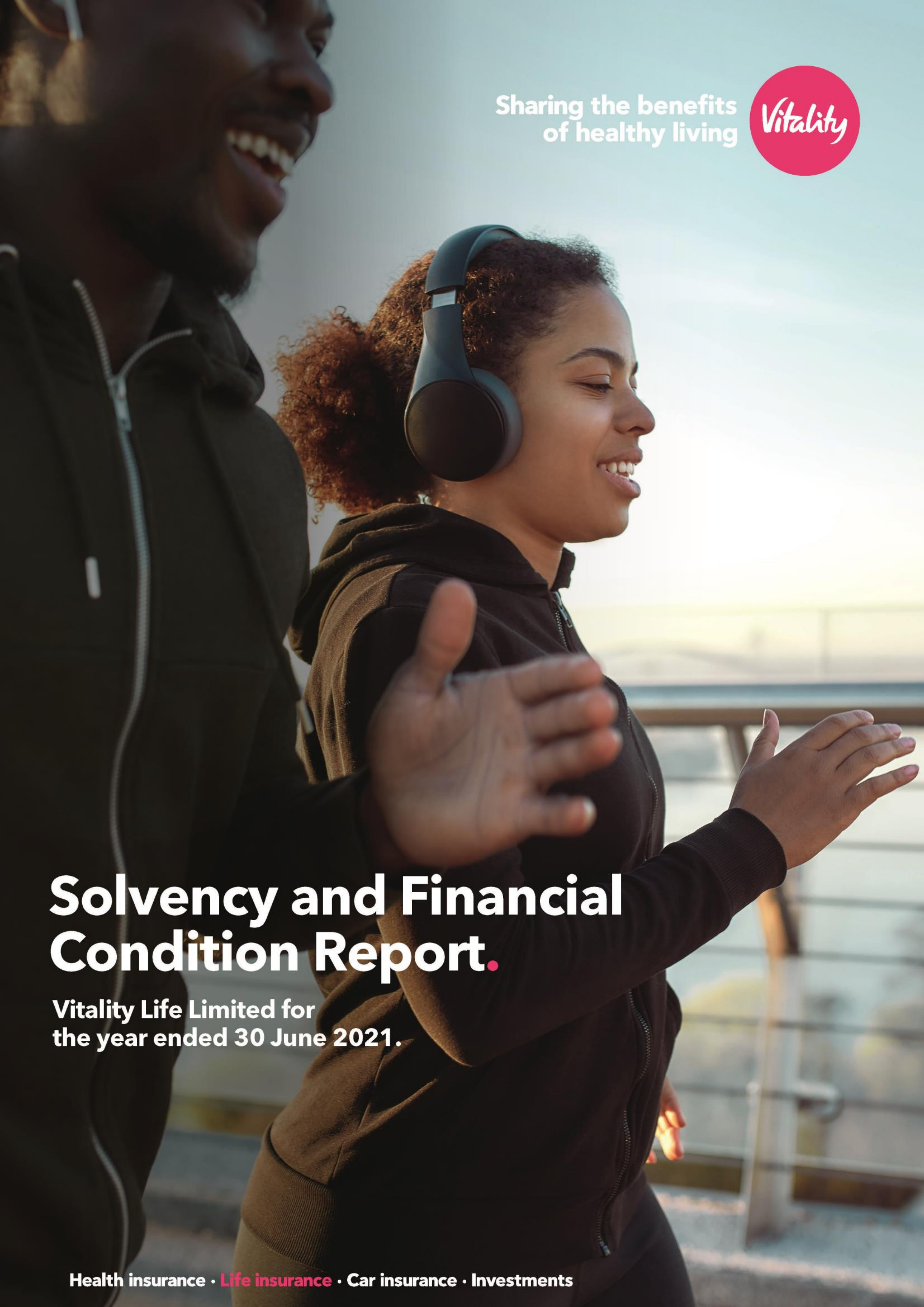


Sharing the benefits of healthy living

Vitality

Solvency and Financial Condition Report.

Vitality Life Limited for the year ended 30 June 2021.

Health insurance · Life insurance · Car insurance · Investments

CONTENTS

SUMMARY

1 BUSINESS AND PERFORMANCE SUMMARY

Company overview

Vitality Life Limited ("the Company", "VLL") is a United Kingdom ("UK") regulated entity authorised to carry out long-term insurance and investment 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 and a major marketing programme was also undertaken to promote the brand in the marketplace.

On 23 December 2015, VLL received authorisation from the Prudential Regulation Authority ("PRA") to write long-term insurance business (life and annuity, and permanent health). Hence, in 2016 VLL started to underwrite VitalityLife branded policies itself (until that point policies had been underwritten by PAC and, at the time of this Solvency and Financial Condition Report ("SFCR"), continue to be liabilities of PAC). In this document, "business written on the PAC licence" will refer to the contracts for which Discovery owns the economic interest but which are currently liabilities of PAC. The Company is planning to transfer this historical business into VLL via a Part VII (of the Finance Services and Markets Act 2000) transfer in due course, subject to the relevant legal and regulatory approvals.

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

On 13 February 2020 VLL issued ordinary shares to Discovery Holdings Europe Limited ("DHEL"), its parent company, in consideration for acquiring all of the Vitality Health Insurance Limited ("VHIL") ordinary shares, with no cash exchanging hands. This followed approval by the PRA on 31 January 2020 of the change in control of VHIL and its subsidiary Vitality Health Limited ("VHL") from DHEL to VLL.

The scope of this SFCR is VLL and so comprises the VitalityLife and the VitalityInvest business written in VLL. Hence unless explicitly stated otherwise, only business written in VLL will be relevant to this report.

In general, where reference is made to "Vitality", this relates to functions performed at a group level across both VLL and VHIL.

The Vitality model

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

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

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

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

The novel coronavirus (“COVID-19”) pandemic and the subsequent UK lockdown restrictions required Vitality to innovate and adapt its Vitality reward programme. Just prior to the start of the financial year, in April 2020, Vitality launched a new ‘Vitality at Home’ programme replacing benefits temporarily unavailable during the lockdown with ones more suited to members’ new situation. For instance, members could earn activity points using the Peloton or Jennis exercise apps at home; the new partnership with Caffè Nero introduced Coffee at Home (free and discounted coffee via online delivery); and members could earn vouchers for the Rakuten movie service to stream films. Throughout 2020-21 Vitality continued with these initiatives and have gone on to embed many of them permanently into the programme, as the Company expects some of the changes in member preference and behaviour introduced during the pandemic to persist (e.g. members can earn Rakuten vouchers weekly as well as monthly cinema tickets).

Vitality continues to invest in growing its brand in the UK through sponsorship, advertising and intellectual leadership opportunities. In sponsorship, the Vitality brand is aligned not only with a broad portfolio of sports but also with mass participation events, for instance as a founding partner to Parkrun. Vitality has also placed a significant emphasis on the role of women in sport (e.g. via our support of Netball and GB & England Women’s Hockey) and into achieving equity where possible (such as through cricket and our support of the T20 Vitality Blast and the inaugural Hundred format). Vitality are also sponsors of several Premiership Football clubs, including both the men’s and women’s

[1] https://www.rand.org/pubs/research_reports/RR2870.html

teams. From an intellectual leadership perspective, Vitality will be launching the Vitality Research Institute, a dedicated research unit established to advance the science and evidence of Shared Value Insurance. Its primary aim is to generate new evidence on the associations between modifiable behaviours and outcomes related to health, longevity and productivity. With the ever-increasing applicability of the Vitality model, the Vitality Research Institute will ensure that Vitality employs the best science to serve its core purpose – to make people healthier, and to enhance and protect their lives.

Business overview

The Company continues to produce its financial statements in accordance with International Financial Reporting Standards ("IFRS"). In the year to 30 June 2021 on an IFRS basis the Company produced a pre-tax profit of £43.5m (2020: £48.0m loss).

The fundamentals of the business, operations, strategy and capital remain strong and the Company is well placed to implement its business strategy. Operationally, the Company has shown a high level of resilience to the impacts of COVID-19 and there were no significant impacts on operations or service levels during the year.

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

- The global COVID-19 pandemic continued throughout the 12 months to 30 June 2021, creating a challenging trading and operational environment. COVID-19 uncertainty has reduced over the year due to the roll out of the UK vaccination programme. However the continued 'lockdown' throughout the period reduced the ability for advisors to meet with customers face-to-face. This, in addition to a strategic decision to focus on better quality new business, led to lower than expected levels of new business sales for VitalityLife. However, mortality, morbidity and lapses were favourable compared to the COVID-19 provisions established at 30 June 2020. The lower sales reduced profitability in the year but this was offset by the release of COVID-19 provisions.
- A number of actuarial basis changes in respect of lapses and mortality for whole of life business, as well as renewal expenses for the full book of business. This improved profitability over the period.
- VitalityInvest continued to be loss making in line with management's expectations. These losses will continue until the volume of business in-force and fee income generated thereon reaches sufficient scale relative to the cost base. The losses reduced significantly year on year as a result of a focus on reducing the cost base and the growth in assets under management leading to increased fee income.

The VitalityInvest business (selling unit-linked business), which launched in June 2018, has continued to grow and has performed in line with management expectations. Overall, assets under management grew from £202.3m at 30 June 2020 to £511.6m at 30 June 2021.

VitalityLife continued to offer term life, serious illness, whole of life and income protection cover. The business performed in line with expectation in the first half of the year but fell behind expectations as the trading environment became more challenging as a result of COVID-19. Despite this, since VLL only began writing new business in 2016, new business written over the year has a material impact on total business volumes, with in-force premium income increasing by 17% from £164.5m to £192.1m.

The Company has continued to invest in maintaining the Vitality brand awareness through several 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.

The financing of new business for a fast growing company such as VLL requires liquidity funding until such time as the in-force business is large enough to be cash flow positive overall. For VLL, this financing is also used to support the continued investment and operational costs of the VitalityInvest product offering whilst it builds critical mass and sufficient funds under management to support the expense base. This was the first year for the Company where no equity injections or subordinated debt funding was required to support the Company's capital position. Instead, liquidity funding was provided by way of unsubordinated debt from the Company's parent (DHEL). The Company increased its long term unsubordinated debt funding in the year from £35.0m to £57.5m over the 2020/21 financial year.

In the prior year, £26.8m of share capital was injected into the Company from DHEL. A further £456.8m of share capital was injected by DHEL through a share exchange, in consideration for the Company purchasing VHIL. Alongside equity injections, the Company received £6.5m of Tier 2 subordinated loans.

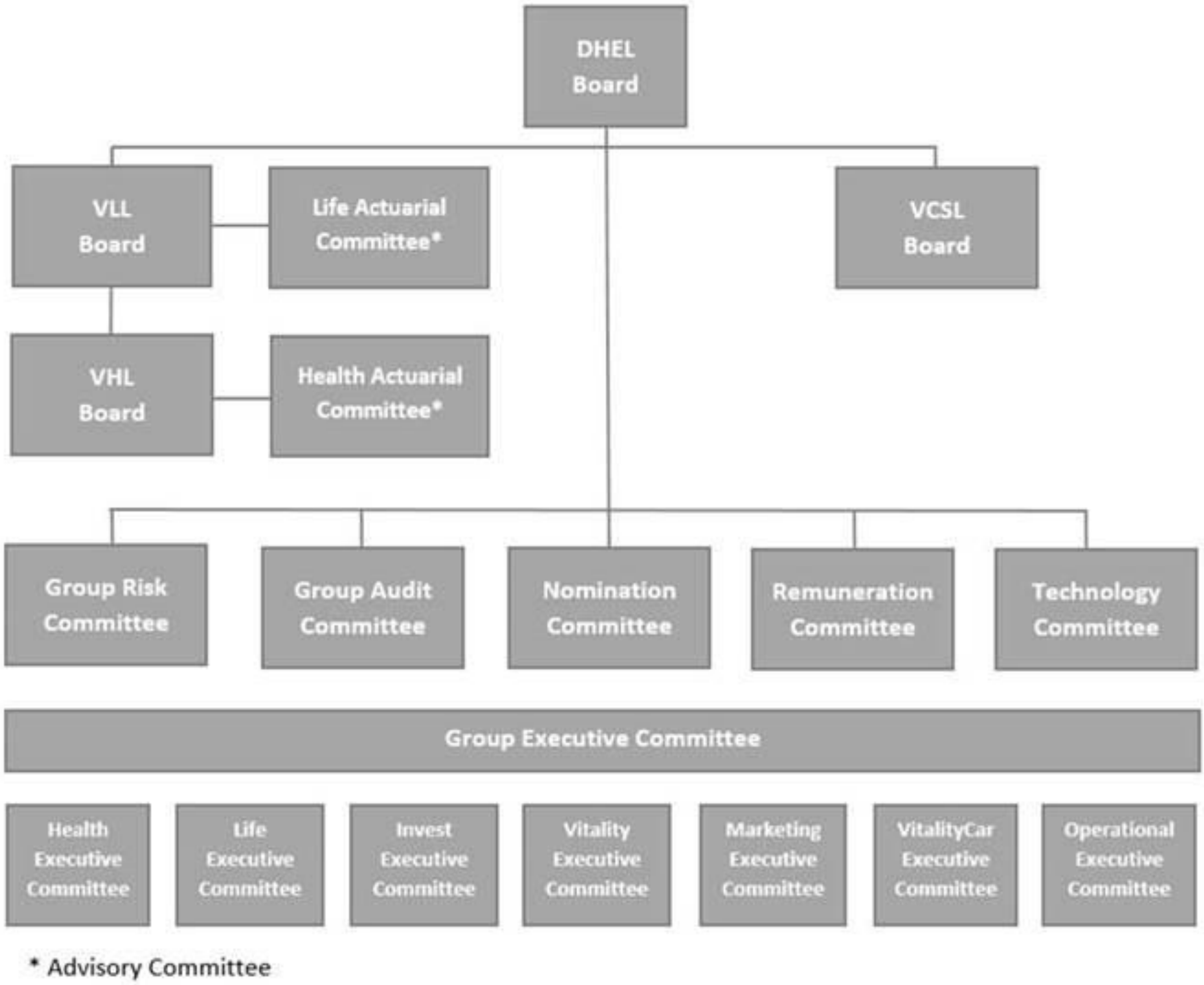
2 SYSTEM OF GOVERNANCE SUMMARY

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

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

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

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



The Committees report to the Group Board and Boards of VLL and VHL where appropriate.

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

The Committees report to the Group Board and Boards of VLL and VHL where appropriate. The roles and responsibilities of these Committees are outlined in Section B.1.1. Changes in the Directors of the business and individuals in positions of influence are outlined in Section B.1.2. Ultimate responsibility for the performance and strategy of the Company resides with the Board and they delegate authority within the organisation as they see fit.

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

The 1st line of defence – business management

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

The 2nd line of defence – oversight

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

The 3rd line of defence – assurance

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

3 RISK PROFILE SUMMARY

VLL writes long-term protection business which provides the core benefits of life insurance, serious illness cover and income protection cover to policyholders, either for whole of life or a specified term and, since June 2018, also writes unit-linked investment business.

