SOLVENCY AND FINANCIAL CONDITION REPORT

VITALITY LIFE LIMITED

FOR THE YEAR ENDED 30 JUNE 2019

POSITIVELY DIFFERENT

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 market place.

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 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. This long-term protection business written on the PAC licence is currently expected to be transferred to VLL via a Part VII (of the Financial Services and Markets Act 2000) transfer in Q2 2020, 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 investment business under the VitalityInvest brand. This business is referred to as "VitalityInvest" or "Invest" in this report.

The scope of this SFCR is Vitality Life Limited 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.

VitalityInvest

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

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

In February 2019, VitalityInvest launched a range of structured funds known as 'Protector Funds' to the market. The funds offer a level of capital protection and a "medium-low[1]" level of risk investment risk.

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

The Vitality model

VLL is part of the Discovery Group, a global provider of insurance and financial services solutions, with operations in 21 countries and with over 18 million insured lives worldwide. In its most recent financial year, the Discovery Group generated annualised new business premium income of £1.1bn.

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 diseases. 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, an improved claims ratio, and better retention rates. This allows VLL to 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 member base; Vitality members benefit from lower premiums, improved health, and access to a wide range of partners and rewards; while society benefits from a reduced healthcare burden on the state, as well as a more healthy and productive population. In addition, policyholders can also select the Vitality Optimiser ("VO") and Wellness Optimiser ("WO") options, which provides an initial premium discount compared to policyholders who do not select VO or WO. The VO and WO policyholders' future protection premiums then change annually at a rate which is linked to their Vitality status and, for WO, their Wellness status.

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

Evidence from the Vitality programme globally suggests that physical activity is the most important lifestyle behaviour to target – exercise is easy to measure and track over time; it can be verified; it can be undertaken with no cost; it is a known catalyst for other healthy lifestyle choices; and importantly, it has a close response relationship to health, mortality and productivity. In other words, the more exercise a person does, the healthier they become, the more their healthy life expectancy improves, and the more productive they are at work. These insights led to the development of the Active Rewards programme in 2015, which forms the core of the Vitality programme today. Active Rewards links short-term activity to regular rewards in a complex behavioural structure, allowing members to earn rewards weekly (free Starbucks drinks), bi-weekly (free cinema tickets), monthly (heavily-discounted Apple Watch),

[1] i.e. a risk level of 3 as defined by PRIIPs regulation summary risk indicator

and on an ongoing basis (free Amazon Prime membership) through their exercise. A recent independent global study published on the Active Rewards with Apple Watch programme - the largest ever behaviour change study on physical activity based on verified data – found that the programme (1) resulted in more activity being undertaken by members, (2) that the increased activity was most pronounced amongst at-risk members, such as those who are obese, and (3) that the increased activity was sustained over time. The report can be accessed here[2]. 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.

Vitality continues to invest in growing its brand in the UK through sponsorship, advertising, PR, and intellectual leadership opportunities. In sponsorship, the Vitality brand is aligned not only with a broad portfolio of elite teams but also with mass participation events, such as headline sponsorship of Parkrun and a half marathon and 10k event. In addition, a specific focus has been applied to women in sport, such as through sponsorship of England Hockey and England Netball. From an intellectual leadership perspective, Vitality has partnered with University of Cambridge, Rand Europe and The Financial Times to deliver Britain's Healthiest Workplace, a study on the drivers and impacts of ill-health on the UK workforce. Since inception in 2013, over 430 unique organisations and over 158,000 distinct individuals have taken part, making this one of the largest and most comprehensive studies of workplace health in the UK.

Business review

The Company continues to produce its financial statements in accordance with International Financial Reporting Standards ("IFRS"). In the year to 30 June 2019 on an IFRS basis the Company produced a pre-tax profit of £0.9m (2018: £13.1m). The key driver for the reduction of pre-tax profits from the prior year was the continued investment in the development of VitalityInvest and operating costs of this line of business. These losses will continue until the volume of business in-force and fee income generated thereon reaches sufficient scale relative to the cost base.

Shortly before the start of the period Vitality launched a suite of long term saving and investment products under the trading name VitalityInvest. VitalityInvest comprises of a stocks and shares ISA, Junior ISA and two retirement products (Self Invested Personal Pension and Income Drawdown). These are all structured as unit-linked insurance contracts. VitalityInvest utilises the Vitality Healthy Living programme and looks to address the challenges of an ageing population and concerns around the ability to fund retirement with increasing longevity. Through the use of healthy living discounts, and investment and retirement boosters, customers will be encouraged to save sooner and for longer and to manage their health and income in retirement.

The VitalityInvest business, which launched in June 2018 and so is in its early stages, had assets under management of £43.0m at this year-end.

VitalityLife continued to offer term life, serious illness, whole of life and income protection cover. The business performed strongly in the year with the in-force book of business growing substantially year on with premium income increasing by 46% from £86.7m to £127.0m.

The Company has continued to invest in maintaining the Vitality brand awareness through a number of sponsorship initiatives. This, alongside continued investment in the Company's distribution channels, customer on-boarding processes and product proposition will ensure the business is well placed to capitalise on its shared value insurance model going forward. The success of this investment has been evident in the period ended 30 June 2019 with a year on year increase in sales from £64.6m to £67.7m (measured as annual premium equivalent), with one quarter in the period having the Company's highest ever sales and the direct to consumer distribution channel growing c. 30% year on year and now contributing 10% of all sales.

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

Writing new business requires sufficient liquid resources in order to fund new business commission and other acquisition costs, and hence for a fast growing company such as VLL regular capital injections will be required until such time as the in-force business is large enough for the business to be cash flow positive overall. In addition, the continuing development of the VitalityInvest business also necessitates regular capital injections. During the year, £41.4m (2018: £43.5m) of share capital was injected into the Company from its parent company, Discovery Holdings Europe Limited ("DHEL"), alongside £25.4m (2018: £16.5m) of Tier 2 subordinated loans so as to fund the writing of new business and to maintain sufficient solvency cover over the regulatory capital requirements.

Going forward the Company is well placed to implement its business strategy and work towards delivering its 5 year ambition to "Be the best life insurer and thriving investment provider in the UK".

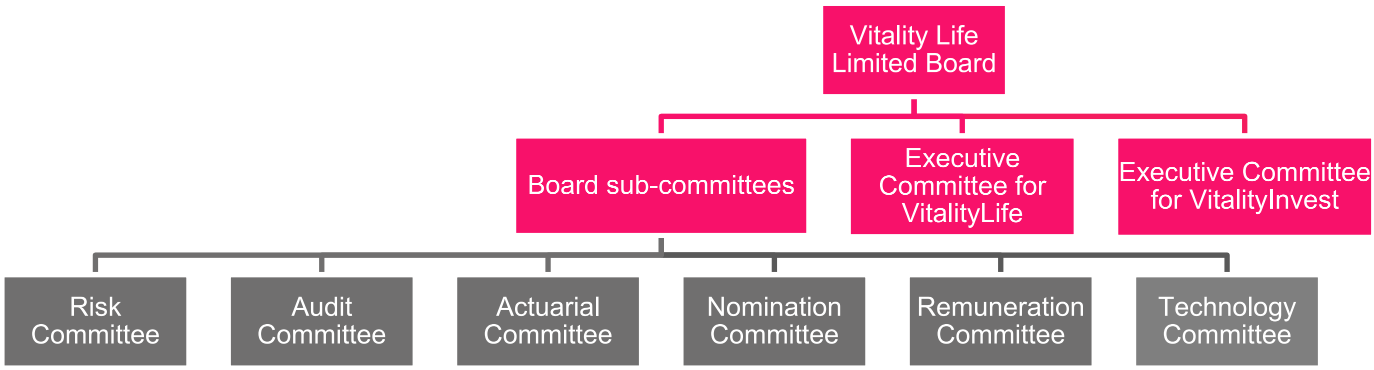
2. SYSTEM OF GOVERNANCE SUMMARY

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

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

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

Overview of the Board and Sub-Committees



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

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

The governance structure of the Company has not changed in the year to 30 June 2019. There are no changes in the directors of the business as noted in section B.1.2. Ultimate responsibility for the performance and strategy of the Company resides with the Board of Directors and they delegate authority within the organisation as they see fit.

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

The 1st Line of Defence – Business Management

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

The 3rd Line of Defence – Assurance

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

3. RISK PROFILE SUMMARY

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

The standard formula Solvency Capital Requirement ("SCR") for VLL as at 30 June 2019 and 30 June 2018 is shown below.

Vitality Life Limited £'m	2019	2018
Health underwriting	77.6	42.9
Life underwriting	157.6	105.4
Market risk	24.4	11.1
Counterparty default risk	1.9	5.6
Undiversified Basic SCR	261.5	165.0
Diversification credit	(59.8)	(36.0)
Basic SCR	201.7	129.0
Operational risk	6.3	4.7
Final Standard Formula SCR	208.0	133.7

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 SCR from 2018 to 2019.

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

Note that VitalityInvest did not contribute to VLL's SCR at June 2018 on the grounds of materiality. At June 2019 the contribution to VLL's overall level of required capital was negligible owing to the size of the VitalityInvest business. It has limited underwriting risk but does introduce some equity, property and interest rate risk due to the non-unit reserve being a function of the future fees levied on the policyholder unit funds.

