

Life's better with

*Vitality*

# Solvency and Financial Condition Report.

Vitality Life Limited for the year ended 30 June 2020.



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# 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 VitalityLife branded policies itself (until that point policies had been underwritten by PAC and, at the time of this Solvency and Financial Condition Report (“SFCR”), continue to be liabilities of PAC). In this document, “business written on the PAC licence” will refer to the contracts for which Discovery owns the economic interest but which are currently liabilities of PAC. The Company is planning to transfer this historical business into VLL via a Part VII (of the Finance Services and Markets Act 2000) transfer in due course, subject to the relevant legal and regulatory approvals.

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

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

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 Account (“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. Vitality has also launched a number of additional features which are available on selected products, and on money invested into qualifying Vitality funds. Policyholders can benefit from the Healthy Living Programme through Vitality Select, which is accessed through any VitalityInvest plan.

### The Vitality model

VLL takes a unique approach to insurance, utilising a pioneering business model that incentivises people to be healthier, and that enhances and protects their lives. By incentivising members to be healthier, the business model directly addresses one of society’s greatest challenges, being the rise of lifestyle-induced non-communicable 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 American Express, Apple, Caffè Nero, Virgin Active and Waitrose.

Evidence from the Vitality programme globally suggests that physical activity is the most important lifestyle behaviour to target – exercise is easy to measure and track over time; it can be verified; it can be undertaken with no cost; it is a known catalyst for other healthy lifestyle choices; and importantly, it has a close response relationship to health, mortality and productivity. In other words, the more exercise a person does, the healthier they become, the more their 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 Caffè Nero drinks), bi-weekly (free cinema tickets) and monthly (discounted Apple Watch) and annually (discounted running shoes from Runner’s Need), on an ongoing basis through their exercise. An independent global study published on the Active Rewards with Apple Watch programme - the largest ever behaviour change study on physical activity based on verified data – found that the programme (1) resulted in more activity being undertaken by members, (2) that the increased activity was most pronounced amongst at-risk members, such as those who are obese, and (3) that the increased activity was sustained over time. The report can be accessed [here](https://www.rand.org/pubs/research_reports/RR2870.html)<sup>1</sup>. The success of the Active Rewards programme has led Discovery and its global insurance partners to develop an ambitious pledge to get 100m people 20% more active by 2025.

The 2019-20 financial year saw the introduction of a number of exciting new partnerships and benefits to the Vitality programme, including the Vitality American Express Credit Card, which rewards members who get physically active with up to 3% cashback, and new partnerships with Caffè Nero and Waitrose. The first half of 2020 has been significantly impacted by the novel coronavirus (“COVID-19”) pandemic and the subsequent UK lockdown restrictions. At the beginning of April 2020 Vitality launched the ‘Vitality At Home’ programme that replaces benefits temporarily unavailable during the lockdown with ones more suited to members’ new situation. For instance, members can now earn activity points by using the Peloton or Jennis exercise apps at home; they can earn up to two weekly Rakuten movie voucher to stream films; and Vitality launched a Coffee at Home service with Caffè Nero. Vitality will continue to monitor and amend the programme as the situation develops.

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, 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.

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



## Business review

The Company continues to produce its financial statements in accordance with International Financial Reporting Standards ("IFRS"). In the year to 30 June 2020 on an IFRS basis the Company produced a pre-tax loss of £48.0m (2019: £0.9m profit).

The key drivers for the loss in the period were:

- The continued investment in the development of VitalityInvest and the operating costs of this line of business mean this business is currently loss-making in line with management's expectations. These losses will continue until the volume of business in-force and fee income generated thereon reaches sufficient scale relative to the cost base.
- The impact of COVID-19 on the UK economic and operating environment, and resultant impact on new business sales, mortality/morbidity and the risk around future lapses. The uncertainty surrounding the future impact of COVID-19 on the economy and mortality/morbidity led to the short term strengthening of lapse and mortality assumptions at 30 June 2020.
- Unprecedented declines in UK market interest rates which adversely impacted insurance contract reserve assumptions.

Despite the loss recorded in the period by the Company, the fundamentals of the business, operations, strategy and capital remain strong and the Company is well placed to implement its business strategy. Operationally, the Company has shown a high level of resilience to the impacts of Covid-19 and there were no significant impacts on operations or service levels.

The VitalityInvest business (selling unit-linked business), which launched in June 2018 and so is in its early stages, has continued to grow and has performed in line with management expectations given its early stages. Overall, assets under management grew from £43.9m to £202.3m over the course of the year, an increase of 365%, despite a challenging trading environment.

VitalityLife continued to offer term life, serious illness, whole of life and income protection cover. The business performed in line with expectation in the first half of the year but fell behind expectations as the trading environment became more challenging as a result of the COVID-19. Despite this, since VLL only began writing new business in 2016, new business written over the year has a material impact on total business volumes, with in-force premium income increasing by 30% from £127.0m to £164.5m.

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

Writing new business requires sufficient liquid resources in order to fund new business commission and other acquisition costs, and hence for a fast growing company such as VLL regular cash 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, £26.8m (2019: £41.4m) of share capital was injected into the Company from its parent company, Discovery Holdings Europe Limited ("DHEL"). A further £456.8m of share capital was injected by DHEL through a share exchange, in consideration for the Company purchasing Vitality Health Insurance Limited (and its subsidiary, Vitality Health Limited) from DHEL. Alongside equity injections, the Company received £6.5m (2019: £25.4m) of Tier 2 subordinated loans and £35.0m (2019: £nil) of unsubordinated loans from DHEL.

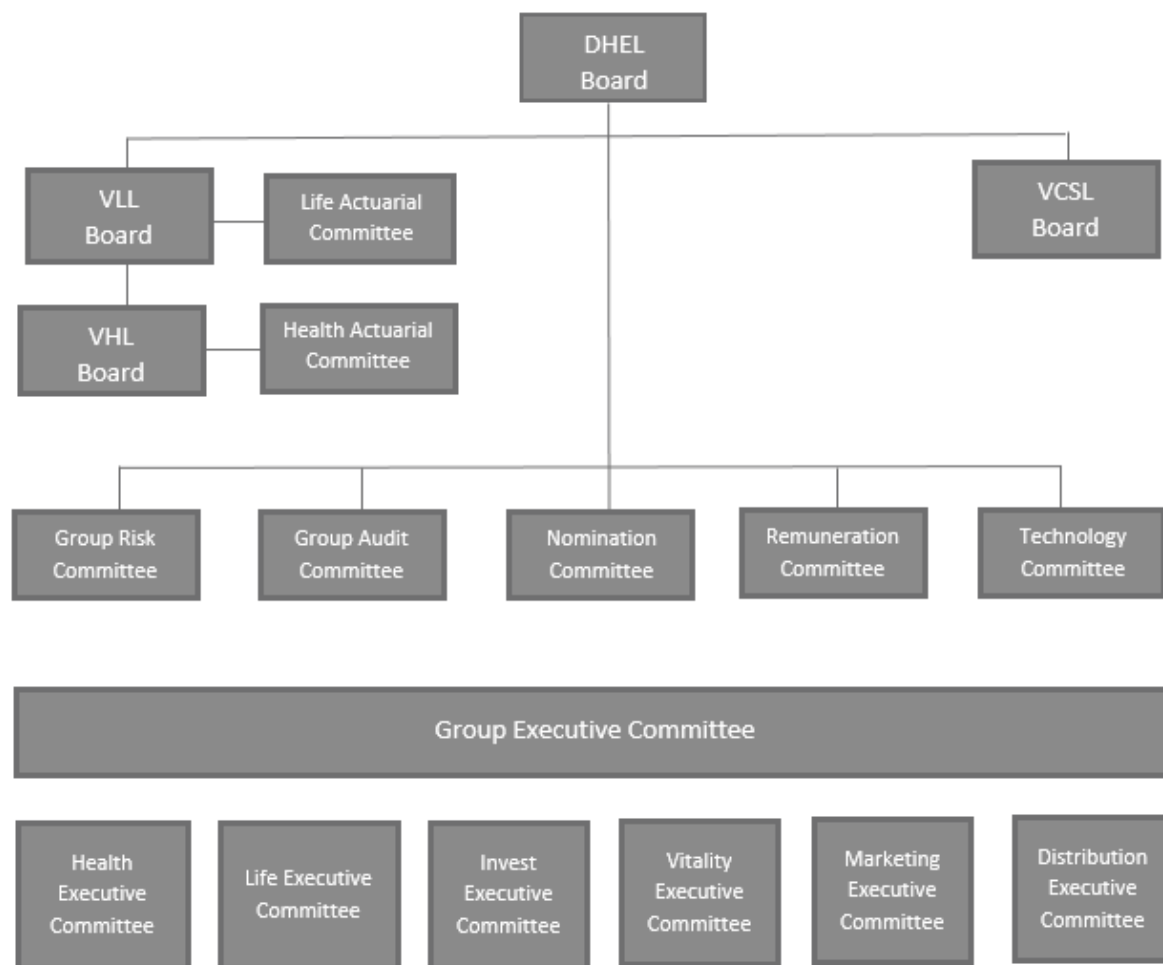
## 2. SYSTEM OF GOVERNANCE SUMMARY

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 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.

During the year the Vitality UK Group structure changed with the 100% ownership of Vitality Health Insurance Limited (the 100% shareholder of Vitality Health Limited) being transferred from Discovery Holdings Europe Limited to Vitality Life Limited. The governance structure of the Company changed in the year to 30 June 2020, with the creation of a Group Executive Committee overseeing the entity level Executive Committees for VitalityHealth, VitalityLife and VitalityInvest. The roles and responsibilities of these Committees are outlined in Section B.1.1. Changes in the Directors of the business and individuals in positions of influence are outlined in Section B.1.2. Ultimate responsibility for the performance and strategy of the Company resides with the Board and they delegate authority within the organisation as they see fit.

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

### The 1st Line of Defence – Business Management

Business management makes up the first line of defence. Overall, the first line of defence is responsible for the day to day 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 2020 and 30 June 2019 is shown below.

<b>Vitality Life Limited £'m</b>	<b>2020</b>	<b>2019</b>
<b>Health underwriting risk</b>	95.7	77.6
<b>Life underwriting risk</b>	167.4	157.6
<b>Market risk</b>	44.6	24.4
<b>Counterparty default risk</b>	14.6	1.9
<b>Undiversified BSCR</b>	322.3	261.5
<b>Diversification credit</b>	(86.7)	(59.8)
<b>Basic SCR</b>	235.6	201.7
<b>Operational risk</b>	7.2	6.3
<b>Adjustment for loss absorbing capacity of deferred taxes</b>	(14.5)	-
<b>Final Standard Formula SCR</b>	<b>228.3</b>	<b>208.0</b>

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 2019 to 2020.

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 continues to have a negligible contribution to VLL's overall level of required capital owing to its current size. The majority of VitalityInvest's contribution to VLL's SCR is in the form of lapse risk and market 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, fixed interest assets and cash.

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, excluding investments held to match unit-linked liabilities, are therefore held primarily to meet operational and new business funding liquidity requirements. These assets are held in cash in bank accounts, term deposit accounts and in short-term high quality liquid assets within collective investment funds, hence market risk exposure arising from these assets is low. Counterparty default risk is relatively low since the banks are highly creditworthy and reinsurance is spread across different reinsurers with high credit ratings.