The standard formula Solvency Capital Requirement ("SCR") for VLL as at 30 June 2021 and 30 June 2020 is shown below.

Vitality Life Limited £'m	30 June 2021	30 June 2020
Health underwriting risk	104.6	95.7
Life underwriting risk	207.4	167.4
Market risk	54.7	44.6
Counterparty default risk	22.4	14.6
Undiversified BSCR	389.1	322.3
Diversification credit	(104.6)	(86.7)
Basic SCR	284.5	235.6
Operational risk	8.1	7.2
Adjustment for loss absorbing capacity of deferred taxes	(67.2)	(14.5)
Final Standard Formula SCR	**225.3**	**228.3**

Since VLL only began writing business in January 2016, new business written over the year has a material impact on total business volumes. Therefore, new business is the main driver behind the increase in the Basic SCR from 30 June 2020 to 30 June 2021. This increase is offset by a material change to the adjustment for the loss absorbing capacity of deferred taxes ("LACDT") following the annual LACDT assessment performed in July 2021. The change to the LACDT is due to (a) the increase in the projected tax rate from 19% to 25% and (b) an improvement in the assessment of the recoverability of the shock loss (note that the LACDT methodology remained unchanged from the annual assessment performed in 2020). The overall impact is a reduction in the SCR from £228.3m at 30 June 2020 to £225.3m at 30 June 2021.

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. Therefore the material underwriting risk is lapse risk. Market risk as a component of the SCR is small relative to the underwriting risk component.

VitalityInvest continues to have a limited contribution to VLL's overall level of required capital due to its current size.

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

The future impact of COVID-19 remains uncertain. There are new risks that could emerge over the coming years from the COVID-19 pandemic and its consequences for the economy. The Company has allowed for an increased short-term mortality and morbidity assumption to reflect this ongoing uncertainty and will continue to closely monitor the experience.

4 SUMMARY OF VALUATION FOR SOLVENCY PURPOSES

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

- Differences in the valuation of technical provisions and associated reinsurance recoverables. Solvency II requires an explicit risk margin (£200m at 30 June 2021) while for IFRS an allowance for risk is made through the margins for adverse deviation in the underlying assumptions. In addition, the discount rate for Solvency II technical provisions is specified by regulation (the relevant risk-free interest rate is provided by the PRA), while for IFRS the discount rate is based on the expected long term return for VLL's expected investment;
- The financial statements include intangibles under assets, which are valued at zero under Solvency II;
- Valuation adjustment for holding in related undertakings. This relates to VLL's holding in Vitality Health Insurance Limited ("VHIL"), which is valued at cost in the IFRS financial statements, but at the excess of Solvency II assets over liabilities under Solvency II; and
- The difference in the valuation of deferred tax assets as a result of the valuation differences of technical provisions and intangible assets.

These differences are summarised in the table below:

Vitality Life Limited £'m	**30 June 2021**	**30 June 2020**
Total equity in financial statements	**771.8**	**727.5**
Adjustments for Solvency II:		
Valuation adjustment for Technical Provisions under SII, net of recoverables	(40.3)	(62.6)
Valuation adjustment for intangible assets under SII	(15.5)	(15.8)
Valuation adjustment for holding in related undertakings	(256.4)	(286.8)
Valuation adjustment for deferred tax assets under SII	13.9	14.9
Solvency II value of assets over liabilities	**473.4**	**377.2**
Add subordinated loans	73.1	73.1
Solvency II Own Funds	**546.5**	**450.2**

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

5 CAPITAL MANAGEMENT SUMMARY

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

The SCR coverage ratio at 30 June 2021 was 243% (30 June 2020: 197%) with total basic own funds of £546.5m (30 June 2020: £450.2m) and a SCR of £225.3m (30 June 2020: £228.3m). VLL did not receive any equity or subordinated loans during the 2020/21 financial year. However, the Company did receive liquidity funding of £22.5m of unsubordinated loans from its parent company (DHEL) as well as £89.7m through financing reinsurance to support the growth of the business. Liquidity funding is required for a fast growing company such as VLL until such time as the in-force business is large enough for the business to be cashflow positive overall.

The Company carries out formal quarterly reviews of the solvency coverage ratio and monitors this on an ongoing basis as part of its risk monitoring and capital management system. The Company has continuously held capital above the Minimum Capital Requirement ("MCR") and the SCR throughout the reporting period. At 30 June 2021 VLL's MCR was £56.3m.

The table below shows the total eligible own funds to meet the SCR and MCR as at 30 June 2021:

Vitality Life Limited £'m 30 June 2021	Eligible own funds to meet SCR	Eligible own funds to meet MCR
Tier 1 unrestricted	449.0	449.0
Tier 1 restricted	-	-
Tier 2	73.1	11.3
Tier 3	24.4	-
Total eligible own funds	**546.5**	**460.3**

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 VLL on a solo basis.

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

The Company is an undertaking of:

- Discovery Group Europe Limited, an insurance holding company which has its head office in the United Kingdom is the top-most undertaking within the scope of the EU/EEA transitional arrangements; and
- Discovery Limited, the ultimate insurance holding company, has its head office in the Republic of South Africa, a country outside both the scope of the EU/EEA and the transitional arrangements.

Under Solvency II, the group supervisor of Discovery Limited is the Prudential Regulation Authority ("PRA") as the Republic of South Africa is not an equivalent country for Solvency II group supervision purposes. In the absence of equivalence, Discovery Limited is subject to full Solvency II group supervision or the Company can apply to the PRA to use another method. The Company has a waiver in place, effective 1 January 2019, from the PRA modifying the PRA Rulebook on Group Supervision to use another method.

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

Prudential Authority
South African Reserve Bank
370 Helen Joseph Street
Pretoria
South Africa
0002

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

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

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

The independent auditors of the Company are:

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

A.1.4 Holders of qualifying holdings in the undertaking

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

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

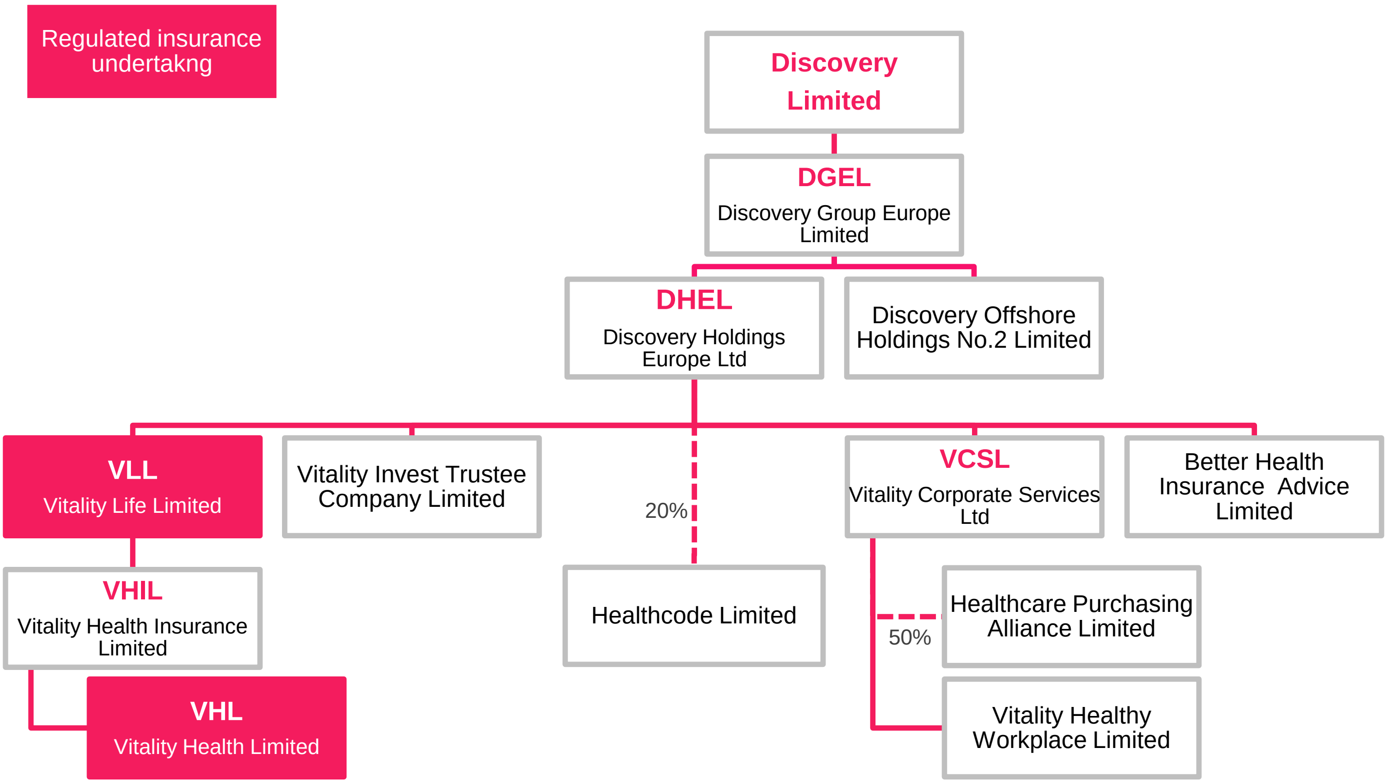
A.1.5 Details of the undertaking's position within the legal structure of the group

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

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

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

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



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

DGEL is the top-most undertaking within the scope of the EU/EEA transitional arrangements and is a holding company for DHEL and also owns a dormant company called Discovery Offshore Holdings No.2 Limited.

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

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

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

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

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

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

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

VLL writes long-term insurance business providing death, serious illness and disability cover as well as unit-linked business. The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") and there is no segmental reporting of VitalityLife and VitalityInvest.

For SII purposes at 30 June 2021, the Company's VitalityLife business includes life insurance obligations that fall into two of the defined Solvency II lines of business, depending on the type of policy (e.g. term or whole of life) and the benefits selected:

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

The VitalityInvest unit-linked business falls under:

iii. Index-linked and unit-linked insurance ("Unit-linked")

These SII lines of business are used when reporting the premium, claims, expenses and technical provisions in the 30 June 2021 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

The global pandemic of the novel coronavirus ("COVID-19") has been ongoing in the UK since March 2020. It has impacted VLL in three main areas (see Section A.2 for further details):

- Additional claims were paid. VLL has paid out c.£1.9m in claims (net of reinsurance) directly attributed to COVID-19. The Company has set up a provision at 30 June 2021 of £3.2m to allow for further COVID-19 claims arising in the short-term.
- Sales were 14% below expectations, mainly due to repeated lockdowns which limited the ability of financial advisors to conduct their business face-to-face. Sales were also impacted by the Company's drive to focus on better quality new business.
- The downturn in the economic environment had the potential to increase lapse rates. However the Company has maintained a stable customer base through this period. VLL has offered features such as premium deferral to provide its customers with options to maintain their insurance cover through this challenging time.

On 23 June 2016, the United Kingdom European Union membership referendum resulted in a vote for the UK to leave the European Union. As a result, the UK left the EU on 31 January 2020 and the transition period, during which time the UK must comply with all EU rules and laws, ended on 31 December 2020. There have been changes after the transition period has ended but, since the Company only sells and underwrites policies to UK residents, there have been no significant direct impacts to the Company to date. The future relationship between the UK and the EU is not expected to significantly impact the Company's claims risks. Policyholder behaviour-related risks such as lapses or the propensity to purchase long-term insurance products could be impacted by future changes. However, given the wide range of potential ultimate Brexit outcomes, these types of impacts on the UK life insurance and investment markets are unclear at this stage.

A.2 UNDERWRITING PERFORMANCE

VLL prepares its financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and therefore the underwriting performance information given in this section is presented on an IFRS basis. The IFRS presentation of underwriting performance also aligns closely to how management views the financial performance of the Company.

The principal activity of the Company is the undertaking of life insurance business in the United Kingdom, particularly the provision of term and whole of life assurance, income protection products and unit-linked insurance contracts. The unit-linked insurance contracts are sold within Individual Savings Account ("ISA"), Junior ISA ("JISA") and Self Invested Pension Plan ("SIPP) investment wrappers.

Term, whole of life and income protection policies are marketed and sold under the brand VitalityLife and represent 'Protection business". The unit-linked contracts are marketed and sold under the brand VitalityInvest and represent "Unit-linked business".

Under IFRS all business is considered to be one type of long term insurance business. For management purposes Protection business and Unit-linked business is measured and reported upon separately.

All business is underwritten in the UK.

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:

Underwriting performance and IFRS (loss)/profit £'m	Year ended 30 June 2021				Year ended 30 June 2020			
	Other Life	SLT Health	Unit-linked	Total	Other Life	SLT Health	Unit-linked	Total
Gross premiums	156.2	35.9	298.6	490.7	133.8	30.7	166.9	331.4
Reinsurers' share of premiums	(97.1)	(22.3)	-	(119.4)	(84.3)	(19.3)	-	(103.6)
Gross claims and withdrawals	(39.1)	(10.0)	(31.9)	(81.0)	(36.3)	(9.4)	(9.1)	(54.8)
Reinsurers' share of claims	21.8	5.0	-	26.8	21.8	4.9	-	26.7
Investment income on assets held to back unit-linked liabilities	-	-	44.2	44.2	-	-	2.1	2.1
Expenses	(128.1)	(33.4)	(12.0)	(173.5)	(144.1)	(33.1)	(17.6)	(195.2)
Reinsurance financing received	68.7	21.0	-	89.7	84.4	19.4	-	103.8
Movement in insurance contract reserves				(232.3)				(145.1)
Pre-tax underwriting performance				**45.2**				**(34.7)**
Other income and expenses				(1.7)				(13.3)
Pre-tax IFRS profit/(loss)				**43.5**				**(48.0)**

The fundamentals of the business, operations, strategy and capital remain strong and the Company is well placed to implement its business strategy. Operationally the Company has showed a high level of resilience to the impacts of COVID-19 on the Company. There have been no significant impact on operations or service levels.

Pre-tax underwriting profit in the year ended 30 June 2021 was £45.2m (30 June 2020: £34.7m loss) while pre-tax IFRS profit including other income and expenses was £43.5m (30 June 2020: £48.0m loss).

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

- A number of positive reserving basis experiences were observed in the year, particularly in respect of lapse experience. Lapse experience was particularly encouraging in the period in light of the adverse variances observed in the prior year. There has been a significant focus on this area in the last 18 months through operational improvements, customer engagement and distribution quality management.

- A number of actuarial basis changes in respect of lapses and mortality for whole of life business, as well as renewal expenses for the full book of business. This improved profitability over the period.

- In the prior year the Company strengthened its short-term lapse and mortality assumptions in light of the significant uncertainty around COVID-19. During the course of the year some of the uncertainty around COVID-19 subsided. COVID-19 specific claims were lower than expected (c.£1.9m of claims (net of reinsurance) on protection products that are directly attributable to COVID-19), while the UK embarked on a robust rollout of its vaccination programme. This resulted in favourable variances as well as an improvement in the future short-term outlook for COVID-19 claims. At 30 June 2021 the Company held COVID-19 related provisions of £3.2m to cover remaining uncertainty around COVID-19 mortality and morbidity.