Given the nature and duration of the Company's book of business, the Life best estimate liabilities ("BEL") and hence technical provisions are currently negative. The unit-linked technical provisions are positive. Other than the assets held to back the unit-linked liabilities, the Company's invested assets are 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 high quality liquid assets within collective investment funds, hence market risk exposure for shareholders arising from these assets is low. Counterparty default risk is relatively low since the banks are highly creditworthy and reinsurance is spread across different reinsurers with high credit ratings.

4. VALUATION FOR SOLVENCY PURPOSES SUMMARY

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

These differences are summarised in the table below:

£'m	As at 30 June 2019	As at 30 June 2018
Total equity in financial statements	**282.1**	**239.6**
Adjustments for Solvency II:		
Valuation adjustment for Technical Provisions under SII, net of recoverables	(27.3)	(19.3)
Valuation adjustment for intangible assets under SII	(14.7)	(11.6)
Valuation adjustment for deferred tax assets under SII	7.2	5.2
Solvency II value of assets over liabilities	**247.3**	**214.0**
Add subordinated loans	66.5	41.2
Solvency II Own Funds	**313.8**	**255.1**

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

5. CAPITAL MANAGEMENT SUMMARY

The SCR coverage ratio at 30 June 2019 position was 151%, with total basic own funds of £313.8m and a SCR of £208.0m. The financing of new business for a fast growing company such as VLL requires regular capital injections until such time as the in-force business is large enough for the business to be cash flow positive overall. The company received £67m in capital injections during the reporting period to support the growth of the business.

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

A BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Name and legal form of the undertaking

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

This Solvency and Financial Condition Report covers Vitality Life Limited on a solo basis.

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

The Company is an undertaking of:

a. Discovery Group Europe Limited ("DGEL"), the ultimate insurance holding company which has its head office in an EEA State, the United Kingdom; and

b. Discovery Limited, the ultimate insurance holding company, has its head office in the Republic of South Africa, which is not an EEA state.

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

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

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

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

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

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

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

The independent auditors of the Company are:

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

A.1.4 Holders of qualifying holdings in the undertaking

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

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

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

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

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

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

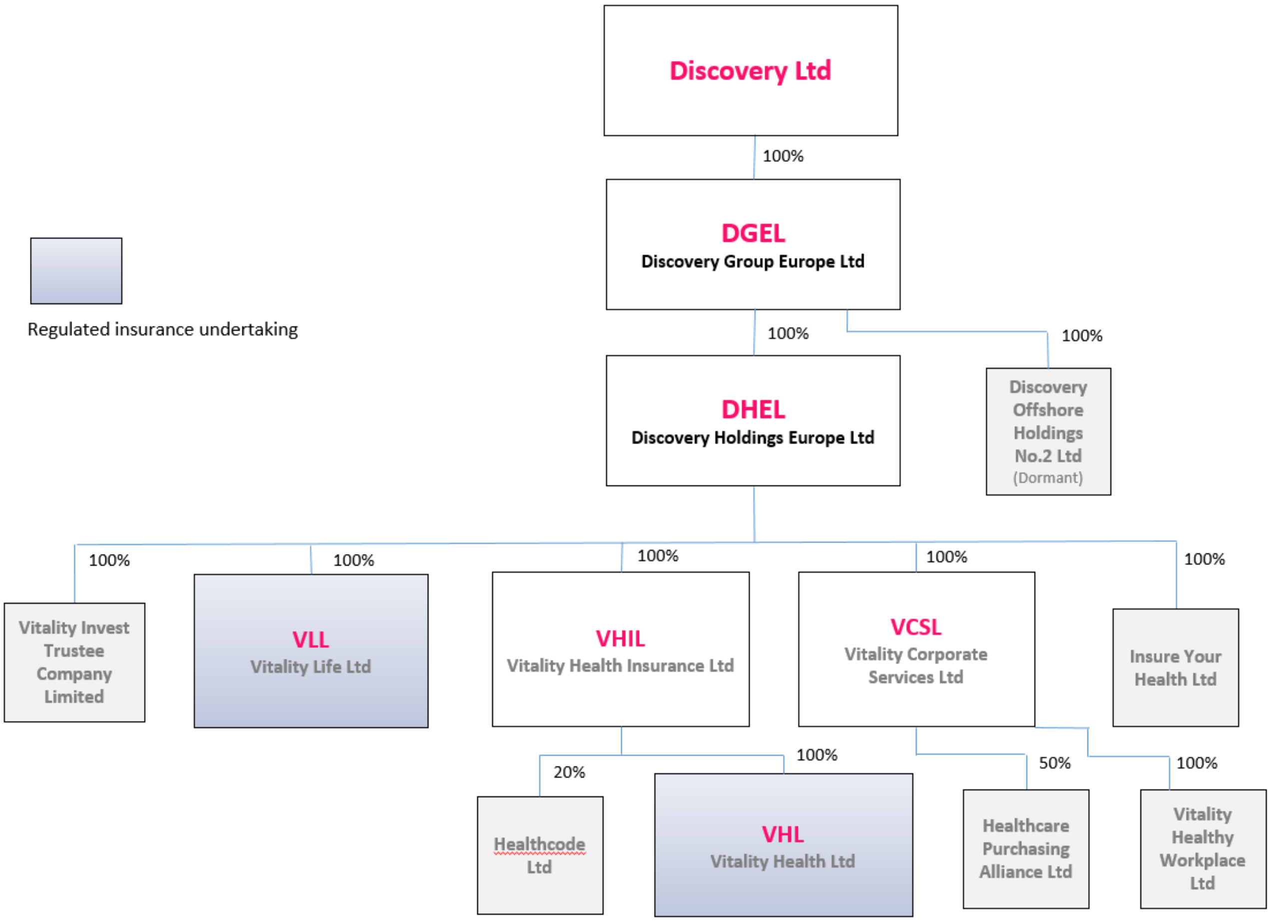


Figure 1

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

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

DHEL, a holdings company, owns two regulated insurance entities (VLL and Vitality Health Limited). It also owns a services company (Vitality Corporate Services Limited “VCSL”), a distributor company (Better Health Insurance Advice Ltd (“BHIA”), which is an appointed representative of VCSL) and a holding company Vitality Health Insurance Limited (“VHIL”). There is also 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. VCSL and BHIA similarly have no insurance capital requirements, although as VCSL is an intermediary it requires small amounts of net assets to be held.

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

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

VCSL now owns 100% of Vitality Healthy Workplace Limited as of 5 April 2019. Vitality Health Workplace Ltd was previously known as Nuffield Health and Vitality Corporate Services Limited, which was a joint venture incorporated on 28 June 2017.

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

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

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

Vitality Life Limited's 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"). Under IFRS (and also for management reporting purposes), all business is considered to be one type of business, namely 'protection business'.

For SII purposes at 30 June 2019, the Company's protection business includes life insurance obligations that fall into two of the defined Solvency II lines of business:

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

The 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 2019 SII QRTs.

The business is all conducted in the United Kingdom.

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

Shortly before the start of the period Vitality launched a suite of long term saving and investment products under the trading name VitalityInvest. The proposition comprises of a stocks and shares ISA, Junior ISA and two retirement products (Self Invested Personal Pension and Income Drawdown). These are all structured as unit-linked insurance contracts. VitalityInvest utilises the Vitality Healthy Living programme and looks to address the challenges of an ageing population and concerns around the ability to fund retirement with increasing longevity. Through the use of healthy living discounts, investment and retirement boosters, customers will be encouraged to save sooner and for longer and to manage their health and income in retirement.

This was the first full year of trading for VitalityInvest and financial performance was behind management expectation but consistent with a start-up business looking to build a presence in a highly competitive market. Total premium income was £42.4m (2018: nil) but there was an overall reported loss in the period as anticipated. The continued investment in VitalityInvest during the year diluted the overall profitability of the Company in the year. VitalityInvest profits are linked to the size of the assets under management by the Company and so VitalityInvest is expected to continue to impact the overall profitability of the Company until such time as assets under management are of a large enough scale to generate management fees sufficient to meet VitalityInvest's expenses.

In the prior year, the costs incurred in developing and launching the products and supporting system were included within 'Other income and expenses' in A.2. In the current year these costs are included in the line 'Expense' for the unit-linked line of business but, as noted above, the current scale and start up nature of VitalityInvest is such that they have impacted the profitability of the Company. This impact on profitability and therefore net assets was supported by capital injections from the Company's parent by way of ordinary share capital and Tier 2 subordinated loans.

A.2 UNDERWRITING PERFORMANCE

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

£'m	Year ended 30 June 2019				Year ended 30 June 2018			
	Other Life	Health SLT	Unit-linked	Total	Other Life	Health SLT	Unit-linked	Total
Gross premiums	103.3	23.7	42.4	169.4	73.4	13.3	-	86.7
Reinsurers' share of premiums	(67.0)	(15.4)	-	(82.4)	(43.3)	(7.9)	-	(51.2)
Gross claims and withdrawals	(18.7)	(4.8)	(1.1)	(24.6)	(11.6)	(3.0)	-	(14.6)
Reinsurers' share of claims	10.2	2.3	-	12.5	6.8	1.5	-	8.3
Investment income on assets held to back unit-linked liabilities	-	-	1.8	1.8	-	-	-	-
Expenses	(158.2)	(36.3)	(19.5)	(214.0)	(149.3)	(32.6)	-	(181.9)
Reinsurance financing received	89.5	20.6	-	110.1	87.1	23.9	-	111.0
Movement in insurance contract reserves				29.8				69.7
Pre-tax underwriting performance				**2.6**				**28.0**
Other income and expenses				(1.7)				(14.9)
Pre-tax IFRS profit				**0.9**				**13.1**

All business is underwritten in the UK.

