VITALITY LIFE LIMITED

Annual Report and Financial Statements

For the year ended 30 June 2023

Incorporated and registered in England and Wales. Registered No: 03319079

CONTENTS

DIRECTORS AND OFFICERS

Directors in office at the date of signing the financial statements

Alastair Lyons*

Nicholas Caplan*

Andrew Crossley*

David Hare*

Rosemary Hilary*

Monty Hilkowitz**

Joanne Kenrick*

Neville Koopowitz

Nicola McCabe*

Rosanne Murison*

Justin Skinner

Justin Taurog

*Independent non-executive

** Non-executive

The appointment of Directors is not subject to retirement by rotation.

Company Secretary at the date of signing the financial statements

Fiona Molloy (Appointed 26 January 2023)

Registered office

3 More London Riverside
London
SE1 2AQ

Registered number

03319079

Independent auditors

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

The Directors present their Strategic report, Report of the Directors and the audited financial statements for the year ended 30 June 2023.

Vitality Life Limited ("the Company", "VLL") is a private company limited by shares, incorporated and domiciled in England and Wales.

The Company is one of eight companies that, along with the holding company, make up the Discovery Holdings Europe Limited ("DHEL") group of companies ("Vitality", "the Group"). Within Vitality there are four business units, "VitalityHealth", "VitalityLife", "VitalityInvest" and "VitalityCar".

References made to the Group Board refer to the DHEL Board.

Principal activities and business review

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 were 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. The unit-linked contracts were marketed and sold under the brand VitalityInvest.

The ultimate parent company, Discovery Limited, is an established and successful international insurance group. Its UK presence for life insurance, VitalityLife, was launched in 2007 as 'PruProtect', a joint venture with The Prudential Assurance Company Limited ("PAC"). In November 2014 the Discovery Group ("Discovery") acquired the remaining 25% of interest in the joint venture held by PAC and now ultimately owns 100% of VitalityLife. Following the termination of the joint venture with PAC, PruProtect was rebranded as 'VitalityLife' supported by a major marketing program. In 2018 the VitalityInvest brand was launched to support the marketing and sale of the unit-linked investment products. Following the closure to advised new business in July 2022, VitalityInvest exited the retail investment market, no longer accepted top-ups and transfers into existing plans from 6 April 2023, and no longer received or processed recurring contributions from 1 July 2023. VitalityInvest has partnered with abrdn as the preferred provider to deploy an easy transfer solution for both advised and non-advised policies to be transferred off the VLL book next financial year.

On 23 December 2015, Vitality Life Limited received authorisation from the PRA to underwrite long term assurance business. Prior to this, business sold under the VitalityLife brand was underwritten by PAC under the joint venture agreement noted the above. This business remains a liability of PAC and the Company currently has no direct economic or contractual exposure to these liabilities. It is expected that this business will remain a liability of PAC for an indefinite period of time.

At the centre of the business is Vitality's core purpose: to make people healthier and enhance and protect their lives. This is delivered through a Shared Value Insurance model. Recognising that in modern society health risk is primarily driven by lifestyle behaviours, Vitality believes that through incentivising healthier behaviours from its members and providing them with the tools to make positive changes in their lives, it can deliver value on multiple fronts. As an insurer, Vitality benefits from reduced claims from a healthier member base; Vitality members benefit from improved health, access to a wide range of partners and rewards, and potentially lower insurance premiums; while society benefits from a more healthy and productive population.

Vitality delivers Shared Value by helping members to understand their health, removing barriers to get healthy, and rewarding them for making healthy lifestyle choices. The model is underpinned by significant actuarial, behavioural and clinical science, which informs the product and member approach. A key part of this is the provision of discounted access to a broad network of health and wellness partners, which includes prominent brands such as Apple, Waitrose, Virgin Active, Garmin, Peloton and Mindful Chef, as well as incentives that reward members for engaging in health-enhancing activities such as Odeon, Vue, Caffé Nero, Amazon, and American Express.

The Company's product range covers a range of benefit choices and is available to the individual and small and medium-sized enterprises ("SME") market.

The Company is regulated by both the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”). The Company is subject to the UK Solvency II regime, which is an insurance regulatory regime which prescribes capital requirement and asset / liability valuation standards for assessing regulatory solvency. The Company’s Solvency II capital position is outlined in note 7.

The profit after tax for the year to 30 June 2023 was £23,975k (2022: profit of £96,410k) reflecting a significant reduction in fair value gains on interest rate derivatives, as explained below.

The last 12 months have been characterised by geo-political uncertainty, pressure on cost of living, very high levels of inflation and a significant increase in the level and volatility of market interest rates. Despite this, the VitalityLife brand has performed beyond expectation with significant year on year sales and in force premium growth, strong levels of retention, positive experience variances whilst maintaining strong levels of Solvency II capital. The main features of the financial performance of the Company in the year were:

- The financial results relating to the term, whole of life and income protection products sold under the brand VitalityLife performed beyond expectation. The in-force book of business grew strongly year on year; gross of reinsurance premium income increased by 16% from £219,693k to £255,576k, driven by strong levels of retention and growth in new business year on year. The in-force book size has also been positively impacted by the impact of premiums on indexed policies growing in line with increased UK inflation levels. This protects the policyholder’s real value of future claims benefits;

- Positive reserving experiences were observed in the year, particularly in respect of lapse and indexation experience. The strong focus on retention and positive policyholder outcomes in recent years through operational improvements, customer engagement and distribution quality management continue to contribute to positive lapse experience variances. Positive indexation experience arises when the level of policyholder premiums increases by more than expected due to inflation. Whilst the customers future benefits also increase in value there is an overall positive impact on the Company’s profitability;

- Actuarial basis changes were made in respect of mortality and morbidity in the year which led to an overall strengthening of the basis (and therefore reduction in profitability in the year) in respect of these assumptions. These were partially offset by the enhanced analysis and update of the “Shared value” in the actuarial basis. In summary, the actuarial basis was positively impacted (improving profitability in the year) by the inclusion of assumptions around how the overall Vitality proposition creates more positive morbidity and mortality outcomes over the long term;

- Changes to the economic assumptions were made in the year to reflect market conditions and the removal of the interest rate derivatives towards the end of the financial year as a result of the implementation of IFRS 17 on 1 July 2023. The changes to the valuation interest rate led to an overall reduction in profitability in the year which was partially offset by fair value gains on derivatives;

- The Company had fair value gains on interest rate derivatives of £2,025k (2022: £74,535k). The Company held interest rate derivatives to manage its profitability volatility exposure to market interest rate risk in respect of the valuation of the insurance contract reserves. Towards the end of the financial year these derivatives were removed with the interest rate risk now expected to be managed from 1 July 2023 using Other Comprehensive Income accounting as permitted by IFRS 17;

- Whilst expected, VitalityInvest made a £9,835k loss after tax. Following the closure to advised new business in July 2022, VitalityInvest exited the retail investment market, no longer accepted top-ups and transfers into existing plans from 6 April 2023, and no longer received or processed recurring contributions from 1 July 2023. VitalityInvest has partnered with abrdn as the preferred provider to deploy an easy transfer solution for both advised and non-advised policies to be transferred off the VLL book next financial year. Assets under management decreased by (48)% in the year from £732,447k at 30 June 2022 to £382,396k at 30 June 2023. The exiting of the retail investment market resulted in a significant reduction in premium income related to unit-linked products in the year and also a significant increase in withdrawals by unit-linked policyholders has they moved their investments to other providers; and

- The Company received dividend income from its subsidiary, Vitality Health Insurance Limited ("VHIL"), of £12,500k (2022: £33,227k). Subsequent to the receipt of this dividend the Company also reinjected

£14,200k of share capital into VHIL to fund the strong growth of the VitalityHealth business in the year.

The net assets of the Company as at 30 June 2023 were £892,137k (2022: assets £868,162k).

The financing of new business for a fast-growing company, such as VLL, requires regular capital support and cash funding until such time as the in-force business is large enough to be cash flow positive overall.

During the year no (2022: no) share capital or subordinated loans were injected by the parent company. During the year £41,150k of subordinated debt was repaid to Discovery Holdings Europe Limited.

Cash funding requirements were funded by way of unsubordinated debt from the Company’s parent, Discovery Holdings Europe Limited. The overall increase in loans payable for the Company in the year was £16,400k. The Company also received £12,500k (2022: £33,227k) of dividends received from the Company's subsidiary, VHIL but this was effectively returned to VHIL in the year by way of a £14,200k capital injection.

Reinsurance based financing is also an important part of the Company’s funding strategy. Financing is obtained to partially offset the cash strain of writing new business, and this financing is then repaid in future years contingent on policyholders’ premium payments. The amount of financing received in the year to 30 June 2023 was £106,039k (2022: £89,740k). The future obligation to repay this financing is reflected in the value of the liability arising from the reinsurers' share of insurance contract reserves.

All contracts of employment for UK staff are held by Vitality Corporate Services Limited ("VCSL"), a fellow group company. All staff costs incurred by VCSL in respect of the VitalityLife and VitalityInvest branded products are apportioned between the policies underwritten by PAC and those underwritten by VLL and recharged to the Company accordingly.

Key performance indicators (KPIs)

A monthly report of many operational metrics is produced and reviewed by senior management, but the following key metrics are routinely used in the assessment of the Company’s performance:

- New business, APE (Annual Premium Equivalent) (non unit-linked products):

  Total APE in the year ended 30 June 2023 increased by 29% from £62,290k to £80,326k. Alongside growth in sales year on year the Company also continues to innovate and adapt to new ways of doing business both digitally and telephonically. APE is a measure of new business written by the Company in the period and is calculated as the first 12 months of premium on each new business policy sold.

- Expenses (all business):

  The expenses for VLL include the cost of acquisition of policies. VLL continues to pay commission to brokers upfront for either a 2 or 4 year indemnified term in line with market practice. Acquisition costs (before the impact of reinsurance financing received) increased 20% year on year which is consistent with the increase in New Business APE (sales).

  The marketing and administration costs are primarily headcount, technology and advertising. These costs also include recharges of expenses from the Company’s parent group to whom a number of back office functions and IT services are outsourced.

  Reinsurance based financing is an important part of the Company’s funding strategy, alongside shareholder capital and subordinated debt. Financing is obtained to partially offset the strain of writing new business, and this financing is then repaid in future years contingent on policyholders’ premium payments. The impact of reinsurance financing is as follows:

	Year ended 30 June	
	2023	2022
	£'000	£'000
Total expenses (before claims and movements in insurance contract reserves)	228,655	199,421
Reinsurance financing income	(106,039)	(89,740)
Expenses after reinsurance financing	**122,616**	**109,681**

- Lapses (non unit-linked products):

  Managing lapses is a key focus for the Company. The annualised lapse rate for the year has been lower than management's expectation with a positive experience variance emerging in the year to 30 June 2023. Through regular and detailed review of lapse trends by distribution channel and broker, the Company identifies outliers with high lapse rates and works with them to implement behavioural change to reduce these lapse rates through a distribution quality management framework. Ensuring our customers (on optimiser products) are engaging in the Vitality incentive program also acts as a key tool for managing lapse rates as those customers who actively engage are on average likely to have a lower propensity to lapse their policy as they receive financial and non-financial benefits in addition to their core insurance benefits.