With the lockdown from COVID-19 easing, but with increasing numbers of reported cases in the UK, the situation remains unclear and there continues to be material levels of uncertainty about the forthcoming reporting period. There are new risks that could emerge over the coming years from the COVID-19 pandemic and its consequences for the economy. The Company has increased short term lapse and mortality assumptions to reflect this ongoing uncertainty, and this will continue to be closely monitored.



## 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;
- valuation adjustment for holding in related undertakings, which are valued at cost in the IFRS financial statements, but at the excess of Solvency II assets over liabilities under Solvency II; and
- the difference in the valuation of deferred tax assets as a result of the valuation differences of technical provisions and intangible assets.

These differences are summarised in the table below:

£'m	As at 30 June 2020	As at 30 June 2019
<b>Total equity in financial statements</b>	<b>727.5</b>	<b>282.1</b>
<b>Adjustments for Solvency II:</b>		
Valuation adjustment for Technical Provisions under SII, net of recoverables	(62.6)	(27.3)
Valuation adjustment for intangible assets under SII	(15.8)	(14.7)
Valuation adjustment for holding in related undertakings	(286.8)	-
Valuation adjustment for deferred tax assets under SII	14.9	7.2
<b>Solvency II value of assets over liabilities</b>	<b>377.2</b>	<b>247.3</b>
Add subordinated loans	73.1	66.5
<b>Solvency II Own Funds</b>	<b>450.2</b>	<b>313.8</b>

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

## 5. CAPITAL MANAGEMENT SUMMARY

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

The SCR coverage ratio at 30 June 2020 position was 197% (2019: 151%) with total basic own funds of £450.2m (2019: £313.8m) and a SCR of £228.3m (2019: £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. During the year, £26.8m of share capital was injected into the Company from its parent company, Discovery Holdings Europe Limited ("DHEL"). The Company also received £6.5m of Tier 2 subordinated loans and £35.0m of unsubordinated loans from DHEL, which was used to support the growth of the business. A further £456.8m of share capital was injected by DHEL in consideration for the Company purchasing Vitality Health Insurance Limited (and its subsidiary, Vitality Health Limited) from DHEL.

The Company carries out formal quarterly reviews of the solvency coverage ratio and monitors this on an ongoing basis as part of its risk monitoring and capital management system. The Company has continuously held capital above the Minimum Capital Requirement ("MCR") and the SCR throughout the reporting period.

The table below shows the total eligible own funds to meet the SCR and MCR as at 30 June 2020:

£'m	Total eligible own funds to meet SCR	Total eligible own funds to meet MCR
<b>Tier 1 unrestricted</b>	354.5	354.5
<b>Tier 1 restricted</b>	-	-
<b>Tier 2</b>	73.1	11.4
<b>Tier 3</b>	22.6	-
<b>Total eligible own funds</b>	<b>450.2</b>	<b>365.9</b>

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

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

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

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

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

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

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

The independent auditors of the Company are:

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

### **A.1.4 Holders of qualifying holdings in the undertaking**

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

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

Vitality Life Limited

NAME OF RELATED UNDERTAKING	LEGAL FORM	COUNTRY	PARTICIPATING UNDERTAKING	PROPORTION OF OWNERSHIP INTEREST HELD BY THE PARTICIPATING UNDERTAKING	PROPORTION OF VOTING RIGHTS HELD BY THE PARTICIPATING UNDERTAKING
<b>Discovery Limited</b>	Limited by shares	South Africa			
<b>Discovery Group Europe Limited</b>	Limited by shares	United Kingdom	Discovery Limited	100%	100%
<b>Discovery Offshore Holdings No.2 Limited</b>	Limited by shares	United Kingdom	Discovery Group Europe Limited	100%	100%
<b>Discovery Holdings Europe Limited</b>	Limited by shares	United Kingdom	Discovery Group Europe Limited	100%	100%
<b>Vitality Invest Trustee Company Limited</b>	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
<b>Better Health Insurance Advice Limited</b>	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
<b>Vitality Life Limited</b>	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
<b>Vitality Corporate Services Limited</b>	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
<b>Vitality Health Insurance Limited</b>	Limited by shares	United Kingdom	Vitality Life Limited	100%	100%
<b>Healthcode Limited</b>	Limited by shares	United Kingdom	Vitality Health Insurance Limited	20%	20%
<b>Vitality Health Limited</b>	Limited by shares	United Kingdom	Vitality Health Insurance Limited	100%	100%
<b>Healthcare Purchasing Alliance Limited</b>	Limited by shares	United Kingdom	Vitality Corporate Services Limited	50%	50%
<b>Vitality Healthy Workplace Limited</b>	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 UK parent undertaking, Discovery Group Europe Limited, its ultimate parent undertaking, Discovery Limited and its related undertakings. Participations are 100% unless shown.

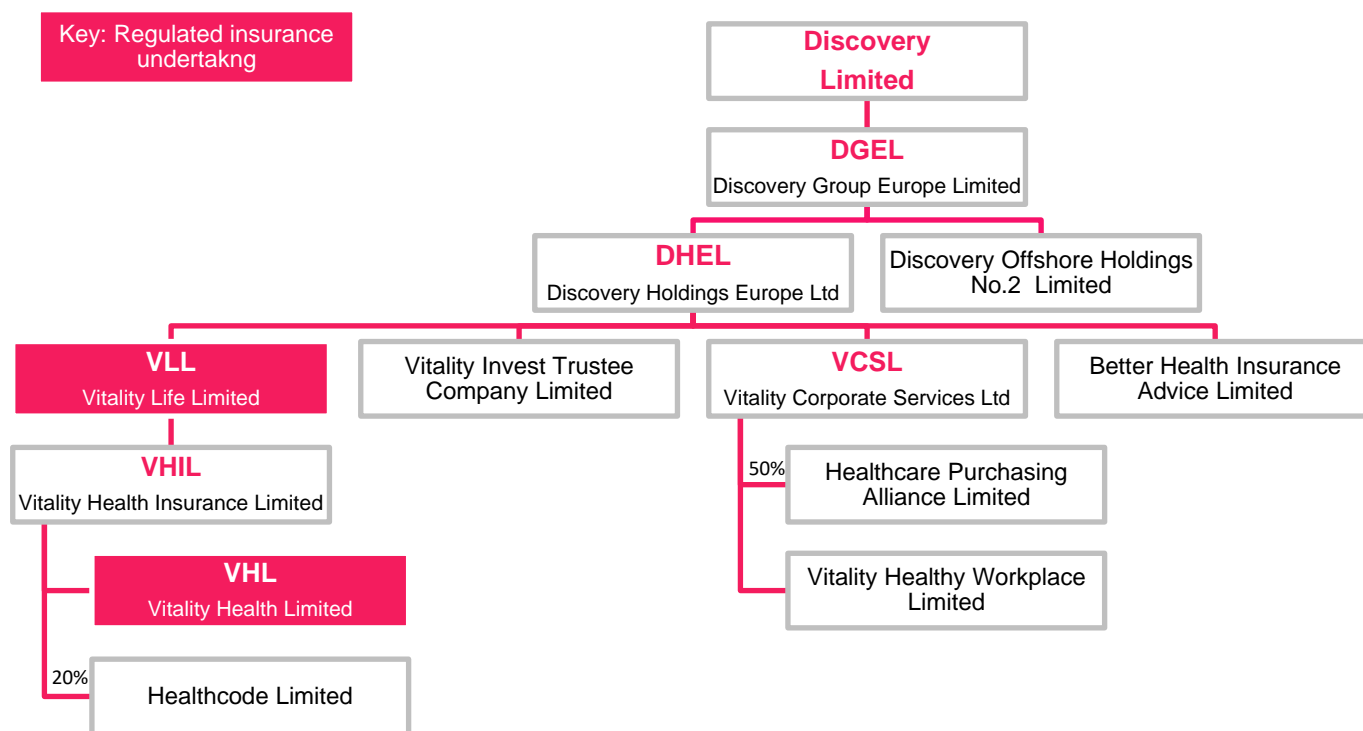


Figure 1

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

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

DHEL, a holdings company, owns one regulated insurance entity (VLL). It also owns a services company (Vitality Corporate Services Limited "VCSL"), a distribution company (Better Health Insurance Advice Limited "BHIA", which is an appointed representative of VCSL) and Vitality Invest Trustee Company Limited ("VITCL") that considers the SIPP provided by VitalityInvest.

DHEL itself is not a regulated insurance entity, and thus has no capital requirement. VCSL and BHIA similarly have no insurance capital requirements, although as VCSL is an intermediary, it is required to hold a small amounts of net assets.

During the year, the UK Group structure changed with the 100% ownership of VHIL (the 100% shareholder of VHL) being transferred from DHEL to VLL. VLL now owns the holding company Vitality Health Insurance Limited ("VHIL"). The regulated insurance entity Vitality Health Limited ("VHL") sits within VHIL as does Healthcode Limited, which is a joint venture of which VHIL owns 20%. Healthcode Limited 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. VCSL also owns 100% of Vitality Healthy Workplace Limited. It is not a regulated insurance entity and thus has no capital requirements under Solvency II.



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

For SII purposes at 30 June 2020, the Company's VitalityLife 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 ("SLT Health")

The VitalityInvest unit-linked business falls under:

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

These SII lines of business are used when reporting the premium, claims, expenses and technical provisions in the 30 June 2020 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**

On 13 February 2020 VLL issued ordinary shares to DHEL in consideration for acquiring all of the VHIL ordinary shares, with no cash exchanging hands. This followed approval by the PRA on 31 January 2020 of the change in control of VHIL and VHL from DHEL to VLL. This transaction increased the IFRS net assets of the Company as at 30 June 2020 by £456.8m and the excess of assets over liabilities on a Solvency II basis by £170.0m. Further details on this valuation difference are included in section D.1.

The global pandemic of COVID-19 has introduced significant uncertainty to VLL's operating environment and has resulted in a recession in the UK. Operationally, the Company has shown a high level of resilience to the impacts of Covid-19 and there were no significant impacts on operations or service levels.

An allowance for the potential impact on VLL's future claims and lapse experience has been made, noting that the degree of uncertainty relating to these estimates is very high given the circumstances.

Key impacts included:

- VitalityLife experienced slightly higher than expected claims in the period due to excess mortality and morbidity in the year due to COVID-19. Furthermore, significant uncertainty over the impact of COVID-19 on future mortality and morbidity led to the strengthening of short-term actuarial claims assumptions in the insurance contract reserves at 30 June 2020, which impacted the current year's financial results.
- VitalityLife implemented a number of proactive initiatives to support customers facing financial hardship, this included the ability to defer premiums to be paid at a later date, as well as a simple cover buy-down option that allows customers to temporarily reduce their cover for a more affordable premium. The uptake on these initiatives could possibly lead to higher than anticipated lapses in future periods as the initiatives are phased out, and so some strengthening of the short-term lapse assumptions was made in the insurance contract reserve at 30 June 2020, which impacted the current year's financial results.

The COVID-19 situation will continue to evolve, and the Company will continue to monitor circumstances and update relevant assumptions as further information comes to light.

The UK economy was declared to be in recession on 12 August 2020 due to the impact of the lockdown from COVID-19. The recovery is expected to take a significant period of time and this will be impacted by any further decisions taken at a national level to combat any resurgence in the virus. The Company has sustained a stable customer base through this period, and has offered products such as premium deferral to provide our customers with options through this challenging time to maintain their insurance cover.