Pre-tax underwriting profit in the year ended 30 June 2019 was £2.6m (2018: £28.0m) while pre-tax IFRS profit including other income and expenses was £0.9m (2018: £13.1m).

The key driver for the fall in profits year on year was the continued investment into the VitalityInvest proposition as noted in section A.1.7. VitalityInvest profits are linked to the size of the assets under management by the Company and so VitalityInvest is expected to continue to impact the overall profitability of the Company until such time as assets under management are of a large enough scale to generate management fees sufficient to meet VitalityInvest's expenses.

The Company measures its financial performance separately for VitalityLife and VitalityInvest (VitalityLife comprising the 'Other Life' and 'Health SLT' lines of business in the table above, and VitalityInvest comprising the Unit-Linked line of business).

The financial performance relating to VitalityLife was in line with expectation and overall profitable. The in-force book of business grew substantially year on year with premium income increasing by 46% from £86.8m to £127.0m. The key drivers of the increase year on year was the sale of £67.7m (2018: £64.6m) of new business (measured as annual premium equivalent). Continued sales growth is as a result of continued product innovation and a strong distribution network. VLL only began writing business in January 2016 and so premiums are expected to continue to grow materially.

The financial performance relating to VitalityInvest was behind management expectation but consistent with a start-up business looking to build a presence in a highly competitive market. Total premium income was £42.4m but there was an overall strain on profitability as noted above. The key metric and driver of future profitability for VitalityInvest is assets under management on which the company charges policyholders a management fee. During the year assets under management grew from £nil at 30 June 2018 to £42.9m at 30 June 2019.

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 53% compared to 57% for the prior period. The lower reinsurers share was caused by a decrease in the average size of claims compared to the prior year and therefore a larger element of each claim being retained by the Company. The use of risk reinsurance is of particular importance since the Company only started underwriting policies on 1 January 2016 and hence the overall volume of business to date is small, increasing the likelihood of volatility. Further details of this risk mitigation are set out in C.1.2.

The Company uses reinsurance financing to help offset the financial strain of writing new business, which is then repaid in future periods contingent on policyholders' premium payments. Income from reinsurance financing during the year was £110.1m (2018: £111.0m). Repayment of reinsurance financing in the year was £60.8m (2018: £38.5m), these repayments are made by ceding premiums to the reinsurers and are therefore included in reinsurers' share of premiums in the Company's financial statements. The Company's insurance contract reserves allow for the 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 £72.0m (2018: £69.7m). The Company's protection reserves are negative overall due to the nature and duration of its book of business. The change in the negative reserves therefore resulted in a £72.0m (2018: £69.7m) contribution to pre-tax IFRS profit. The movement in unit-linked liabilities in the year was £43.2m (2018: £ nil).

A.3 INVESTMENT PERFORMANCE

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

The launch of VitalityInvest has created two investment categories for the Company that are managed separately in the year ended 30 June 2019:

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 2019, the investments held to match unit-linked liabilities were £43.6m, of which £38.5m is investment in a number of OIEC funds and £5.1m is in short-term cash. The total gain on these investments in the year was £1.8m.

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 Company retains no material price, currency, liquidity, credit or interest rate risk in respect of these investments.

However, the Company derives investment management 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 investment management fees are based.

The Company has a policy to fully 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 are held to support the liquidity and solvency requirement of the Company, given that the Company currently has negative net reserves. There has 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 2019	30 June 2018	30 June 2019	30 June 2018
Collective Investment Undertakings	47.7	47.7	0.5	0.3
Investment in Open Ended Investment Company (OEIC) funds	2.7	2.6	0.1	-
Cash and Cash equivalents	8.5	19.1	0.9	0.6
Deposits other than cash equivalents	22.9	10.0	0.4	-
Total	**81.8**	**79.4**	**1.9**	**0.9**

Collective Investment Undertakings

The Company has invested in short-term money market funds, which provide access to a diversified pool of high quality liquid assets. 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, which comprise of well-diversified portfolios of assets. The OEIC charges investment management 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 on term deposits with a South African bank (ZAR denominated) and in a 100 day notice deposit account with a UK bank (GBP denominated). No material expenses were incurred in respect of these assets.

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

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

The Company does not have any 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.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION

No further information is provided.

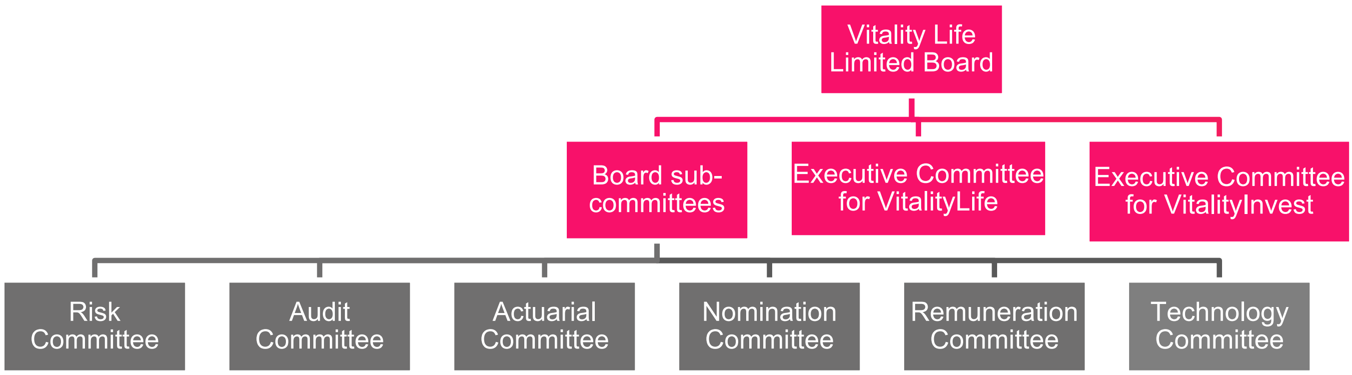
B SYSTEM OF GOVERNANCE

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 and sub-committees



The Board

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

It is the Board's responsibility to:

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

Board Committees

Risk Committee

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

The Committee consists of five independent Non-Executive Directors and is attended by 14 members of senior management. Only the independent Non-Executive Directors can vote on matters with a quorum of two needed for approvals and decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, investments, economics, accounting and management skills.

The Committee meets four times a year with the mandate to convene additional meetings as circumstances require. The 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 members of management present.

The responsibilities of the Risk Committee are to:

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

Audit Committee

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

The Committee consists of four independent Non-Executive Directors and is attended by 12 members of senior management. Only the independent Non-Executive Directors can vote on matters and a quorum of two is needed for approvals and decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, economics, accounting and management skills.

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

The responsibilities of the Audit Committee are to:

- Monitor the integrity of the Company's financial and regulatory reporting and of its financial statements and make appropriate recommendations to the Board, having particular regard to:
  - Changes to or new significant accounting policies
  - Significant accounting judgements and estimates;
  - The accounting for significant, unusual or complex transactions or items.
- Review the Company's systems of internal financial controls, including receiving reports from management on the effectiveness of the systems established and the results of controls and testing carried out by internal and external audit.
- Review and approve the Combined Assurance Plan covering Compliance, Risk and Internal Audit to ensure that the assurance functions' activities are co-ordinated and operating effectively; and reviews progress against it. In particular this includes:
  - Review and challenge of Compliance and Risk monitoring reports;
  - Oversee the Financial Crime Committee;
  - Review whistleblowing policies and reports on issues and resolution.

Actuarial Committee

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

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

The responsibilities of the Actuarial Committee include:

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

The Committee membership consists one independent Non-Executive Director, two other Executive and Non-Executive Directors of the companies within scope and is attended by seven 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 Company's future service trends and demands on technology. Review the Company's overarching technology and process strategy, architecture and roadmaps;
- Review and approve the company's IT operations and technology policies;
- Review the company's IT operations and technology strategy;
- Prepare recommendations to the Board regarding significant or strategic technology investments;
- Monitor and evaluate existing and future trends in technology that may affect strategic plans in terms of opportunities and threats;
- Receive management information on operations and technology performance;
- Review major IT operations and technology risk exposures, including information security, cybersecurity and fraud risks. Review the mitigating steps adopted to control the risk exposures. Periodically provide a report to the Risk Committee on the conclusion of any risk reviews.

Executive Committees

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

The main responsibilities of ExCo are to:

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

- Delegate authority to sub-committees of the Executive Committee and to review the decisions and recommendations of such sub-committees.