- Assets under management (unit-linked products):

  The Company charges unit-linked policyholders a fee for managing their unit-linked assets and therefore the profitability of VitalityInvest branded products is directly linked to the value of assets under management. Assets under management decreased by (48)% in the year from £732,447k at 30 June 2022 to £382,396k at 30 June 2023 due to the wind-down of the business. The Company continues to track this as a KPI to monitor the wind-down of the business.

Future outlook

The Company's vision is to continually innovate to make people healthier, and to enhance and protect their lives. The Company will continue to focus on underwriting business that contributes to both profit and growth. Health, wellbeing and positive financial behaviour will remain a strong feature of the products offered as the directors believe that the promotion of these will bring benefits in terms of lower mortality and morbidity incidences, higher persistency rates, as well as leading to improvements in individuals' lifestyles and health, their productivity and public health generally. The Company is also developing its environment, social and governance (ESG) agenda and looking for innovative ways of embedding this into its products in the future.

Following the closure to advised new business in July 2022, VitalityInvest exited the retail investment market, no longer accepted top-ups and transfers into existing plans from 6 April 2023, and no longer received or processed recurring contributions from 1 July 2023. VitalityInvest has partnered with abrdn as the preferred provider to deploy an easy transfer solution for both advised and non-advised policies to be transferred off the VLL book next financial year. The Company expects all remaining VitalityInvest business to transfer away from the Company during the financial year ended 30 June 2024. The Company expects to incur a small level of expenditure during the financial year ended 30 June 2024 whilst the business runs off.

New business sales for VitalityLife will be supported by the continued use of reinsurance financing, dividends from its subsidiary, and the use of cash generated on the in-force book of business.

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

Despite a continued complex and challenging macro-economic and trading environment, given the strong performance in the year to 30 June 2023 the directors remain optimistic about the continued growth and financial performance of the Company and continue to build for the future. In particular:

- The post COVID-19 environment and pressures in the NHS mean that the issues of health, wellness, life insurance and resilience continue to be key areas of focus in society and the Company's Shared Value model is well placed to capitalise on this in the markets in which it operates;

- The Company continues to invest in innovation and the development of new products to respond to the needs of its customers and positive outcomes for them; and

- The Company continues to invest in the writing of new business principally through the use of reinsurance financing and through the reinvestment of cash generated on the in-force book of business.

In respect of the implementation of the new accounting standard, IFRS 17 - Insurance Contracts, work on the finalisation of key policy and methodology decisions is complete. At this stage, management continue to refine the IFRS 17 models and business operations as well as performing validation procedures over the transition results in line with the final key policies and methodologies. Management has estimated the financial impact assessment to enable the restatement of the comparative opening balance adjustments as at 1 July 2022 and the retrospective reporting periods leading up to the transitional Statement of financial position. The new accounting standard is being adopted with effect from 1 July 2023 and the focus of the IFRS 17 project has now been turned to fully embedding it into the business as usual process and decision making of the Company. Further details are available in note 2.1(ii).

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to insurance risk, which arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. In particular, the risk is that claims experience turns out to be worse than anticipated in the pricing basis, and that claims reserves are insufficient to meet insurance liabilities as they fall due. A further principal insurance risk is that policy lapse rates are higher than anticipated in the pricing basis, and that premiums collected on policies before lapsing are not sufficient to recoup acquisition costs.

Further information on the management of insurance risk is given in note 4 to the financial statements.

Financial risk management

The Company manages its various financial risks as outlined in note 5 to the financial statements.

Corporate Governance

Whilst the Company does not meet the qualifying thresholds to report on its Corporate Governance arrangements pursuant to the Companies (Miscellaneous Reporting) Regulation 2018, the Wates Principles have been applied to all companies within Vitality and are reported in the Consolidated Annual Report and Financial Statements of DHEL (company number 05933172).

Section 172 Statement

The Directors are fully aware of their responsibilities to act in good faith and in a way that would be most likely to promote the success of the Company, for the benefit of its members as a whole, in accordance with section 172 of the Companies Act and they have acted in accordance with these responsibilities during the year. To discharge their section 172 (1) (a-f) responsibilities the Board has had regard to these factors when making the principal decisions of the Company. All decisions have been made to promote the long term success of the Company. Further information is contained in the Strategic Report.

The Board is committed to maintaining the highest standards of corporate governance and business conduct and the nine Values underpin how the Company and the Board operates. Vitality's Shared Value Model underpins its core purpose to help people lead healthier lives. It is based on the concept of interventions made by Vitality as an insurer will inspire behavioural change among its members – for the better. It is an incentive-based model in which members are rewarded through a range of partners and benefits when they take steps to be healthy.

As market disruptors, Vitality continues to transform the world of insurance through Shared Value. Society is increasingly demanding that companies have a strong social purpose and, by focusing on creating a healthier society, Vitality is truly at the forefront of this. It is good for Vitality's members, good for Vitality and good for society.

Vitality operates a One Vitality vision and purpose, delivering a seamless customer experience. Whilst combined Board meetings are convened, separate Board meetings for the individual entities are also convened to consider any matters specifically reserved for the specific Boards.

In accordance with Section 172 of the Companies Act, Vitality's key stakeholders are considered when making decisions. Vitality's key stakeholders are members (customers), employees (our people), Regulators, shareholder, Business Partners (suppliers) and financial advisors.

Customers

One of Vitality's core values is, Customer, Customer, Customer.

The Board ensures that it keeps up to date with the needs of the customer through MI and regular training. During the course of the year, deep dives were provided on areas such as Vulnerable Customers, Consumer Duty and Ethical Decision-Making.

With the introduction of the Consumer Duty Regulation, a Consumer Duty Steering Committee was established, with independent non-executive director (iNED) representation and chaired by the Consumer Duty Board Champion. Its aim was to oversee the implementation of the Consumer Duty regulation across the Company. Additionally, with the assistance of the Nomination Committee, the Board sought the appointment of an additional iNED to hold the role of Consumer Duty Champion.

In July 2022, Vitality also appointed a Chief Customer Officer.

In February 2023, Vitality continued to lead the way as the next generation of insurer in the UK protection market with the launch of a series of VitalityLife product innovations and enhancements. The launch provided protection products that can be fully embedded into people's lives and directly meet their specific needs.

Information relating to the key decisions on the future of VitalityInvest is included in the strategic report within the 'principal activities and business review' section.

Our People

The independent non-executive Directors engage regularly with employees through manager forums and organised site visits to gain additional insight into the Company.

The Board recognises the benefits of a diverse workforce and an inclusive culture. Diversity fosters innovation, which is part of Vitality's DNA. Vitality believes that inclusive diversity promotes social cohesion, which benefits society.

The CEO addresses all employees four times a year to provide a formal update on the Company's performance. A series of 'In conversation with…' interviews are conducted where the CEO chats with senior leaders at Vitality on a range of topics, exploring their thoughts and insights on the business. The CEO and senior management visit all offices to meet with employees.

As part of the governance requirements, the Remuneration Committee review and approve the bi-annual award of short-term incentives to employees, considering factors such as, governance, customer service, internal gender diversity targets, profit and sales.

In accordance with regulatory guidance, the Remuneration Committee also oversee the remuneration and incentives for all aspects of remuneration relating to the Group CEO and his direct reports, and those staff holding controlled functions. The Committee also considered and approved employees' annual salary increases and any LTIP allocations.

A governance rating determined by the Chairs of all of Committees of the Board, is also applied. This rating takes into account a wide array of Vitality's governance including compliance and assurance activity, complaints, risk management and the general governance arrangements.

During the year the London and Croydon offices relocated to 80 Strand. The move embraced the hybrid working model whist also providing an improved working environment for all employees. Vitality’s office in Bournemouth will also be relocating to new premises in 2024.

A key decision in Q1 of the financial year was in relation to the rising cost of living. Vitality recognised that everyone was being affected by the increase in prices and paid employees earning below the UK’s median household income, a monthly cost of living allowance.

Vitality has a zero tolerance approach to acts of bribery and corruption. A Group Financial Crime Policy is in place that includes robust requirements that are in line with the UK Bribery Act 2010 that all employees are required to comply with.

Business Partners (Suppliers)

To ensure that supply risk is mitigated appropriately all activity is managed in line with the Sourcing and Outsourcing Policy. The Policy ensures that relationships with business partners deliver maximum commercial value and acceptable business risk against the backdrop of the Strategy and Business Plan approved by the Directors.

The Board receives updates as necessary from management on suppliers.

The Group Board considers and approves the Policy on Modern Slavery on an annual basis (on behalf of all companies within the Vitality Group). The statement and supporting policy ensure compliance with the Modern Slavery Act.

Regulators

A constructive and open relationship is maintained with the regulators. Throughout the year regular engagement meetings are held between the Regulators, Directors and key personnel.

Shareholder

The Strategy, that is approved by the Board, is in place to support long term profitability and growth. It is determined by the Board in the context of the parent company's group-wide strategy.

There is regular interaction with the shareholder.

Financial Advisors

Vitality works closely with its financial advisors through its Business Consultants. A support network is also provided through access to the Advisor hub, literature libraries, online tools and the Vitality Academy.

ESG

The Chief Sustainability Officer is responsible for driving the ESG agenda. Vitality has committed to targeting carbon neutrality by 2025 and net zero by no later than 2050. Vitality's ESG strategy emphasises a focus on social impact through its core purpose of making people healthier and enhancing and protecting their lives.

Environmental Reporting

Vitality is part of the Discovery Group (“Discovery"), a global financial services organisation. Discovery has publicly set out its climate change position for the whole group which acknowledges that this is one of the key risks facing businesses and society. As well as government commitments, there is growing pressure from both society and investors for companies to align their business models with a net-zero future.

This provides an opportunity to address both health and climate-related challenges, given their inter-dependencies. As a global financial services organisation, Discovery recognises that its ability to do business is fundamentally linked to the sustainable well-being of the communities in which it operates.

Vitality's core purpose of making people healthier and enhancing and protecting their lives is aligned to the goal of maintaining an environment that enables and sustains good health. In addition, through Vitality's Shared-Value business model, Vitality plays a significant role in influencing the members' health and financial behaviour, and the value created from this behaviour change is shared with the members and society.

Vitality's climate change strategy has set targets to achieve Carbon Neutrality by 2025 and Net Zero by 2050 or earlier with the aim of publishing a Net Zero plan by 2025 which will include interim targets. Vitality will continue to focus on the following:

- Assess and acknowledge potential climate-related risks and opportunities, and formulate appropriate strategies;
- Integrate climate-change issues into Vitality Group policies and practices, including investments, procurement and partnerships;
- Set science-based targets aligned with global best practice for direct and indirect greenhouse gas emissions;
- Innovate to develop products and services that help our members make more sustainable choices;
- Drive climate action and advocacy through industry and policy engagement; and
- Disclose and report on climate-related risks, strategies, targets and progress that are aligned with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

Direct environmental footprint

The direct environmental impact of the Company's operations is relatively low since there is no manufacturing element to the business. However, the urgency of action on climate change is recognised and the need for responsible environmental policies, practices and education.