On 31 January 2020, the UK left the EU with a “status quo” transition period until the end of 2020. The future relationship between the UK and the EU following the transition period is not expected to significantly impact the Company’s claims risks. Policyholder behaviour-related risks such as lapses or the propensity to purchased long-term insurance products could be impacted, but given the wide range of potential ultimate Brexit outcomes, these types of impacts on the UK life insurance and investment markets are unclear at this stage.

Despite the above adverse impacts, the undertaking has maintained a strong solvency coverage throughout the period and had a solvency coverage of 197% at 30 June 2020.

## A.2 UNDERWRITING PERFORMANCE

Vitality Life Limited prepares its financial statements in accordance with International Financial Reporting Standards and therefore the underwriting performance information given in this section is presented on an IFRS basis. The IFRS presentation of underwriting performance also aligns closely to how management view the financial performance of the Company.

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

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

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

All business is underwritten in the UK.

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

£'m	Year ended 30 June 2020				Year ended 30 June 2019			
	Other Life	SLT Health	Unit-linked	Total	Other Life	SLT Health	Unit-linked	Total
Gross premiums	133.8	30.7	166.9	331.4	103.3	23.7	42.4	169.4
Reinsurers' share of premiums	(84.3)	(19.3)	-	(103.6)	(67.0)	(15.4)	-	(82.4)
Gross claims and withdrawals	(36.3)	(9.4)	(9.1)	(54.8)	(18.7)	(4.8)	(1.1)	(24.6)
Reinsurers' share of claims	21.8	4.9	-	26.7	10.2	2.3	-	12.5
Investment income on assets held to back unit-linked liabilities	-	-	2.1	2.1	-	-	1.8	1.8
Expenses	(144.1)	(33.1)	(17.6)	(195.2)	(158.2)	(36.3)	(19.5)	(214.0)
Reinsurance financing received	84.4	19.4	-	103.8	89.5	20.6	-	110.1
Movement in insurance contract reserves				(145.1)				29.8
Pre-tax underwriting performance				(34.7)				2.6
Other income and expenses				(13.3)				(1.7)
<b>Pre-tax IFRS (loss)/profit</b>				<b>(48.0)</b>				<b>0.9</b>

Pre-tax underwriting loss in the year ended 30 June 2020 was £34.7m (2019: £2.6m profit) while pre-tax IFRS loss including other income and expenses was £48.0m (2019: £0.9m profit).

There were a number of factors in the year that led to the overall loss for the Company in the year:

- The Company continued to invest in the VitalityInvest proposition, which continues to be in the start-up phase and is currently loss making in line with management's expectations until it reaches critical mass.
- The impact of COVID-19 on the UK economic and operating environment led to a lower than expected level of new business sales and slightly higher claims than expected. Further detail is provided in A.1.7.
- A number of reserving basis experience variances were observed in the period, particularly in respect of lapses. This led to an adverse impact on profitability in the period from both actual variances observed as well as a further impact from strengthening lapse assumptions in the insurance contract reserves valuation at 30 June 2020 on an IFRS basis.
- UK market interest rates went through a period of unprecedented volatility and declines in the 12 months to 30 June 2020. The reductions negatively impacted the insurance contract reserve valuation as at 30 June 2020 on an IFRS basis.

The financial performance relating to VitalityLife was significantly behind expectation and overall loss making, with the key drivers of this outlined above. Despite poor profitability in the year, the in-force book of business grew substantially year on year with gross of reinsurance premium income increasing by 30% from £127.0m to £164.5m. The key driver of the increase year on year was the sale of £63.6m (2019: £70.5m) of new business (measured as annual premium equivalent). VLL only began writing business in January 2016 and so premiums are expected to continue to grow materially year on year as the in-force book of business continues to grow. Although new business sales fell relative to the previous financial period, driven by the impact of COVID-19 in the last quarter of the year, sales still benefited from continued product innovation and a strong distribution network.

VitalityLife continues to utilise reinsurance to limit its overall risk exposure as well as to reduce the volatility of its claims and hence underwriting performance. During the year the reinsurer's share of claims was 58% compared to 53% for the prior period. The higher reinsurers share was caused by an increase in the average size of claims compared to the prior year and therefore a larger element of each claim being recovered by the Company from its reinsurers. 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 £103.8m (2019: £110.1m). Repayment of reinsurance financing in the year was £72.7m (2019: £60.8m), these repayments are made by ceding premiums to the reinsurers and are therefore included in the reinsurers' share of premiums in the Company's financial statements. The Company's insurance contract reserves allow for the expected future repayments of reinsurance financing received by the Company.

On an IFRS basis, the movement in insurance contract reserves (after allowing for the reinsurers' share) for protection contracts was a £12.7m (2019: £72.0m) increase in assets. The Company's protection business reserves are negative overall due to the nature and duration of its book of business and are therefore an asset on the IFRS balance sheet. The change in the negative reserves therefore resulted in a £12.7m (2019: £72.0m) contribution to pre-tax IFRS profit. The movement in unit-linked liabilities in the year was £157.9m (2019: £43.2m).

The financial performance relating to VitalityInvest was in line with management expectation. Although loss-making, this was consistent with a start-up business looking to build a presence in a highly competitive market. Total premium income was £166.9m 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 £42.9m at 30 June 2019 to £202.3m at 30 June 2020.

## A.3 INVESTMENT PERFORMANCE

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

The Company maintains two investment categories that are managed separately:

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

#### *Investments held to match unit-linked liabilities*

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

At 30 June 2020, the investments held to match unit-linked liabilities were £205.3m, of which £179.7m is investment in a number of OIEC funds and £25.6m is in short-term cash. The total gain on these investments in the year was £2.1m.

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

The Company has a policy to 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 requirements 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 2020	30 June 2019	30 June 2020	30 June 2019
Collective Investment Undertakings	57.7	47.7	0.4	0.5
Investment in Open Ended Investment Company (OEIC) funds	-	2.7	(0.1)	0.1
Cash and Cash equivalents	9.7	8.5	0.1	0.9
Deposits other than cash equivalents	21.7	22.9	0.8	0.4
<b>Total</b>	<b>89.1</b>	<b>81.8</b>	<b>1.2</b>	<b>1.9</b>

#### **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 in the year ended 30 June 2019, which comprise of well-diversified portfolios of assets. These

investments were fully divested in the year to 30 June 2020 and therefore have nil balance at 30 June 2020. The OEIC charges fees directly from amounts deposited. No material expenses were incurred in respect of these assets.

**Cash and cash equivalents: Bank deposits**

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

**Deposits other than cash equivalents**

This amount represents interest received 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 and provide sufficient access to funds at short notice taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities.

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

The Company does not have any direct investments in securitisations

## **A.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.



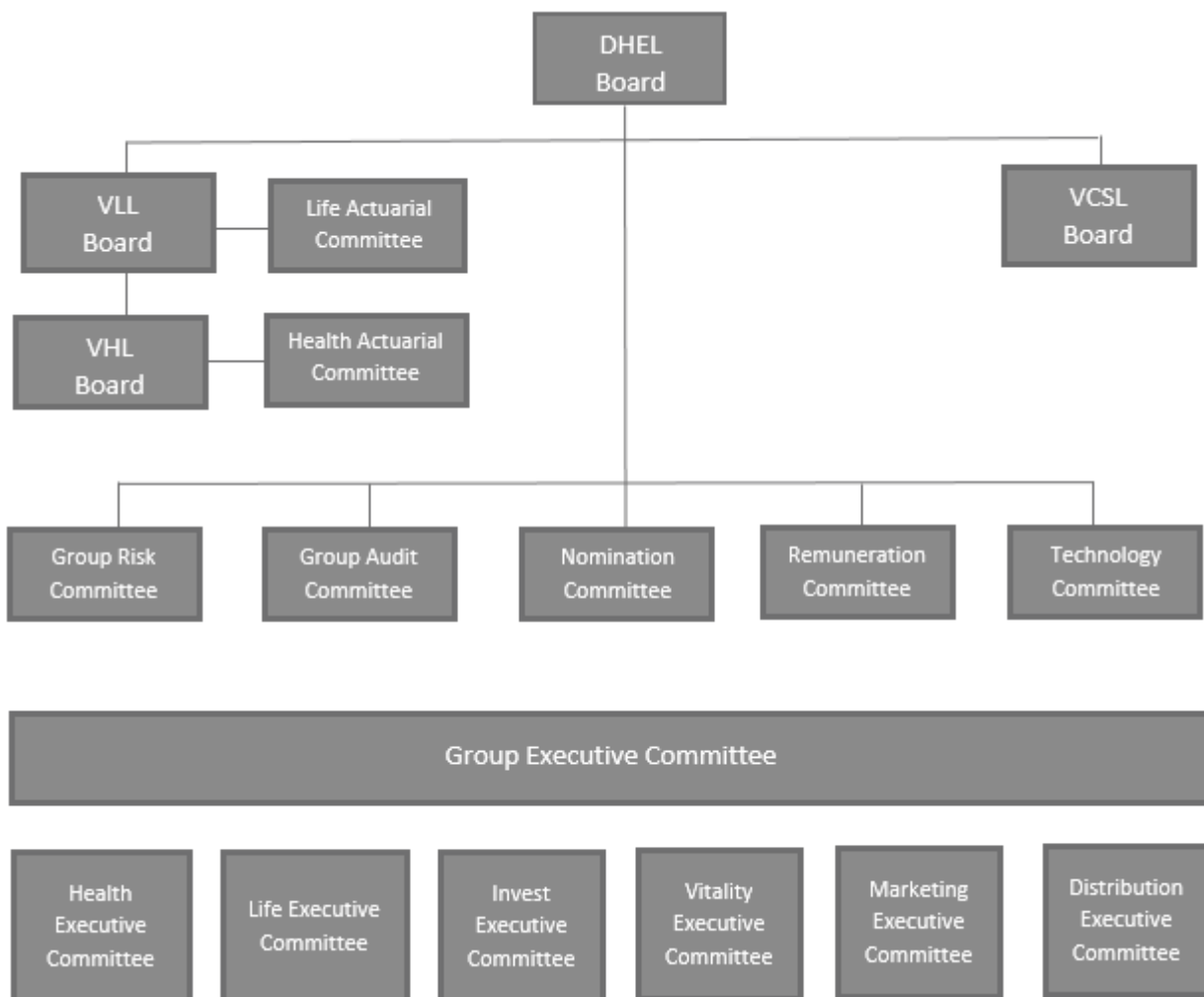
# B SYSTEM OF GOVERNANCE

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

The Committee meets at least 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 membership consists of four independent Non-Executive Directors and twelve members of senior management who attend the meeting. Only the independent Non-Executive Directors can vote on matters and a quorum of two is needed for approvals and decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, 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 Compliance and Internal Audit function leaders and with external audit partners without members of management present when required.

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

- 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;
  - Regulatory Solvency II reporting
- Review the Company's systems of internal financial controls, including receiving reports from management on the effectiveness of the systems established and the results of controls and testing carried out by internal and external audit.
- 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 membership consists of at least two independent Non-Executive Directors and at least one independent actuary. Members of executive and senior management attend the Committee by invitation. The Chair of the Committee is an independent Non-Executive Director with extensive actuarial experience, who has a position on the Board and reports at each Board meeting on the activities of the Committee.

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

- On behalf of the Board, to review matters relating to 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; and
- Receive, review and, if appropriate, recommend approval by the Board of the annual Actuarial function report.