- The impact of COVID-19 on the economic climate and the large periods of 'lockdown' in the UK led to a lower than expected level of new business sales in the year with sales down 14% lower than expectation. This reduced overall profitability in the year. New business volumes were also impacted by the Company's drive to focus on better quality new business.

- VitalityInvest continued to be loss making in line with management's expectations. These losses will continue until the volume of business in-force and fee income generated thereon reaches sufficient scale relative to the cost base. The losses reduced significantly year on year as a result of a focus on reducing the businesses cost base and the growth in assets under management leading to increased fee income.

Other than sales volumes, the overall financial results of VitalityLife exceeded expectation with assumption changes, experience variances and releases of COVID-19 provisions leading to VitalityLife exceeding its planned pre-tax operating profit. The in-force book of business grew substantially year-on-year with gross of reinsurance premium income increasing by 17% from £164.5m to £192.1m. The key driver of the increase year-on-year was the sale of £55.0m (30 June 2020: £63.6m) of new business (measured as annual premium equivalent) as well as strong lapse performance in the year. VLL only began writing business in January 2016 and so premiums are expected to continue to grow materially year-on-year as the in-force book of business continues to grow. Although new business sales fell relative to the previous financial period, driven by the impact of COVID-19, sales still benefited from continued product innovation and a strong distribution network.

VitalityLife continues to utilise 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 54% compared to 58% for the prior period. The use of 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 £89.7m (30 June 2020: £103.8m). Repayment of reinsurance financing in the year was £81.7m (30 June 2020: £72.7m). These repayments are made by ceding premiums to the reinsurers and are therefore included in the reinsurers' share of premiums in the Company's financial statements. The Company's insurance contract reserves allow for the expected future repayments of reinsurance financing received by the Company.

On an IFRS basis, the movement in insurance contract reserves (after allowing for the reinsurers' share) for protection contracts was a £73.2m (30 June 2020: £12.7m) increase in assets. VitalityLife's reserves are negative overall due to the nature and duration of its book of business and are therefore an asset on the IFRS balance sheet.

This was the third full year of trading for the unit-linked insurance products sold under the VitalityInvest brand. VitalityInvest had its strongest period since it began trading, continuing to build traction with wealth advisors and growing premium income (new investment flows) to £298.6m (30 June 2020: £166.9m). There was strong growth in the period despite a challenging economic environment due to the ongoing COVID-19 pandemic. The movement in unit-linked liabilities in the year was £309.2m (30 June 2020: £159.4m).

A.3 INVESTMENT PERFORMANCE

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

The Company maintains two investment categories that are managed separately:

- Investments held to match unit-linked liabilities
- Shareholder and non-unit-linked investments

Investments held to match unit-linked liabilities

This category of investments is to match unit-linked liabilities for the products sold under the VitalityInvest brand. These insurance contracts sold by the Company are linked to the value of units in an underlying investment portfolio and the Company holds investment in the assets on which the prices are based.

At 30 June 2021, the investments held to match unit-linked liabilities were £515.8m, of which £465.4m is investment in a number of OIEC funds and £50.4m is in short-term cash. The total gain on these investments in the year was £44.2m.

These investments are held at the ultimate risk of unit-linked policyholders and the amount payable to them on their unit-linked insurance contracts are directly linked to the performance on these assets. As such the policyholder retains the risk of poor investment returns through adverse market movements. The policyholder also retains currency, liquidity, credit and interest rate risk in respect of their investments.

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

The Company has a policy to match unit-linked insurance contract liabilities with assets to which the pay-outs on the contracts are linked.

Shareholder and non-unit-linked investments

This category of investments is held to support the liquidity and solvency requirements of the Company, given that the Company currently has negative net reserves. There have been no significant changes in investment strategy in respect of this category compared to the prior year. Investment income for this category is shown in "Other income and expenses" in the table in section A.2. Overall investment performance in this category was in-line with management's expectations given the nature of the asset classes held by the Company.

Further details of the performance of these investments by asset classes used by management are shown below:

£'m	Investment balance as at		Investment Performance in the year	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
Collective Investment Undertakings	55.5	57.7	0.0	0.4
Investment in Open Ended Investment Company (OEIC) funds	-	-	-	(0.1)
Cash and Cash equivalents	26.3	9.7	0.4	0.1
Deposits other than cash equivalents	10.3	21.7	0.1	0.8
Total	**92.1**	**89.1**	**0.5**	**1.2**

Collective Investment Undertakings

The Company has invested in short-term money market funds, which provide access to a diversified pool of liquid assets with high credit ratings. The fund management fees per annum range from 0.05% to 0.15% of funds under management.

Investment in Open Ended Investment Company funds

As part of the launch of VitalityInvest, the Company invested £2.5m of shareholder funds into a number of diversified Open Ended Invest Company ("OEIC") funds in the year ended 30 June 2019, which comprise of well-diversified portfolios of assets. These investments were fully divested in the year to 30 June 2020 and therefore have nil balance at 30 June 2021. The OEIC charges fees directly from amounts deposited. No material expenses were incurred in respect of these assets.

Cash and cash equivalents: Bank deposits

This amount represents interest received on the balances held in UK and South African bank accounts and are immediately redeemable. No material expenses were incurred in respect of these assets.

Deposits other than cash equivalents

This amount represents interest received in a 100 day notice deposit account with a UK bank (GBP denominated). In the prior year this also included interest received on term deposits with a South African Bank (ZAR denominated). No material expenses were incurred in respect of these assets.

The Company's assets are prudently invested and provide sufficient 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 direct investments in securitisations.

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

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

A.3.3 Information about any investments in securitisation

The Company does not have any direct investments in securitisations.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

There are no other material income and expenses to report.

A.4.2 Leases

A.4.2.1 Financial leases

The Company is not party to any financial leases.

A.4.2.2 Operating leases

The Company is not party to any operating leases.

A.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION

No other information is provided.

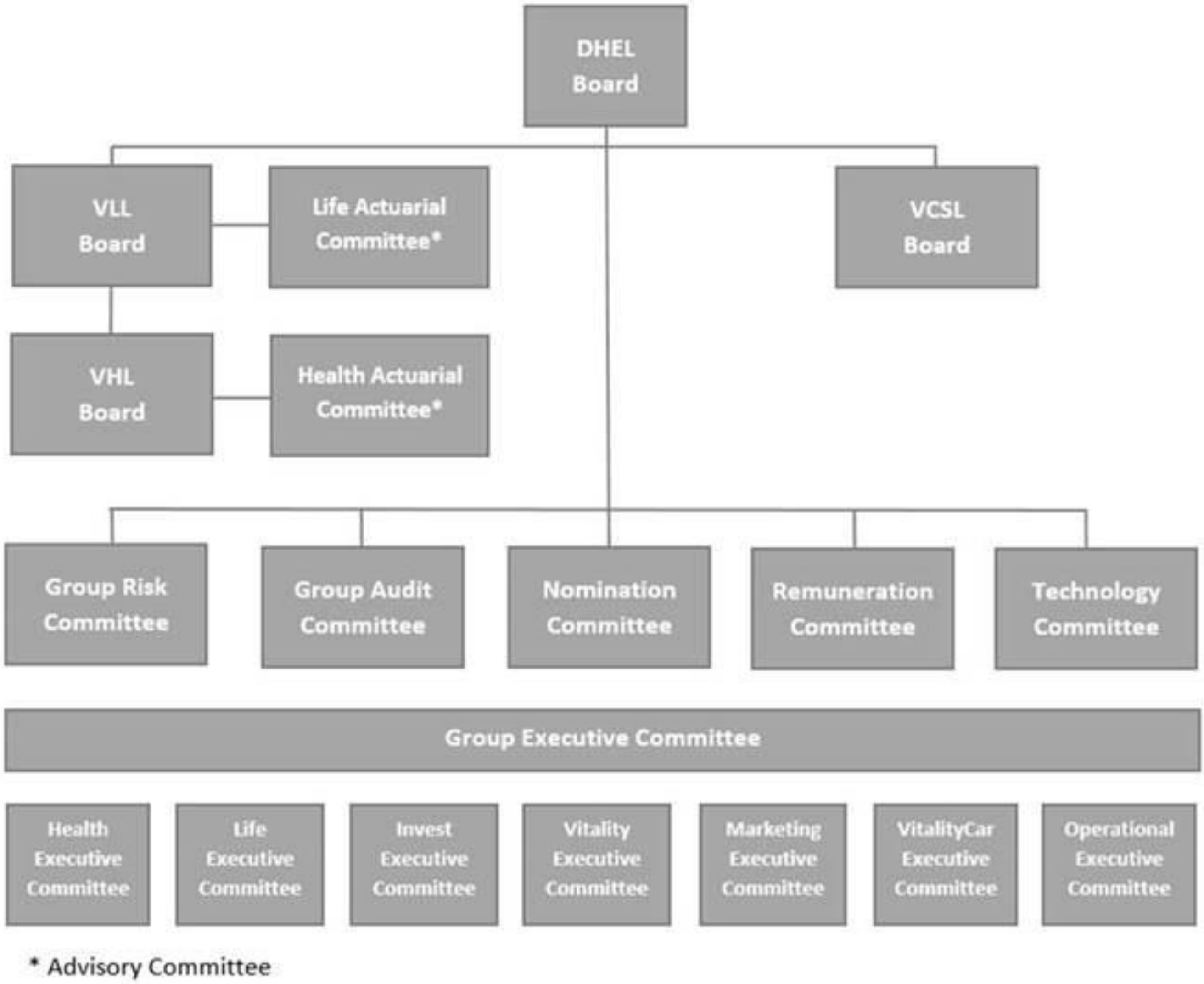
B SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

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

The 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, Board Sub-Committees and Advisory Committees



The Committees report to the Group Board and Boards of VLL and VHL where appropriate.

The Board

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

It is the Board's responsibility to:

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

Board Committees

Risk Committee

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

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

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

The responsibilities of the Risk Committee are to:

- Oversee the development of the Risk and Compliance Framework to ensure that they are appropriate to the business and that risks are identified, managed and controlled. This includes overseeing the formulation of the high level risk management strategy to support the overall business strategy, and of an appropriate compliance universe and monitoring plans;
- Recommend to the Boards, risk appetites, and monitor them on a regular basis. Consider and monitor, remedial actions where the business is outside of risk appetite;
- Review and recommend to the Boards, risk policies covering each material risk faced by the Companies;
- Support the embedding and maintenance of an open culture in relation to the management of risk across the Companies;
- Oversee the periodic review of the format, content and frequency of risk information;
- Review MI and challenge any conduct issues in relation to VCSL's Sales channels including Appointed Representatives and the employed sales channels across the business; and

- Receive, review and challenge summary reports from the Unit-linked Committee, Outsourcing Committee, Policy Committee, Product Governance Committees and Conduct Risk Committees to support the Risk Committee in fulfilling its duties in relation to outsourcing, policy setting and attestation, product approval and conduct risk management and treating customers fairly.

Audit Committee

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

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

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

The responsibilities of the Audit Committee are to:

- Review of Financial Reporting: Monitoring the integrity of the Company's financial reporting and of its financial statements and make appropriate recommendations to the Board, having particular regard to:

    - Changes to or new significant accounting policies;
    - Significant accounting judgements and estimates; and
    - The accounting for significant, unusual or complex transactions or items.

- The Committee reviews the Company's systems of internal financial controls, including receiving reports from management on the effectiveness of the systems they have established and the results of controls and testing carried out by Internal and External Audit;
- Oversee the work of Internal Audit by reviewing:

    - The Internal Audit Charter to ensure it is fit for purpose for the business;
    - The scope of the Internal Audit plan and the process for developing it. It monitors progress against the plan throughout the year;
    - Internal Audit reports, in particular any significant findings; and reviews the responses from management to audit recommendations and their progress and timeliness in implementing them; and
    - The resources available to the Chief Internal Auditor. It reviews the effectiveness of internal audit and confirms that it has the level of expertise, experience and quality appropriate to the business. It oversees the use of third party resources to assist the Internal Audit function.

- The Committee assists the Board in appointing the Chief Internal Auditor, who reports directly to the Chair of the Committee, including for performance evaluation and compensation;
- Oversee the performance of the external auditors, including;

    - Review of the external audit plan;

  - Review of the independence of the auditors and their proposed fees, making recommendations to the Board; and
  - Reports from the auditors on the preparation of the Company's financial results and financial statements; their letters to management; and management's responses and their progress and timeliness in implementing recommendations.

- The Committee reviews and approves the Combined Assurance Plan covering Compliance, Risk and Internal Audit to ensure that the assurance functions' activities are coordinated and operating effectively; and reviews progress against it:

  - The Committee reviews and challenges Compliance and Risk monitoring reports and monitors progress of the implementation of recommendations;
  - The Financial Crime Committee ("FCC") is a sub-committee of the Committee and the Committee receives and reviews a summary of matters arising from the FCC. The Committee reviews the reporting of financial crime and the annual Money Laundering Reporting Officer report and receives reports of any significant incidents of fraud; and
  - The Committee should review whistle-blowing procedures and policies and receive regular reports on issues raised by whistleblowers and on their resolution.

Actuarial Committee

The objective of the Actuarial Committee is to assist the Board of Directors of VitalityLife in discharging their fiduciary duties towards policyholders, regulators and shareholders by ensuring that actuarial matters are given appropriate attention.

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

The responsibilities of the Actuarial Committee include:

- On behalf of the Board, to review matters relating to VitalityLife of an actuarial nature and, as appropriate, report on, advise and/or recommend approval of those matters to the Board, the Audit Committee or the Risk Committee;
- Give the Board, Audit Committee and Risk Committee comfort that the contents and recommendations of any reporting to the Board on actuarial matters relating to VitalityLife 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 VLL Board on the opinion to be expressed by the Actuarial Function on the overall underwriting policy in accordance with 6.1(1)(g) of Conditions Governing Business of the PRA Rulebook;
- Receive, review and report to the VLL Board on the opinion to be expressed by the Actuarial Function on the adequacy of the reinsurance arrangements in accordance with 6.1(1)(h) of Conditions Governing Business of the PRA Rulebook;
- Receive, review and, if appropriate, recommend approval by the VLL Board of the annual report from the Actuarial Function produced in accordance with Article 272(8) of the Commission Delegated Regulation (EU) 2015/35;

- To make recommendations to the Discovery Limited Actuarial Committee on the VitalityLife embedded value assumptions and methodologies via the Boards of the Companies within scope; and
- Review the performance of the Chief Actuary and actuarial function and report this to the Board and Remuneration Committee, as appropriate.

Technology Committee

The purpose of the Committee is to provide oversight of the UK Vitality Group of Companies' IT operations and technology strategy and significant investments in support of such strategy; and to support the Risk Committee in understanding the Companies' exposure to, and management of, IT operations and technology risk.