The Company is committed to reducing its direct environmental footprint. This has happened in a number of places, for example:

- Full building energy and environmental surveys across the property portfolio in order to identify areas where emissions can be reduced;

- Vitality has undertaken a wholesale relocation and downsizing of the London property estate, moving to more efficient premises including repurposing of original furniture and ethically recycling to avoid waste to landfill;

- Approval has been granted to relocate the Bournemouth office to a newer and more efficient premises including repurposing of original furniture and ethically recycling to avoid waste to landfill;

- Food waste management and measuring was introduced as well as meat free days in Vitality's on-site restaurants;

- Replaced 8 out of 17 of the Nurse vehicle fleet with Plug-in Hybrid Electric Vehicles, and an agreement to replace the rest with full self-charging Hybrid vehicles in H2 2023;

- 95% renewable electricity contracts are in place as well as carbon offset gas contracts. A plan is being developed to move the remaining contracts to renewable;

- Continued increased usage of video conferencing facilities to reduce the travel carbon footprint of the business;

- Reduction of paper usage through data collation for customer documentation, marketing collateral and magazines, photocopier paper and hand towel usage using sustainable sources; and

- Vitality is working on the ESOS submission for 2023/2024 to maintain the compliance achieved in 2019.

Each year, the Vitality Group have reported some high level components of facilities and other carbon impacts such as electricity usage, whole gas for heating and the petrol used by company vehicles (for the Vitality nurses), and these have been included in the annual Discovery Sustainable Development report.

VCSL enters into all supply contracts on behalf of all the companies within the Vitality Group and hence the data has not been split out for individual Vitality Group companies. Information regarding consumption will be reported in the Consolidated Annual Report and Financial Statements of DHEL (company number 05933172).

On behalf of the board

Neville Koopowitz

Chief Executive Officer and Director

Vitality Life Limited (Reg No: 03319079)

4 October 2023

Directors

Apart from the appointments and resignations listed below the Directors listed on page 3 were in office for the whole financial year and up to the date of signing the financial statements.

- Joanne Kenrick was appointed as independent non-executive Director on 1 August 2023
- Rosanne Murison was appointed as independent non-executive Director on 1 August 2023

The Directors are not subject to standing for re-election by rotation.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and officers' liability insurance in respect of itself and its Directors.

Going concern

Going concern has been evaluated by the Directors of the Company. They concluded that it was reasonable to expect the Company to remain in business for a period of not less than 12 months from the date of signing of the financial statements.

Further details on the going concern assessment are set out in note 2.1.

Results and dividend

No dividend was paid or proposed in the year ended 30 June 2023 (2022: £nil).

The results for the year ended 30 June 2023 are set out on page 29, within the Statement of comprehensive income.

Events after the reporting year

There are no events after the reporting year that require disclosure.

Future developments

See the Strategic report on page 7 for future developments.

Political donations and political expenditure

No contributions were made for political purposes during the year (2022: £nil).

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ confirmations

In the case of each director in office at the date the Directors’ report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have been appointed by the Board as the Company’s auditors in accordance with the elective resolution passed by the Company under the Companies Act 2006.

PricewaterhouseCoopers LLP have been the Company's auditors since 2016. Legislation regarding audit firm rotation requires that the external audit contract be put out to tender at least every 10 years.

Due to the rotation at the ultimate parent company, the directors participated in a competitive tender for the audit of the Company. As a result a recommendation will be made to the Board to appoint Deloitte LLP for the audit of the Company for the financial year ending 30 June 2024. A resolution proposing their appointment will be made following the finalisation of the 30 June 2023 audit.

On behalf of the board

Neville Koopowitz

Chief Executive Officer and Director

Vitality Life Limited (Reg No: 03319079)

4 October 2023

Report on the audit of the financial statements

Opinion

In our opinion, Vitality Life Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 30 June 2023; the Statement of comprehensive income, the Statement of cash flows and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 12, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit scope has been determined to provide coverage of all material financial statement line items.

Key audit matters

- Appropriateness of lapse assumptions for insurance contract assets
- Appropriateness of mortality assumptions for insurance contract assets
- Appropriateness of assumptions reflecting Vitality's Shared Value Model for insurance contract assets

- Appropriateness of expense allocations used for expense assumptions for insurance contract assets
- Appropriateness of the IAS 8 disclosure related to the adoption of IFRS 17

Materiality

- Overall materiality: £9,500,000 (2022: £9,200,000) based on approximately 1% of net assets.
- Performance materiality: £7,100,000 (2022: £6,900,000).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The appropriateness of assumptions reflecting Vitality's Shared Value Model for insurance contract assets and the appropriateness of the IAS 8 disclosure related to the adoption of IFRS 17 are new key audit matters this year. Morbidity assumptions for insurance contract assets being inappropriate, previously included with mortality assumptions, which was a key audit matter last year, is no longer included because of the reduced sensitivity of the morbidity assumptions with respect to the overall financial impact on the insurance contract assets in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	***How our audit addressed the key audit matter***
Appropriateness of lapse assumptions for insurance contract assets	
Refer to note 4.1 to the financial statements. The insurance contract assets are sensitive to changes in lapse assumptions, being the assumed proportion of policies that will cancel their cover before the end of the policy's term. Therefore, there is a risk that the lapse assumptions used to set the insurance contract assets are inappropriate. Lapse assumptions are set using experience analysis where data is available and expert judgement where data is not available (for example, at longer durations where the Company's policies have not yet been in-force for that period of time or if past experience is determined to not be appropriate for setting long-term assumptions). When using historical data, management include data from both the Company and the legacy Vitality business written within Prudential Assurance Company ("PAC") for term policies (term assurance and critical illness cover) to increase the volume of available experience data on which to base the assumptions unless the experience data demonstrates evidence of differing lapse experience. For whole of life policies, only the Company's data is used where there are sufficient volumes of data, otherwise both the Company's and PAC data is used. Given this, there is a risk that the experience to date on the combined book is not representative of the experience emerging on the Company's book. Further, there is a risk that expert judgement applied when experience data is not available is not appropriate. Following the COVID-19 pandemic there is also a risk that past experience is not reflective of the future, and so it is not appropriate for setting long-term assumptions. Policyholder behaviour could have changed as a result of the pandemic, for example policyholders may have perceived the value of their protection policy to be higher during the pandemic and hence lower lapse experience would be observed. However, adjusting past experience to better reflect expected future experience introduces further judgement and subjectivity.	We performed the following procedures to test the lapse assumptions: • Tested the design and operating effectiveness of the key controls over the experience analysis process, which is used to set the lapse assumptions. • Obtained evidence of management review and rationale for changing or not changing assumptions. • Obtained evidence of sign-off of the assumptions from the Actuarial Committee. • Tested that the data used to derive the assumptions is complete and accurate. • Substantively tested the input of assumptions into the valuation models on a sample basis. • Reviewed the appropriateness of the methodology used to set the lapse assumptions, including the level of granularity at which the assumptions are set. • Reviewed the judgements applied in the assumption setting process, in particular any adjustments made to the experience analysis data, or to the assumptions after the experience analysis process, such as prudent margins for IFRS reporting. • Reviewed the judgements made in relation to the weighting given to historical lapse experience which may be impacted by COVID-19. • Used our in-house industry benchmarking data to compare the methodology used by management to derive the lapse assumptions with those adopted by peer insurers. Based on the work performed and audit evidence obtained, we concluded that the lapse assumptions used to determine the insurance contract assets are appropriate.

Appropriateness of mortality assumptions for insurance contract assets

Refer to note 4.2 to the financial statements.

The insurance contract assets are sensitive to changes in mortality assumptions. Therefore, there is a risk that the mortality assumptions used to set the insurance contract assets are inappropriate.

Mortality assumptions are set using experience analysis where data is available and expert judgement where data is not available (for example, long-term mortality improvement rates) or if past experience is determined to not be appropriate for setting long-term assumptions. Therefore there is a risk that the expert judgements applied are inappropriate.

The base mortality assumptions are set with reference to industry tables and mortality improvements are applied using the CMI model. A number of adjustments are made to the base mortality assumptions to allow for Vitality's own experience across the VLL and PAC books, including adjustments to reflect different mortality rates for socio-economic classes, smoker status and policies with 'Optimisers'.

For determining the adjustments to be applied to the industry tables, management includes data from both the Company and the Vitality business written within Prudential Assurance Company ("PAC") to increase the volume of available experience data on which to base the assumptions. Given this, there is a risk that the experience to date including the PAC book is not representative of the experience emerging on the Company's book.

Following the COVID-19 pandemic there is also a risk that past experience is not reflective of the future, and so it is not appropriate for setting long-term assumptions. The rate of claim for mortality and morbidity risk covers could have changed as a result of the pandemic, for example mortality claims could have increased due to the impact of COVID-19 on population mortality rates. Adjusting past experience to better reflect expected future experience introduces further judgement and subjectivity.

We performed the following to test the mortality assumptions:

- Tested the design and operating effectiveness of the controls over the experience analysis process, which is used to set the mortality assumptions.
- Obtained evidence of management review and reasons for changing assumptions.
- Obtained evidence of sign-off of the assumptions from the actuarial committee.
- Tested that the data used to derive the assumptions is complete and accurate.
- Substantively tested the input of assumptions into the valuation models.
- Reviewed the appropriateness of the methodology used to set the mortality assumptions, including the choice of tables, the adjustments applied to the base tables and the mortality improvements.
- Used our in-house industry benchmarking data to compare the methodology used by management to derive the mortality assumptions and the resulting assumptions, with those adopted by other insurers.
- Reviewed the judgements made in relation to the treatment of historical claims experience which may be impacted by COVID-19 and other macroeconomic scenarios.

Based on the work performed and audit evidence obtained, we concluded that the mortality assumptions used to determine the insurance contract assets are appropriate.

Appropriateness of assumptions reflecting Vitality's Shared Value Model for insurance contract assets

Refer to note 4.1 and 4.2 to the financial statements.

Vitality's 'Shared Value Model' ("SVM") is the concept of offering rewards, including lower premiums, to policyholders for healthy behaviours such as regular exercise. This in turn benefits Vitality through lower claims.

Vitality offers products with 'Optimisers' (e.g. Vitality Optimiser, Wellness Optimiser) whereby there are different statuses depending on the health and activity levels of the policyholder. The level of premium increase or decrease (as well as other rewards) depends on the status of the policyholder.

In prior years management has allowed for this in the valuation of the insurance contract liabilities in a simplified way, and a key limitation was that the improved health status of the portfolio over time was not being reflected, and the lapse and mortality assumptions did not reflect differentiation based on policyholder engagement levels.

This year management has performed a deep dive review into how the SVM effects are modelled and has enhanced the modelling so that the affected actuarial assumptions (namely mortality, morbidity and lapses) are determined and applied at a more granular level. The SVM assumptions are expressed as a multiplicative factor applied to each of these individual assumptions, calculated using experience analysis over physical activity levels. These are also accompanied by removal of the aforementioned simplified adjustments previously being made to these assumptions.

Given the extent and complexity of the new approach to determining SVM assumptions, the additional extensive experience analysis required, as well as the subjectivity of the assumptions, we have determined these assumptions to be a significant risk in the current year.

We performed the following procedures to test the shared value model assumptions:

- Tested the design and operating effectiveness of the key controls over the experience analysis process used to set the assumptions relating to the Shared Value Model.

- Obtained evidence of management review, challenge, and reasons for changing the application of these assumptions.

- Obtained evidence of sign-off of the assumptions from the Actuarial Committee.

- Tested that the data used to derive the assumptions was complete and accurate. The data underpinning the Shared Value Model assumptions is not held within a financial reporting IT system and therefore additional consistency checks were incorporated into our testing procedures to reconcile the data used in the new multi-state model back to both the underlying source system and the data obtained from the policy administration system during the audit.