**Technology Committee**

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

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

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

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

**Group Executive Committees**

The Group Executive Committee is mandated and responsible for implementing the strategies approved by the Board and managing the affairs of the Company. The Executive Committee is chaired by the Group Chief Executive Officer ("CEO") and meet 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 the Executive Committee and feedback on the activities of each department is provided at the weekly meeting.

**The main responsibilities of the Group Executive Committee are to:**

- Develop, implement and monitor the business plan, recommending any changes for approval by the Boards;
- Structure operations for maximum efficiency;
- Ensure that effective systems of controls are established and maintained which facilitates identification and effective management of all significant risks facing the business;
- Decisions on prioritisation of the allocation of capital and operating resources within current business plan;
- Ensure the functional business areas provide accurate and timely management information to enable the business to be effectively managed;
- Ensure that the business operates within an effective and appropriate governance framework;
- Pass relevant and specific information to the Board, including any recommendations by the Committee that require approval by the Board;
- Review financial and operational performance of the business and authorise appropriate actions;
- Review the Company's code of conduct, leadership charter and policy statements to ensure these are fair to employees and reflective of organisational culture;
- Approval and regular review of the Company's performance management and bonus framework;

- Review of third party contracts or agreements which may carry a reputational risk to the UK Vitality Group or the Discovery Group;
- Review of any material product changes, including new partner contracts – these will take the form of recommendations to the Board;
- Review of any new financial incentive programmes (including staff incentive schemes, broker incentives etc.) which may impact on behaviours; and,
- Monitoring of fraud and financial crime.

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

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

### **Nomination Committee**

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

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

#### **The main responsibilities of the Nomination Committee are to:**

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

### **Remuneration Committee**

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

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

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

- Review performance against targets and agree payments;
- Set the remuneration policy and principles and monitor its application;
- Verify specific oversight and governance processes; 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 Group Chief Risk Officer ("CRO") who is supported by a team that possesses skills ranging from risk management, actuarial, information technology and UK regulatory environment. The Chief Risk Officer report, including the risk summary, is presented to the Executive Committee, Risk Committee and the Board, giving these management bodies the information gathered through the risk management process. The Risk function maintains independence by carrying out an oversight role 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 who is supported by a team containing qualified accountants, IT auditors and auditors. Information on the independence of the Internal Audit function is provided in section B.5.2. The findings of the Internal Audit function are reported to the Audit Committee and a summary is provided to the Board by the chair of the Audit Committee.
- **Compliance function** – the 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 who is supported by Fellows and members of the Institute and Faculty of Actuaries, international actuaries with equivalent qualifications, as well as other technical professionals. Information on the authority, resources and independence of the Actuarial function is provided in section B.6. 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

During the year the UK Group structure changed with the 100% ownership of Vitality Health Insurance Limited (the 100% shareholder of Vitality Health Limited) being transferred from Discovery Holdings Europe Limited to Vitality Life Limited. The governance structure of the Company changed in the year to 30 June 2020, with the creation of a Group Executive Committee overseeing the entity level Executive Committees for Vitality Health, Vitality Life and Vitality Invest.

The following Director changes took place in the year:

- Mr Herschel Mayers resigned from the Boards of Discovery Holdings Europe Limited, Vitality Life Limited, Vitality Health Limited and Vitality Corporate Services with effect from 22 April 2020.
- Dr Wolf Becke resigned as Chair of Vitality Life Limited Board with effect from 6 May 2020.
- Mr Alastair Lyons was appointed as Chair of the Board of Vitality Life Limited with effect from 20 May 2020.

There were no changes to committees in the last year.

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

- Mr Alastair Lyons received regulatory approval to Chair of the Vitality Life Limited Board with effect from 20 May 2020
- Mr Neville Koopowitz received regulatory approval to act as the CEO of Vitality Life Limited with effect from 17 January 2020
- Dr Wolf Becke received regulatory approval to act as the Senior Independent Director (SMF14) for Vitality Life Limited with effect from 29 May 2020
- Mr Greg Levine received regulatory approval to perform SMF18 - Other Overall Responsibility for Vitality Life Limited with effect from 13 May 2020

- Mr Jaco Brand left Vitality Life Limited with effect from 1 June 2020.
- Ronald van Hoven received regulatory approval to perform the Chief Operations Officer Function (SMF24) for VitalityInvest with effect from 3 September 2020
- Peter Harvey received regulatory approval to perform the Chief Operations Officer Function (SMF24) for VitalityLife with effect from 9 July 2020.
- Kris Tokarzewski is pending approval as Chief Information Officer.

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

#### **B.1.3.1 Principles of the remuneration policy**

All staff of the Company are employed by VCSL and the Company's remuneration policy is intended to attract, recruit and retain employees whose values are aligned to our culture and core purpose. 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 adopt a flexible approach that recognises differences in individual performance, value and contribution to the organisation.

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

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

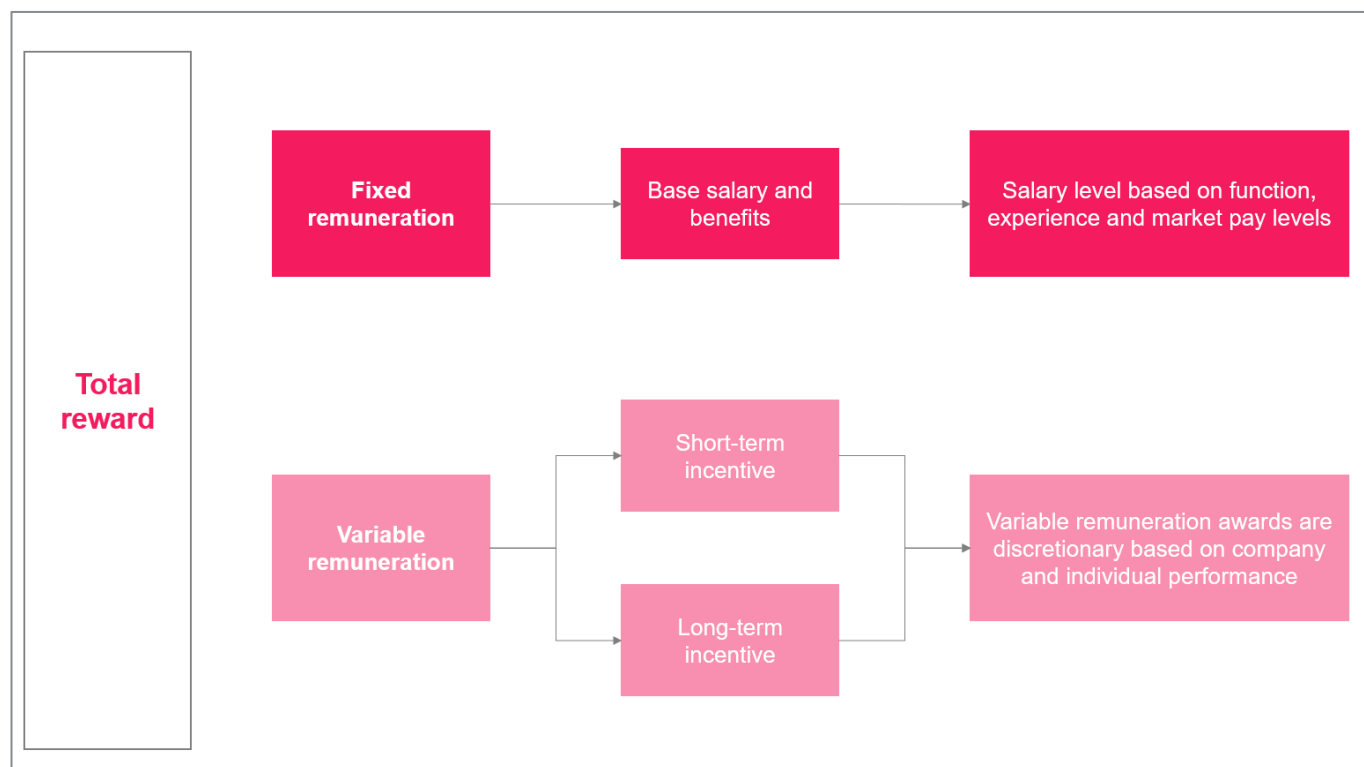
- Offering pay packages that promote internal equity and are competitive in the market to attract, recruit and retain great people;
- Ensuring that pay decisions are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin;
- Reviewing salaries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

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

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

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

The following diagram shows the composition of the Company's total reward 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 CEO receives his bonus annually.

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

#### 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 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 £1.5m ordinary share capital on 31 July 2019 into the Company for solvency and liquidity capital purposes;
- DHEL provided a Tier 2 subordinated loan to the Company for £6.5m on 31 July 2019 for solvency and liquidity capital purposes;
- DHEL injected £12.0m ordinary share capital on 30 September 2019 into the Company for solvency and liquidity capital purposes;
- DHEL injected £13.3m ordinary share capital on 29 June 2020 into the Company for solvency and liquidity capital purposes;
- On 13 February 2020 VLL issued £456.8m of ordinary shares to DHEL in consideration for acquiring 100% of the shareholding in VHIL (and its subsidiary, VHL). This was a share-for-share exchange and no cash was exchanged. This followed approval by the PRA on 31 January 2020 of the change in control of VHIL and VHL from DHEL to VLL.

##### **Persons who exercise a significant influence on the Company**

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

##### **Executive management and directors**

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

## **B.2 FIT AND PROPER REQUIREMENTS**

### **B.2.1 Requirements for skills, knowledge and expertise**

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

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

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

### **B.2.2 Fitness and propriety of persons**

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

- Educational background checks; and
- Professional qualifications / membership check

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

- Credit checks;
- Identity checks (including passport);
- Financial sanctions & anti-money laundering check;
- 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; and,
- 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 to assess the solvency capital requirements.

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 enterprise risk management ("ERM") framework that includes a set of risk policies, business standards 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. Compliance with each policy is reviewed annually, and policies are reviewed and updated 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 and the needs of the business to enhance its 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 comprises the Risk Management function and the Compliance function. These are functions that provide assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system.

#### **The 3rd Line of Defence – Assurance**

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

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

Requirement	Description
<b>Risk assessments</b>	<p>The first line is responsible for carrying out the risk assessment process to identify, measure, monitor, manage and report. However, oversight and challenge is provided by the second line in doing so.</p> <p>This process involves reviewing the Risk Taxonomy and identifying the risks that each department is exposed to, rating the risks and recording the controls used to manage / mitigate those risks. Once the risks and controls, along with their ratings and action plans, are complete, the top risks are presented to ExCo for review and discussion.</p> <p>This includes both the Bottom Up and Top Down risk assessment.</p> <p>Following ExCo review, the risk assessments are presented to the Risk Committee. 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.</p>
<b>Independent Risk Assurance Reviews</b>	<p>Independent risk assurance reviews are performed when there is a specific need to obtain an in-depth understanding of a particular risk, including the controls, actions and mitigation strategies in place. A review may be initiated by the business, a Board or Committee or the Chief Risk Officer.</p>
<b>Emerging Risk Assessments</b>	<p>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.</p>

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 Own Risk and Solvency Assessment ("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 governed by the ORSA policy, which also sets out the roles and responsibilities of those preparing the ORSA and the governance that will be applied to the ORSA.