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

The responsibilities of the Technology Committee include:

- Consider the Companies' future service trends and demands on technology. Review the Companies' overarching technology and process strategy, architecture and roadmaps (including core technology and vendor choices and delivery roadmaps). Endorse the Companies' approach to research and innovation and technology IPR;
- Review and approve the Companies' IT operations and technology policies;
- Review the Companies' IT operations and technology strategy and associated budget and expenditures for the Companies' and their business segments;
- Consider and, as appropriate, make recommendations to the Executive Committees and Boards regarding significant and/or strategic technology investments which support the Companies strategies. Review and agree significant technology investments and expenditures;
- Monitor and evaluate existing and future trends in technology that may affect the Companies' strategic plans, including monitoring of overall industry trends. Receive reports on future technologies and, in particular, the direction, opportunities and threats;
- Receive reports from management, as and when appropriate, on IT operations and technology metrics. Provide input and guidance to management based on the experience of the Committee members, addressing both opportunities and challenges;
- Review the major IT operations and technology risk exposures of the Companies and the steps management has taken to monitor and control such exposures. Agree, with management, including the Chief Risk Officer, the Companies' risk management and risk assessment guidelines and policies regarding technology risk;
- Review the major technology risk exposures of the Companies, including information security, cybersecurity and fraud risks, and the steps management has taken to monitor and control such exposures. Periodically provide a report to the Risk Committees on the conclusions of such reviews; and
- Perform any other activities consistent with these Terms of Reference as the Board shall specifically delegate to the Committee.

Group Executive Committee

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

The responsibilities of the Group Executive Committee include:

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

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

- Health, Life and Invest Executive Committees looking at each of the respective business areas;
- Vitality Executive Committee that manages the Vitality programme implementation in the UK;
- Distribution Executive Committee that reviews and manages the implementation of the distribution strategy; and
- Marketing Executive Committee to manage the marketing activities of the business.

Nomination Committee

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

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

The main responsibilities of the Nomination Committee are to:

- Monitor the balance of skills, knowledge, experience and diversity on the Boards, ensuring these are appropriate to the needs of the Companies within the Group;
- Ensure the appointments of Directors are linked to the Group's strategy;
- Ensure the quality of nominees to the Boards;

- Set policy around Board appointments and specify descriptions of the role and capabilities required for Board appointments in light of existing skills and experience of current Board members;
- Ensure an adequate and up to date succession plan is in place for each Board;
- Ensure the Directors receive induction training and on-going training;
- Make recommendations to the DHEL Board with regard to all members of the DHEL Group; and
- Evaluate the Board's effectiveness.

Remuneration Committee

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

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

The main responsibilities of the Remuneration Committee are to:

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

General information on the key functions

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

- Risk Function – the function is headed by the Group Chief Risk Officer who is supported by a team that possesses skills ranging from risk management, actuarial, information technology and the UK regulatory environment. The Chief Risk Officer report including the risk summary is presented to the Executive Committee, Risk Committee and the Board, giving these management bodies the information gathered through the risk management process. The Risk Function maintains independence by carrying out an oversight role of the major processes, allowing for robust challenge of decisions and processes across the business.
- Internal Audit Function – the function is headed by the Chief Internal Auditor who is supported by a team containing qualified accountants, IT Auditors and auditors. Information on the independence of the internal audit function is provided in Section B.5.2. The findings of the internal audit function are reported to the Audit Committee and a summary is provided to the Board by the Chair of the Audit Committee.
- Compliance Function – the function is headed up by the Group Compliance Director who is supported by a team of specialists with skills that include an in-depth understanding of the UK regulatory environment, financial crime and data protection legislation and monitoring experience. More information on the implementation, authority and independence is provided in Section B.4.2. The findings of the compliance function are reported to the Executive Committee, Risk Committee and Audit Committee. The Chairs of the Risk and Audit Committees are members of the Board and present summaries of the activities of their committees to the Board.

- Actuarial Function – the function is headed by the Chief Actuary who is supported by Fellows and members of the Institute and Faculty of Actuaries, international actuaries with equivalent qualifications, as well as other technical professionals. Information on the authority, resources and independence of the actuarial function is provided in Section B.6. The Chief Actuary is a member of the Executive Committee. Activities of the Actuarial Function are tabled at the Actuarial Committee which is chaired by an independent Non-Executive Director who subsequently provides a summary of the committee's activities to the Board.

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

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

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

The following Director changes took place in the year:

- Mr Andrew Crossley was appointed as the VLL Senior Independent Director on 8 April 2021;
- Dr. David Hare was appointed to both the VHL and VLL Boards as an independent Non-Executive Director on 26 October 2020;
- Mr. Michael Saunders was appointed to both the VHL and VLL Boards as an Executive Director on 28 October 2020;
- Mr. Justin Taurog was appointed to VLL as an Executive Director on 8 July 2021;
- Mr. Adrian Gore resigned from both the VHL and VLL Boards as a Non-Executive Director on 31 December 2020;
- Mr. Stephen Sarjant resigned as an independent Non-Executive Director from the VHL, VLL, VCSL and DHEL Boards on 31 December 2020; and
- Mr. Wolf Becke resigned from the VLL Board as an independent Non-Executive Director on 1 January 2021.

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

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

- Mr. Deepak Jobanputra resigned as the VLL Managing Director and was appointed in the newly created role of Chief Sustainability Officer for VHL and VLL with effect from 29 April 2021;
- Dr. Justin Skinner resigned as the Chief Risk Officer for VHL and VLL with effect from 29 April 2021 and was appointed as the VLL Managing Director effective 29 April 2021;
- Mrs. Kirsty Leece was appointed as the Chief Risk Officer for VHL and VLL with effect from 29 April 2021; and
- Mr. James Harrison resigned as the Chief Actuary effective 2 January 2021; and
- Mr. Michael Curtis was appointed as the Chief Actuary for VLL from 2 January 2021.

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

B.1.3.1 Principles of the remuneration policy

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

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

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

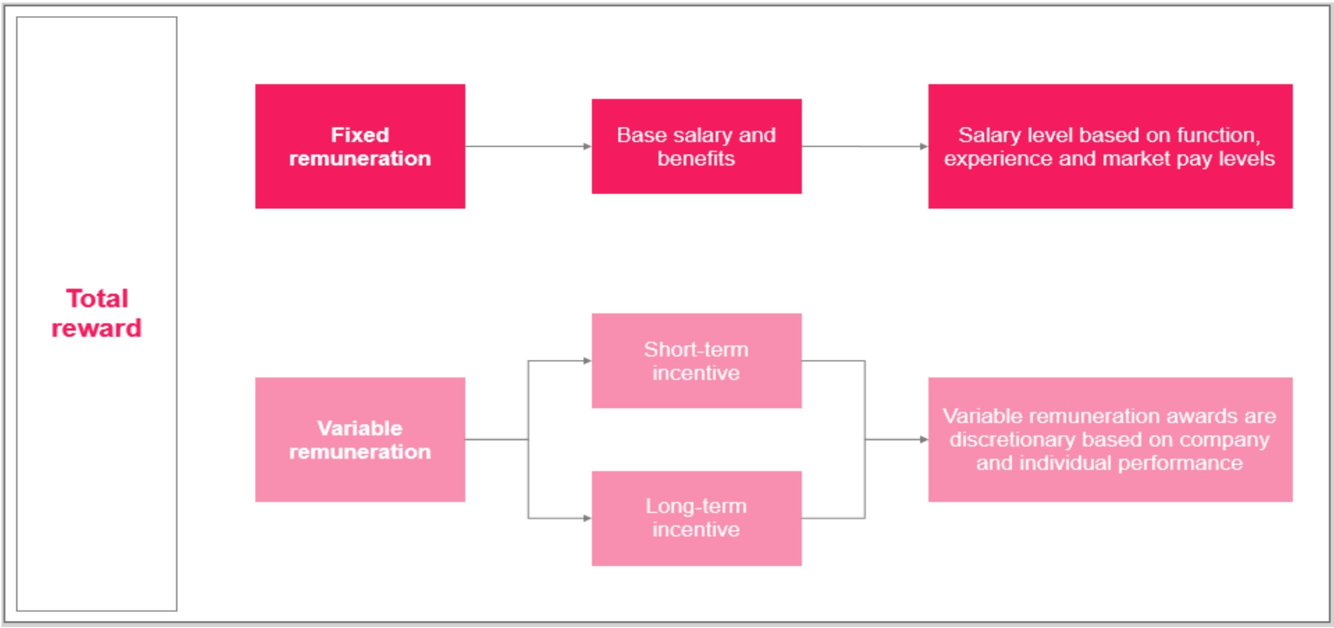
- Offering pay packages that promote internal equality and are competitive in the market to attract, recruit and retain great people;
- Ensuring that pay decisions are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin;
- Reviewing salaries annually against internal and external salary data to ensure fairness and consistency across the business.
- Rewarding great performance through our short-term incentive schemes, which are designed to reward achievement of business objectives and role requirements, as well as behaviours in line with Vitality values. Bonus payments are non-contractual and at Vitality's discretion.
- Conducting annual compliance reviews of performance scorecards to ensure that they remain balanced and appropriate;
- Ensuring that pay designs comply with all tax and regulatory requirements;
- Providing long-term incentive schemes that create a sense of ownership in the Company; and
- All remuneration decisions are governed by the Internal Remuneration Committee, which is a sub-committee of the External Remuneration Committee. Interim salary increases are governed by the Interim Increase Committee, led by HR and attended by the Chief Financial Officer and Managing Directors. All senior management remuneration decisions are subject to further governance executed by the External Remuneration Committee.

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

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 significant influence functions, or those deemed to have a material impact on the strategy or the risk profile of the Company, the security of regular payments in order to manage and plan their financial affairs. The flexible and compulsory benefits are designed to provide non-monetary items in a cost-effective way by utilising the Company's economies of scale.

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

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

Variable remuneration – short-term incentive

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

The amount of bonus allocation and pay-out varies depending on the seniority of the individual within the Company and the type of role they occupy. The bonus level is based on job level, including those for Executives and Directors, although the scheme rules operate on a discretionary basis and are reviewed periodically.

For non-sales employees, the collective criteria used to determine the level of bonus paid is based on individual performance ratings and the corporate scorecard. For sales employees, the level of bonus paid is dependent on the sales achieved subject to achieving a minimum quality and compliance criteria and a maximum of 200% of their on-target bonus.

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

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

The 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 specified limit.

The Company has no defined benefit pension liabilities.

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

Shareholders

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

DHEL has provided VLL with unsubordinated debt of £22.5m. These funds were provided via several tranches paid throughout the financial year 2020/21.

An interest rate swap agreement was entered into on 30 June 2021 between the VLL and DHEL. The notional value of the contract is £30m and the contract runs for an extended period of time (over 10 years).

Persons who exercise a significant influence on the Company

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

Executive management and directors

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

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 Requirements for skills, knowledge and expertise

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

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

- Insurance and financial markets;
- Information technology and project management;
- Business strategy and business model;

- System of governance;
- Financial and actuarial analysis;
- Insurance distribution;
- Investment management;
- Risk management; and
- Regulatory framework and requirements.

B.2.2 Fitness and propriety of persons

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

- Educational background checks and
- Professional Qualifications / Membership check.

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

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

Further, there is an annual process to assess the ongoing fitness and propriety of Senior Managers and Company Directors.

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

B.3.1 Risk management system

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

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

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

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

The 1st line of defence – business management

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

The 2nd line of defence – oversight

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

The 3rd line of defence – assurance

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

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

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

Requirement	Description
independent assurance reviews	combined assurance process and they report their findings to the Audit Committee. This plan and coordinated activity ensures that when and where there is a specific need to obtain an in-depth understanding of a particular risk, specific controls, actions and mitigation strategies in place it can be accommodated. These reviews may be initiated by the business, a Board or its sub-Committees, or the CRO. As well as these reviews, the Risk, Compliance and Audit functions also engage in a number of ‘close and continuous’ activities each year.
Incident management	The business maintains a Group-wide incident management standard. An internal reporting tool is also in place to enable the instant reporting and escalation of incidents to the relevant subject matter experts for assessment and challenge. This ensures appropriate action and mitigation is taken to limit impacts and prevent further recurrence. Each incident is rated and escalated as per its severity as defined in the standard.
Operational resilience	The business is in the process of making suitable assessments of its operational resilience in line with regulatory expectations. These assessments will include the outline of the Important Business Services, relevant impact tolerances and an assessment of the organisational capability of remaining within these measures to prevent harm to our members’ service.
Recovery and resolution plan	The recovery and resolution plan outlines the situations and triggers that may impact the Company’s ability to remain viable, whether that be from a regulatory or financial stability point of view. These triggers (or ‘early warning indicators’) are set with reference to Vitality’s risk appetite as well as its view of regulators’ expectations and based around a ‘ladder of intervention’. The plan sets out a range of actions that should be taken into consideration in these situations, the potential impact on solvency and liquidity, and the feasibility of their implementation. It also sets out the governance required if the plan is triggered.
Stress and scenario testing	The Risk Function engages with the Finance and Actuarial teams to develop a range of sensitivity tests, scenarios and reverse stress tests to be performed in order to understand the impact of risk drivers on planned earnings, liquidity and solvency levels under stressed conditions. Scenarios are considered against the background of current and emerging risks, alongside an examination of potential management actions. Reverse stress tests consider stresses and scenarios that could challenge the viability of the organisation.
Risk reporting	The Risk Function produces the CRO report every quarter. This report is designed to provide the Board, Risk and Audit Committees with sufficient oversight of the ERM Framework and risk exposures, focusing on the out-of-appetite and watch-list risks. The second line also ensures that other Governance Forums maintain suitable oversight of key risks or control processes.
Documentation and Record Keeping (Governance, Risk , Compliance Management System)	The Risk Management Function oversees the implementation of the ERM Framework and ensures that relevant activity as described in the ERM Framework is captured and managed with appropriate actions being tracked through to suitable conclusion though a group risk management software tool.