- Reviewed the appropriateness of the methodology used and judgements applied to set the assumptions.This included engaging with management's independent expert to verify management's judgements around the proposed mortality differentials and use of the analysis based on South African data being applied to the UK portfolio of Vitality. In order to challenge this approach we also performed a level of independent research to validate that the geographical differences would not be expected to produce a different result.

- Tested the appropriateness of parameters like physical activity, resultant habit allocation, transition probabilities and the resultant physical activity distribution. We have also assessed the impact of physical activity distribution on demographic assumptions like mortality, morbidity and lapses.

- Tested the multi-state model used to derive the portfolio level engagement distribution assumptions, including the inputs to the model, assumptions and calculations. Management provided a simplified excel model which was developed independently as a control on the Prophet system multi-state model built into the valuation model. We have tested the excel model substantively including formulae assessment and running through the full calculations for a sample of policies. We have compared the output of the excel based model and the valuation model.

Based on the work performed and audit evidence obtained, we concluded that the Shared Value Model assumptions used to determine the insurance contract assets are appropriate.

Appropriateness of expense allocations used for expense assumptions for insurance contract assets

Refer to note 3.1 and 4.3 to the financial statements.

The valuation of insurance contract assets includes estimated future expenses that are expected to be incurred in the administration and maintenance of the existing policies to their maturity. The expense allocation process includes identification of expenses as either renewal (for maintenance of existing policies) or initial expenses (for the acquisition of new business). There is a high degree of management judgement in determining the appropriate proportion of each category of expense to allocate between maintenance and acquisition.

Calculation of the insurance contract assets is sensitive to changes in allocations between categories and any changes in the underlying expense assumptions. As the business matures the mix of initial and renewal expenses will change. Given the relative immaturity of the business, a large proportion of expenses is currently allocated towards the acquisition of new business.

There is a risk that the expense assumptions are not appropriate or supportable where inappropriate judgements have been made. Such matters may have a material impact on the reported results given the sensitivity of the expense assumptions.

We performed the following procedures to test the expense assumptions:

- Tested the completeness and accuracy of the total expense base by reconciling the total expense base to the audited operating expense balance. We also compared this audited operating expense balance to the budgeted expenses for next year included within the model

- Operating expenses are re-changed from a fellow subsidiary undertaking, VCSL, and therefore we instructed that audit team to test the allocation of expenses to the appropriate cost centre by examining documentation supporting the underlying expense transaction on a sample basis.

- Assessed the methodology used by management to derive the assumptions with reference to relevant industry and accounting standards, actuarial guidance and by applying our industry knowledge and experience.

- Assessed the appropriateness of significant judgements made in the application of the methodology, in particular the allocation of expense categories between acquisition and maintenance costs, the appropriateness of the exclusion of certain one-off project costs, and the allocation of the per policy cost between PAC and the Company.

- Compared the allocation percentages used in the current year model to those adopted in the prior year to identify potential instances of management bias. Where these had changed we investigated the reasons for the change and corroborated explanations received where appropriate.

- Obtained management's IFRS 17 cost allocation model for the opening balance sheet to identify any inconsistencies between the allocation performed for the IFRS 17 opening balance sheet versus IFRS 4. Where such inconsistencies were identified we investigated the rationale for the difference in treatment to ensure that no associated update should be made to the IFRS 4 model.

Based on the work performed and audit evidence obtained, we concluded that the expense assumptions used to determine the insurance contract assets are appropriate.

Appropriateness of the IAS 8 disclosure related to the adoption of IFRS 17

Refer to note 2.1 in the financial statements.

International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), requires the disclosure of reasonably estimable information relevant to assessing the possible impact of new accounting standards issued but not yet effective. International Financial Reporting Standard 17, Insurance Contracts, (IFRS 17') became effective for periods beginning on or after 1 January 2023. The related IAS 8 disclosures in these financial statements are intended to provide users with an understanding of the estimated impact of the new standard, and as a result, are more limited than the disclosures that will be required within the 2024 Annual Report and Financial Statements.

The implementation of IFRS 17 requires the Company to interpret the requirements of the new standard and make significant judgements and assumptions to develop its accounting policies and methodologies. It also requires new modelling in order to calculate the CSM and new model inputs, such as the risk adjustment, in order to estimate the related financial impact.

We have determined the disclosure of the impact of IFRS 17 to be a key audit matter because of the significant judgements required to estimate the impact at 1 July 2022 (the 'transition date') and the materiality of the financial impact included within the disclosure. IFRS 17 adoption is expected to result in a reduction to the Company's total equity of £175m-£192m as at 1 July 2022.

We performed the following procedures to assess the appropriateness of the IAS 8 disclosure in respect to the estimated impact of the initial adoption of IFRS 17:

- Formalised instructions between ourselves and the Discovery Limited group audit team, who performed the work centrally over the opening equity balance sheet adjustment as at 1 July 2022, to ensure we were in agreement with the scope and extent of procedures they performed.

- Tested all data and model baselining reliances relevant to the IFRS 17 transitional adjustments. Where the data or model was audited as part of previous years' IFRS 4 audits we validated this back to the relevant prior year working papers, and where new reliances were identified for IFRS 17 we ensured that the Discovery Limited group engagement team had included these items within their own testing scope.

- We attended a number of cross reviews of the work performed by the various audit teams involved in the transition work, which involved gaining sufficient evidence that they had:

    - Assessed the appropriateness of the transition approach followed;

    - Assessed the appropriateness of the new IFRS 17 accounting policies;

    - Audited the inputs used within the calculations, where these have not already been audited as part of previous IFRS 4 audits;

    - Audited the resulting adjustments and baselined the associated model changes; and

    - Challenged the relevant judgements and policy choices made by management

- Reviewed the disclosures included within the financial statements to ensure they complied with the requirements of IAS 8, were consistent with the business's internal IFRS 17 documentation and modelled financial impact, and the work performed by the Discovery Limited group engagement team.

- As part of our review of the disclosures included within the financial statements we challenged the level of disclosure surrounding key judgements, as well as understanding the key areas of remaining uncertainty in the implementation project which were preventing management from disclosing more precise financial disclosures.

Based on the audit procedures performed and evidence obtained, we consider the disclosures related to the initial impact of IFRS 17 to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The Company is a single legal entity within the wider Vitality UK Group. Using the outputs of our risk assessment, along with our understanding of Vitality's structure, we scoped our audit based upon the significance of the results of the individual segments of the Company's business, Vitality Life and Vitality Invest relative to the overall company result. The Company writes 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. In scoping our audit, we also consider qualitative factors and check that we have sufficient coverage across all financial statement line items and disclosures in the financial statements.

The Company utilises shared services for some of their IT systems and support, as well as reliance on the Discovery Limited finance function for preparing the Embedded Value valuations supporting the recoverability of investments and their support with the implementation of the new insurance standard, IFRS 17. For those systems that are supported by the Discovery Limited group in South Africa the work over the understanding, evaluation and testing of relevant IT general controls is performed by the Discovery Limited group audit team. For the Embedded Value calculations the procedures over the valuation model and assumptions is led by the Discovery Limited group audit team. For the IAS 8 disclosures related to IFRS 17 the audit procedures over the expected financial impact and the key accounting policies are led by the Discovery Limited group audit team. The Company audit team input into the scope of this work and review the results of this work in order to rely on it for the purposes of the Company audit.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£9,500,000 (2022: £9,200,000).
How we determined it	Approximately 1% of net assets
Rationale for benchmark applied	The rationale for the use of net assets is that we believe the main external users of the financial statements, being policyholders and the regulators, are most focussed on balance sheet strength and ability to pay future claims, and consider net assets to be the appropriate benchmark to reflect this. Furthermore, in our professional judgement, we consider that using net assets as a benchmark gives a level of materiality that is appropriate given the size and risk profile of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £7,100,000 (2022: £6,900,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £475,000 (2022: £460,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining management's going concern assessment and challenging the rationale for the material assumptions made in the 5-year business plan using our knowledge of the Company's business performance;
- Obtaining management's estimated Solvency capital position and evaluating these for consistency of available information and against management's own target capital ratios. We found that the Company maintained internal targets for its group Solvency Capital Requirement (SCR) ratio, and is

forecast to remain compliant with all external regulatory capital requirements for the period covered by the going concern assessment;
- Reviewing correspondence between the Company and the PRA and FCA in relation to management's strategy and plans for the Company's future;
- Forming an independent view of the Company's ability to continue as a going concern, including performing sensitivity analyses over management's key assumptions; and
- Considering information obtained during the course of the audit to identify any evidence that would contradict management's assessment of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements 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 based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 30 June 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 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 economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and the UK tax legislation applicable to the Company, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to improve results in the current year, and management bias in accounting estimates and judgemental areas of the financial statements, such as the valuation of the insurance contract assets. Audit procedures performed by the engagement team included:

- Discussions with the Board, Audit Committee, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Designing audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion;
- Reviewing correspondence between the Company and the PRA, FCA and HMRC in relation to compliance with laws and regulations;
- Reviewing relevant Board meeting minutes including those of the Risk Committee and Actuarial Committee, as well as attending all Audit Committee meetings;
- Procedures relating to the significant assumptions made in the actuarial reserving methodology, as described in the related key audit matters;
- Identifying and testing a sample of journal entries, in particular any journal entries posted with unusual account combinations such as a credit to premiums and a debit to an unexpected balance sheet account, which may be indicative of the overstatement or manipulation of revenue;
- Enquiries of the Board, Audit Committee, management, the risk and compliance function and internal audit;
- Review of internal audit reports, compliance reports and whistleblowing reports in so far as they related to the Company; and
- Performing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 24 March 2016 to audit the financial statements for the year ended 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 30 June 2016 to 30 June 2023.

H Grainger

Helen Grainger (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
4 October 2023

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

		Year ended 30 June	
		2023	2022
	Note	**£'000**	£'000
Revenue			
Insurance premium revenue	8	312,757	551,369
Premiums ceded to reinsurers	8	(162,802)	(139,370)
Net insurance premium revenue		**149,955**	**411,999**
Finance income	9	17,377	34,164
Net fair value gain on financial assets at fair value through profit or loss	10	26,990	16,348
Net income		**194,322**	**462,511**
Claims and benefits paid – gross amount	11	(505,425)	(115,707)
Insurance claims recovered from reinsurers	11	45,956	38,003
Net claims and policyholder benefits		**(459,469)**	**(77,704)**
Acquisition costs	12	(92,760)	(77,447)
Administrative expenses	12	(135,895)	(121,974)
Reinsurers' share of acquisition and administrative expenses	12	106,039	89,740
Transfers from assets/liabilities under insurance contracts			
change in assets arising from insurance contract reserves		72,428	79,629
change in liabilities arising from insurance contract reserves		350,028	(225,861)
change in liabilities arising from reinsurers' share of insurance contract reserves		(874)	(10,676)
Finance costs	13	(9,285)	(7,913)
Profit before tax		**24,534**	**110,305**
Tax charge for the year	14	(559)	(13,895)
Profit and total comprehensive income for the year		**23,975**	**96,410**

The Company has no comprehensive income or expense other than the profit for the year recognised in the statement of comprehensive income.