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

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

All these processes are used by the Board and management in the day-to-day decision making to ensure risk and capital management are aligned. The output from the various processes is reported to the 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, including oversight by the Audit Committee. The actuarial liabilities are produced in line with industry best practice and are subject to review by internal committees (which includes members from the Risk, Actuarial, Finance and Operational functions) and the Actuarial Committee. The statements and Solvency II regulatory reporting are also subject to internal review and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publication and submission to the regulator.

### **B.4.2 Implementation of the Compliance function**

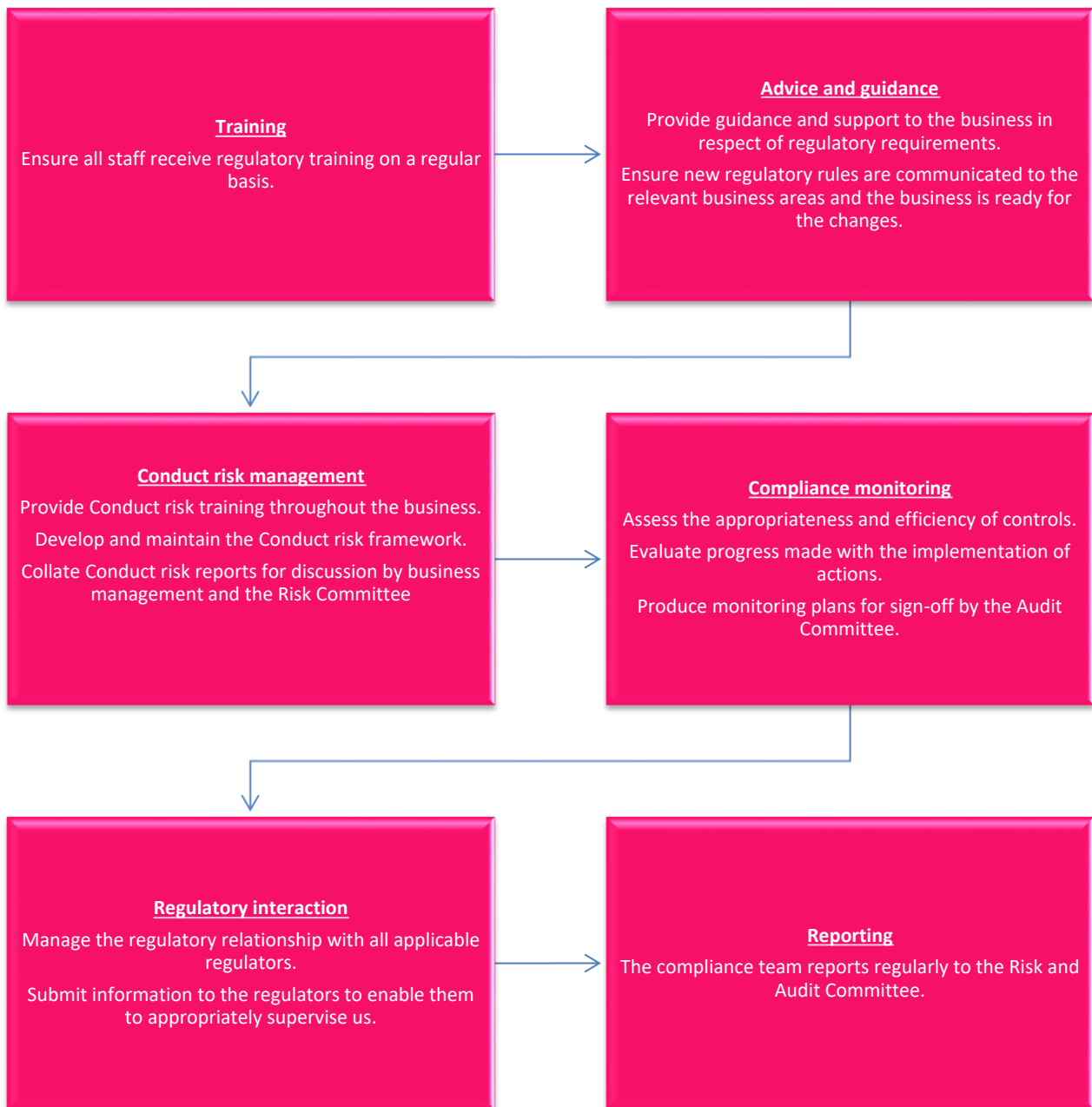
The Compliance function is established as an independent second line control function in the three lines of defence:

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

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

The Compliance function is responsible for reporting to senior management any breaches, or non-compliance with 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:



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

### **B.5.1 Implementation of the Internal Audit function**

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

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

- An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the risk management and control processes across the business. The plan includes a review of 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 monitoring, risk deep dives and external audit. To minimise duplication of effort and inefficiencies, GIA considers the work planned, or recently completed, by management in its assessments of the risk management process, controls and quality improvement processes, as well as the work planned by the external auditors, are considered in determining the expected coverage of the audit plan for the coming year.
- The Executive Committee and the Board requires that the CIA performs sufficient audit work and gathers other available information during the year so as to form a 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 an independent 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 SMF, reports functionally to the Group Chief Risk Officer, 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.

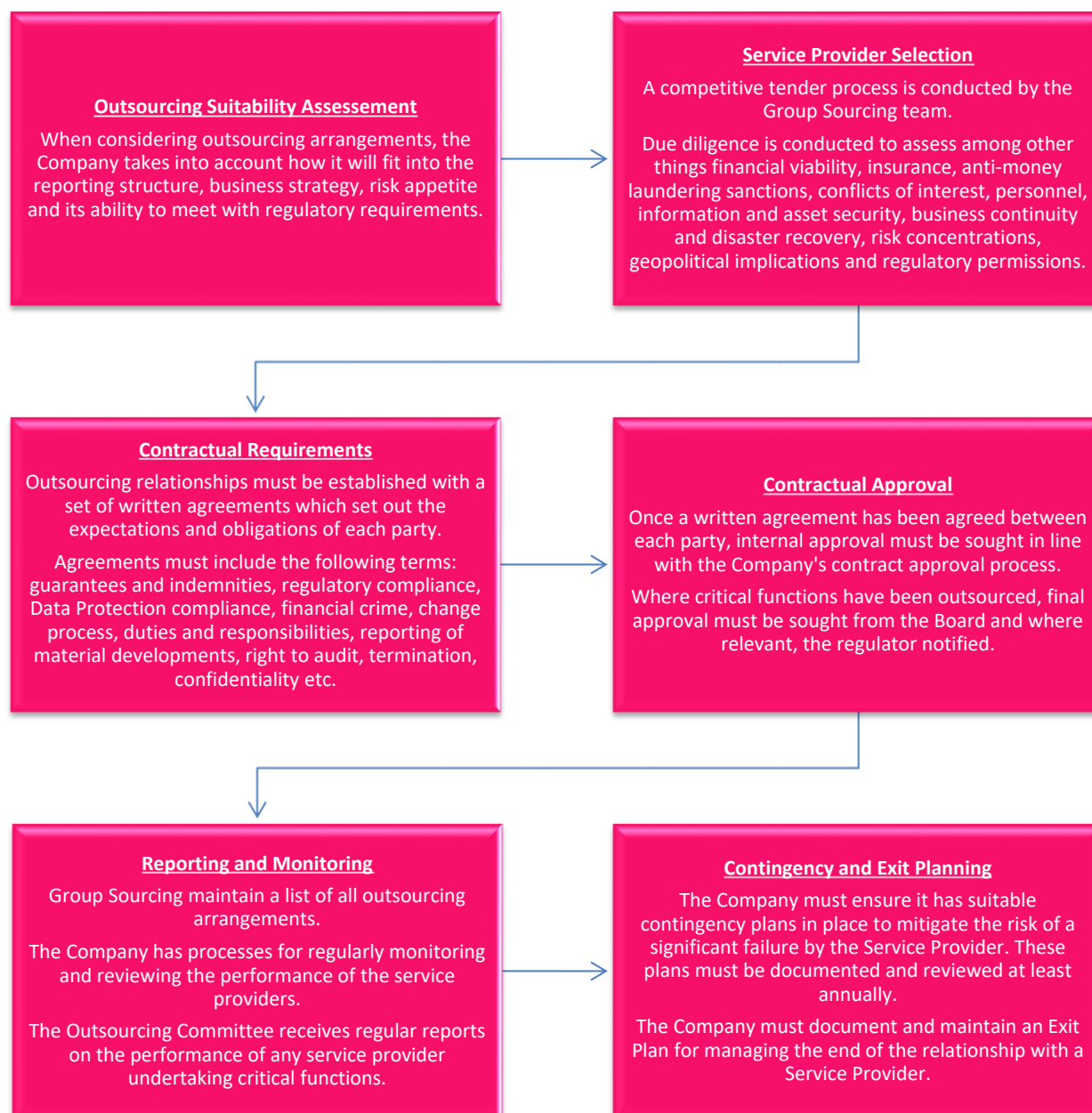
The requirements covering technical provisions are addressed through various activities, including the Chief Actuary's review and challenge of the actuarial reporting team's proposed valuation methodology and assumptions before they are presented to the Actuarial Committee for approval, and co-ordination 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 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 claims administration, document management and payroll within the UK; and intragroup IT and business process outsourcing services in South Africa. The main platform for VitalityInvest is managed by a service provider in Australia, but is hosted in the UK with a UK based support team

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



## **B.8 SYSTEM OF GOVERNANCE – ADEQUACY OF SYSTEM**

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

# 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 the dementia and frail care cover option.

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

Policyholders could also select either the Vitality Optimiser ("VO") or Wellness Optimiser ("WO") options which provided an initial premium discount compared to policyholders who did 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 through Vitality Select (which is accessed through any VitalityInvest plan).

## Summary of investments

Other than assets held in respect of the VitalityInvest business which mainly comprise of unit-linked assets matching unit-linked liabilities, VLL's shareholder and non unit-linked investments are predominantly held in cash and in short-term high quality liquid assets within collective investment undertakings. During the year VLL purchased an interest rate swaption from its parent company, DHEL, which expires in 2023 – see section D.1 for further details. In addition, VLL has held a strategic equity investment in VHIL since February 2020.

## Summary of risk

The split of VLL's SCR as at 30 June 2020 is as follows:

Vitality Life Limited £'m	2020	2019
Health underwriting risk	95.7	77.6
Life underwriting risk	167.4	157.6
Market risk	44.6	24.4
Counterparty default risk	14.6	1.9
Undiversified BSCR	322.3	261.5
Diversification credit	(86.7)	(59.8)
Basic SCR	235.6	201.7
Operational risk	7.2	6.3
Adjustment for loss absorbing capacity of deferred taxes	(14.5)	-
Final Standard Formula SCR	228.3	208.0

Underwriting risk is the main standard formula SCR risk and there have been no material changes to the risk profile over the reporting period. Reinsurance risk mitigation for mortality and morbidity risks is in place via the use of quota share reinsurance arrangements with a retention limit. The material underwriting risk is therefore lapse risk. Market risk as a component of the SCR is small relative to the underwriting risk component, and has increased due to the equity risk charge on the strategic investment in VHIL/VHL.

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

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

With the lockdown from COVID-19 easing, but with increasing numbers of reported cases in the UK, the situation remains unclear and there continues to be material levels of uncertainty about the forthcoming reporting period. There are new risks that could emerge over the coming years from the COVID-19 pandemic and its consequences for the economy. The Company has increased short term lapse and mortality assumptions to reflect this ongoing uncertainty, and this will continue to be closely monitored. As noted in section B.3.1 risks are managed according to a Board approved Risk Management Framework. Specific risk mitigations are identified in section C.1 to C.6 where relevant.