Nomination Committee

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

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

The main responsibilities of the Remuneration Committee are to:

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

General information on the key functions

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

- Risk function - the Risk function is headed by the Chief Risk Officer ("CRO") who is supported by a team that possesses skills ranging from risk management, actuarial, information technology, UK regulatory environment etc. The Chief Risk Officer report, including the risk summary, is presented to the Executive Committee, Risk Committee and the Board, giving these management bodies the information gathered through the risk management process. The Risk function maintains independence by carrying out an oversight role in the major processes, allowing for robust challenge of decisions and processes across the business.
- Internal audit function – the function is headed by the Chief Internal Auditor and information on the independence of the Internal Audit function is provided in section B.5.2. The findings of the Internal Audit function are reported to the Audit Committee and a summary is provided to the Board by the chair of the Audit Committee.
- Compliance function – the Compliance function is headed up by the 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 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 Actuarial function is headed by the Chief Actuary, information on the authority, resources and independence of the Actuarial function is provided in section B.6. Activities of the Actuarial function are tabled at the Actuarial Committee, which is chaired by an independent Non-Executive Director who subsequently provides a summary of the committee's activities to the Board.

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

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

There were no director resignations in the period.

The following people were approved by the FCA/PRA as senior managers in the last year:

- Steve Allibone was appointed as Group Compliance Director (SMF16) on 1 November 2018
- Elaine Carr was appointed SMF5 – Internal Audit on 13 December 2018
- Judy Parfitt was appointed as Director of People (SMF18) on 16 April 2019
- Jaco Brand was appointed as Chief Operations Officer – Invest (SMF24) on 15 May 2019

In addition there were no changes to committees in the last year.

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

B.1.3.1 Principles of the remuneration policy

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

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

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

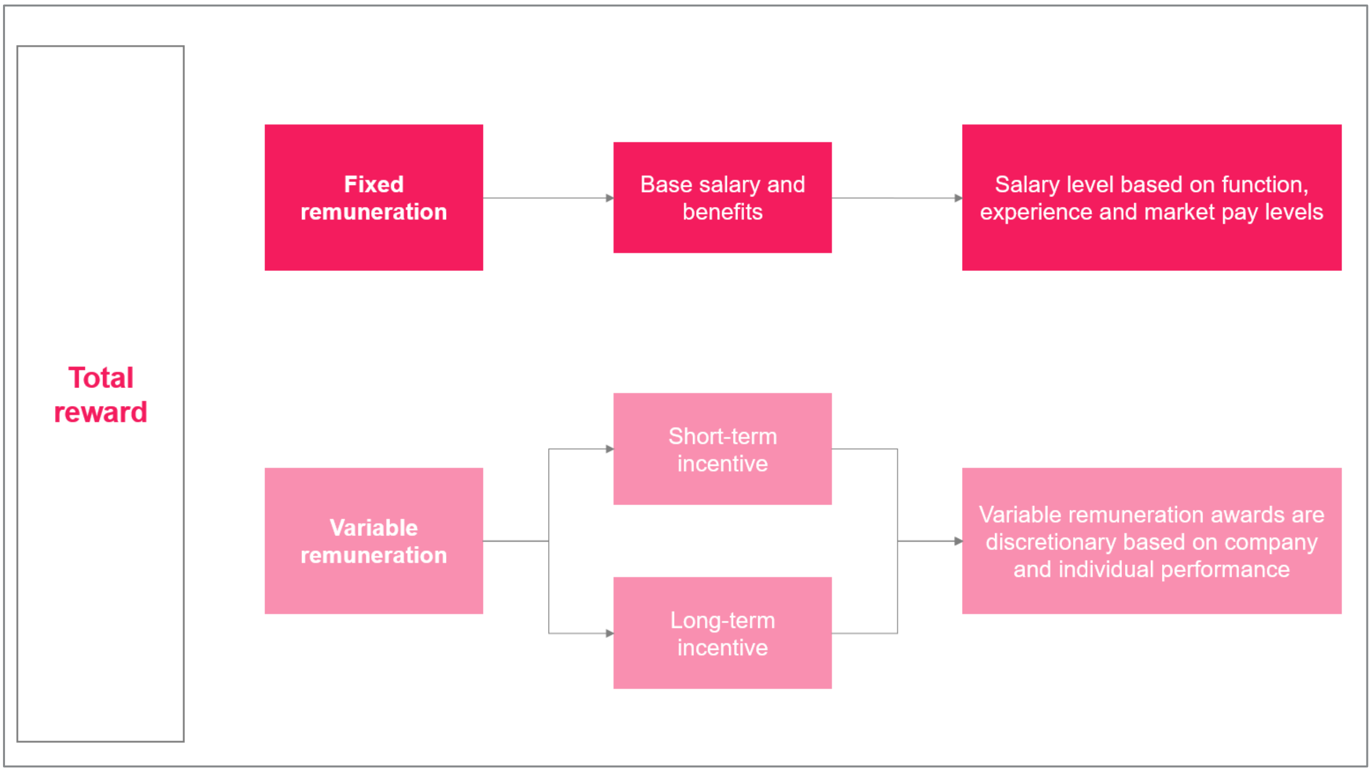
- Offering pay packages that are competitive in the market to attract and retain the right people;
- Pay for performance is at the heart of VLL's remuneration philosophy – exceptional performance is recognised and rewarded;
- VLL is non-discriminatory – all remuneration policies and practices are free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

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

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

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

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



Fixed remuneration

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

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

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

Variable remuneration: short-term incentive

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

The amount of bonus allocation and pay-out varies depending on the seniority of the individual within the Company and is agreed contractually with each individual, including senior executives and Directors.

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

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

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

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

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

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

The Company has no defined benefit pension liabilities.

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

Shareholders

- Discovery Holdings Europe Limited ("DHEL") injected £2.0m ordinary share capital on 31 July 2018 into the Company for solvency and liquidity capital purposes;
- DHEL injected £9.0m ordinary share capital on 20 August 2018 into the Company for solvency and liquidity capital purposes;
- DHEL injected £6.5m ordinary share capital on 23 November 2018 into the Company for solvency and liquidity capital purposes;
- DHEL injected £8.2m ordinary share capital on 28 February 2019 into the Company for solvency and liquidity capital purposes;
- DHEL injected £5.0m ordinary share capital on 29 March 2019 into the Company for solvency and liquidity capital purposes;
- DHEL injected £4.0m ordinary share capital on 30 April 2019 into the Company for solvency and liquidity capital purposes;
- DHEL injected £1.7m ordinary share capital on 31 May 2019 into the Company for solvency and liquidity capital purposes;
- DHEL injected £5.0m ordinary share capital on 30 June 2019 into the Company for solvency and liquidity capital purposes;
- DHEL provided a Tier 2 subordinated loan to the Company for £9.0m on 20 August 2018 for solvency and liquidity capital purposes;
- DHEL provided a Tier 2 subordinated loan to the Company for £6.5m on 23 November 2018 for solvency and liquidity capital purposes;
- DHEL provided a Tier 2 subordinated loan to the Company for £2.8m on 28 February 2019 for solvency and liquidity capital purposes; and,
- DHEL provided a Tier 2 subordinated loan to the Company for £7.1m on 31 May 2019 for solvency and liquidity capital purposes.

Persons who exercise a significant influence on the Company

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

Executive management and directors

There were no material transactions between the Company and executive management and directors.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 Requirements for skills, knowledge and expertise

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

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

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

B.2.2 Fitness and propriety of persons

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

- Educational Background Check; and
- Professional Qualifications / Membership Check

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

- Credit checks
- Identity checks (including passport)
- Financial sanctions & anti-money laundering check
- FCA Register search
- UK directorship search
- Six years employment history (including gap activity over 30 days)
- International adverse media check
- Social media checks
- Criminal history checks
- Standard disclosure checks

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

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

B.3.1 Risk management system

The Company uses the standard formula without undertaking-specific parameters to assess the solvency capital requirements and the partial or full internal model is not used.

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

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

The framework continues to evolve with emerging best practice to continuously enhance the governance risk management system and to facilitate the activity required across the governance model.

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

The 1st Line of Defence – Business Management

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

The 2nd Line of Defence – Oversight

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

The 3rd Line of Defence – Assurance

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

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

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

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

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

B.3.2 Implementation of Risk management system

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

The Company's Board is responsible for taking key decisions across the organisation, but delegates some of its decision making responsibilities to the Executive Committee, Risk Committee and Audit Committee. The output of the risk management system is reviewed by the Executive and Risk Committees with a summary of key items taken to the Board. This is taken to the decision making committees by the Risk function following their review. This process facilitates the integration of the risk management system in the decision making process.

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

B.3.3 ORSA process

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

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

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

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

The ongoing monitoring of the risk profile and solvency position can in turn trigger the need for a full ORSA re-assessment outside the scheduled business cycle. 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 a financial control framework that governs financial and regulatory reporting in the company. This framework aims to ensure that:

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

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

The IFRS financial statements are also subject to rigorous controls in the production and review leading up to publishing. The actuarial liabilities are produced using best practice actuarial practices that are subject to review by the Reporting Committee (which includes members from the Risk, Actuarial, Finance and Operational functions) and the Actuarial Committee. The statements are also subject to internal review and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publishing.

B.4.2 Implementation of the Compliance function

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

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

To provide for the independence of the Compliance function, the Compliance Director reports to 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 the Regulatory and Conduct 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:

Training

Ensure all staff receive regulatory training on a regular basis.

Advice and guidance

Provide guidance and support to the business in respect of regulatory requirements.

Ensure new regulatory rules are communicated to the relevant business areas and the business is ready for the changes.

Conduct risk management

Provide Conduct risk training throughout the business.

Develop and maintain the Conduct risk framework.

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

Compliance monitoring

Assess the appropriateness and efficiency of controls.