All amounts above are in respect of continuing operations.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

		As at 30 June	
		2023	2022
	Note	**£’000**	£’000
ASSETS			
Investment in subsidiary	16	471,000	456,800
Assets arising from insurance contracts reserves	17	854,194	781,766
Intangible assets	18	6,591	6,889
Deferred tax	19	10,477	9,057
Investments at fair value through profit and loss	20	306,729	690,989
Investments held at amortised cost	20	3,525	10,411
Loans and receivables including insurance receivables	21	37,862	26,561
Reinsurance receivables	22	44,951	30,467
Current tax		881	102
Derivative collateral	23	—	1,770
Cash and cash equivalents	24	105,236	125,644
Total assets		**1,841,446**	**2,140,456**
EQUITY			
Capital and reserves			
Ordinary share capital	25	459,508	459,508
Share premium	25	268,142	268,142
Retained earnings		164,487	140,512
Total equity		**892,137**	**868,162**
LIABILITIES			
Liabilities arising from insurance contract reserves	26	382,396	732,447
Liabilities arising from reinsurers share of insurance contract reserves	17	354,349	353,475
Subordinated loans payable	27	31,900	73,050
Long term unsubordinated loans payable	30	57,550	—
Fair value of derivative contracts	23	—	3,889
Reinsurance payables	22	21,619	18,681
Claims payable	28	61,963	51,632
Trade and other payables	29	39,532	39,120
Total liabilities		**949,309**	**1,272,294**
Total equity and liabilities		**1,841,446**	**2,140,456**

The financial statements on pages 29 to 85 were approved by the Board of Directors on 4 October 2023 and signed on its behalf by

Neville Koopowitz
Chief Executive Officer and Director
Vitality Life Limited (Reg No: 03319079)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

	Called up share capital	Share premium	Retained Earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 July 2021	**459,508**	**268,142**	**44,102**	**771,752**
Profit and total comprehensive income for the year	—	—	96,410	**96,410**
At 30 June 2022 and 1 July 2022	**459,508**	**268,142**	**140,512**	**868,162**
Profit and total comprehensive income for the year	—	—	23,975	**23,975**
At 30 June 2023	**459,508**	**268,142**	**164,487**	**892,137**

The notes on pages 33 to 85 are integral to these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

		Year ended 30 June	
		2023	2022
	Note	**£'000**	£'000
Cash flows from operating activities			
Profit before tax		24,534	110,305
Adjustments for:			
Net finance income		(8,092)	(26,251)
Payments for corporation tax / group relief		(2,758)	(11,422)
Amortisation and disposal of intangible assets	18	3,402	12,049
Gains on financial assets at fair value through profit & loss		(26,652)	(16,325)
Movement in operating assets and liabilities	31	(431,939)	146,343
Net cash (used in) / from operating activities		**(441,505)**	**214,699**
Cash flows from investing activities			
Purchase of intangible assets	18	(3,104)	(3,428)
Purchase of financial assets at fair value through profit & loss		(791,614)	(346,916)
Proceeds from sale of financial assets at fair value through profit and loss		1,200,501	96,789
Sale / (purchase) of investments held at amortised cost		6,886	(85)
Settlements of derivative contracts		(1,864)	97,559
Increase in investment in subsidiaries	16	(14,200)	—
Interest received		17,377	34,164
Net cash from / (used in) investing activities		**413,982**	**(121,917)**
Cash flows from financing activities			
Repayment of subordinated loans	27	(41,150)	—
Proceeds from / (repayments of) unsubordinated loans	30	57,550	(57,500)
Interest paid		(9,285)	(7,913)
Net cash from / (used in) financing activities		**7,115**	**(65,413)**
Net (decrease) / increase in cash and cash equivalents		(20,408)	27,369
Cash and cash equivalents at the beginning of the year	24	125,644	98,275
Cash and cash equivalents at the year end	24	**105,236**	**125,644**

Gains on financial assets at fair value through profit & loss has been updated to reflect unrealised movements on other financial assets and as a result, an amount of £58.2m has moved from the purchase of financial assets at fair value through profit & loss line in the 2022 figures.

1. General information

Vitality Life Limited ("the Company") underwrites life insurance products, such as those associated with death, critical illness and disability. At the end of the financial year ended 30 June 2018 the Company also began to underwrite unit-linked insurance in a number of tax efficient product wrappers.

All products are offered to the domestic market in the United Kingdom.

The Company is a limited company incorporated and domiciled in England and Wales. The financial statements of the Company are presented in Great British Pounds ("GBP"), which is the Company's functional currency.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The preparation of financial statements in conformity with UK-adopted international accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements, unless otherwise stated.

The Directors are required to undertake an assessment of the Company's ability to continue to adopt the going concern basis of accounting, and to disclose any material uncertainties identified. Having completed this assessment the Directors are satisfied that the Company has adequate resources to continue to operate as a going concern for a period of not less than 12 months from the date of this report, and that there is no material uncertainty in relation to going concern at 30 June 2023. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Directors have considered the following in their assessment:

- The Company's business plan, which was approved by the Board in June 2023, and in particular the forecast regulatory solvency position (calculated on a Solvency II basis), liquidity and funding requirements for the period to 12 months from the date of signing of the financial statements.

- The Company's solvency and liquidity at 30 June 2023 includes £53,280k of shareholder cash and investments and a Solvency II SCR coverage ratio of 211%.

- The Company's funding plan (which forms part of the Business plan noted above) that indicates that, other than further unsubordinated borrowings from the Company's parent and dividends from its subsidiary, no further capital (equity or subordinated debt) is required by the Company over the next 12 months to maintain its target capital and liquidity ratios.

- The availability of further unsubordinated borrowing from the Company's parent.This funding is ultimately sourced from a highly rated UK bank.

- The high level of Solvency capital requirement (SCR) coverage under the Solvency II regulatory regime as further detailed in note 7.

- The findings of the Group Own Risk and Solvency Assessment ("ORSA")

- Scenarios, including those in the ORSA and potential regulatory intervention, where the Group ceases to write new business. However, in such a run-off scenario the going concern basis would continue to be applicable because the Group would be continuing to trade with its existing business (for example, collect premiums and administer policies) rather than ceasing to trade.

The Directors' assessment concluded that it remains appropriate to prepare the financial statements on the going concern basis.

(i) New standards, interpretations and amendments to published standards that have been adopted

The below have been adopted in the year and do not have a significant impact on the financial statements:

– Annual Improvements to IFRS 2018-2020 Cycle: Amendments to IFRS 1 Presentation of Financial Statements, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture (published by the IASB in May 2020)

– Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract (published by the IASB in May 2020)

– Amendments to IFRS 16 Leases: COVID-19 Related Rent Concessions beyond 30 June 2021 (published by the IASB in March 2021)

(ii) Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early

The Company has not early adopted any accounting standards, amendments, or annual improvements issued but not yet effective. There are no standards that are not yet effective, other than as described below, that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

IFRS 17: Insurance Contracts

a) Background

The effective date of IFRS 17 *Insurance Contracts* is for reporting periods beginning on or after 1 January 2023, with comparative restatement of the preceding year. IFRS 17 is therefore mandatory for the Company, effective from 1 July 2023, with comparative restatement of the financial year ended 30 June 2023, including a restatement of the opening statement of financial position as at 1 July 2022.

IFRS 17 is a new accounting standard for insurance contracts that provides guidelines on recognising, measuring, presenting, and disclosing insurance contracts. It was introduced by the International Accounting Standards Board (IASB) in May 2017 and subsequently amended in June 2020 and December 2021. It was approved for adoption in the UK by the UK Endorsement Board in May 2022.

IFRS 17 replaces the previous standard, IFRS 4 *Insurance Contracts*, issued in 2005 as an interim standard with limited prescribed changes to pre-existing insurance accounting practices applied by insurers.

IFRS 17 represents a positive step towards enhancing transparency, comparability, and understanding of how insurers earn profits from insurance contracts, namely insurance service result and financial results.

Whilst the underlying contractual terms and economic risks and rewards of each insurance contract remain unaltered, IFRS 17 impacts the accounting treatment of insurance contracts and most notably the timing of recognition of insurance related profits and losses for accounting purposes. Importantly, it also separates the insurance related profit or losses between those arising from insurance service results and those arising from financial results.

b) IFRS 17 Project and Progress

Work on the finalisation of key policy and methodology decisions is complete. At this stage, management continue to refine the IFRS 17 models and business operations as well as performing validation procedures over the transition results in line with the final key policies and methodologies. Despite there being a remaining level of uncertainty, management has estimated the financial impact of the accounting policy change to enable the restatement of the comparative opening balance as at 1 July 2022 on a full retrospective basis.

Throughout the project Vitality has deployed a cross-functional project team and governance structure in respect of the adoption of IFRS 17. The Company's Board of Directors has ultimately responsibility for the implementation of the new accounting standard. Key policy and methodology decisions have been approved and recommended to the Board at various other governance committees – including the Actuarial Committee and the Audit Committee.

As part of the project and governance structure Vitality's management are well integrated into the wider Discovery Limited Group project and governance structures including an IFRS 17 Executive Working Committee which comprises the Insurance business CFOs, Chief Actuaries, and IT specialists from across the Discovery Limited group. The IFRS 17 Executive Working Committee is supported by a Technical Advisory Group comprising IFRS Specialists, Actuaries, Financial Managers, and Tax specialists. The Committee also engages with external professional services firms where necessary.

The primary focus of the project going forward is the restatement of the 30 June 2023 results and balance sheet on an IFRS 17 basis whilst embedding the new business-as-usual IFRS 17 processes and controls across management reporting, statutory reporting, planning and relevant operational areas of the business.

c) Transition

IFRS 17 requires the standard to be applied fully retrospectively unless impracticable. If impracticable, the entity can elect to apply a modified retrospective approach or use the fair value approach.

The Company has applied the fully retrospective approach to all groups of contracts.

On the transition date, 1 July 2022, the Company will:

- Identify, recognise, and measure each group of gross insurance contracts and associated reinsurance contracts, as if IFRS 17 had always applied;
- Derecognise any existing IFRS 4 balances;
- Classify reinsurance balances separately depending on whether they are in an asset or liability position at a portfolio level, where previously they were classified at a treaty level; and
- Recognise any resulting net difference in accumulated profit net of any related tax adjustments.

d) Definition and classification

Insurance contracts are contracts under which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder should a specified uncertain future event adversely affect the policyholder.

A reinsurance contract transfers significant risk if it transfers substantially all the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

The Company determines whether it has assumed significant insurance risk by comparing benefits payable after an insured event with benefits payable if the insured event had not occurred.

IFRS 17 does not specify what significant insurance risk is. As part of the implementation of IFRS 17 the Company has used judgement to specifically define significant insurance risk for the purposes of IFRS 17 as follows: The possibility that the present value of losses arising on the insurance contract exceeds 10% of the present value of income and receipts collected when applying a worst-case scenario upon inception of the insurance contract.

As a result of this definition the insurance contracts and associated reinsurance contract held relating to the term, whole of life and income protection policies sold under the brand will be in scope of IFRS 17. The unit-link business sold under the brand VitalityInvest does not fall into scope of IFRS 17 and will be in scope of IFRS 9.

e) Measurement model

IFRS 17 prescribes three possible measurement models.