## C.1 UNDERWRITING RISK

### C.1.1 Exposure

Underwriting risk at 30 June 2020 comprises just over 80% 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. There is also the risk that the impact of COVID-19 on VLL's future lapse experience is different from that expected.

#### 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. The Company has made an allowance for an expected short-term increase in claims due to COVID-19. It must be noted that the degree of uncertainty relating to the estimate of the impact on VLL's claims experience is very high given the circumstances. The COVID-19 situation will continue to evolve and the Company will continue to monitor circumstances and update relevant assumptions as further information comes to light.

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

## **C.2 MARKET RISK**

### **C.2.1 Exposure**

Market risk is the risk of loss or of adverse change in the financial situation resulting directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

As at 30 June 2020, VLL's shareholder and non unit-linked investments are largely held in cash (including short-term deposits) in both UK and South African based bank accounts and in short-term high quality liquid assets within collective investment undertakings. These assets are primarily held to meet operational and new business funding liquidity requirements. The Sterling-denominated liquidity investment funds invest in short-dated fixed and variable interest securities both sovereign and non-sovereign. Maturities range from overnight to a maximum of under one year and the funds have a credit rating of at least single A (or equivalent). 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.

VLL also has a strategic equity investment in VHIL, which is the primary factor behind the equity risk of 9% of the undiversified basic SCR at 30 June 2020. In addition, during the year VLL purchased an interest rate swaption from its parent company which expires in 2023. The interest rate risk SCR has reduced from 2019 to 2020 as a result of the beneficial impact of the interest rate swaption entered into during the period. The remaining market risks including currency risk, concentration risk, property risk and spread risk account for just under 5% of the undiversified basic SCR.

The currency risk arises from a strengthening of the South African Rand ("ZAR") against the Pound Sterling ("GBP"). When the ZAR strengthens technical provisions increase because part of the Company's expense base is in South Africa (some operations are outsourced to other Discovery group companies in South Africa). This is partially offset by the increase in value of the cash held in South African bank accounts and term deposits at 30 June 2020 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).

### **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 property holdings.

### **C.2.3 Risk concentration**

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

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

## 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 2020, credit risk in the form of counterparty default, spread and concentration risk comprised 3.5%, 0.3% and 1.9% respectively of the undiversified basic SCR ("BSCR"). Credit risk primarily arises from exposure to various reinsurance counterparties and three banking counterparties, two UK-based and one South Africa-based, as well as the swaption counterparty exposure to DHEL.

All of the reinsurance counterparties with which VLL has treaties are highly rated and all have a Solvency II credit quality step of 1. At 30 June 2020 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.

For the swaption, the credit risk exposure is to VLL's parent company, DHEL, and the maximum loss it is exposed to is the value of the swaption.

### C.3.2 Risk mitigation

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

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

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

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

No derivatives are employed to manage credit risk.

### C.3.3 Risk concentration

The company avoids material credit risk concentrations by ensuring its deposits are split across more than one 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 2020 more than 95% of its shareholder and non unit-linked investments, excluding the strategic equity investment in VHIL, are held in cash in both UK and South African based bank accounts, term deposit accounts and in short-term high quality liquid assets within collective investment undertakings. The GBP denominated liquidity investment funds invest in short-dated fixed and variable interest securities both sovereign and non-sovereign. Maturities range from overnight to a maximum of under one year and the funds have a credit rating of at least Standard and Poor's single A (or equivalent). The liquid investment assets reflect the fact that VLL only started writing life insurance business in 2016 and so doesn't have a large in-force book to fund the writing of new business.

### **C.4.2 Risk mitigation**

Liquidity requirements are assessed monthly in order to meet VLL's stated liquidity objectives. Liquidity requirements and risks are also considered in VLL's ORSA. The Company's current policy is to hold sufficient internal liquid resources to meet both expected and stressed operating liquidity demands within a specified time horizon. Investment assets take into account the liquidity requirements of the business. A sizeable level of assets is held as cash in bank accounts and in short-term 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 the 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.

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

### **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 2020 is £724.4m. The EPIFP is calculated in line with Article 260 of the Commission Delegated Regulation (EU) 2015/35 (referred to as Delegated Regulations in the remainder of the document). For all VitalityLife policies, there is no surrender value on discontinuance, but discontinuance would lead to commission clawback being received by the Company for lapses within the clawback period. The EPIFP is therefore equal to the negative BEL less an allowance for the commission clawback that would be received if the entire book discontinued. While EPIFP contributes to own funds, it is highly illiquid and so VLL's holdings in highly liquid investments take this into account.

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

## C.5 OPERATIONAL RISK

### C.5.1 Exposure

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

The following measures are used to assess operational risks:

- Risk and control assessments – the ERM framework 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 also carries out operational risk scenario workshops to develop scenarios for each operational risk category. This involves estimating the severity and likelihood of each scenario based on the information captured in the company's risk register and input from subject matter experts in the business. Once captured, the operational risk profile is assessed quantitatively and taken into account in the Company's own assessment of its solvency capital requirements. Operational risks are also assessed using qualitative techniques to understand the likelihood and impact of the risks materialising. The results of this assessment are recorded in the ORSA.
- The top-three operational risks included in the assessment were:
  1. 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;
  2. 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; and,
  3. Market Conduct (for both Life and Invest) – The risk that the Company's decisions and behaviours lead to detriment or poor outcomes for members and / or the Company fails to maintain high standards of market integrity.

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

### C.5.2 Risk mitigation

All material operational risks which the Company is exposed to, are identified and recorded in the risk register. The risks are assessed and once any actions required to manage the risks have been agreed, the risks are reported to senior management, the Risk Committee and the Board. The following list outlines the actions/techniques the Company uses to 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 operational risk have been identified by the business and there is ongoing monitoring of risks to ensure this remains the case.

## C.6 OTHER MATERIAL RISKS

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

- New business funding liquidity risk
- Strategic 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. In addition, the Company has, via its parent, access to an unsubordinated debt facility with a major UK bank.

Liquidity requirements are assessed frequently in order to meet VLL's stated liquidity objectives, and assessments to ensure sufficient liquidity under stress are performed periodically. The high level of liquid assets and the existing commitments from reinsurers to provide the agreed future financing helps to mitigate new business financing liquidity risk. In extreme situations VLL could reduce or stop writing new business in order to control this risk.

### Strategic risks

Strategic risk, our strategic objectives could be impacted by evolving customer preferences, our investment performance, the economic environment, and political and regulatory change. In particular, the recessionary impacts of the COVID-19 pandemic, as well as the outcome of the future trading relationship with the EU continue to generate uncertainty in this area.

## C.7 RISK PROFILE – ANY OTHER INFORMATION

### C.7.1 Risk sensitivity

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

The stress tests performed for material underwriting risks and market risks are described in Section C.7.2.

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

## C.7.2 Sensitivities

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

Risk driver and stress description	Stress	SCR% impact	Impact
Base		197%	
Lapse rates: An immediate and permanent increase/decrease in lapse rates applied to all policies.	(+/-)10%	<b>Lapse up:</b> +20%  <b>Lapse down:</b> (18)%	An increase in lapse rates has a positive impact on SCR coverage as the firm's existing financial resources are needed to cover a smaller future in-force portfolio, particularly since there are no surrender values for protection business.
Mortality and morbidity: An immediate and permanent increase in mortality rates and morbidity for the Life business.	+10% for both mortality and morbidity	(13)%	There is a decrease in SCR cover, which is driven primarily by a reduction in future profits, given the reinsurance risk mitigation in place which limits the impact of mortality risk on claim payouts.
Interest Rates: An immediate and permanent decrease in nominal interest rates.	-50bps	(23)%	SCR cover reduces when interest rates decrease. This is primarily via the impact on the SCR and risk margin.
Interest Rates: An immediate and permanent increase in nominal interest rates.	+50bps	+17%	SCR cover increases when interest rates increase. This is primarily via the impact on the SCR and risk margin.

It is also worth noting that a global pandemic such as COVID-19 is an extreme event and that the financial strength and resilience of VLL has been demonstrated through this challenging period.

### **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 unit-linked policies where the investment risk is borne by the policyholders and ensures that the unit-linked assets and liabilities are appropriately matched.

The Company also has negative technical provisions which contribute to Own Funds. A large part of the SCR relates to the loss in future profits following a mass lapse. Since this does not trigger an increase in cash outgo (as the products do not pay a surrender benefit) the illiquid asset is able, and suitable, to satisfy this risk.

As such, there are no assets backing policyholder liabilities (if ignoring the unit reserves on VitalityInvest business and their matching assets). Therefore no liquid assets are required to be held against the technical provisions as the business is still growing.

The Company uses a standard interest rate swaption for the purposes of efficient portfolio management. The collective investment undertakings may from time-to-time purchase limited amounts of derivatives to contribute to a reduction of risks or facilitate efficient portfolio management.

With the exception of the strategic investment in VHIL, all of the Company's financial assets relate to counterparties that are subject to a regulated financial market and investment in liquidity funds is split between two providers to provide diversification of fund management. In addition, cash and short-term deposits are held across two highly reputable and creditworthy banks. The assets underlying the collective investment undertakings are short term high quality liquid assets which do not lead to excessive risk concentration, while the collective investment undertakings and two asset managers themselves have high credit ratings.

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

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	702.6	(153.9)	(286.8)	261.9
Assets held for index-linked and unit-linked contracts	-	202.3	-	202.3
Insurance and intermediaries receivables	14.6	-	-	14.6
Cash and cash equivalents	61.1	(51.4)	-	9.7
Reinsurance receivables	17.5	(17.5)	-	-
Deferred tax assets	7.7	-	14.9	22.6
Reinsurance recoverable	(365.1)	-	(83.3)	(448.4)
Intangible assets	15.8	-	(15.8)	-
Receivables (trade, not insurance)	3.1	(0.9)	-	2.2
Any other assets, not elsewhere shown	-	17.5	-	17.5
<b>Total assets</b>	<b>457.3</b>	<b>(3.9)</b>	<b>(371.0)</b>	<b>82.4</b>

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 2020 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	25.8	(179.7)	-	(153.9)
Assets held for index-linked and unit-linked contracts	-	202.3	-	202.3
Insurance and intermediaries receivables	-	-	-	-
Cash and cash equivalents	(25.8)	(25.6)	-	(51.4)
Receivables (trade, not insurance)	-	(0.9)	-	(0.9)
Reinsurance receivables	-	-	(17.5)	(17.5)
Any other assets, not elsewhere shown	-	-	17.5	17.5

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

#### Note 1: Investments

The IFRS financial statements discloses investments in highly liquid money market funds with 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 £25.8m presentational adjustment has been made between cash and cash equivalents and investments for this.

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

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

**Note 3: Any other assets, not elsewhere shown**

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

**D.1.1.1 Investments**

The investments held by the company are held in collective investment undertakings (SII value: £57.8m), Holdings in related undertakings, including participations (SII value: £170.0m), Deposits other than cash equivalents (SII value: £21.7m) and Derivatives (SII value: £12.4m). Each of these is discussed below.