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

B.3.2 Implementation of risk management system

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

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

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

B.3.3 ORSA process

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

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

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

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

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

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

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

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

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

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

B.4.2 Implementation of the Compliance Function

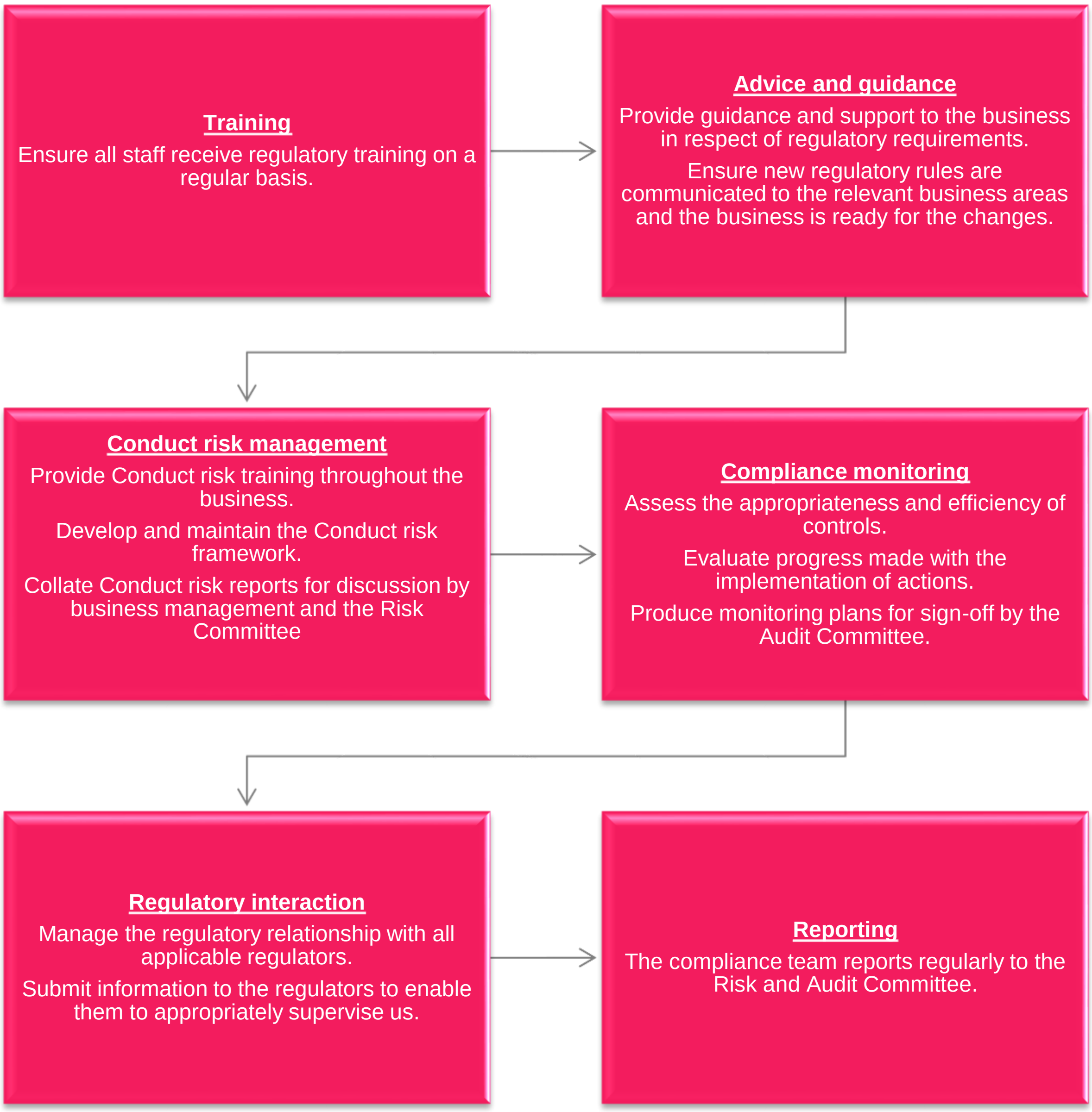
The Compliance Function is an independent second line control function in the three lines of defence:

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

To provide for the independence of the Compliance Function, the Compliance Director reports to the Chief Risk Officer, who is not directly involved in the day-to-day business operations.

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

The main Compliance activities are described in the following diagram:



B.5 INTERNAL AUDIT FUNCTION

B.5.1 Implementation of the internal audit function

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

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

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

- Based on the annual plan, the internal audit activity evaluates the adequacy and effectiveness of controls encompassing the business' governance, operations, and information systems. This includes:

    - Reliability and integrity of financial and operational information;
    - Effectiveness and efficiency of operations;
    - Safeguarding of assets; and
    - Compliance with laws, regulations, and contracts.

- In determining the proposed audit plan, the CIA considers relevant work that will be performed by other areas, e.g. compliance monitoring, risk deep dives and external audit and to what extent this work can be relied on. The CIA also considers the work planned, or recently completed, by management in its assessments of the risk management process, controls and quality improvement processes, as well as the work planned by the external auditors, are considered in determining the expected coverage of the audit plan for the coming year.
- The Executive Committee and the Board requires that the CIA performs sufficient audit work and gathers other available information during the year so as to form a judgment regarding the adequacy and effectiveness of the risk management and control processes. The CIA communicates overall judgment regarding the business's risk management process and system of controls to the Executive and Audit Committees.

B.5.2 Independence of the Internal Audit Function

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

B.6 ACTUARIAL FUNCTION

The PRA requires that firms should have an Actuarial function and has specified that firms should appoint a Chief Actuary as set out under the PRA's senior managers' regime. The Company's Chief Actuary is a Senior Management Function ("SMF"), reports functionally to the VLL Managing Director and is 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 Company's Chief Actuary presents a report annually to the Actuarial Committee and the Board that summarises the activities of the Actuarial function that supported compliance with the requirements for the calculation of the technical provisions, and provides the Chief Actuary's opinions on the overall underwriting policy and the adequacy of the reinsurance arrangements.

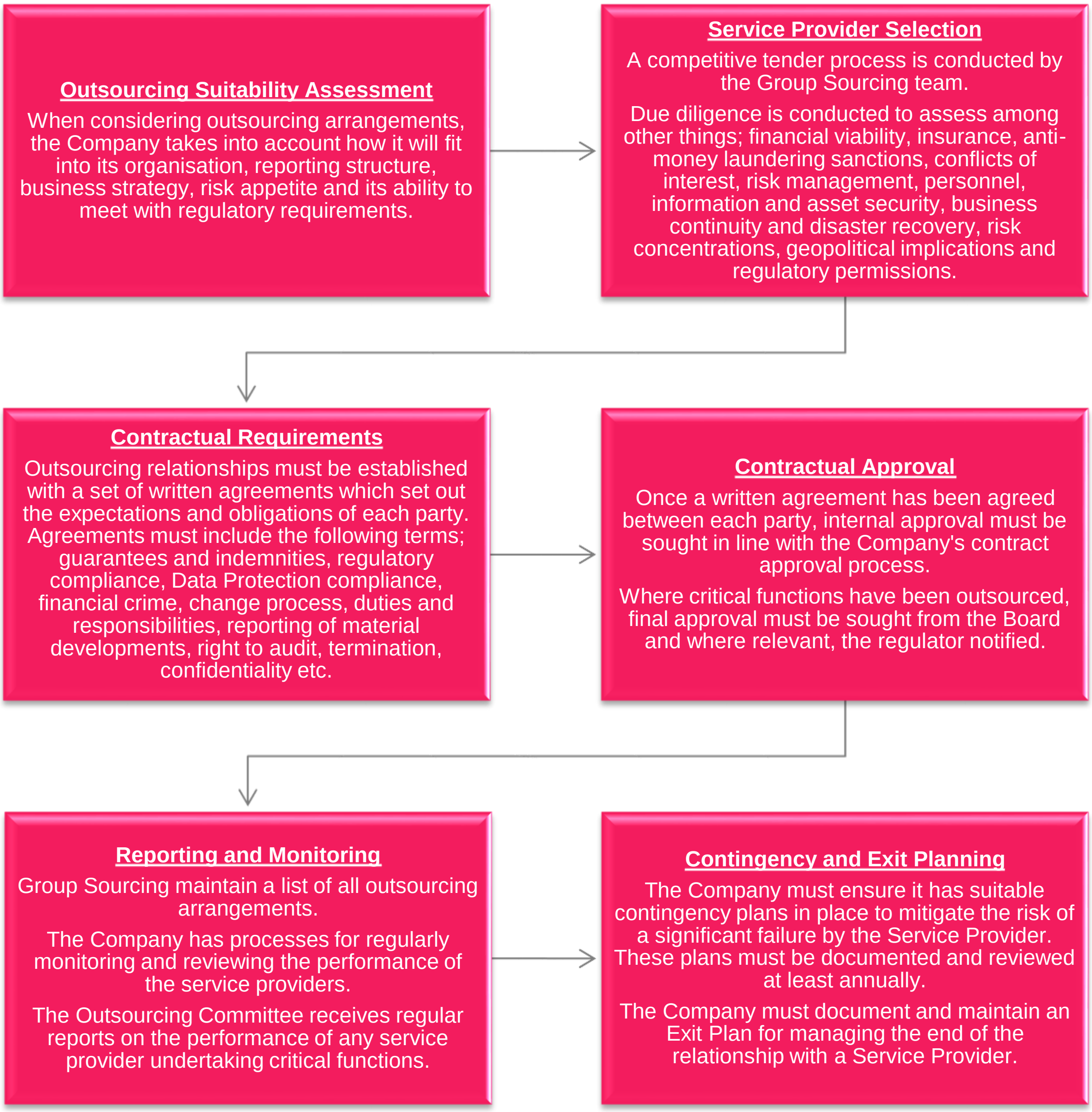
The Actuarial function contributes to the effectiveness of the risk management systems more widely through various activities which include: substantial involvement in the ORSA; identifying, measuring and monitoring risks; asset liability management (specifically liquidity risk management) and business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

B.7 OUTSOURCING

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 of the contract with VCSL is England and Wales.

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 document management and payroll services within the UK; business process outsourcing, IT development and software maintenance in India; and intragroup IT and business process outsourcing services in South Africa.

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

B.8 SYSTEM OF GOVERNANCE – ANY OTHER INFORMATION

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.

C RISK PROFILE

Summary of business written

VLL primarily writes long-term (life) protection business and long-term investment business in the UK only.

Life business

VitalityLife offers protection products which provide the following core benefits:

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

Customers can 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) and the dementia and frail care cover option.

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 may also add Optimiser to their policies and receive an initial premium discount compared to policyholders who did not select this feature. The future protection premiums on Optimised policies then change annually at a rate which is linked to their Vitality status to reflect their overall health and wellness.

Investment business

VitalityInvest launched to the market and accepted its first customer funds in June 2018.

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. All products include an accidental death benefit.

For each product, the customer can invest their money in a range of Vitality funds and selected third-party investment funds. Vitality has also launched a number of additional features which are available on selected products, and on money invested into qualifying Vitality funds. Policyholders can benefit from the Healthy Living Programme through Vitality Select which is accessed through any VitalityInvest plan.

Summary of investments

Other than assets held in respect of the VitalityInvest business which mainly comprise of unit-linked assets matching unit-linked liabilities and the participating interest in VHIL as a fellow group company VLL's shareholder and non-unit-linked investments are predominantly held in cash and in short-term liquid assets with high credit ratings within collective investment undertakings.

VLL holds an interest rate swaption with DHEL (which expires in 2023) and entered into an interest rate swap with DHEL on 30 June 2021 (expiring in more than 10 years). See section D.1 for further details.

In addition, VLL has held a strategic equity investment in VHIL since February 2020.

Summary of risk

The split of VLL's SCR as at 30 June 2021 and as at 30 June 2020 is provided in the table below:

Vitality Life Limited £'m	30 June 2021	30 June 2020
Health underwriting risk	104.6	95.7
Life underwriting risk	207.4	167.4
Market risk	54.7	44.6
Counterparty default risk	22.4	14.6
Undiversified BSCR	389.1	322.3
Diversification credit	(104.6)	(86.7)
Basic SCR	284.5	235.6
Operational risk	8.1	7.2
Adjustment for loss absorbing capacity of deferred taxes	(67.2)	(14.5)
Final Standard Formula SCR	**225.3**	**228.3**

Underwriting risk is the main standard formula SCR risk and there have been no material changes to the risk profile over the reporting period beyond the increase in the gross premiums being written. Reinsurance risk mitigation for mortality and morbidity risks is in place via the use of quota share reinsurance arrangements with a retention limit. Therefore the material underwriting risk is lapse risk.

Market risk as a component of the SCR is small relative to the underwriting risk component. However the market risk SCR module has increased over the year, primarily due to the equity risk charge on the strategic investment in VHIL/VHL.

VitalityInvest continues to have a limited contribution to VLL's overall level of required capital owing to its size. The majority of VitalityInvest's contribution to VLL's SCR is in the form of lapse risk and market risk.

Given the nature and duration of the Company's book of business, the BEL (and hence non-unit technical provisions) is currently negative. The Company's shareholdings and non-unit-linked investments are therefore held primarily to meet operational and new business funding liquidity requirements. These assets are held in cash in bank accounts, term deposit accounts and in short-term liquid assets with high credit ratings within collective investment funds. Therefore, the market risk exposure arising from these assets is low. Counterparty default risk is relatively low since the banks are highly creditworthy in their domestic markets and reinsurance is spread across different reinsurers with high credit ratings. The strategic investment in VHIL results in strategic equity risk exposure which is captured within the equity sub-risk module. The swaption impacts the counterparty default risk and interest rate risk sub-modules.

The future impact of COVID-19 remains uncertain. There are new risks that could emerge over the coming years from the COVID-19 pandemic and its consequences for the economy. The Company has allowed for an increased short-term mortality and morbidity assumption to reflect this ongoing uncertainty and will continue to closely monitor its experience. 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 2021 comprises just over 80% of the undiversified basic SCR. The key underwriting risks which the Company is exposed to are set out below.

Components of underwriting risk SCR £'m	30 June 2021	30 June 2020
Lapse risk	66%	66%
Mortality risk and mortality catastrophe risk	18%	18%
Morbidity risk and health catastrophe risk	10%	11%
Expenses risk	5%	5%
Total	**100%**	**100%**

Lapse risk

The Company is exposed to both the risk of lapse rates being higher than expected and 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 emerged. 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 mis-estimation, trends, economic shocks, competitor activity (lapse and re-entry), changes in policyholder behaviour and reputational damage.

Lapse risk accounts for 66% of the undiversified underwriting risk SCR.

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 mis-estimation, adverse trends, selective withdrawals, risk concentrations (geographic and occupational), and anti-selection (where 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 pandemics (coronaviruses, flu pandemics, MRSA, SARS etc.), geographical concentration of lives or contraction of lives in a single hazardous occupation. The Company has made an allowance for an expected short-term increase in claims due to COVID-19.

The COVID-19 situation continues to evolve and the Company will continue to monitor circumstances and update relevant assumptions as further information becomes available.

Mortality risk (including mortality catastrophe risk) accounts for 18% of the undiversified underwriting risk SCR at 30 June 2021, while morbidity risk (including health catastrophe risk) accounts for 10% of the undiversified underwriting risk SCR.

Expense risk

VLL is exposed to the risk that acquisition expenses and future maintenance expenses are higher than expected. Expense risk can arise through mis-estimation, higher than expected inflation, lower volumes of business than expected, expense overruns, regulatory change and changes in the mix of business. Expense risk accounts for 5% of the undiversified underwriting risk SCR.

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 aims to ensure 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;
- Executive Committee overview of financial performance;
- a risk register is maintained 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;
- experience investigations covering mortality, morbidity, and expenses are conducted at least half yearly; and
- product design and pricing that aims to minimise adverse selection and use appropriate rating factors to differentiate between different levels of risk. The Optimiser incentivises 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 on the life business. 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. No reinsurance is applied to the Invest business.

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 limited concentration of risk as 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. This includes monitoring to understand how the experience in relation to COVID-19 will impact VLL. In addition, reinsurance is used to manage the level of risk and financial underwriting limits are in place for large life cases.

C.2 MARKET RISK

C.2.1 Exposure

Market risk is the risk of loss or of adverse change in the financial situation resulting directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. At 30 June 2021, market risk contributes 14% towards the undiversified basic SCR. The key market risks which the Company is exposed to are set out below.