- The default model is the General Measurement Model (GMM). The GMM is typically used for measuring long-term insurance risk and annuity contracts;

- The GMM is supplemented by the Variable Fee Approach (VFA) for contracts where policyholders have purchased investment-linked insurance contracts integrated with insurance coverage; and

- The Premium Allocation Approach (PAA) is a simplified approach of the GMM for short-duration contracts such as personal lines and private medical insurance.

The company will apply the GMM for all contracts of insurance in scope of IFRS 17 and has elected to disaggregate Insurance finance income and expense ("IFIE") for the period in Other Comprehensive Income ("OCI") and then present in profit or loss IFIE using a systematic allocation.

Insurance finance income and expenses comprises of the change in the carrying amount of a group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and

- The effect of financial risk and changes in financial risk.

f) Separating components within insurance contracts

IFRS 17 requires an analysis of whether the contract contains components that should be separated from the insurance contract and accounted for under different IFRS standards. IFRS 17 requires that cash flows relating to embedded derivatives, cash flows relating to distinct investment components and promises to transfer distinct goods or distinct services, other than insurance contract services, be accounted for separately.

At transition the Company has no contracts requiring further separation or a combination of insurance contracts.

g) Expected Fulfilment cash flows

The measurement of a group of insurance contracts includes all future cash flows expected to arise within the contract boundary of each contract in the group. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

The IFRS 17 expected fulfilment cash flows comprise a best estimate component and a risk adjustment for non-financial risks. The best estimate cash flows are expected to be broadly consistent with the current IFRS 4 cash flows after removing any margins specifically held under IFRS 4 and allowing for the change in approach to discount rates and time value of money between IFRS 4 and IFRS 17.

The Company applies judgment to determine which cashflows within the boundary of insurance contracts relate directly to the fulfilment of the contracts, including the extent to which fixed and variable overheads are directly attributable to fulfilling insurance contracts.

h) Contractual Service Margin ("CSM")

Initial recognition

The CSM represents the future unearned profit. On initial recognition of a group of insurance contracts, if the total of the expected fulfilment cash flows ("EFCF"), including insurance acquisition cash flows:

- is a net inflow, then the group is profitable at inception. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

- is a net outflow, then the group is onerous at inception. In this case, the net outflow is recognised immediately as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC).

- The LRC comprises the fulfilment cash flows related to services that will be provided under the contracts in future periods and any remaining CSM at that date.

- The LIC includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

Impact of changes in Expected Fulfilment Cashflows

IFRS 17 requires a company to update the EFCF at each reporting date, using current estimates of the amount, timing, and uncertainty of cash flows and discount rates. The Company:

- accounts for changes to estimates of future cash flows from one reporting date to another, either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage (as reflected by the CSM), depending on the type of change and the reason for it; and

- will include Insurance finance income and expenses (“IFIE”) in profit or loss using systematic allocation. The remainder of IFIE is recognised in Other Comprehensive Income.

Changes in CSM

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the financial year, adjusted for:

- interest accreted on the carrying amount of the CSM during the year using discount rates determined on initial recognition of the group (i.e., the locked in rate)

- the CSM of any new groups added in the year.

- the amount recognised as insurance revenue because of the services provided in the year, i.e., release of CSM using coverage units. In determining the coverage units, the Company has elected to reflect the time value of money in the coverage units using a real rate of return for insurance contracts measured using the GMM.

- The effect of any changes in fulfilment cash flows that relate to future services, except to the extent that:

    a. any increases in the fulfilment cash outflows exceed the carrying amount of the CSM, in which case the excess is recognised immediately in profit or loss.

    b. any decreases in the fulfilment cash outflows are allocated to the loss component, reversing losses previously recognised in profit or loss.

i) Risk adjustment for non-financial risks

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the Company fulfils insurance contracts. This component replaces an implicit allowance for prudence within the IFRS 4 reserves.

IFRS 17 does not prescribe methods for determining the risk adjustment for non-financial risk. Therefore, management's judgement is necessary to determine an appropriate risk adjustment technique. The Company has elected to use a confidence level technique.

When applying a confidence level technique, the first step in the process is to calculate the best estimate reserve, where there is an equal chance that the actual amount needed to pay future claims will be higher or lower than the calculated best estimate. The risk adjustment is then calculated such that there is a specified percentage probability that the reserves will be sufficient to cover future claims. For the Company, the determination of specified percentage has been determined as 90%.

j) Time value of money and discount rates

Discounting adjusts the estimates of expected cash flows to reflect the time value of money and the financial risks associated with those cash flows to the extent that the financial risks are not already included in the cash flow estimates.
The following table shows which discount rate to apply throughout measuring a group of insurance contracts and the general objective of determining that discount rate:

Element	Discount Rate
Fulfilment cashflows	Current discount rate
CSM interest accretion for contracts without direct participation features	Discount rates are determined on initial recognition of the group i.e. locked in at inception
Adjustments to the CSM for changes in the fulfilment cash flows for contracts without direct participation features.	

The requirement to use the discount rate at initial recognition in updating the CSM under the GMM leads to a difference between the change in the EFCF and the adjustment to the CSM—the difference between the change in the cash flows measured at the current rate and the change in the cash flows measured at the locked-in discount rate. The difference:

- represents the cumulative effect of changes in financial variables on the underlying change in estimates between the date the insurance contracts were initially recognised and the date of the change in estimates; and

- gives rise to a gain or loss that is included in profit or loss or OCI, depending on the accounting policy choice made for the presentation of insurance finance income or expenses in profit or loss and comprehensive income.

The Company has elected to present changes in IFIE in OCI with systematic allocation to the profit or loss.

The “bottom-up” approach is used to derive the discount rate for the cash flows. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics of the insurance contracts sold. The determination of the liquidity adjustment is a key judgement for the Company. In this case the Company has concluded that the characteristics of the insurance contracts it sells are such that no liquidity premium adjustment is required. Such characteristics include the ability for policyholders to lapse their policy in full or in part without penalty, the term of the policies, the ability for policyholders to get replacement cover at similar prices and the absence of significant options or guarantees within the policies.

For the Company, the risk-free yield curve will be 'current' and reflect the risk-free yield curve derived on the last day of the reporting period. The nominal risk-free yield curve is used to discount nominal cash flows, while real cash flows are discounted using the real risk-free yield curve.

k) Level of aggregation

The Company uses judgement to determine at what level of granularity the Company has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogenous and will be allocated to the same group without performing an individual contract assessment.

Based on this judgement the Company will aggregate all insurance contracts into single portfolios as the products bear similar risks and are managed together. The CSM is calculated and tracked for separate contract groupings based on annual cohorts based upon the accounting period in which the business was written. As required by IFRS 17 these groupings are further subdivided at the date of initial recognition into three groupings: onerous (if any); contracts which have a significant possibility of becoming onerous subsequently (if any); and the remaining contracts.

l) Reinsurance

The Company will measure reinsurance contracts separately to the underlying contracts using consistent assumptions in cases where the reinsurance is transacted or in place in the same accounting period, in accordance with the standard. The level of aggregation for CSM calculation purposes will be at a treaty level.
A group of reinsurance contracts is recognised on the date on which any underlying insurance contract is initially recognised. This applies to the Company's quota share reinsurance contracts.

The Company will apply the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of the underlying insurance contracts.
For reinsurance arrangements a loss recovery component is established when underlying onerous groups of insurance contracts are recognised, which will offset the insurance losses for the portion of the contracts being reinsured.

m) Tax

The impact of the transition to IFRS 17 will be to de-recognise profits that were previously taxed under IFRS 4, thereby creating a tax loss. Transition relief for tax purposes was enacted in December 2022 which spreads relief for the tax loss over a ten-year period. The Company anticipates full recovery of this tax loss against profits to be earned in future years, primarily through the release of CSM margins to profit and loss.

n) Disclosures

IFRS 17 requires extensive new financial statement disclosures with fundamental changes to the format of the Statement of Comprehensive Income being required to report a net profit or loss from insurance services separately from the finance results. There will be new detailed disclosures that will include a roll-forward from the prior period of insurance balances split by each component. Additional disclosure will be included where significant judgement have been made when applying IFRS 17. Information on the expected emergence of the CSM patten will also be included.

o) Impact

The total impact of transition adjustment (after tax) to the balance of the Company's shareholders' equity is estimated to be a reduction in equity as at 1 July 2022 of between £174m and £192m. A range of outcomes has been presented to facilitate disclosure as there remains some uncertainty, as described above, over the final impact of the introduction of the standard.

The impact of the above reduction in equity is effectively offset by the increase in the CSM that is available for release to profit in future years or to absorb any adverse changes and the risk adjustment. On this basis, the total value created through the insurance activities of the Company remains largely unchanged, however the timing and recognition of insurance related profits has been deferred. The CSM provides a release of future profits and reduced volatility due to its ability to absorb negative variances. Meanwhile, the election of OCI results in less volatility because of its ability to manage variances in financial risks.

The most significant changes that result in an increase in CSM compared to margins held under IFRS 4 can be summarised as follows:

- The measurement under IFRS 17 includes only those cash inflows and outflows relating directly to the fulfilment of the group of insurance contracts, termed directly attributable expenses. In addition to claims and benefits, these may include certain directly attributable overhead expenses. However, non-directly attributable expenses are not included in the initial recognition value of the contract. Under IFRS 17, these non-directly attributable expenses are immediately expensed and are therefore not considered when determining the EFCF of the insurance contracts being measured. The immediate expensing of such non-directly attributable expenses increases the available CSM on the portfolio compared to the IFRS 4 treatment where such expenses were brought into account when determining the available margins.

- Under IFRS 17 contracts are measured at a more granular level with groups established at a minimum on an annual business cohorts basis. Each of these cohorts is further categorised into separate groups based on expected profitability at initial recognition being profitable, profitable at risk, and onerous groups based on the EFCFs (which includes the risk adjustment and all directly attributable expenses). As a result of this losses on initial recognition are immediately expensed when they arise on onerous contracts, effectively eliminating any cross-subsidisation or set-off applied within a portfolio between profitable and onerous contracts that occurred under IFRS 4 when measuring contract as a single group of contracts. When applying a fully retrospective transition approach this immediate write-off of shortfalls increases the reduction in equity at transition but increases the available CSM on the remainder of the portfolio, which will be recognised as profit in future.

2.2 Basis of consolidation

The Company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of Discovery Holdings Europe Limited, a company registered in England and Wales, whose financial statements are publicly available and can be obtained from 3 More London Riverside, London, SE1 2AQ.

2.3 Financial assets and liabilities

The Company follows IFRS 9 in respect of the classification and measurement of financial instruments.

On initial recognition, financial assets are classified as being subsequently measured at either amortised cost or fair value dependent upon the Company’s business model for managing the asset and its cash flow characteristics. Financial assets are not reclassified following initial recognition unless the Company changes its business model for managing financial assets.

Financial assets are deemed to be held under one of three business models:

– Hold to collect, where the business objective is to hold the asset to collect the contractual cash flows;
– Hold to collect and sell, where the business objective is to hold the asset to collect the contractual cash flows and to sell the financial assets; and
– Other.

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amortised cost is measured using the effective interest method. The balances disclosed as loans and receivables in the Statement of Financial Position are held at amortised cost.

Financial assets held within a hold to collect and sell business model are measured at fair value through OCI if the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company does not currently have any such assets.

All other financial assets are held at fair value through profit or loss. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Impairment of financial assets

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Impairments are charged to the Statement of Comprehensive Income.