**Collective investment undertakings**

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

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

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

**Holdings in related undertakings, including participations**

At the reporting date the Company held a participation in Vitality Health Insurance Limited (VHIL), which in turn owns 100% of Vitality Health Limited (VHL), an insurance undertaking. The SII value of this participation is £170.0m which differs to the IFRS financial statement valuations of £456.8m.

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

No significant estimates or judgements are used in the SII valuation of this investment as the valuation is taken directly from the SII balance sheets of VHIL and VHL respectively.

**Deposits other than cash equivalents**

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.

**Derivatives**

The derivative balance represents the fair value of one open derivative contract at 30 June 2020. The type of derivative is an interest rate swaption between the Company and its parent, Discovery Holding Europe Limited. A swaption is an option granting the Company the right but not the obligation to enter into an underlying interest rate swap. The total notional value of open interest



rate options at 30 June 2020 is £380.0m. The premium to enter into the swaption was £12.3m and its fair value at 30 June 2020 was £12.4m

The reference interest rate for the derivative is the 25 year GBP swap rate and the option strike rate is 1.40%. The derivative was entered into on 3 June 2020 and expires on 11 May 2023. If the reference rate exceeds the strike price at expiration of the swaption then the Company will make a gain equal to the value of an interest rate swap as if it were entered into on the expiration date. The swap value will be based on a fixed for floating swap with the Company paying the fixed rate equal to the strike price and receiving the floating rate based on the reference rate at expiration of the swaption. If the reference rate is below the strike price at expiration, then the swaption will expire with zero value.

There are no valuation differences for derivatives between Solvency II and IFRS. Derivative contracts are valued at fair value based on observable market data including interest rates and market volatility.

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

These assets represent the amount held by the Company to back the policyholder liabilities relating to the unit-linked insurance contracts sold by VitalityInvest. For SII, all assets and liabilities relating to index-linked and unit-linked contracts are reported in a single line item within 'assets held for index-linked and unit-linked contracts' and therefore this number is net of non-technical liabilities held in relation to these unit-linked contracts. The total IFRS value of these liabilities is £202.3m.

The material element of these assets relates to £179.7m held in a range of investment funds and a further £25.6m held in cash and cash equivalents. The allocation of assets into the funds and cash is directly matched with units chosen by the policyholders when purchasing (or servicing) their unit-linked policy. These assets are measured using a mixture of amortised cost (which equates to fair value) and fair value depending on their nature and IFRS classification. The valuation is based on independent fund manager valuation reports that are derived from market prices or statements provided by the Company's bankers.

#### **D.1.1.3 Insurance and Intermediaries receivables**

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

Note, the sum of insurance and intermediaries receivables of £14.6m and receivables (trade, not insurance) of £3.1m is £17.7m. Under IFRS, the £17.7m consists of loans and receivables of £15.8m and current tax of £1.9m.

#### **D.1.1.4 Cash and cash equivalents**

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

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

#### **D.1.1.5 Reinsurance receivables**

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

#### **D.1.1.6 Deferred tax assets**

The value of the deferred tax asset is set up in respect of unutilised trade losses incurred in the Company. The valuation of the DTA in the financial statements is different to the SII valuation, which is consistent with the methodology prescribed in Article 15 of the Delegated Regulation.

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

The recognition of the deferred tax asset is subject to a degree of estimation and judgment. As there are no external market observable / comparable valuations, an internal valuation model is used. The level of deferred tax asset recognised is modelled with reference to probability weighted expected future taxable profits and current legislation regarding the future use of trading losses.

The valuation of the deferred tax asset takes into account the UK Government announcement in the Spring Budget 2020 that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17% as previously enacted). This new law was substantively enacted on 17 March 2020.

#### **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 £15.8m.

#### **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, and an amount due to the Company from unit-linked fund management operations. The value of this asset is the same in the Company's IFRS financial statements as under Solvency II.

#### **D.1.1.10 Any other assets, not elsewhere shown**

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

## D.2 TECHNICAL PROVISIONS

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

The table below shows the technical provisions at 30 June 2020 by line of business:

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

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

For comparison, the table below shows the technical provisions at 30 June 2019 by line of business:

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

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

The main driver of the change in technical provisions over the year is the new business written, although for the 'Other Life' segment there were offsetting assumption changes.

#### 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 SLT Health, where the segmentation is carried out at a per policy level depending on the types of benefit attached to each policy. The technical provisions for VitalityInvest are captured in the index-linked and unit-linked category. The valuation methodology for all categories is as described above, while the assumptions used in the valuation may vary 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 Regulations as VLL has performed an analysis of the risk associated with the simplification; it is aware of the potential error introduced; and the simplification results in an overestimation of technical provisions. The materiality of the simplification is reviewed at least annually.

### *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*

VLL uses bespoke tables for its claims rate assumptions, which 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 2020:

£'m	Unit-linked	Other life	SLT Health	Total
<i>Gross IFRS Insurance contract liabilities</i>	201.1	(535.2)	(115.9)	(450.1)
<i>Adjustments for Solvency II</i>	(0.8)	(59.2)	(162.1)	(222.1)
<b>Gross BEL and Technical Provisions calculated as a Whole</b>	<b>200.2</b>	<b>(594.4)</b>	<b>(278.1)</b>	<b>(672.2)</b>
<i>Add risk margin</i>	0.9	164.2	36.3	201.4
<b>Technical provisions</b>	<b>201.1</b>	<b>(430.2)</b>	<b>(241.8)</b>	<b>(470.8)</b>

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;
- For the VitalityInvest unit fund growth rate, the risk-free rate is used for Solvency II, while IFRS allows for risk premiums on risk bearing asset classes; and
- For VitalityInvest, future premiums are excluded as the contract boundary is assessed to be the valuation date. There are no contract boundary differences for Other Life and SLT Health business.

### D.2.4 Recoverables from reinsurance contracts and special purpose vehicles

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 2020 were £(448.4)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	29.9	-	-	29.9
Insurance and intermediary payables	4.6	-	-	4.6
Reinsurance payables	27.9	-	-	27.9
Payables (trade, not insurance)	8.3	(3.9)	-	4.4
Financial liabilities other than debts owed to credit institutions	35.0	-	-	35.0
Subordinated liabilities	73.1	-	-	73.1
Any other liabilities, not shown elsewhere	1.3	-	-	1.3
<b>Total other liabilities</b>	<b>180.1</b>	<b>(3.9)</b>	<b>-</b>	<b>176.2</b>

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 2020 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)	3.9	3.9

#### Note 1: Payables (trade, not insurance)

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

#### D.3.1.1 Provisions, other than technical provisions

Provisions, other than technical provisions 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 material estimation methods, adjustments for future value

or valuation judgements are required for these balances. Where there is a contractual right of offset with each reinsurance provider then reinsurance receivables and reinsurance payables have been recorded on a net basis. The timing of expected economic outflows to settle the liability with each reinsurer is contractually based, and in the normal course of business, is within three months of the reporting date.

#### **D.3.1.4 Payables (trade, not insurance)**

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

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

Two long-term unsubordinated loans have been provided to the Company by DHEL. The loans total £35.0m and are due for repayment on 20 July 2023.

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

The interest rate payable on the loan has both a fixed and variable element. The fixed element includes an allowance for the Company's own credit standing and the variable element is designed to reflect changes in risk-free interest rates. Changes in interest rates between the dates the loans were issued and the reporting date of 30 June 2020 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 2020.

#### **D.3.1.6 Subordinated liabilities**

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

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

The interest rate payable on the loan has both a fixed and variable element. The fixed element includes an allowance for the Company's own credit standing and the variable element is designed to reflect changes in risk-free interest rates. Changes in interest rates between the dates the loans were issued and the reporting date of 30 June 2020 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 2020.

#### **D.3.1.7 Any other liabilities, not shown elsewhere**

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



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

For the financial year ending 30 June 2020, the interest rate swaption was subject to valuation under an alternative valuation method.

### **D.4.1 Justification for use of an alternative approach**

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

Alternative valuation methods include the use of estimates and assumptions that are not market observable. Where estimates and assumptions are used by the Company in valuing its assets, they are based on a combination of expert judgement, independent third-party evidence and internally developed models, calibrated to market observable data where possible.

### **D.4.2 Valuation approach**

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

The fair value has been derived using market data from secondary markets (via Bloomberg) and information provided by financial institutions. The fair value of a swaption is derived using the 'Black-model' with key assumptions being market interest rates and market volatility as at 30 June 2020.

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

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

No other information is provided.

# E CAPITAL MANAGEMENT

## E.1 OWN FUNDS

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

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management, which occur at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. The committees that review solvency are described in more detail in section B.1 General Information on the System of Governance, and responsibility ultimately rests with the 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 2020 and analysis of change from 30 June 2019 is shown below:

£'m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
<b>At 30 June 2020</b>					
Ordinary share capital	459.6	-	-	-	459.6
Share premium	268.1	-	-	-	268.1
Subordinated debt	-	-	73.1	-	73.1
Reconciliation reserve	(373.2)	-	-	-	(373.2)
Net deferred tax assets	-	-	-	22.6	22.6
<b>Total eligible own funds to meet SCR</b>	<b>354.5</b>	<b>-</b>	<b>73.1</b>	<b>22.6</b>	<b>450.2</b>
Less: restrictions on eligible own funds to meet MCR	-	-	(61.7)	(22.6)	(84.3)
<b>Total eligible own funds to meet MCR</b>	<b>354.5</b>	<b>-</b>	<b>11.4</b>	<b>-</b>	<b>365.9</b>

<b>At 30 June 2019</b>					
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
<b>Total eligible own funds to meet SCR</b>	<b>240.0</b>	<b>-</b>	<b>66.6</b>	<b>7.2</b>	<b>313.8</b>
Less: restrictions on eligible own funds to meet MCR	-	-	(56.2)	(7.2)	(63.4)
<b>Total eligible own funds to meet MCR</b>	<b>240.0</b>	<b>-</b>	<b>10.4</b>	<b>-</b>	<b>250.4</b>

<b>Analysis of Change: 30 June 2019 to 30 June 2020</b>					
Ordinary share capital issued	457.2	-	-	-	457.2
Share premium issued	26.5	-	-	-	26.5
Subordinated debt issued	-	-	6.5	-	6.5
Reconciliation reserve movement	(369.2)	-	-	-	(369.2)
Net deferred tax assets recognised	-	-	-	15.4	15.4
<b>Total movement in eligible own funds to meet SCR</b>	<b>114.5</b>	<b>-</b>	<b>6.5</b>	<b>15.4</b>	<b>136.4</b>
Less: movement in restrictions on eligible own funds to meet MCR	-	-	(5.5)	(15.4)	(20.9)
<b>Total movement in eligible own funds to meet MCR</b>	<b>114.5</b>	<b>-</b>	<b>1.0</b>	<b>-</b>	<b>115.5</b>

Tier 1 unrestricted:

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

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

The reconciliation reserve comprised of:

£'m	30 June 2020	30 June 2019	Movement
SII excess of assets over liabilities	377.1	247.2	129.9
Other basic own fund items	(727.7)	(244.0)	(483.7)
Net deferred tax assets	(22.6)	(7.2)	(15.4)
<b>Reconciliation reserve</b>	<b>(373.2)</b>	<b>(4.0)</b>	<b>(369.2)</b>

The change in reconciliation reserve is mainly a result of the difference between the purchase price for the investment in VHIL and the value that can be recognised for the investment on a Solvency II basis relative to an IFRS basis.