Evaluate progress made with the implementation of actions.

Produce monitoring plans for sign-off by the Audit Committee.

Regulatory interaction

Manage the regulatory relationship with all applicable regulators.

Submit information to the regulators to enable them to appropriately supervise us.

Reporting

The compliance team reports regularly to the Risk and Audit Committee.

B.5 INTERNAL AUDIT FUNCTION

B.5.1 Implementation of the Internal Audit function

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

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

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

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

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

- In determining the proposed audit plan, the CIA considers relevant work that will be performed by other areas, e.g. compliance assurance, risk deep dives and external audit. To minimise duplication of effort and inefficiencies, the work planned, or recently completed, by management in its assessments of the risk management process, controls and quality improvement processes, as well as the work planned by the external auditors, are considered in determining the expected coverage of the audit plan for the coming year.

- The Executive Committee and the Board requires that the CIA performs sufficient audit work and gathers other available information during the year so as to form a judgement regarding the adequacy and effectiveness of the risk management and control processes. The CIA communicates overall judgement regarding the Company’s risk management process and system of controls to the Executive and Audit Committees.

B.5.2 Independence of the Internal Audit function

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

B.6 ACTUARIAL FUNCTION

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

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

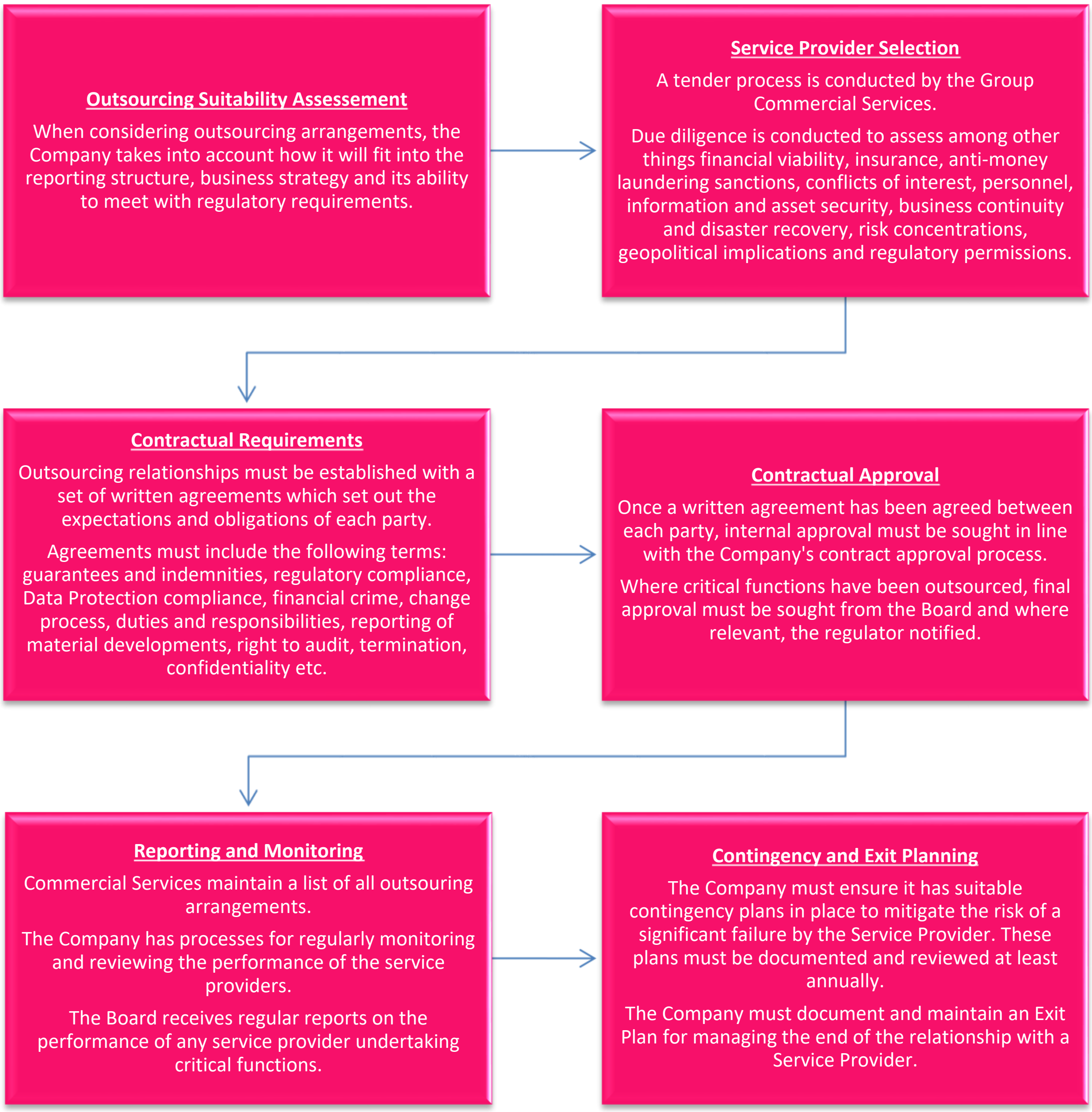
The requirements covering technical provisions are addressed through various activities, including the Chief Actuary's review and challenge of the actuarial reporting team's proposed valuation methodology and assumptions before they are presented to the Actuarial Committee for approval, and review of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

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

B.7 OUTSOURCING

Vitality Corporate Services Limited provides management services to the Company and recharges 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 data centre, document handling, payroll and facilities management services within the UK; and intragroup IT and business process outsourcing services in South Africa. IT development and hosting for VitalityInvest is undertaken by a service provider in Australia.

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

B.8 SYSTEM AND GOVERNANCE – ADEQUACY OF SYSTEM

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

C RISK PROFILE

Summary of business written

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

Life business

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

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

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

Various additional covers and options (riders) are also available, for example, waiver of premium (on incapacity, on death in a joint life plan and on serious illness) and 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 can also obtain future premium discounts depending on their Vitality status and policy type.

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

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 is able to 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 if they also have a qualifying VitalityLife or VitalityHealth policy, In February 2019, VitalityInvest launched a range of structured funds known as ‘Protector Funds’ to the market. The funds offer a level of capital protection and a “medium-low[3]” level of risk investment risk.

Summary of investments

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

Summary of risk

The split of VLL’s SCR as at 30 June 2019 is as follows:

Vitality Life Limited £’m	30 June 2019	30 June 2018
Health underwriting	77.6	42.9
Life underwriting	157.6	105.4
Market risk	24.4	11.1
Counterparty default risk	1.9	5.6
Undiversified Basic SCR	261.5	165.0
Diversification credit	(59.8)	(36.0)
Basic SCR	201.7	129.0
Operational risk	6.3	4.7
Final Standard Formula SCR	208.0	133.7

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

VitalityInvest did not contribute to VLL’s SCR at June 2018 on the grounds of materiality. At June 2019 the contribution to VLL’s overall level of required capital is negligible owing to the size of the VitalityInvest business. VitalityInvest has little underwriting risk but does introduce some equity, property and interest rate risk due to the non-unit reserve being a function of the future fees levied on the policyholder unit funds. These unit funds include equities, property and fixed interest assets.

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

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

[3] i.e. a risk level of 3 as defined by PRIIPs regulation summary risk indicator

C.1 UNDERWRITING RISK

C.1.1 Exposure

Underwriting risk at 30 June 2019 comprises 88% of the undiversified basic SCR. The key underwriting risks which the Company is exposed to are set out below.

Lapse risk

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

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

Mortality and Morbidity risk

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

Higher mortality and morbidity can arise through 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 (flu pandemics, MRSA, SARS etc.), geographical concentration of lives or contraction of lives in a particular hazardous occupation.

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.

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;
- ExCo overview of financial performance;
- a risk register is kept and an assessment is performed at least quarterly and reported through the CRO report;
- the ORSA includes stress and scenario testing which is used to assess the risks under stressed conditions;
- lapse monitoring is conducted monthly;
- experience investigations covering mortality, morbidity, and expenses are conducted at least half yearly; and

- product design and pricing aims to minimise adverse selection and use appropriate rating factors to differentiate between different levels of risk. The Vitality Optimiser and Wellness Optimiser products incentivise engagement in the Vitality Healthy Living programme which should have a positive impact on risk experience.

The Company's reinsurance arrangements serve to limit its overall risk exposure as well as reduce the volatility of its claims and enhance underwriting performance 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 no concentration of risk, policyholders are spread throughout the UK and other demographic factors are well diversified. The risk is controlled through frequent monitoring of the business mix and lapse monitoring, as well as regular experience investigations. In addition, reinsurance is used to manage the level of risk and financial underwriting limits are in place for large 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.

Interest rate risk at 30 June 2019 comprises 5% of the undiversified basic SCR. The remaining market risks including currency risk, concentration risk, equity risk, property risk and spread risk account for 5% of the undiversified basic SCR.

As at 30 June 2019 VLL's investment assets are largely held in cash (including short-term deposits) in both UK and South African based bank accounts and in short-term high quality liquid assets within collective investment undertakings. In addition, VLL has a small amount (c.4% of total investment assets) of capital invested in various investment funds with exposure to local and overseas equities for the purposes of seeding certain VitalityInvest products. The Sterling-denominated liquidity investment funds invest in short-dated fixed and variable interest securities both sovereign and non-sovereign. Maturities range from overnight to a maximum of under one year and the funds have a credit rating of at least single A (or equivalent). Given the short-dated nature of the assets, there is minimal interest rate risk on the assets. As the funds are partially invested in short-dated non-sovereigns, there is a risk of spread widening. However, this risk is small given the credit quality and the short maturities of the holdings.