Amounts disclosed as insurance receivables within note 21 and reinsurance receivables within note 22 are not subject to the impairment provision of IFRS 9 but are reviewed annually for recoverability and impairment with impairment provisions held as appropriate in line with IAS 39. A provision for impairment of these balances is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms.

Financial liabilities

Financial liabilities are classified as either:

– Financial liabilities at amortised cost (trade payables, loans with standard interest rates, bank borrowings); or
– Financial liabilities at fair value through profit and loss (interest rate swaps, foreign exchange future/ option contracts, convertible notes, contingent consideration, and commodity contracts).

The Company measures financial liabilities at amortised cost unless either: it is held for trading and is therefore required to be measured at FVPL; or the Company elects to measure the liability at FVPL to eliminate accounting mismatch.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of comprehensive income.

2.4 Intangible assets

Intangible assets are recognised in the Statement of financial position if it is probable that the relevant future economic benefits attributable to the asset will flow to the Company and its cost can be measured reliably.

Internally developed software is capitalised as an intangible asset and amortised over its estimated useful life when it is either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the Statement of comprehensive income on a straight-line basis over the estimated useful lives of the assets. Impairment losses are calculated and recorded on an individual basis.

The estimated useful life of internally developed software currently being amortised is 5 or 10 years depending on the nature of the software developed.

2.5 Investment in subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are accounted for at cost under IAS 27 Separate Financial Statements. On an annual and indicator basis an impairment assessment is undertaken and any impairment is recognised in the statement of comprehensive income. The recoverable amount is determined as the higher of fair value less cost to sell and the subsidiary's value in use, determined using expected future cashflows.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and any highly liquid investments with less than three months to maturity from the date of acquisition which are subject to an insignificant risk of changes in value. Cash and cash equivalents are categorised for measurement purposes as being held at amortised cost.

2.7 Share capital

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders, until the shares are cancelled or reissued.

2.8 Taxation

The income tax expense or credit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is provided, in full, using the Statement of financial position liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amount in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the Statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.9 Derivative Contracts

Derivative financial instruments are initially recognised in the Statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures the instruments at their fair value. Changes in fair value of all derivative contracts are recognised immediately in profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities where the fair value is negative. Hedge accounting is not applied.

2.10 Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in the Statement of comprehensive income.

2.11 Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. The Company defines significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Recognition and measurement

The Company's insurance contracts are classified into two main categories, depending on the nature of the product and type of risk insured: individual life insurance (non unit-linked); and unit-linked insurance.

Individual life insurance (non unit-linked)

These contracts provide the following core benefits: life cover; serious illness cover; and income protection cover. These benefits directly expose VLL to mortality and morbidity risks. These contracts are long-term in nature.

Valuation of policyholder liabilities

The actuarial value of policyholder liabilities is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the expected present value of future benefit payments plus expenses and the expected present value of future premiums. Best estimate assumptions regarding the future expected claims experience, premium income, expenses and commission are used.

Where the value of policyholder liabilities is negative in aggregate, this is shown as an asset under insurance contract reserves.

Applying the valuation basis using the best estimate assumptions described above, would result in a gain at initial recognition. Margins against adverse deviation and discretionary margins are therefore added to the best estimate assumption to avoid the premature recognition of future profits. At initial recognition, profits are recognised, to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio, to recoup acquisition costs.

Margins against adverse deviation

- Given the level of uncertainty in the best estimate assumptions, margins are added to protect against future possible adverse experience.
- All margins are at least equal to the margins for adverse deviation prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margin may vary based on policy type and duration to ensure that the margin is in the conservative direction overall.
- The best estimate assumptions and margins are reviewed at each valuation.

Discretionary margins

- Applying the valuation basis described above, may result in a gain at initial recognition.
- To avoid this gain at initial recognition, a discretionary margin is added to the new business reserve to offset the gain after an allowance to cover the acquisition cost of new business expensed in the period.
- The allowance for acquisition costs is estimated within the modelled new business reserve to a tolerance set by the actuarial Committee in line with accounting policy.
- The best estimate assumptions and margins are reset at every valuation date to reflect the underlying profitability of the portfolio.
- Changes to assumptions, models and benefits are therefore offset through an increase in discretionary margin (or a release if sufficient discretionary margin exists). The impact of experience variances (with the exception of lapse and mortality experience) on the end-of-period prospective liability recognised in respect of in-force policies is offset against an increase in discretionary margin (or release if sufficient discretionary margin exists). The impact of experience variances on the in-period cashflows is accounted for in profit or loss for the period and not offset through changes in discretionary margins.
- Where insurance contract reserves (positive or negative) are backed by financial assets (including derivatives) the corresponding change in the insurance contract reserves and the backing financial asset are recognised directly in profit and loss. For example, if derivative assets are held as a hedge against changes to economic assumptions, like a change in the valuation interest rate, changes in insurance contract reserves due to the hedged economic assumptions are recognised directly in profit and loss. Where economic assumptions are not hedged using backing assets, the Company will continue follow the discretionary margin procedure set out below.
- The Company has established a procedure to utilise the available discretionary margin in a specified order:

- First, the Company will utilise available discretionary margins to absorb the impact of experience variance items on in-force polices that can be offset against discretionary margins (as outlined in previous bullet).
- Secondly, the Company utilises available discretionary margins to offset the impact of non-economic assumption, model, and benefit changes.
- Lastly, the discretionary margins are utilised to offset the impact of economic assumption changes.
- Where there are insufficient discretionary margins to offset losses arising from changes in assumptions, models, and benefits, those losses in excess of the discretionary margin are recognised immediately in Profit or Loss; and
- In subsequent periods, positive changes in economic assumptions and positive variances in non-economic assumptions, model and benefit changes are first recognised in profit or loss to the extent that it reverses related losses previously recognised in Profit or Loss. This is in the reversed sequence in which the negative variances were utilised against discretionary margin and any excess previously recognised in profit or loss.

Contractual premium and benefit increases are included in the valuation of the policyholder liability. It is further assumed that no voluntary benefits are taken up where a future take-up of these benefits would reduce the liability (or increase the negative reserve). This is in line with actuarial guidance which requires that expected profits in respect of future options that may be taken up by policyholders should not be recognised in the policyholder liability.

The actuarial liabilities are calculated gross of reinsurance. The expected impact of reinsurance is valued separately. The liability estimates are reviewed at every reporting period and any changes in estimates to the liability are reflected in the profit or loss as they occur. Further liabilities are held to reflect incurred but not yet reported (IBNR) claims.

The valuation basis meets the requirements of the liability adequacy test as required by IFRS 4 for individual life insurance and no additional tests are performed.

Premium revenue

Premiums are recognised as revenue when due. Premiums are shown net of any discounts given to policyholders. Premiums exclude taxes and levies.

Insurance benefits and claims

Insurance benefits and claims are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Death and serious illness claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to profit or loss and included in the provision for claims outstanding. The liabilities are calculated gross of reinsurance. An asset (or liability if the aggregate balance is negative) is then raised to allow for the expected recoveries from reinsurers.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability estimated.

Acquisition costs

Acquisition costs represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. Acquisition costs are recognised in profit and loss as they are incurred. Commission costs are clawed back from intermediaries where a policy lapses within its clawback period (two or four years). Commission clawback is credited against acquisition costs when the Company becomes entitled to recover it from intermediaries. Acquisition costs in the profit and loss are therefore shown net of commission clawback.

The valuation basis makes implicit allowance for the deferral of acquisition costs since profits are recognised at initial recognition to the extent of the actual acquisition costs incurred, and so the acquisition costs are deferred over the lifetime of the policy. As a result no explicit deferred acquisition cost asset is recognised in the Statement of financial position and these acquisition costs are expensed in profit or loss.

Unit-Linked Insurance Contracts

The Company sells and underwrites unit-linked insurance contracts. A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. The contracts are sold in a number of savings and investment wrappers such as Self Invested Pension Plans (“SIPP”), Individual Savings Accounts (“ISA”) and Junior ISAs. A key feature of the products is the inclusion of an accidental death benefit that increases the value of the units held by a policyholder in the event of a qualifying accidental death. The inclusion of this benefit introduces significant insurance risk into the contract and therefore the products are accounted for as insurance contracts under IFRS 4. The accidental death benefit increases the value of a customer’s unit linked holdings by 5% upon occurrence of an insured event (accidental death).

The product features mean that this embedded derivative meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract. The liability for such contracts is adjusted for changes in the fair value of the underlying assets. The Company does not separately measure embedded derivatives that meet the definition of an insurance contract.

Valuation of policyholder liabilities

Policyholder liabilities for unit linked contracts comprise of:

- Unit liabilities – This is the face value of the policyholder funds at the valuation date. It represents the value of premiums received from a policyholder plus the accumulation of investment return and policyholder benefits less fees deducted by the Company to manage the policy and withdrawals made by the policyholder. The Company aims to fully match policyholder liabilities with investments in matching assets.

The Company does not currently make use of reinsurance for unit-linked contracts and therefore no allowance is made for reinsurance in the policyholder liabilities.

Premium revenue

Premiums are recognised when insurance units are purchased by customers. Premiums are shown net of any fees the policyholder has paid their financial advisor directly but gross of any fees taken by the Company to manage the customers policy. Premiums exclude taxes and levies.

Insurance benefits and claims

Insurance benefits and claims for unit-linked insurance contracts represents the value of units redeemed by the policyholder as well as the payments of accidental death benefits. Insurance benefits and claims are recognised in profit or loss based on the estimated liability for benefits owed to the contract holder. Unit redemptions are accounted for when the value of the contract is paid to the policyholder. Accidental death benefits are accounted for when notified.

2.12 Reinsurance contracts

Contracts entered into by the Company with reinsurers, under which the Company is compensated for insured events on one or more contracts that meet the classification requirements for insurance contracts, are classified as reinsurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts the Company is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (reinsurance payables). Where the value of these liabilities is negative in aggregate, they are reported as assets under reinsurers' share of insurance contract reserves.

Reinsurance financing income received in the period is recognised as income in the Statement of comprehensive income and netted against expenses. The reinsurance financing is obtained to partially offset the cash strain of writing new business, and this financing is then repaid in future years contingent on policyholders' premium payments. The future obligation to repay this financing is reflected in the value of the liability arising from the reinsurers' share of insurance contract reserves.

Outward reinsurance premiums are recognised as an expense and are accounted for in the same accounting period that premiums are recognised in revenue. The amounts due to the Company under its reinsurance contracts are recognised as reinsurance assets (reinsurance receivables). The Company assesses its reinsurance assets for impairment on an annual basis as outlined in note 2.3.

In certain cases there is a gain or loss at inception of a reinsurance contract:

- Where these amounts relate to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurers and recognised immediately.
- Other gains or losses amortised over the life of the insurance policies on the same basis as the profit is expected to emerge.

2.13 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. The Company assesses its receivables for impairment on an annual basis as outlined in note 2.3.

2.14 Subordinated loans and long term unsubordinated loans payable

Loan borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

3 Critical accounting estimates and judgements in applying accounting policies

Assumptions, estimates and judgements form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are regularly reviewed in the light of emerging experience and adjusted where required.

Critical accounting estimates in applying accounting policies

3.1 Insurance contract reserve assumptions and estimates

The insurance policies issued by the Company are valued using various methodologies and assumptions. The assumptions used are best estimate assumptions plus margins against adverse deviation and discretionary margins. Sensitivities to key assumptions are outlined in note 4. The process used to decide on best estimate assumptions is described below:

(a) Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date. The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results. The most recent experience investigations were performed at 30 June 2023.