Components of market risk SCR £'m	30 June 2021	30 June 2020
Interest	32%	1%
Equity	60%	65%
Currency	4%	18%
Spread	1%	2%
Concentration	3%	13%
Property	0%	0%
Total	100%	100%

Interest rate risk

VLL's BEL is exposed to the risk that interest rates increase. As a relatively young long-term insurer, the in-force book is projected to remain cash flow positive for a number of years before turning negative. The net inflows at the beginning more than offset the net outflows later in the projection, resulting in a negative (beneficial) BEL. Increasing the interest rate results in both the future inflows and future outflows being discounted at a higher discount rate, reducing the overall future net positive cash flows in the process. This exposure drives the interest rate risk in the SCR.

VLL's derivatives, including both the swaption and the swap (as described in Section D.1), are exposed to interest rate down risk. VLL only takes account of the downside risk from these derivatives in its SCR (i.e. any beneficial impact of interest rate movements on the derivatives are ignored for the purposes of calculating the SCR).

The other non-unit investment assets (excluding the investment in VHIL) are all short-term liquid assets (as explained in Section D.1) and so have minimal interest rate risk exposure. Hence the total interest rate SCR is driven by:

- the BEL exposure to interest rates up; and
- the derivatives exposure to interest rates down, offset by the beneficial BEL exposure to lower interest rates.

At 30 June 2021, interest rate up was the biting interest rate SCR. Interest rate risk contributed 32% towards the undiversified market risk SCR.

While the interest rate SCR may only be materially impacted by the factors above, interest rates also impact other components of the SCR. In particular, low interest rates may exacerbate the risk of low lapses as both low interest rates and low lapses increase the impact of the negative cash flows at the later durations. This is particularly relevant in SCRs projected for the risk margin calculation, since lapse down is more likely to be the biting lapse stress as the book matures and the point at which the cash flows turn negative approaches.

The negative impact of interest rate reductions on the risk margin and derivatives is likely to be larger than the beneficial impact of interest rate reductions on the BEL. Hence, VLL's SII balance sheet is exposed to low interest rates.

The impact of changes to the interest rate has different impacts on different products and features. Whole of life products in particular are sensitive to interest rate reductions. These products contribute to the overall sensitivity of the book to a low interest rate environment.

Equity risk

VLL's equity risk mainly relates to its strategic investment in VHIL (as described in Section D.1). The strategic nature of this investment reduces VLL's exposure to the risk of fluctuations in the value of this investment, which is reflected in a lower SCR charge than other equities would attract.

VitalityInvest is exposed to the loss of future fee income arising from a drop in equity values within the unit funds. However this risk is not yet material given the size of the funds under management.

Equity risk accounts for approximately 60% of the undiversified market risk SCR.

Currency risk, spread risk, concentration risk and property risk

Currency risk, concentration risk, property risk and spread risk account for 8.0% of the undiversified market risk SCR.

The currency risk arises from a strengthening of the South African Rand ("ZAR") against the Pound Sterling ("GBP"). When the ZAR strengthens technical provisions increase because part of the Company's expense base is in South Africa (some operations are outsourced to other Discovery group companies in South Africa). This is partially offset by the increase in value of the cash held in South African bank account (see Section D.1).

There is some exposure to other foreign currencies through the underlying assets within the VitalityInvest fund offerings. This is at present immaterial given the size of the funds under management.

As at 30 June 2021, VLL's shareholder and non-unit-linked investments are largely held in cash (including short-term deposits) in both UK and South African based bank accounts and in short-term liquid assets with high credit ratings within collective investment undertakings. These assets are primarily held to meet operational and new business funding liquidity requirements. 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). 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. Similarly, the credit quality of these assets combined with the fact that they are distrusted across several banks and underlying investments means that the concentration risk associated with these assets is small.

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 maintained 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.

The unit-linked assets of VitalityInvest are invested in the funds underlying the unit-linked liabilities. As these assets and liabilities are matched there is no market risk arising from the unit-linked funds.

For VitalityLife, an internal committee responsible for investment meets at least quarterly and oversees the investments and makes decisions on tactical asset allocation (within the constraints of VLL's overall investment strategy). The VitalityInvest Unit-Linked and Investment Committee reviews compliance with the Unit-Linked

Governance Standard which requires policyholder liabilities to be fully matched with the relevant underlying assets with no appetite for market mismatches. Exposures are validated daily by the Investment Operations team.

There is no material exposure to property holdings.

C.2.3 Risk concentration

VLL's liquidity investment funds are well diversified and so there is also limited concentration risk that arises from them. There is some concentration risk arising from VLL's short-term deposit accounts in the UK and South Africa but this is immaterial relative to its overall capital requirements.

The potential risk concentration for the strategic investment in VHIL is addressed through monitoring VLL's solvency coverage excluding this investment and ensuring that the business remains adequately funded at this level.

VLL's exposure to DHEL through the two interest rate derivatives are managed through regular monitoring of interest rates and the value of the derivatives.

C.3 CREDIT RISK

C.3.1 Exposure

Credit risk is the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which VLL is exposed, in the form of counterparty default risk, spread risk or market risk concentrations.

At 30 June 2021, credit risk in the form of counterparty default, spread and concentration risk comprised 5.8%, 0.2% and 0.6% respectively of the undiversified basic SCR ("BSCR"). Credit risk primarily arises from exposure to: various reinsurance counterparties; three banking counterparties (two UK-based and one South Africa-based); as well as the counterparty exposure to DHEL for the interest rate derivatives.

All the reinsurance counterparties with which VLL has treaties are highly rated and all have a Solvency II credit quality step of 1. At 30 June 2021 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. Therefore, credit risk is not material.

The banks are highly reputable and creditworthy with credit quality steps of 1, 2 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.

For the swaption, the credit risk exposure is to VLL's parent company, DHEL, and the maximum loss it is exposed to is the value of the swaption. The swap that was entered into at 30 June 2021 has no value at that date and so there is no exposure to counterparty default.

C.3.2 Risk mitigation

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

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

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

For the swaption, the maximum loss VLL is exposed to while interest rates are below the strike price of 1.4% is the option premium and so no specific risk mitigation has been deemed necessary.

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 bank 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

Liquidity risk is defined as the risk that VLL is unable to realise investments and other assets in order to settle its financial obligations when they fall due.

VLL has limited liquidity risk as a result of its investment strategy. At 30 June 2021 more than 83% of its shareholder and non-unit-linked investments, excluding the strategic equity investment in VHIL, are held in cash in both UK and South African based bank accounts, term deposit accounts and in short-term liquid assets with high credit ratings within collective investment undertakings. The GBP 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 Standard and Poor's single A (or equivalent). The liquid investment assets reflect the fact that VLL 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 VLL's stated liquidity objectives. Liquidity requirements and risks are also considered in VLL's ORSA. 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 liquid assets with high credit ratings within collective investment undertakings.

VLL also has access, via its parent, to an unsubordinated debt facility which may be used to provide liquidity.

The unit-linked funds are linked to collective investment schemes that are regulated as retail schemes (either by the Financial Conduct Authority or similar European bodies). These funds are regulated so as to have reasonable levels of liquidity. Where a liquidity risk event does occur our terms and conditions allow for a delay in dealing times or suspension of the unit-linked fund.

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 2021 is £795.0m. The EPIFP is calculated in line with Article 260 of the Commission Delegated Regulation (EU) 2015/35 (referred to as Delegated Regulations 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 for lapses within the clawback period. The EPIFP is therefore equal to the negative BEL 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.

Note that for the Invest business, there are no contractual premiums in relation to the business written, so there is zero expected profit included in the future premiums as calculated in accordance with Article 260 (2) of the Delegated Regulations.

C.5 OPERATIONAL RISK

C.5.1 Exposure

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

The following measures are used to assess operational risks:

- Risk and control assessments – the ERM Framework requires all teams across the business to carry out a risk and control self-assessment which would highlight any operational risk issues that need to be taken into account when assessing the risk profile for the business.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the operational risk exposure.
- The Company also carries out operational risk scenario workshops to develop scenarios for each operational risk category. This involves estimating the severity and likelihood of each scenario based on the information captured in the Company's risk register and input from subject matter experts in the business. Once captured, the operational risk profile is assessed quantitatively and taken into account in the Company's own assessment of its solvency capital requirements. Operational risks are also assessed using qualitative techniques to understand the likelihood and impact of the risks materialising. The results of this assessment are recorded in the ORSA.
- The top-three operational risks included in the assessment were:

    1. Model risk (Life only) – The risk of loss resulting from using insufficiently accurate models to make decisions.
    2. Fraud (for both Life and Invest) – The risk of financial crime and unlawful conduct impacting on the Company. It includes both internal and external fraud; and
    3. Market Conduct (for both Life and Invest) – The risk that the Company's decisions and behaviours lead to detriment or poor outcomes for members and/or the Company fails to maintain high standards of market integrity.

Cyber risk remains a key consideration within the operational risk profile where business disruption and data leakage or loss could arise, due to the malicious or fraudulent exploitation of security vulnerabilities within Information Technology systems.

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

C.5.2 Risk mitigation

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

- Risk reduction – where possible, the Company takes action to reduce the impact of a risk. The required actions vary by risk;
- Risk removal – where risks are outside risk appetite and there are no commercially viable means of reducing the risk, the business may remove the risk;
- Risk transfer – 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 does not transfer responsibility and therefore manages its outsourcing relationships accordingly;
- Risk acceptance – where the Company has considered all other mitigation techniques and the risk remains out of appetite, it may proceed to accept the risk with the approval of the Risk Committee; and
- Reporting – the material operational risks which 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.

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

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

C.5.3 Risk concentration

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

C.6 OTHER MATERIAL RISKS

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

- New business funding liquidity risk (discussed in further detail below);
- Reputational risk, including impacts from conduct risk, liquidity risk and the knock-on impacts on underwriting risks such as persistency and expenses;
- Regulatory risk, including impacts from regulatory change and compliance exposure;
- Strategic risk, where VLL's strategic objectives could be impacted by evolving customer preferences, the Company's investment performance, the economic environment, and political and regulatory change. In

particular the recessionary impacts of the COVID-19 pandemic as well as the outcome of the future trading relationship with the EU continue to generate uncertainty in this area;

- Vitality risk is the risk that Vitality reward costs exceed those allowed for in the current budget as a result of e.g. higher than anticipated engagement and / or higher utilisation; and
- There are no other material risk concentrations to which the Company is exposed. No other material risks were identified through the sensitivity, scenario and stress tests described below in Section C.7.1.

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 VLL started writing business in early 2016, this will be a key risk over the medium term.

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

Another source of liquidity is capital injections from its ultimate parent company, Discovery Limited. 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 VLL's stated liquidity objectives, and assessments to ensure sufficient liquidity under stress are performed periodically. The high level of liquid assets and the existing commitments from reinsurers to provide the agreed future financing helps to mitigate new business financing liquidity risk. In extreme situations, VLL could reduce or stop writing new business in order to control this risk.

C.7 RISK PROFILE – ANY OTHER INFORMATION

C.7.1 Risk sensitivity

The 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 C.7.2.

Reverse stress testing was also used to determine what combination of extremely low interest rates and other relevant factors might make the business plan unviable.

C.7.2 Sensitivities

The table below shows some of the key sensitivities for VLL and the impact they have on the solvency coverage ratio.

Risk driver and stress description	Stress	SCR% impact	Impact
Base		243%	
Lapse rates: An immediate and permanent increase/decrease in lapse rates applied to all policies.	(+/-)10%	**Lapse up:** +20% **Lapse down:** -17%	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.
Mortality and morbidity: An immediate and permanent increase in mortality rates and morbidity for the Life business.	+10% for both mortality and morbidity	-6%	There is a decrease in SCR cover, which is driven primarily by a reduction in future profits, given the reinsurance risk mitigation in place which limits the impact of mortality risk on claim payouts.
Interest Rates: An immediate and permanent decrease in nominal interest rates.	-50bps	-16%	SCR cover reduces when interest rates decrease. This is primarily via the impact on the SCR and risk margin.
Interest Rates: An immediate and permanent increase in nominal interest rates.	+50bps	+19%	SCR cover increases when interest rates increase. This is primarily via the impact on the SCR and risk margin.

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 which can be appropriately taken into account in the Company's overall solvency needs assessment as documented in its ORSA report.

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

The short-term 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 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 also has negative technical provisions which contribute to Own Funds. A large part of the SCR relates to the loss in future profits following a mass lapse. Since this does not trigger an increase in cash outgo (as the products do not pay a surrender benefit) the illiquid asset is able, and suitable, to satisfy this risk. As such, outside of the unit-linked liabilities, there are no assets backing policyholder liabilities. Therefore, no liquid assets are required to be held against the technical provisions as the business is still growing.

The Company uses a standard interest rate swap and swaption for the purposes of efficient portfolio management. 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.

With the exception of the strategic investment in VHIL, 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. In addition, cash and short-term deposits are held across two highly reputable and creditworthy banks. The assets underlying the collective investment undertakings are short-term liquid assets with high credit ratings which do not lead to excessive risk concentration, while the collective investment undertakings and two asset managers themselves have high credit ratings.

For the strategic investment in VHIL, this is not a traded asset and so no market value is available. As such, this is valued in line with the adjusted equity approach in the Solvency II Delegated Regulation.

VLL does 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)	Financial Statements IFRS Value	Solvency II presentation adjustments	Solvency II valuation differences	Solvency II Valuation
Investments	985.3	(443.6)	(256.4)	285.3
Assets held for index-linked and unit-linked contracts	-	511.6	-	511.6
Insurance and intermediaries receivables	14.4	-	-	14.4
Cash and cash equivalents	98.3	(72.0)	-	26.3
Reinsurance receivables	23.8	(23.5)	-	0.3
Deferred tax assets	10.4	-	14.0	24.4
Reinsurance recoverable	(342.8)	-	(75.5)	(418.3)
Intangible assets	15.5	-	(15.5)	-
Receivables (trade, not insurance)	3.3	(1.9)	-	1.4
Any other assets, not elsewhere shown	-	23.5	-	23.5
Total assets	**808.2**	**(5.9)**	**(333.5)**	**468.9**

The structure of the SII balance sheet is different to the IFRS balance sheet presented in the IFRS Financial Statements. The table below sets out the presentation adjustments to assets as at 30 June 2021 which reconcile the IFRS assets in the Financial Statements with the presentation of assets and liabilities in the SII balance sheet.

Assets as reported in S.02.01.b (£'m)	Investments (Note 1)	Assets held for index-linked and unit-linked contracts (Note 2)	Any other assets, not elsewhere shown (Note 3)	Total classification differences
Investments	21.8	(465.4)	-	**(443.6)**
Assets held for index-linked and unit-linked contracts	-	511.6	-	**511.6**
Cash and cash equivalents	(21.8)	(50.2)	-	**(72.0)**
Reinsurance receivables	-	-	(23.5)	**(23.5)**
Receivables (trade, not insurance)	-	(1.9)	-	**(1.9)**
Any other assets, not elsewhere shown	-	-	23.5	**23.5**

The presentation adjustments required to align the IFRS balance sheet to the SII balance sheet are summarised below. These adjustments are required for SII presentation purposes only and do not result in valuation differences.