The currency risk arises from a strengthening of the South African Rand ("ZAR") against the Great Britain Pound ("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 accounts and term deposits at 30 June 2019 when the ZAR strengthens. 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.

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

For VitalityInvest, the market risk on the unit-linked liabilities is mitigated by the corresponding exposure from the matching assets. There is currently immaterial market risk exposure relating to VitalityInvest's non-unit liabilities (such exposure being a function of the future fees levied on the policyholder unit funds). VLL is exposed to direct market risk relating to the investment of the seed capital for the VitalityInvest business, but this is immaterial given the amount of the seed capital.

C.2.2 Risk mitigation

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

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 weekly 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 on a daily basis by the Investment Operations team.

There is no material exposure to equity and 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.

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 2019, credit risk in the form of counterparty default, spread and concentration risk comprised 0.6%, 0.3% and 2.6% respectively of the undiversified basic SCR ("BSCR"). Credit risk arises from exposure to various reinsurance counterparties and three banking counterparties, two UK-based and one South Africa-based, as well as funds relating to VitalityInvest.

All of the reinsurance counterparties with which VLL has treaties are highly rated and all have a credit quality step of 1. At 30 June 2019 there was no loss given default for any of the reinsurance counterparty exposures because the negative reinsurance recoverables outweighed any loss in risk mitigating benefit. The credit risk is therefore not material.

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

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.

No derivatives are employed to manage credit risk.

C.3.3 Risk concentration

The company avoids material credit risk concentrations by ensuring its deposits are split across more than one banking unit and reinsurance is split across multiple reinsurance counterparties to reduce single name exposure. In addition, counterparties are chosen such that they are highly reputable and creditworthy to further reduce credit risk exposure.

C.4 LIQUIDITY RISK

C.4.1 Exposure

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

VLL has limited liquidity risk as a result of its investment strategy. At 30 June 2019 more than 95% of its investment assets (i.e. excluding investments held to match unit-linked liabilities) are held in cash in both UK and South African based bank accounts, term deposit accounts and in short-term high quality liquid assets within collective investment undertakings. The liquidity investment funds invest in Sterling denominated short-dated fixed and variable interest securities both sovereign and non-sovereign. Maturities range from overnight to a maximum of under one year and the funds have a credit rating of at least Standard and Poor's single A (or equivalent). The liquid investment assets reflect the fact that 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 high quality liquid assets within collective investment undertakings.

The unit-linked funds are linked to collective investment schemes that are regulated as retail schemes (either by FCA 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 2019 is £638.4m. The EPIFP is calculated in line with Article 260 of the Commission Delegated Regulation (EU) 2015/35 (referred to as Delegated Acts in the remainder of the document). For all VitalityLife policies, there is no surrender value on discontinuance, but discontinuance would lead to commission clawback being received by the Company. The EPIFP is therefore equal to the negative BEL 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 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 Acts.

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, systems or from external events.

The following measures are used to assess operational risks:

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

The material operational risks that were identified in the 2019 assessment above are highlighted below:

- 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;
- Compliance (Life only) – The risk of not complying with laws, regulations, rules, related self-regulatory Company standards and codes of conduct, as well as the failure to uphold the Group's core values and codes;
- 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;
- Technology (for both Life and Invest) – The risk associated with the use, ownership, operation, involvement, influence, adoption and development of technology within the Group. It consists of technology-related events and conditions that could potentially impact the business;
- People (Life only) – The risk associated with inadequacies in human capital and the management of human resources, policies and processes resulting in the inability to attract, manage, motivate, develop and / or retain competent resources with concomitant negative impact on the achievement of strategic Company objectives;
- Change (Life only) – The risk of failure to manage the change and / or deliver the change initiative / project within the agreed scope, budget and timelines; and,
- Process and execution (Invest only) – The risk of loss due to failures in transaction processing or process management.

The business continued to actively manage these key risks over the period (and in particular the development and set-up of the Invest business which launched in late June 2018).

C.5.2 Risk mitigation

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

- Risk reduction – where possible, the Company takes action to reduce the impact of a risk and 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.
- Reporting – the material operational risks which VLL is exposed to are identified and recorded in the risk register. The risks are assessed and once the actions required to manage the risks have been agreed, the risks are reported to senior management, the Risk Committee and the Board.

C.5.3 Risk concentration

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

C.6 OTHER MATERIAL RISKS

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

- Funding liquidity risk
- Vitality status distribution risk
- “Brexit” risk

New business funding liquidity risk

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

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

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

Vitality status distribution risk

VLL is exposed to Vitality status distribution risk. For certain VitalityLife plans, the future annual premium increases/decreases depend upon the planholder’s Vitality status. Vitality status distribution risk is the risk that more policyholders than expected are on the higher statuses without a commensurate improvement in claims experience. The impact is that future premiums are lower than expected but without the expected reduction in claims.

Vitality status distribution risk is monitored periodically by considering the actual Vitality status distribution including trends compared with that assumed in pricing and reserving. Any issues highlighted in the periodic review can be allowed for in future pricing and reserving exercises.

“Brexit” risks

Following the UK’s EU membership referendum in June 2016, the UK government initiated the official EU withdrawal process in March 2017. It remains uncertain when the outcome and the terms of the actual withdrawal will be set, as well as the future trading relationship with the EU. Whilst Vitality does not operate outside the UK which reduces this risk, the ongoing uncertainty and lengthy negotiation process may lead to a volatile market. This will be kept under review as the terms of the UK’s exit become clearer.

C.7 RISK PROFILE – ANY OTHER INFORMATION

C.7.1 Risk sensitivity

The Company carries out stress and scenario testing as part of its risk management framework, which includes the ORSA. The stress and scenario testing includes assessing the projected solvency position under a number of adverse stresses and various scenarios relevant to VLL's risk profile. For the most material risks, the analysis indicated that the Company was able to withstand severe shocks.

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

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

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

C.7.2 Specific stress tests

The stress tests conducted in VLL's 2019 ORSA were selected by considering the risks which are known to materially affect VLL's solvency position. The stress tests considered in VLL's ORSA included:

Risk driver and stress description	Stress	Impact
Lapse rates: An immediate and permanent increase in lapse rates applied to all policies.	+20%	Lapse stresses have the most material impact on the SCR cover, which is consistent with lapse risk being a key driver of the overall SCR. An increase in lapse rates has a positive impact on SCR coverage as the firm's existing financial resources are needed to cover a smaller future in-force portfolio, particularly since there are no surrender values for protection business.
Lapse rates: An immediate and permanent decrease in lapse rates applied: a) to all policies; and b) selectively to only those policies where a lower lapse is adverse.	-20%	A decrease in lapse rates leads to a reduction in SCR cover due to more policies being in-force at later durations when the claims risk exceeds the premiums. A selective lapse down scenario leads to a larger reduction in the SCR coverage.
Mortality: An immediate and permanent increase in mortality rates for the Life business.	+10%	There is a small decrease in SCR cover. The small impact is consistent with the reinsurance risk mitigation in place.
Morbidity: An immediate and permanent increase in morbidity rates for the Life business.	+20%	There is a small decrease in SCR cover. The small impact is consistent with the reinsurance risk mitigation in place.
Expenses: An immediate and permanent increase in renewal expenses as well as a 100bps increase in expense inflation.	+10%, +100bps	Higher expenses leads to a small reduction in SCR cover.
Interest Rates: An immediate and permanent decrease in nominal interest rates.	-25bps, -50bps	SCR cover reduces when interest rates decrease. This is primarily via their impact on the risk margin.

In all cases, SCR coverage exceeded 100% at 30 June 2019 with the lapse down and lower interest rate stresses having the largest impact.

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

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

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

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

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

D VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

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

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

Assets as reported in S.02.01.b (£'m)	Financial Statements IFRS Value	Solvency II presentation adjustments	Solvency II valuation differences	Solvency II Valuation
Investments	94.7	(21.4)	-	73.3
Assets held for index-linked and unit-linked contracts	-	43.0	-	43.0
Insurance and intermediaries receivables	12.2	(0.2)	-	12.0
Cash and cash equivalents	30.7	(22.2)	-	8.5
Reinsurance receivables	8.1	(7.6)	-	0.5
Deferred tax assets	0.1	-	7.1	7.2
Reinsurance recoverable	(307.8)	-	(71.8)	(379.6)
Intangible assets	14.7	-	(14.7)	-
Receivables (trade, not insurance)	1.9	-	-	1.9
Any other assets, not elsewhere shown	-	7.6	-	7.6
Total assets	**(145.4)**	**(0.8)**	**(79.4)**	**(225.6)**

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 2019 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	17.1	(38.5)	-	**(21.4)**
Assets held for index-linked and unit-linked contracts	-	43.0	-	**43.0**
Insurance and intermediaries receivables	-	(0.2)		**(0.2)**
Cash and cash equivalents	(17.1)	(5.1)	-	**(22.2)**
Reinsurance receivables	-	-	(7.6)	**(7.6)**
Any other assets, not elsewhere shown	-	-	7.6	**7.6**

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 a maturity of less than 90 days and a low level of volatility 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 £17.1m 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 adjustment 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 are held in collective investment undertakings (£50.3m) and deposits other than cash equivalents (£22.9m).