Basic own fund items comprised of:

£'m	30 June 2020	30 June 2019	Movement
Ordinary share capital	459.6	2.4	457.2
Share premium	268.1	241.6	26.5
<b>Total basic own fund items</b>	<b>727.7</b>	<b>244.0</b>	<b>483.7</b>

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 it is exchanged or converted to an equal or higher quality form of regulatory capital under the Solvency II regulations ("regulatory restrictions").

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

Loan commencement date	Principal value of Loan £'m	Loan maturity date
31 March 2017	24.7	1 April 2027
31 October 2017	6.0	1 November 2027
31 May 2018	8.0	1 June 2028
29 June 2018	2.5	30 June 2028
20 August 2018	9.0	21 August 2028
23 November 2018	6.5	24 November 2028
28 February 2019	2.8	1 March 2029
31 May 2019	7.1	1 April 2029
31 July 2019	6.5	1 August 2029
<b>Total at Tier 2 own funds</b>	<b>73.1</b>	

The subordinated loans are 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 £95.7m. 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 £22.6m in respect of unutilised trading tax losses and differences between the IFRS base balance sheet and the Solvency II base balance sheet.

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

£'m	Total eligible own funds 2020	Total eligible own funds 2019
Tier 1 unrestricted	354.5	240.0
Tier 1 restricted	-	-
Tier 2	73.1	66.6
Tier 3	22.6	7.2
<b>Total eligible own funds to meet SCR</b>	<b>450.2</b>	<b>313.8</b>

The total available own funds to meet the SCR are £450.2m.

The eligible own funds over SCR ratio was 197% as at 30 June 2020.

Total available tier 3 own funds to meet the SCR are £22.6m. 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	354.5	-	354.5
Tier 1 restricted	-	-	-
Tier 2	73.1	(61.7)	11.4
Tier 3	22.6	(22.6)	-
<b>Total</b>	<b>450.2</b>	<b>(84.3)</b>	<b>365.9</b>

The total available own funds to meet the MCR are £365.9m.

The eligible own funds over MCR ratio was 641% as at 30 June 2020.

Tier 3 own funds cannot form part of total available own funds to meet the MCR and therefore this reduces Tier 3 items to nil. Furthermore, Article 82 of the Delegated Regulation limits Tier 2 items to 20% of the MCR and therefore this reduces the Tier 2 own fund items by £61.7m to £11.4m.

### 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 2020 £'m	As at 30 June 2019 £'m
<b>Net assets under IFRS</b>	<b>727.5</b>	<b>282.1</b>
Valuation adjustment for technical provisions under SII, net of reinsurance recoverables	(62.6)	(27.3)
Valuation adjustment for intangible assets under SII	(15.8)	(14.7)
Valuation adjustment in investment in participations	(286.8)	-
Valuation adjustment for deferred tax assets under SII	14.9	7.2
<b>Excess of assets over liabilities</b>	<b>377.1</b>	<b>247.3</b>

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

£'m	IFRS valuation	Solvency II valuation	Difference
<b>Technical provisions</b>	(450.1)	(470.8)	
<b>Reinsurance recoverables</b>	365.1	448.4	
<b>Technical provisions net of recoverables</b>	<b>(85.0)</b>	<b>(22.4)</b>	<b>(62.6)</b>

Total equity per the financial statements was £727.5m as at 30 June 2020. Excess assets over liabilities as calculated for solvency II purposes was £377.1m. The difference of £350.4m 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 2020.

### E.1.8 Items deducted from own funds

There are no deductions from own funds at 30 June 2020.

## 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 2020 (the SCR and MCR at 30 June 2019 are also shown for comparative purposes)

Vitality Life Limited £'m	2020	2019
SCR	228.3	208.0
MCR	57.1	52.0

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 2019 to 2020.

### 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 2020 and 30 June 2019.

Vitality Life Limited £'m	2020	2019
Health underwriting	95.7	77.6
Life underwriting	167.4	157.6
Market risk	44.6	24.4
Counterparty default risk	14.6	1.9
Undiversified BSCR	322.3	261.5
Diversification credit	(86.7)	(59.8)
Basic SCR	235.6	201.7
Operational risk	7.2	6.3
Adjustment for loss absorbing capacity of deferred taxes	(14.5)	-
Final Standard Formula SCR	228.3	208.0

VLL first applied an adjustment for the loss absorbing capacity of deferred taxes ("LACDT") on its solvency II balance sheet at 30 September 2019. VLL has completed an assessment to evidence that it can continue to recognise LACDT in the SCR at 30 June 2020.

### 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 2020 and at 30 June 2019. Note the Absolute Floor of the Minimum Capital Requirement ("AMCR") is prescribed by EIOPA and stated in GBP below.

£'m	2020	2019
AMCR (in GBP)	3.3	3.3
Linear MCR	24.6	18.6
SCR	228.3	208.0
Combined MCR	57.1	52.0
MCR	57.1	52.0

#### 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 2020.

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

This is not applicable as at 30 June 2020.

#### 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 2020.

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

There is no other information to note.

## F ADDITIONAL VOLUNTARY INFORMATION

### F.1 TRANSITIONAL INFORMATION

The Company has no other voluntary material information to disclose.

### F.2 OTHER ADDITIONAL VOLUNTARY INFORMATION

The Company has no other voluntary material information to disclose.



# G TEMPLATES

The following templates are requirement for the SFCR:

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

The templates are included at the end of this report.

# H DIRECTORS' RESPONSIBILITY STATEMENT

Validity Life Limited

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

Financial period ended 30 June 2020

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

We are satisfied that:

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

A handwritten signature in black ink, appearing to read 'N. Koopowitz', with a long horizontal stroke extending to the right.

Neville Stanley Koopowitz  
Director and Group Chief Executive Officer  
Date: 30 September 2020

# I EXTERNAL AUDIT REPORT

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

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

### Opinion

We have audited the following documents prepared by the Company as at 30 June 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 June 2020, (**the Narrative Disclosures subject to audit**); and
- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 (**the Templates subject to audit**).

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

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

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 30 June 2020 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.

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

### **Emphasis of Matter - Basis of Accounting**

We draw attention to the 'Valuation for solvency purposes' and/or '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.

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.

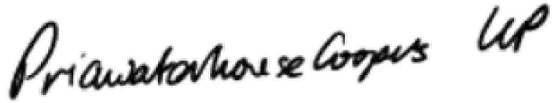
Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

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

**Report on Other Legal and Regulatory Requirements**

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

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

*PricewaterhouseCoopers LLP*

*Chartered Accountants*

London

30 September 2020

# Vitality Life Limited

## Solvency and Financial Condition Report

### Disclosures

30 June  
**2020**

(Monetary amounts in GBP thousands)

## General information

Undertaking name	Vitality Life Limited
Undertaking identification code	2138000647LRO31RG918
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	30 June 2020
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
		C0010
<b>Assets</b>		
R0030	Intangible assets	
R0040	Deferred tax assets	22,643
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)	261,836
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	169,966
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	24
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	24
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	57,709
R0190	<i>Derivatives</i>	12,420
R0200	<i>Deposits other than cash equivalents</i>	21,716
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	202,315
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	-448,419
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	-448,419
R0320	<i>Health similar to life</i>	-101,687
R0330	<i>Life excluding health and index-linked and unit-linked</i>	-346,732
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	14,629
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	2,176
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	9,691
R0420	Any other assets, not elsewhere shown	17,526
R0500	<b>Total assets</b>	<b>82,396</b>



**S.02.01.02**  
**Balance sheet**

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-671,966
R0610	<i>Technical provisions - health (similar to life)</i>	-241,807
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	-278,057
R0640	<i>Risk margin</i>	36,250
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	-430,159
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	-594,393
R0680	<i>Risk margin</i>	164,233
R0690	Technical provisions - index-linked and unit-linked	201,148
R0700	<i>TP calculated as a whole</i>	202,315
R0710	<i>Best Estimate</i>	-2,094
R0720	<i>Risk margin</i>	927
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	29,895
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	35,000
R0820	Insurance & intermediaries payables	4,559
R0830	Reinsurance payables	27,913
R0840	Payables (trade, not insurance)	4,407
R0850	Subordinated liabilities	73,050
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	73,050
R0880	Any other liabilities, not elsewhere shown	1,271
R0900	<b>Total liabilities</b>	-294,724
R1000	<b>Excess of assets over liabilities</b>	377,120

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

[illegible]

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															
		202,315								202,315						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															
			-2,094			-300,229	-294,163			-596,486		-109,992	-168,066			-278,057
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default															
						-212,278	-134,454			-346,732		-47,545	-54,142			-101,687
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re															
			-2,094	0		-87,952	-159,709			-249,755		-62,447	-113,924			-176,370
R0100	Risk margin															
		927			164,233					165,160	36,250					36,250
Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole															
R0120	Best estimate															
R0130	Risk margin															
										0						0
										0						0
										0						0
R0200	Technical provisions - total															
		201,148			-430,159					-229,011	-241,807					-241,807

### Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

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

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

## R0640 Ratio of Eligible own funds to MCR

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

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>

724,412
724,412

## S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

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

R0070 Intangible asset risk

## R0100 Basic Solvency Capital Requirement

## Calculation of Solvency Capital Requirement

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

## Other information on SCR

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

## Approach to tax rate

R0590 Approach based on average tax rate

## Calculation of loss absorbing capacity of deferred taxes

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

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
44,649		
14,588		
167,350		
95,692		
0		
-86,710		
0		
235,569		
C0100		
7,208		
0		
-14,520		
0		
228,257		
0		
228,257		
0		
0		
0		
0		
0		
C0109		
No		
LAC DT		
C0130		
-14,520		
0		
-14,520		
0		
0		
-43,253		

## 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**

R0010 MCR<sub>NL</sub> Result

C0010

0

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

C0020

C0030

R0020 Medical expense insurance and proportional reinsurance

R0030 Income protection insurance and proportional reinsurance

R0040 Workers' compensation insurance and proportional reinsurance

R0050 Motor vehicle liability insurance and proportional reinsurance

R0060 Other motor insurance and proportional reinsurance

R0070 Marine, aviation and transport insurance and proportional reinsurance

R0080 Fire and other damage to property insurance and proportional reinsurance

R0090 General liability insurance and proportional reinsurance

R0100 Credit and suretyship insurance and proportional reinsurance

R0110 Legal expenses insurance and proportional reinsurance

R0120 Assistance and proportional reinsurance

R0130 Miscellaneous financial loss insurance and proportional reinsurance

R0140 Non-proportional health reinsurance

R0150 Non-proportional casualty reinsurance

R0160 Non-proportional marine, aviation and transport reinsurance

R0170 Non-proportional property reinsurance


**Linear formula component for life insurance and reinsurance obligations**R0200 MCR<sub>L</sub> Result

C0040

24,634

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

C0060

R0210 Obligations with profit participation - guaranteed benefits

R0220 Obligations with profit participation - future discretionary benefits

R0230 Index-linked and unit-linked insurance obligations

R0240 Other life (re)insurance and health (re)insurance obligations

R0250 Total capital at risk for all life (re)insurance obligations

202,315	
	33,168,658

**Overall MCR calculation**

R0300 Linear MCR

R0310 SCR

R0320 MCR cap

R0330 MCR floor

R0340 Combined MCR

R0350 Absolute floor of the MCR

R0400 Minimum Capital Requirement

C0070

24,634
228,257
102,716
57,064
57,064
3,187
57,064