Note 1: Investments

The IFRS financial statements discloses investments in highly liquid money market funds with low levels of volatility and a weighted average maturity of less than 3 months as cash and cash equivalents. Under SII all investments held in collective investment undertakings with externally managed funds are reported as investments and therefore a £21.8m presentational adjustment has been made between cash and cash equivalents and investments for this.

Note 2: Assets held for index-linked and unit-linked contracts

Under IFRS, assets and liabilities relating to index-linked and unit-linked contracts are separately reported on a 'line-by-line' basis using financial statement line items to which they relate. For SII, all assets and liabilities relating to index-linked and unit-linked contracts are reported in a single line item within 'assets held for index-linked and unit-linked contracts'. Presentational adjustments are therefore made to present the assets on a Solvency II basis.

Note 3: Any other assets, not elsewhere shown

SII requires amounts due from reinsurers on notified but not yet settled claims to be disclosed as 'Other assets'. The gross value of the notified claims is shown in "provisions, other than technical provisions". Under IFRS these amounts due from reinsurers are shown as reinsurance receivables.

D.1.1.1 Investments

The investments held by the company are held in collective investment undertakings (SII value: £55.4m), Holdings in related undertakings, including participations (SII value: £200.4m), Deposits other than cash equivalents (SII value: £10.3m) and Derivatives (SII value: £19.1m). Each of these is discussed below.

Collective investment undertakings

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

Fund managers provide quarterly reports detailing the underlying securities held in the fund. The quarterly reports are reviewed to ensure average credit ratings and durations have not moved significantly since the previous quarter. Any unusual movements or discrepancies are discussed with the fund managers as required.

The value of collective investment undertakings is the same in the IFRS financial statements as it is for Solvency II. No significant estimates or judgement are used in the SII valuation of these investments.

Holdings in related undertakings, including participations

At the reporting date the Company held a participation in VHIL, which in turn owns 100% of VHL, an insurance undertaking. The SII value of this participation is £200.4m which differs to the IFRS financial statement valuations of £456.8m.

Under IFRS, investments in related undertakings and participating interest are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate. However, under SII the valuation is the excess of assets over liabilities, where assets and liabilities are valued on a SII basis in accordance with Article 13(3) of the Delegated Regulation.

No significant estimates or judgements are used in the SII valuation of this investment as the valuation is principally taken from the SII balance sheet of VHL.

Deposits other than cash equivalents

The deposits other than cash equivalents are cash deposits held in a 100 day notice account. The Company cannot instantly access these deposits and must give the required notice period. These investments are valued at amortised cost which equates to fair value and the Company receives monthly statements at the period end to confirm the balances held.

Derivatives

The derivative balance represents the fair value of two open derivative contracts at 30 June 2021.

The first derivative is an interest rate payer swaption between the Company and its parent, DHEL. A payer swaption is an option granting the Company the right but not the obligation to swap fixed interest rates in return for floating interest rates. The total notional value of open interest rate options at 30 June 2021 is £380.0m and its fair value at 30 June 2021 was £19.1m. The reference interest rate for the Swaption is linked to SONIA and the option strike rate is 1.151%. The derivative was entered into on 3 June 2020 and expires on 11 May 2023.

The second derivative is an interest rate swap agreement entered into on 30 June 2021 and is also between the Company and DHEL. The Company receives a fixed interest rate of 0.840% in return for paying the floating rate linked to SONIA. The notional value of the contract is £30m and the contract runs for an extended period of time (> 10 years).

There are no valuation differences for derivatives between Solvency II and IFRS. Derivative contracts are valued at fair value based on observable market data (where possible) including interest rates and market volatility. Where appropriate market data is not available (as is the case for the swaption – see Section D.4) secondary market data is used as well as other data from financial institutions.

D.1.1.2 Assets held for index-linked and unit-linked contracts

These assets represent the amount held by the Company to back the policyholder liabilities relating to the unit-linked insurance contracts sold by VitalityInvest. For SII, all assets and liabilities relating to index-linked and unit-linked contracts are reported in a single line item within 'assets held for index-linked and unit-linked contracts' and therefore this number is net of non-technical liabilities held in relation to these unit-linked contracts. The total IFRS value of these liabilities is £511.6m.

The material element of these assets relates to £465.4m held in a range of investment funds and a further £50.2m held in cash and cash equivalents. The allocation of assets into the funds and cash is directly matched with units chosen by the policyholders when purchasing (or servicing) their unit-linked policy. These assets are measured using a mixture of amortised cost (which equates to fair value) and fair value depending on their nature and IFRS classification. The valuation is based on independent fund manager valuation reports that are derived from market prices or statements provided by the Company's bankers.

D.1.1.3 Insurance and Intermediaries receivables

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

Note, the sum of insurance and intermediaries receivables of £14.4m and receivables (trade, not insurance) of £3.3m is £17.7m. Under IFRS, the £17.7m consists of loans and receivables of £16.5m and current tax of £1.2m.

D.1.1.4 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 GBP; no estimation methods, adjustments for future value or valuation judgements are required for these balances. The monies held in a South African bank account are denominated in ZAR, translated into pounds sterling using the prevailing GBP/ZAR exchange rate at the reporting date.

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

D.1.1.5 Reinsurance receivables

This is captured within "Any other assets, not elsewhere shown", with further detail in D.1.1.10 below.

D.1.1.6 Deferred tax assets

The Company recognises a deferred tax asset ("DTA") in respect of unutilised trading losses incurred by the company.

Further DTA's are held by the Company as a result of IFRS to SII valuation differences, which is consistent with the methodology prescribed in Article 15 of the Delegated Regulation.

The valuation adjustments recognised under SII for certain assets and liabilities creates additional temporary differences under IAS12 principles, which give rise to a larger DTA under SII compared to IFRS. This is mainly caused by the valuation difference of technical provisions (see section D.2) and intangible assets (see section D.1.1.8).

The recognition of the DTA is subject to a degree of estimation and judgment. As there are no external market observable / comparable valuations, an internal valuation model is used. The level of DTA recognised is modelled with reference to probability weighted expected future taxable profits of the Company, current legislation regarding restrictions on the future use of trading losses as well as the expected unwind of IFRS to SII temporary differences. Key inputs into the internal valuation model includes future sales volumes, expenses and the projected run off of the 30 June 2021 in-force book of business. The Company has recognised all of its DTA's in respect of unutilised trading losses and valuation differences. There are no unrecognised DTA's.

All DTA's are in respect of taxes levied by the same tax authority. The Company has no deferred tax liabilities on either a gross basis or netted off against DTA's.

The valuation of the DTA takes into account the UK Government announcement in the Spring Budget 2021 that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This new law was enacted on 10 June 2021.

DTA's are classified as Tier 3 own funds and are 100% available to meet the Company's SCR. Tier 3 own funds are not available to meet the Company's MCR. See Section E for further details.

D.1.1.7 Reinsurance recoverable

See section D.2.4 for the valuation of reinsurance recoverable under Solvency II. The differences between the IFRS and Solvency II valuations are due to the different bases. This is covered under section D.2.3.

D.1.1.8 Intangible assets

Under Solvency II only those intangible assets that can be sold separately and, where it can be demonstrated that there is a value for the same or similar assets in an active market, that can be recognised. Based on the 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 £15.5m.

D.1.1.9 Receivables (trade, not insurance)

Receivables (trade, not insurance) comprise of amounts paid to HMRC in excess of the liability due to HMRC for corporation tax, and an amount due to the Company from unit-linked fund management operations. The value of this asset is the same in the Company's IFRS financial statements as under Solvency II.

D.1.1.10 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 2021 by line of business:

£'m	Unit-linked	Other life	SLT Health	Total
Technical Provisions Calculated as a Whole	511.6	-	-	511.6
Gross Best Estimate Liabilities	(6.2)	(622.8)	(313.4)	(942.4)
Risk Margin	1.9	158.7	39.4	200.0
Technical Provisions	**507.4**	**(464.1)**	**(274.0)**	**(230.7)**
Recoverables	-	306.3	112.1	418.3
Technical Provisions allowing for recoverables*	**507.4**	**(157.8)**	**(162.0)**	**187.6**

**Note: this is the sum of the gross technical provisions and recoverables, where recoverables are presented on a liability basis*

For comparison, the table below shows the technical provisions at 30 June 2020 by line of business:

£'m	Unit-linked	Other life	SLT Health	Total
Technical Provisions Calculated as a Whole	202.3	-	-	202.3
Gross Best Estimate Liabilities	(2.1)	(594.4)	(278.1)	(874.5)
Risk Margin	0.9	164.2	36.3	201.4
Technical Provisions	**201.1**	**(430.2)**	**(241.8)**	**(470.8)**
Recoverables	-	346.7	101.7	448.4
Technical Provisions allowing for recoverables*	**201.1**	**(83.4)**	**(140.1)**	**(22.4)**

**Note: this is the sum of the gross technical provisions and recoverables, where recoverables are presented on a liability basis*

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

Technical provision calculation methodology

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

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

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

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

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

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

Segmentation of business

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

Main assumptions

Interest rates, unit fund growth rate and inflation

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

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 VLL'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.

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

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

Lapse assumptions

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

Claims Assumptions

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

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 2021:

£'m	Unit-linked	Other life	SLT Health	Total
Gross IFRS Insurance contract liabilities	506.7	(278.5)	(423.6)	(195.5)
Adjustments for Solvency II	1.2	344.3	(110.2)	235.3
Gross BEL and Technical Provisions calculated as a Whole	**505.5**	**(622.8)**	**(313.4)**	**(430.7)**
Add risk margin	1.9	158.7	39.4	200.0
Technical provisions	**507.4**	**(464.1)**	**(274.0)**	**(230.7)**

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

- Solvency II requires an explicit risk margin (£200.0m for the total book), while for IFRS an allowance for risk is made through the margins for adverse deviation in the underlying assumptions.

- The discount rate for Solvency II technical provisions is specified by regulation (the relevant risk-free interest rate is provided by the PRA), while that for IFRS is based on the expected long term return for VLL's expected investment portfolio;
- The Solvency II inflation assumption is derived from market information, while for IFRS it is based on an expected long term rate;
- For the VitalityInvest unit fund growth rate, the risk-free rate is used for Solvency II, while IFRS allows for risk premiums on risk bearing asset classes; and
- For VitalityInvest, future premiums are excluded as the contract boundary is assessed to be the valuation date. There are no contract boundary differences for Other Life and SLT Health business.

D.2.4 Recoverables from reinsurance contracts and special purpose vehicles

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

Total reinsurance recoverables at 30 June 2021 were £(418.3)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) 30 June 2021	Financial Statements IFRS Value	Solvency II presentation adjustments	Solvency II valuation differences	Solvency II Valuation
Provisions, other than technical provisions	41.4	-	-	41.4
Insurance and intermediary payables	3.8	-	-	3.8
Reinsurance payables	21.8	-	-	21.8
Payables (trade, not insurance)	32.4	(5.9)	-	26.5
Financial liabilities other than debts owed to credit institutions	57.5	-	-	57.5
Subordinated liabilities	73.1	-	-	73.1
Any other liabilities, not shown elsewhere	2.1	-	-	2.1
Total other liabilities	**232.1**	**(5.9)**	**-**	**226.2**

The structure of the SII balance sheet is different to the IFRS balance sheet presented in the IFRS Financial Statements. The table below sets out the presentation adjustments to assets as at 30 June 2021 which reconcile the IFRS liabilities in the Financial Statements with the presentation of assets and liabilities in the SII balance sheet.

Liabilities as reported in S.02.01.b (£'m) 30 June 2021	Assets held for index-linked and unit-linked contracts (note 1)	Total classification differences
Payables (trade, not insurance)	5.9	**5.9**

Note 1: Payables (trade, not insurance)

See note 2 in section D.1.1 for an explanation of the above presentation difference.

D.3.1.1 Provisions, other than technical provisions

Provisions, other than technical provisions represent the balance of claims that have been reported to the Company but not yet been paid to policyholders. The claims outstanding are valued at fair value and therefore the Solvency II valuation meets Article 10(4) of the Delegated Regulation. The inputs to valuation of a claim are claims reports from policyholders and relevant approval from designated employees of 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 incurred in the past. This balance is calculated in accordance with the terms and conditions of the contract with the individual broker or intermediary – no adjustments or judgements are made for valuation purposes. There is a high degree of certainty over the economic outflow due to the relatively short timeframe between the commission liabilities arising and the broker or intermediary receiving payment from 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 material estimation methods, adjustments for future value or valuation judgements are required for these balances. Where there is a contractual right of offset with each reinsurance provider then reinsurance receivables and reinsurance payables have been recorded on a net basis. The timing of expected economic outflows to settle the liability with each reinsurer is contractually based and, in the normal course of business, is within three months of the reporting date.

D.3.1.4 Payables (trade, not insurance)

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

D.3.1.5 Financial liabilities other than debts owed to credit institutions

Long-term unsubordinated loans have been provided to the Company by DHEL. The loans total £57.5m and are due for repayment on 20 July 2023.

Under IFRS, unsubordinated debt is valued on an amortised cost basis. Under Solvency II, unsubordinated debt is valued on a fair value basis, with changes in own credit standing removed for subsequent measurement.

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 2021 did not result in a material change in the fair value of the loans. As a result, there were no material differences between the IFRS valuation and Solvency II valuation of these loans at 30 June 2021.

D.3.1.6 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.1.2.

Under IFRS, Loan borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method. Under Solvency II, subordinated debt is valued on a fair value basis, with changes in own credit standing removed for subsequent measurement.

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 2021 did not result in a material change in the fair value of the loans. As a result, there were no material differences between the IFRS valuation and Solvency II valuation of these loans at 30 June 2021.

D.3.1.7 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 to have been incurred. The value of this liability for Solvency II is the same as for IFRS.

D.4 ALTERNATIVE METHODS OF VALUATION

For the financial year ending 30 June 2021, the interest rate swap and swaption was subject to valuation under an alternative valuation method.

D.4.1 Justification for use of an alternative approach

Generally, assets and liabilities have been measured at fair value based on quoted market information or observable active market data. For the Over the Counter swaption between VLL and DHEL, there is no quoted price and so an alternative valuation method must be used.

D.4.2 Valuation approach

Detail on the valuation approach for the swaption is provided in section D.1.1.1.

The swaption is an over the counter ("OTC") traded derivative and therefore not exchange traded. The fair value has been derived using market data from secondary markets and information provided by the derivative's counterparty. The fair value of a swaption is derived using the 'Black model' with key assumptions being market interest rates and market volatility as at 30 June 2021.

The interest rate swap is an OTC traded derivative and therefore not exchange traded. However as the swap was only entered into at close of market trading hours on 30 June 2021 the derivative had zero value for both SII and IFRS.