The collective investment undertaking are externally-managed funds and primarily contain underlying assets with high credit ratings and of short duration. £2.7m of the holdings are held in open ended investment company funds comprising primarily of a diversified portfolio of UK and global equities. These investments are valued at fair value under Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets. As these are publicly traded securities, the market prices are readily available and are actively traded – details of which are provided in a statement from the investment manager.

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

The deposits other than cash equivalents are cash deposits held in a 100 day notice account and a series of short-term (less than 6 months) money market term deposits denominated in South African Rand. The Company cannot instantly access these deposits and must give the required notice period or wait until the maturity of the term deposit. 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.

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

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 this unit-linked contracts. The total IFRS value of these liabilities is £43.2m. The material element of these assets relates to £38.5m held in a range of investment funds. The allocation of assets into the funds 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.

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

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

D.1.1.6 Deferred tax assets

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

The IFRS value of the deferred tax asset arises as the result of the timing difference between the IFRS and tax bases of certain assets and liabilities. The Solvency II valuation difference arises as a result of the difference between the IFRS and SII valuation of certain assets and liabilities. This is mainly caused by the valuation difference of technical provisions (see section D.2) and intangible assets (see section D.1.1.8).

D.1.1.7 Reinsurance recoverable

See section D.2 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 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 £14.7m.

D.1.1.9 Receivables (trade, not insurance)

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

D.1.1.10 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 2019 by line of business:

£'m	Unit-linked	Other life	Health SLT	Total
Technical Provisions Calculated as a Whole	43.0	-	-	43.0
Gross Best Estimate Liabilities	(0.4)	(557.8)	(230.9)	(789.1)
Risk Margin	0.2	120.8	42.7	163.6
Technical Provisions	**42.8**	**(437.0)**	**(188.2)**	**(582.5)**
Recoverables	-	297.5	82.0	379.6
Technical Provisions allowing for recoverables	**42.8**	**(139.5)**	**(106.2)**	**(202.9)**

For comparison, the table below shows the technical provisions at 30 June 2018 by line of business:

£'m	Unit-linked	Other life	Health SLT	Total
Technical Provisions Calculated as a Whole	-	-	-	-
Gross Best Estimate Liabilities	-	(423.5)	(135.3)	(558.8)
Risk Margin	-	80.9	23.5	104.4
Technical Provisions	-	**(342.6)**	**(111.8)**	**(454.4)**
Recoverables	-	222.8	49.5	272.3
Technical Provisions allowing for recoverables	-	**(119.8)**	**(62.3)**	**(182.1)**

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 decrease in technical provisions from 2018 to 2019. The unit-linked liabilities lead to an increase in the 2019 technical provisions (the Invest business was excluded in the 2018 numbers on the grounds of materiality).

Technical provision calculation methodology

Vitality Life Limited's non-unit Best Estimate Liabilities ("BEL") are calculated using a gross premium valuation (as required by Solvency II) for all policies in-force and on risk at the valuation date. Hence the 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 Health SLT, 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. The valuation methodology for all categories is as described above, while the assumptions used in the valuation may vary across on a number of factors (depending on assumption in question). The main assumptions are discussed below:

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. Vitality Life Limited used the rates as provided by European Insurance and Occupational Pensions Authority ("EIOPA"). These rates are also used for Invest'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 Vitality Life Limited's insurance obligations consist of administration, claims management/handling and overhead expenses. The Company performs a regular expense analysis in order to allocate the expenses between initial and renewal and by type of expense. The best estimate expense assumptions are based on the results of this regular analysis together with budgeted expenses.

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 Acts 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.

Lapse assumptions

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

Claims Assumptions

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

D.2.2 Uncertainty associated with the value of technical provisions

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

D.2.3 Differences between Solvency II valuation and local GAAP/IFRS valuation of technical provisions analysed by each material line of business

The table below shows a build-up from the IFRS valuation of insurance contract liabilities to the Solvency II technical provisions, split by line of business, at 30 June 2019:

£'m	Unit-linked	Other life	Health SLT	Total
Gross IFRS Insurance contract liabilities	43.0	(476.6)	(104.6)	(538.2)
Adjustments for Solvency II	(0.4)	(81.2)	(126.3)	(208.0)
Gross BEL	42.6	(557.8)	(230.9)	(746.2)
Add risk margin	0.2	120.8	42.7	163.7
Technical provisions	42.8	(437.0)	(188.2)	(582.5)

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

- Solvency II uses best estimate assumptions while the IFRS assumptions included margins for adverse deviation;
- the discount rate for Solvency II technical provisions is specified by regulation (the relevant risk-free interest rate is provided by EIOPA), while that for IFRS is based on the expected long term return for VLL's expected investment portfolio;
- the Solvency II inflation assumption is derived from market information, while for IFRS it is based on an expected long term rate;
- Solvency II technical provisions include the risk margin;
- Unit fund growth rate as the risk-free rate is used for Solvency II, while IFRS allows for risk premiums on riskier asset classes; and,
- Solvency II excludes future premiums, whereas these are included for IFRS.

D.2.4 Recoverables from reinsurance contracts and special purpose vehicles

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

Total reinsurance recoverables at 30 June 2019 were £ (379.6) 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)	Financial Statements IFRS Value	Solvency II presentation adjustments	Solvency II valuation differences	Solvency II Valuation
Provisions, other than technical provisions	14.4	-	-	14.4
Insurance and intermediary payables	5.6	-	-	5.6
Reinsurance payables	14.8	-	-	14.8
Payables (trade, not insurance)	7.9	(0.8)	-	7.1
Subordinated liabilities	66.6	-	-	66.6
Any other liabilities, not shown elsewhere	1.1	-	-	1.1
Total other liabilities	**110.4**	**(0.8)**	**-**	**109.6**

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 2019 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)	Assets held for index-linked and unit-linked contracts (note 1)	Total classification differences
Payables (trade, not insurance)	(0.8)	**(0.8)**

Note 1: Payables (trade, not insurance)
See note 1 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 represents 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 past due. This balance is calculated in accordance with the terms and conditions of the contract with the individual broker or intermediary – no adjustments or judgements are made for valuation purposes. There is a high degree of certainty over the economic outflow due to the relatively short timeframe between the commission liabilities arising and the broker or intermediary receiving payment from the Company. The valuation of this liability for Solvency II is the same as for IFRS.

D.3.1.3 Reinsurance payables

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

D.3.1.4 Payables (trade, not insurance)

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

D.3.1.5 Subordinated liabilities

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

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

The interest rate payable on the loan has both a fixed and variable element. The fixed element includes an allowance for the Company's own credit standing and the variable element is designed to reflect changes in risk-free interest rates. Changes in interest rates between the dates the loans were issued and the reporting date of 30 June 2019 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 2019.

D.3.1.6 Any other liabilities, not shown elsewhere

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

D.4 ALTERNATIVE METHODS OF VALUATION

No alternative methods of valuation are used.

D.5 VALUATION FOR SOLVENCY PURPOSES – ANY OTHER INFORMATION

No other information is provided.

E CAPITAL MANAGEMENT

E.1 OWN FUNDS

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

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management, which 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 Vitality Life Limited Board. As part of own funds management, the Company prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The business plan 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 2019 and analysis of change from 30 June 2019 is shown below:

£'m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
At 30 June 2019					
Ordinary share capital	2.4	-	-	-	2.4
Share premium	241.6	-	-	-	241.6
Subordinated debt	-	-	66.6	-	66.6
Reconciliation reserve	(4.0)	-	-	-	(4.0)
Net deferred tax assets	-	-	-	7.2	7.2
Total eligible own funds to meet SCR	240.0	-	66.6	7.2	313.8
Less: restrictions on eligible own funds to meet MCR	-	-	(56.2)	(7.2)	(63.4)
Total eligible own funds to meet MCR	240.0	-	10.4	-	250.4
At 30 June 2018					
Ordinary share capital	2.0	-	-	-	2.0
Share premium	200.6	-	-	-	200.6
Subordinated debt	-	-	41.2	-	41.2
Reconciliation reserve	6.0	-	-	-	6.0
Net deferred tax assets	-	-	-	5.3	5.3
Total eligible own funds to meet SCR	208.6	-	41.2	5.3	255.1
Less: restrictions on eligible own funds to meet MCR	-	-	(34.4)	(5.3)	(39.7)
Total eligible own funds to meet MCR	208.6	-	6.8	-	215.4
Analysis of Change: 30 June 2018 to 30 June 2019					
Ordinary share capital issued	0.4	-	-	-	0.4
Share premium issued	41.0	-	-	-	41.0
Subordinated debt issued	-	-	25.4	-	25.4
Reconciliation reserve movement	(10.0)	-	-	-	(10.0)
Net deferred tax assets recognised	-	-	-	1.9	1.9
Total movement in eligible own funds to meet SCR	31.4	-	25.4	1.9	58.7
Less: movement in restrictions on eligible own funds to meet MCR	-	-	(21.8)	(1.9)	(23.7)
Total movement in eligible own funds to meet MCR	31.4	-	3.6	-	35.0

Tier 1 unrestricted:

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

During the year, a total of 413,999 ordinary shares were issued of £1 each and a share premium of £99 each.

The reconciliation reserve comprised of:

£'m	30 June 2019	30 June 2018	Movement
SII excess of assets over liabilities	247.2	214.0	33.2
Other basic own fund items	(244.0)	(202.7)	(41.3)
Net deferred tax assets	(7.2)	(5.3)	(1.9)
Reconciliation reserve	**(4.0)**	**6.0**	**(10.0)**

Basic own fund items comprised of:

£'m	30 June 2019	30 June 2018	Movement
Ordinary share capital	2.4	2.0	0.4
Share premium	241.6	200.6	41.0
Total basic own fund items	**244.0**	**202.6**	**41.4**

Tier 1 restricted:

There are no Tier 1 restricted own funds.

Tier 2:

The Company has received a number of long term subordinated loans from its parent Company, Discovery Holdings Europe Limited. These loans are eligible for treatment as Tier 2 own funds under the Solvency II regulatory regime.

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

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

Loan commencement date	Principal value of Loan £'m	Loan maturity date
31 March 2017	24.7	1 April 2027
31 October 2017	6.0	1 November 2027
31 May 2018	8.0	1 June 2028
29 June 2018	2.5	30 June 2028
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 April 2029
Total at Tier 2 own funds	**66.6**	

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

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

The sum of Tier 2 and Tier 3 own funds are £73.8m. 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 funds comprised of deferred tax assets of £7.2m in respect of tax timing differences and differences between the IFRS base balance sheet and the Solvency II base balance sheet.

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

£'m	Total eligible own funds
Tier 1 unrestricted	240.0
Tier 1 restricted	-
Tier 2	66.6
Tier 3	7.2
Total eligible own funds to meet SCR	**313.8**

The total available own funds to meet the SCR are £313.8m.
The eligible own funds over SCR ratio was 151% as at 30 June 2019.

Total available tier 3 own funds to meet the SCR are £7.2m. The limit of tier 3 funds covering a maximum of 15% of the SCR is not reached and therefore the full value of tier 3 funds can be used to cover the SCR.

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

£'m	Total eligible own funds	Restriction to cover MCR	Total eligible own funds to cover MCR
Tier 1 unrestricted	240.0	-	240.0
Tier 1 restricted	-	-	-
Tier 2	66.6	(56.2)	10.4
Tier 3	7.2	(7.2)	-
Total	**313.8**	**(63.3)**	**250.4**

The total available own funds to meet the MCR are £250.4m.
The eligible own funds over MCR ratio was 482% as at 30 June 2019.

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 £56.2m to £10.4m.

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

Reconciliation of IFRS net assets to SII excess of assets over liabilities	As at 30 June 2019 £'m
Net assets under IFRS	**282.1**
Valuation adjustment for technical provisions under SII, net of reinsurance recoverables	(27.3)
Valuation adjustment for intangible assets under SII	(14.7)
Valuation adjustment for deferred tax assets under SII	7.2
Excess of assets over liabilities	**247.3**

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

£'m	IFRS valuation	Solvency II valuation	Difference
Technical provisions	(538.0)	(582.5)	
Reinsurance recoverables	307.8	379.6	
Technical provisions net of recoverables	**(230.2)**	**(202.9)**	**(27.3)**

Total equity per the financial statements was £282.1m as at 30 June 2019. Excess assets over liabilities as calculated for solvency II purposes was £247.3m. The difference of £34.8m 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 2019.

E.1.8 Items deducted from own funds

There are no deductions from own funds at 30 June 2019.

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 2019 (the SCR and MCR at 30 June 2018 are also shown for comparative purposes)

Vitality Life Limited £'m	2019	2018
SCR	208.0	133.7
MCR	52.0	33.4

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

Since VLL only began writing business in January 2016, new business written over the year has a material impact on total business volumes and is therefore the main driver behind the increase in the SCR from 2018 to 2019.

E.2.2 Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up Vitality Life Limited's SCR at 30 June 2019 and 30 June 2018.

Vitality Life Limited £'m	2019	2018
Health underwriting	77.6	42.9
Life underwriting	157.6	105.4
Market risk	24.4	11.1
Counterparty default risk	1.9	5.6
Undiversified BSCR	261.5	165.0
Diversification credit	(59.8)	(36.0)
Basic SCR	201.7	129.0
Operational risk	6.3	4.7
Final Standard Formula SCR	208.0	133.7

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 2019 and at 30 June 2018. Note the Absolute Floor of the Minimum Capital Requirement ("AMCR") is prescribed by EIOPA and stated in Euros below.

£'m	2019	2018
AMCR (in GBP)	3.3	3.3
Linear MCR	18.6	12.6
SCR	208.0	133.7
Combined MCR	52.0	33.4
MCR	52.0	33.4

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 2019.

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

This is not applicable as at 30 June 2019.

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 2019.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

There is no other information to note.

F TEMPLATES

The following QRTs are requirement for the SFCR:

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

The templates are included at the end of this report.

G DIRECTORS' RESPONSIBILITY STATEMENT

Vitality Life Limited
Approval by the Board of Directors of the Solvency and Financial Condition Report
Financial period ended 30 June 2019

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

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

Deepak

Deepak Jobanputra
Director and Deputy Chief Executive Officer
Date: 25 September 2019

H EXTERNAL AUDIT REPORT

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

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

Opinion

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

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

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

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

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 30 June 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Emphasis of Matter – Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

25 September 2019

Vitality Life Limited

Solvency and Financial Condition Report

Disclosures

30 June

2019

(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
Language of reporting	en
Reporting reference date	30 June 2019
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.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	7,224
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	73,279
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	50,341
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	22,939
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	42,963
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-379,603
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-379,603
R0320	*Health similar to life*	-82,019
R0330	*Life excluding health and index-linked and unit-linked*	-297,585
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	11,981
R0370	Reinsurance receivables	539
R0380	Receivables (trade, not insurance)	1,915
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	8,461
R0420	Any other assets, not elsewhere shown	7,594
R0500	**Total assets**	-225,647

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*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-625,239
R0610	*Technical provisions - health (similar to life)*	-188,198
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-230,915
R0640	*Risk margin*	42,717
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	-437,041
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	-557,814
R0680	*Risk margin*	120,773
R0690	Technical provisions - index-linked and unit-linked	42,785
R0700	*TP calculated as a whole*	42,963
R0710	*Best Estimate*	-410
R0720	*Risk margin*	232
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	14,431
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	5,599
R0830	Reinsurance payables	14,802
R0840	Payables (trade, not insurance)	7,053
R0850	Subordinated liabilities	66,550
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	66,550
R0880	Any other liabilities, not elsewhere shown	1,125
R0900	**Total liabilities**	-472,894
R1000	**Excess of assets over liabilities**	247,248

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	23,709		42,440	103,277					169,426
R1420	Reinsurers' share	15,382		0	67,004					82,386
R1500	Net	8,327		42,440	36,273					87,041
	Premiums earned									
R1510	Gross	23,709		42,440	103,277					169,426
R1520	Reinsurers' share	15,382		0	67,004					82,386
R1600	Net	8,327		42,440	36,273					87,041
	Claims incurred									
R1610	Gross	4,816		1,132	18,678					24,626
R1620	Reinsurers' share	2,327		0	10,209					12,536
R1700	Net	2,490		1,132	8,469					12,090
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0		0	0					0
R1900	**Expenses incurred**	15,773		19,401	68,707					103,881
R2500	**Other expenses**									
R2600	**Total expenses**									103,881

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**		42,963								42,963						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**			-410			-299,575	-258,238			-558,224		-92,319	-138,596			-230,915
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-185,064	-112,521			-297,585		-37,953	-44,065			-82,019
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re			-410	0		-114,512	-145,717			-260,640		-54,366	-94,531			-148,897
R0100	**Risk margin**		232			120,773					121,005	42,717					42,717
	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**		42,785			-437,041					-394,256	-188,198					-188,198

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)	2,440	2,440		0	
R0030	Share premium account related to ordinary share capital	241,610	241,610		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	-4,027	-4,027			
R0140	Subordinated liabilities	66,550		0	66,550	0
R0160	An amount equal to the value of net deferred tax assets	7,224				7,224
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	313,798	240,023	0	66,550	7,224
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	313,798	240,023	0	66,550	7,224
R0510	Total available own funds to meet the MCR	306,573	240,023	0	66,550	
R0540	Total eligible own funds to meet the SCR	313,798	240,023	0	66,550	7,224
R0550	Total eligible own funds to meet the MCR	250,421	240,023	0	10,398	
R0580	**SCR**	207,960				
R0600	**MCR**	51,990				
R0620	**Ratio of Eligible own funds to SCR**	150.89%				
R0640	**Ratio of Eligible own funds to MCR**	481.67%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	247,248
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	251,274
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-4,027
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	638,411
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	638,411

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	24,375		
R0020	Counterparty default risk	1,947		
R0030	Life underwriting risk	157,622		
R0040	Health underwriting risk	77,605		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-59,804		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	201,744		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	6,215
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
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**	207,960
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	207,960
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

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

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

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

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	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	18,604

		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	42,963	
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		26,147,895

	Overall MCR calculation	C0070
R0300	Linear MCR	18,604
R0310	SCR	207,960
R0320	MCR cap	93,582
R0330	MCR floor	51,990
R0340	Combined MCR	51,990
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	51,990