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

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 occur at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. The committees that review solvency are described in more detail in section B.1 General Information on the System of Governance, and responsibility ultimately rests with the VLL 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 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 2021 and 30 June 2020, as well as an analysis of change from 30 June 2020 is shown below:

£'m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
At 30 June 2021					
Ordinary share capital	459.6	-	-	-	459.6
Share premium	268.1	-	-	-	268.1
Subordinated debt	-	-	73.1	-	73.1
Reconciliation reserve	(278.7)	-	-	-	(278.7)
Net deferred tax assets	-	-	-	24.4	24.4
Total eligible own funds to meet SCR	449.0	-	73.1	24.4	546.5
Less: restrictions on eligible own funds to meet MCR	-	-	(61.8)	(24.4)	(86.2)
Total eligible own funds to meet MCR	449.0	-	11.3	-	460.3
At 30 June 2020					
Ordinary share capital	459.6	-	-	-	459.6
Share premium	268.1	-	-	-	268.1
Subordinated debt	-	-	73.1	-	73.1
Reconciliation reserve	(373.2)	-	-	-	(373.2)
Net deferred tax assets	-	-	-	22.6	22.6
Total eligible own funds to meet SCR	354.5	-	73.1	22.6	450.2
Less: restrictions on eligible own funds to meet MCR	-	-	(61.7)	(22.6)	(84.3)
Total eligible own funds to meet MCR	354.5	-	11.4	-	365.9
Analysis of Change: 30 June 2020 to 30 June 2021					
Ordinary share capital issued	-	-	-	-	-
Share premium issued	-	-	-	-	-
Subordinated debt issued	-	-	-	-	-
Reconciliation reserve movement	94.5	-	-	-	94.5
Net deferred tax assets recognised	-	-	-	1.8	1.8
Total movement in eligible own funds to meet SCR	94.5	-	-	1.8	96.3
Less: movement in restrictions on eligible own funds to meet MCR	-	-	(0.1)	(1.8)	(1.9)
Total movement in eligible own funds to meet MCR	94.5	-	(0.1)	-	94.4

Tier 1 unrestricted:

Tier 1 unrestricted funds are 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.

The principal item of own funds for the Company is ordinary share capital and share premium. The Company has issued 459,508,499 shares. All shares are owned by Discovery Holdings Europe Limited. All shares have a £1 par value. 2,708,499 shares have been issued with a share premium. All share capital is available as Tier 1 unrestricted funds.

The reconciliation reserve comprised of:

Reconciliation reserve £'m	30 June 2021	30 June 2020	Movement
SII excess of assets over liabilities	473.4	377.1	96.3
Other basic own fund items	(727.7)	(727.7)	-
Net deferred tax assets	(24.4)	(22.6)	(1.8)
Reconciliation reserve	**(278.7)**	**(373.2)**	**94.5**

The change in reconciliation reserve over the period is as a result of an increase in the SII excess of assets over liabilities over the period due the Company generating profits. A further increase occurred as a result of an increase in the valuation of the Company's investment in VHIL on an SII valuation basis over the period.

Basic own fund items comprised of:

Basic own funds £'m	30 June 2021	30 June 2020	Movement
Ordinary share capital	459.6	459.6	-
Share premium	268.1	268.1	-
Total basic own fund items	**727.7**	**727.7**	**-**

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 2 own funds under the Solvency II regulatory regime.

With consent from the Company's regulator (PRA) the Company has the right to repay the loan at any date prior to the maturity date on the condition that it is exchanged or converted to an equal or higher quality form of regulatory capital under the 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
20 August 2018	9.0	21 August 2028
23 November 2018	6.5	24 November 2028
28 February 2019	2.8	1 March 2029
31 May 2019	7.1	1 June 2029
31 July 2019	6.5	1 August 2029
Total at Tier 2 own funds	**73.1**	

The subordinated loans are available, fully subordinated and are 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.

The sum of Tier 2 and Tier 3 own funds are £97.5m. The limit of Tier 2 plus Tier 3 funds covering a maximum of 50% of the SCR is not reached and therefore the full value of Tier 2 funds can be used to cover the SCR.

Tier 3:

Tier 3 is comprised of deferred tax assets of £24.4m in respect of unutilised trading tax losses 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

Total eligible own funds £'m	30 June 2021	30 June 2020
Tier 1 unrestricted	449.0	354.5
Tier 1 restricted	-	-
Tier 2	73.1	73.1
Tier 3	24.4	22.6
Total eligible own funds to meet SCR	**546.5**	**450.2**

The total available own funds to meet the SCR are £546.5m. The eligible own funds over SCR ratio was 243% as at 30 June 2021.

Total available tier 3 own funds to meet the SCR are £24.4m. 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 30 June 2021	Total eligible own funds	Restriction to cover MCR	Total eligible own funds to cover MCR
Tier 1 unrestricted	449.0	-	449.0
Tier 1 restricted	-	-	-
Tier 2	73.1	(61.8)	11.3
Tier 3	24.4	(24.4)	-
Total	**546.5**	**(86.2)**	**460.3**

The total available own funds to meet the MCR are £460.3m. The eligible own funds over MCR ratio was 817% as at 30 June 2021.

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 £61.8m to £11.3m.

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 £'m	30 June 2021	30 June 2020
Net assets under IFRS	**771.8**	**727.5**
Valuation adjustment for technical provisions under SII, net of reinsurance recoverables	(40.3)	(62.6)
Valuation adjustment for intangible assets under SII	(15.5)	(15.8)
Valuation adjustment in investment in participations	(256.4)	(286.8)
Valuation adjustment for deferred tax assets under SII	13.9	14.9
Excess of assets over liabilities	**473.5**	**377.1**

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

30 June 2021 £'m	IFRS valuation	Solvency II valuation	Difference
Technical provisions	(195.6)	(230.7)	
Reinsurance recoverables	342.8	418.3	
Technical provisions net of recoverables	**147.2**	**187.6**	**(40.4)**

Total equity per the financial statements was £771.8m as at 30 June 2021. Excess assets over liabilities as calculated for solvency II purposes was £473.5m. The difference of £298.3m 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 2021.

E.1.8 Items deducted from own funds

There are no deductions from own funds at 30 June 2021.

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 2021 (the SCR and MCR at 30 June 2020 are also shown for comparative purposes):

Vitality Life Limited £'m	30 June 2021	30 June 2020
SCR	225.3	228.3
MCR	56.3	57.1

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

E.2.2 Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up VLL's SCR at 30 June 2021 and 30 June 2020.

Vitality Life Limited £'m	30 June 2021	30 June 2020
Health underwriting risk	104.6	95.7
Life underwriting risk	207.4	167.4
Market risk	54.7	44.6
Counterparty default risk	22.4	14.6
Undiversified BSCR	389.1	322.3
Diversification credit	(104.6)	(86.7)
Basic SCR	284.5	235.6
Operational risk	8.1	7.2
Adjustment for loss absorbing capacity of deferred taxes	(67.2)	(14.5)
Final Standard Formula SCR	**225.3**	**228.3**

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 Basic SCR from 2020 to 2021. This increase is offset by a material change to the adjustment for the LACDT following the annual LACDT assessment performed in July 2021. The change to the LACDT is due to (a) the increase in the projected tax rate from 19% to 25% and (b) an improvement in the assessment of the recoverability of the shock loss (note that the LACDT methodology remained unchanged from the annual assessment performed in 2020). The overall impact is a reduction in the SCR from £228.3m at 30 June 2020 to £225.3m at 30 June 2021.

The LACDT at 30 June 2021 is utilised through future profit recoverability following a 1-in-200 year shock loss. The most recent assessment of this future profit recoverability was performed in July 2021 using the Company's 2021 five-year business plan and so included five years of new business sales. A scenario was derived to determine future taxable profits following a 1-in-200 year stress. This stress was calibrated using the sub-modules underlying the Company's basic SCR and operational risk at 30 June 2021. The post-stress future earnings were reduced further (for LACDT purposes) by applying margins to take account of future uncertainty. Key inputs into the future profit recoverability model include the projected run-off of the in-force business, future sales volumes, expenses and discount rates.

An assessment is performed at least annually to update the future profit recoverability within the LACDT calculation.

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 2021 and at 30 June 2020. Note the Absolute Floor of the Minimum Capital Requirement ("AMCR") is prescribed by the PRA and stated in GBP below.

£'m	30 June 2021	30 June 2020
AMCR (in GBP)	3.3	3.3
Linear MCR	31.5	24.6
SCR	**225.3**	**228.3**
Combined MCR	56.3	57.1
MCR	**56.3**	**57.1**

Note that the MCR at 30 June 2021 and at 30 June 2020 were based on the floor of 25% of the SCR in the respective years.

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 2021.

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

This is not applicable as at 30 June 2021.

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 2021.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

There is no other information to note.

F ADDITIONAL VOLUNTARY INFORMATION

F.1 TRANSITIONAL INFORMATION

The Company has no other voluntary material information to disclose.

F.2 OTHER ADDITIONAL VOLUNTARY INFORMATION

The Company has no other voluntary material information to disclose.

G TEMPLATES

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

Template code	Template name
S.02.01	Balance sheet
S.05.01	Premiums, claims and expenses
S.12.01	Life and SLT Health 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

H DIRECTORS' RESPONSIBILITIES STATEMENT

Vitality Life Limited

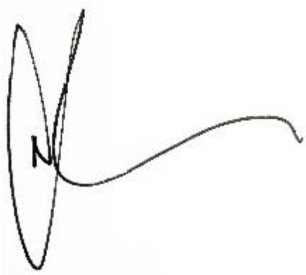
Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 30 June 2021

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

We are satisfied that:

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



Neville Stanley Koopowitz
Director and Group Chief Executive Officer
Date: 23 September 2021

I 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 2021:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 June 2021, ('**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;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 30 June 2021 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

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

- Obtained management's going concern assessment and challenged the rationale for the material assumptions made in the 5-year business plan using our knowledge of the Company's business performance;
- Considered management's assessment of the regulatory Solvency coverage and liquidity position in management's future forecast;
- Reviewed correspondence between the Company and the PRA and FCA in relation to the COVID-19 impact on the Company and management's strategy and plans for the Company's future;
- Formed an independent view of the Company's ability to continue as a going concern, including performing sensitivity analyses over management's key assumptions; and
- Considered information obtained during the course of the audit to identify any evidence that would contradict management's assessment of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

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

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

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

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non compliance with laws and regulation and fraud;
- For the principal risks noted above, designing audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting in error, as fraud may involve deliberate concealment by, for example forgery or international misrepresentations, or through collusion;
- Reviewing correspondence between the Company and the PRA and FCA in relation to compliance with laws and regulations;
- Reviewing relevant Board meeting minutes including those of the Audit Committee, Board Committees, Risk Committee and the Actuarial Committee;
- Procedures relating to the significant assumptions made in the actuarial reserving methodology.

- Review of internal audit reports, compliance reports and whistleblowing reports in so far as they related to non-compliance with laws and regulations and fraud; and
- Assessment of matters reported on the Group's whistleblowing register.

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

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

Use of this report

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

23 September 2021

Vitality Life Limited

Solvency and Financial Condition Report

Disclosures

30 June

2021

(Monetary amounts in GBP thousands)

General information

Undertaking name	Vitality Life Limited
Undertaking identification code	213800O647LRO31RG918
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB (after Brexit)
Language of reporting	en
Reporting reference date	30 June 2021
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.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
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	24,364
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	285,272
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	200,357
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	55,455
R0190	*Derivatives*	19,135
R0200	*Deposits other than cash equivalents*	10,326
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	511,633
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	-418,315
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-418,315
R0320	*Health similar to life*	-112,055
R0330	*Life excluding health and index-linked and unit-linked*	-306,260
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	14,443
R0370	Reinsurance receivables	350
R0380	Receivables (trade, not insurance)	1,384
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	26,299
R0420	Any other assets, not elsewhere shown	23,472
R0500	**Total assets**	468,903

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-738,107
R0610	*Technical provisions - health (similar to life)*	-274,036
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-313,422
R0640	*Risk margin*	39,386
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	-464,070
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	-622,804
R0680	*Risk margin*	158,734
R0690	Technical provisions - index-linked and unit-linked	507,380
R0700	*TP calculated as a whole*	511,633
R0710	*Best Estimate*	-6,150
R0720	*Risk margin*	1,897
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	41,370
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	57,500
R0820	Insurance & intermediaries payables	3,815
R0830	Reinsurance payables	21,818
R0840	Payables (trade, not insurance)	26,491
R0850	Subordinated liabilities	73,050
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	73,050
R0880	Any other liabilities, not elsewhere shown	2,109
R0900	**Total liabilities**	-4,574
R1000	**Excess of assets over liabilities**	473,476

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	35,849		298,612	156,245					490,706
R1420	Reinsurers' share	22,288			97,140					119,428
R1500	Net	13,561		298,612	59,105					371,278
	Premiums earned									
R1510	Gross	35,849		298,612	156,245					490,706
R1520	Reinsurers' share	22,288			97,140					119,428
R1600	Net	13,561		298,612	59,105					371,278
	Claims incurred									
R1610	Gross	10,079		31,868	39,089					81,036
R1620	Reinsurers' share	4,972			21,820					26,792
R1700	Net	5,107		31,868	17,269					54,244
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0		0	0					0
R1900	**Expenses incurred**	12,441		12,577	59,307					84,325
R2500	**Other expenses**									1,603
R2600	**Total expenses**									85,929

S.12.01.02

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
R0010	**Technical provisions calculated as a whole**		511,633								511,633						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**			-6,150			-297,620	-325,184			-628,955		-119,246	-194,176			-313,422
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-183,932	-122,328			-306,260		-51,315	-60,740			-112,055
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re			-6,150	0		-113,688	-202,856			-322,695		-67,931	-133,436	0	0	-201,367
R0100	**Risk margin**		1,897			158,734					160,631	39,386					39,386
	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**		507,380			-464,070					43,310	-274,036			0	0	-274,036

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	459,508	459,508		0	
R0030	Share premium account related to ordinary share capital	268,142	268,142		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-278,538	-278,538			
R0140	Subordinated liabilities	73,050		0	73,050	0
R0160	An amount equal to the value of net deferred tax assets	24,364				24,364
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	546,526	449,112	0	73,050	24,364
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	546,526	449,112	0	73,050	24,364
R0510	Total available own funds to meet the MCR	522,162	449,112	0	73,050	
R0540	Total eligible own funds to meet the SCR	546,526	449,112	0	73,050	24,364
R0550	Total eligible own funds to meet the MCR	460,379	449,112	0	11,267	
R0580	**SCR**	225,340				
R0600	**MCR**	56,335				
R0620	**Ratio of Eligible own funds to SCR**	242.53%				
R0640	**Ratio of Eligible own funds to MCR**	817.21%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	473,476
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	752,014
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-278,538
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	794,981
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
R0790	**Total Expected profits included in future premiums (EPIFP)**	794,981

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	54,717		
R0020	Counterparty default risk	22,394		
R0030	Life underwriting risk	207,377		
R0040	Health underwriting risk	104,631		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-104,620		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	284,499		

USP Key

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

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

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	8,088
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-67,246
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	225,340
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	225,340
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	No

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	-67,246
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	-67,246
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	-67,246

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance) written premiums in the last 12 months**
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
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	C0040
R0200	MCR_{L} Result	31,460

		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	505,483	
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		39,888,615

	Overall MCR calculation	C0070
R0300	Linear MCR	31,460
R0310	SCR	225,340
R0320	MCR cap	101,403
R0330	MCR floor	56,335
R0340	Combined MCR	56,335
R0350	Absolute floor of the MCR	3,338
R0400	**Minimum Capital Requirement**	56,335