(b) Mortality and morbidity

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

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy.

An adjustment is made to the standard mortality and morbidity assumptions to reflect the expected impact of engagement in the Vitality programme.

At 30 June 2022, the Company held a provision for potential increases in morbidity compared to the base actuarial assumptions over the short term relating to COVID-19. As at 30 June 2023, the Company no longer holds such a provision as the uncertainty relating to COVID-19 has reduced.

(c) Lapse rates

Lapses rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than existing actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice.

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Consideration is made for the estimated impact of the economic environment. An adjustment is made to the lapse assumptions to reflect the expected impact of the Vitality programme.

(d) Economic assumptions/Investment returns

The Company writes long term protection business and only began writing business from 1 January 2016. Given this, one of the key assumptions in setting the insurance contract reserves is the reinvestment rate that the Company is expected to earn on future premiums and assets that will be invested a long time into the future. The net of reinsurance contract reserves on non-unit-linked business is negative (an asset in the Statement of financial position) as at the balance sheet date and cash inflows on contracts in force are expected to exceed cash outflows. As the reserves are negative the reinvestment rate assumption relates to assets that will be invested in the future rather than held now to match liabilities. At 30 June 2023 the reinvestment rate has been estimated at 3.978% (2022: 2.915%) per annum.

At 30 June 2023 the reinvestment rate was estimated with reference to the UK gilt yield curve with an adjustment for a liquidity premium. The liquidity premium reflects management's long-term assumption of the return above the UK gilt yield curve from a portfolio of UK government and investment grade corporate fixed interest bonds of term and nature appropriate to the policyholder liabilities.

The best estimate inflation assumptions are set in line with long-term UK inflation expectations and observed real yields consistent with the term of the liabilities. At 30 June 2023 the inflation rate used for premium and benefit indexation was set at 3.5% (2022: 3.5%), and the expense inflation was set at 3.75% (2022: 3.75%).

(e) Expense assumptions

Renewal expense assumptions are based on the results of the latest expense and budget information.

The allocation of expenses between initial and renewal is based on the latest expense analysis where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionally based on estimates of the functions performed.

Per policy expenses are projected to increase in line with expected future expense inflation.

Non-recurring expenses are excluded from the expense analysis used to derive the assumption.

3.2 Impairment of non-financial assets

Non-financial assets (including intangible assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least at each Statement of financial position date. Such indicators include continued losses, change in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows expected to be generated by the non-financial asset. An impairment charge is recognised as a loss in the Statement of comprehensive income immediately.

For Investments in subsidiaries, value in use is measured either as the net assets of the subsidiary, embedded value (the present value of future profits plus adjusted net asset value) or present value of projected cash flows covering the remaining useful life of the asset.

Critical accounting judgements in applying accounting policies

3.3 Product classification – Unit-linked contracts

As disclosed in note 2.11 above, the Company sells and underwrites unit-linked contracts with savings and investment characteristics. In assessing the most appropriate IFRS and accounting policy to account for these contracts, management performs an assessment against the recognition criteria of IFRS 4. The product features are such that the inclusion of an accidental death benefit as an integral part of the contract exposes the Company to insurance risk. In management's judgement this insurance risk is 'significant' and therefore meets the criteria of IFRS 4 to be accounted for as an insurance contract.

4 Management of insurance risk

The Company enters into contracts that carry insurance risk. The insurance risk under any one insurance contract is the possibility of a claim arising from that contract and the uncertainty of the amount and timing of the resulting claim. This risk is random and therefore unpredictable.

A large portfolio of independent but similar insurance contracts, allow for the use of probability theory to predict the number and value of claims over a defined period. Insurance risk, when considering a large portfolio of insurance contracts, is thus the probability that the actual amount of claims over a defined period is different to expected. This could in turn result in the value of insurance liability being over or underestimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be.

The Company takes a proactive approach to managing its insurance risk. Risk management processes are employed to ensure the Company identifies and controls the risks to which it is exposed.

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions. For the reasons set out below, this does not represent a significant risk to the Company.

Assets arising from insurance contract reserves and liabilities arising as a result of reinsurers share of insurance contract reserves

For assets under insurance contracts, the insurance-related cash outflows (e.g. benefit payments, administration expenses) are covered by expected future cash inflows (predominantly future premiums). This can clearly be seen by considering the positive future net cash flows arising from insurance contracts. These cash flows are calculated in accordance with the accounting policies. Contractual premium and benefit increases are recognised in the cash flow projections.

The expected discounted future cash flows utilized in the calculation of assets under insurance contracts are disclosed in the table below:

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	5 to 10 years £'000	Over 10 years £'000	Total £'000
30 June 2023						
Assets arising from insurance contract reserves	124,904	101,779	223,719	277,957	125,835	**854,194**
Liabilities arising from reinsurers share of insurance contract reserves	(91,748)	(80,790)	(127,854)	(62,839)	8,882	**(354,349)**
Insurance contract reserves net of reinsurance	**33,156**	**20,989**	**95,865**	**215,118**	**134,717**	**499,845**
30 June 2022						
Assets arising from insurance contract reserves	122,188	101,429	217,808	249,231	91,110	**781,766**
Liabilities arising from reinsurers share of insurance contract reserves	(82,809)	(73,569)	(153,989)	(47,207)	4,099	**(353,475)**
Insurance contract reserves net of reinsurance	**39,379**	**27,860**	**63,819**	**202,024**	**95,209**	**428,291**

The cash flow valuation discount rate and reinvestment rate is set with reference to the UK gilt yield curve with an adjustment for a liquidity premium. There is therefore a risk that a significant change in the reference yields could cause a change in the value of the insurance contract reserves and therefore the value of the insurance contract reserves is subject to interest rate risk.

Liabilities arising from insurance contract reserves

Liabilities under insurance contracts relate to unit-linked contracts. For these contracts, the insurance related cash outflows are predominantly matched with the sale of policyholder assets and therefore there is no material market or mismatch risk (see note 5.1 for further details).

4.1 Lapse risk

Policyholders have the option to discontinue or, for unit-linked policies, withdraw funds at any time. There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs incurred at the inception of the policy would not yet have been recouped.

There is also a risk of lower than expected lapses at late durations of the policy since no surrender value is payable on withdrawal from a non unit-linked policy even where actuarial reserves are positive.

There is a further risk that lapses are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings on life and protection products (non-unit linked) are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the degree of indexation of future premiums. In general, the higher the indexation increases, the higher the withdrawal risk to future earnings.

Future earnings on unit-linked insurance are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate.

The lapse risk is managed as follows:

Product design

Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

The Company provides unique rewards and benefits to policyholders via its Optimizer products and Wellness Optimizer products. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

Commission clawback

The Company predominantly distributes via independent intermediaries. Commissions are clawed back from intermediaries where a policy lapses early on. The clawback period is currently either two or four years. The amount of commission clawback depends on the amount of unearned commission over the period. There is a credit risk associated with clawing back commission from brokers.

Client relationships

All premiums are collected via direct debit. Clients are contacted after a failed direct debit and after notification of a cancellation. The reason for the cancellation is established and wherever possible, the policy is conserved.

Experience monitoring

Lapse experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data for the Company is currently not sufficient to provide a credible basis for setting assumptions for long duration lapse rates, so reliance is placed on industry benchmarking as well as experience from the VitalityLife business underwritten by PAC.

Proactive Retention

Targeted retention campaigns are run, for example financial advisors are notified of clients that do not have certain features on their policies that are correlated with good persistency. Financial advisors are thus encouraged to add such features.

4.2 Underwriting experience risk

Insurance contracts providing death, serious illness or income protection cover (non unit-linked)

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected.

Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

Underwriting risk on unit-linked contracts is less material than on non-unit linked products and the risk is limited to accidental deaths.

The risks are managed through:

Product design and pricing

Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, medical history and age.

The Vitality Optimizer and Vitality Wellness Optimizer products incentivize engagement in the Vitality Wellness Programme and to actively manage a number of key health indicators (body mass index, blood pressure, cholesterol, blood glucose) which in turn has a positive impact on risk experience.

Underwriting

Underwriting ensures that only insurable risks are accepted and that premiums reflect the circumstances of each risk. This is achieved by different levels of medical underwriting, depending on the answers to medical questions on the application form. Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loading and exclusions are applied where high risks are identified.

Quality assurance audits are performed on underwriting to minimize the risk of incorrect underwriting decisions.

Reinsurance

Reinsurance protects against volatility in claims experience and against an accumulation of risk. In addition, reinsurers provide specialist advice when designing new products. The Company utilizes surplus reinsurance to reinsure amounts in excess of defined retention levels. The Company is therefore protected against large individual claims.

During the year to 30 June 2023 and remaining effective at 30 June 2023, the Company was party to a number of reinsurance agreements. The nature of the agreements in place are outlined below:

- Four (2022: Four) separate quota share agreements that reinsure a specified proportion of the sum assured up to a defined retention level of sum assured for the majority of VLL's policies.
- Two (2022: Two) separate quota share agreements that finance a specified proportion of the premium value paid by the policyholder.

- A mass treaty (effective from 30 June 2023) with a two year term. The treaty provides a payout to the Company in the event that 40% or more of the Company's policyholders lapse in a single event. The treaty has no impact on the insurance contract reserves of the Company but does reduces its Solvency Capital Required (SCR) under Solvency II.

Experience monitoring

Experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide a credible basis for setting claims rate assumptions, so significant reliance is placed on life insurance industry mortality tables as well as experience from the VitalityLife business underwritten by PAC.

Unit-linked contracts

Underwriting risk on unit-linked contracts is limited to the exposure to accidental death benefit claims. The size of this exposure is correlated to the value of assets under management in relation to unit-linked contracts underwritten by the Company. Although the accidental death benefit constitutes significant insurance risk for these contracts to be accounted for under IFRS 4, this exposure is currently immaterial.

The Company charges policyholders a fee (through deduction from policyholder funds under management) to manage its unit-linked contracts. The fees are a percentage of the policyholder funds under management. These policies are not subject to underwriting and the fee charged is the same for all groups of policyholders (depending on the unit-linked investments chosen).

The Company does not currently utilise reinsurance in respect of its exposure to accidental death risks.

4.3 Expenses

Expense risk can arise through misestimation, higher than expected inflation, lower volumes of business than expected, expense overruns, regulatory change and changes in the mix of business. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

4.4 Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model does not accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world. Any changes made to the model are reviewed. The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. The Company does not have any legacy systems that could impact on the data quality.

4.5 Regulatory risk

The Company operates in a highly regulated environment. The regulatory risk can be defined as the potential detrimental impact of unexpected changes in regulations (or interpretation thereof).

Although the Company endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in the future. This risk is managed through seeking legal advice on new product developments. Further, all insurance products issued by VLL are subject to a rigorous sign-off process.

4.6 Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

4.7 Currency risk

All of the Company's insurance benefits are pounds sterling denominated as all business is sold in the UK market.

A significant part of operational expenses are South African Rand denominated as systems and administration are based in South Africa. This creates a potential mismatching risk and so the Company does hold some cash reserves denominated in Rand in a South African based bank account, which are used to pay Rand denominated expenses.

4.8 Solvency capital requirements and protection against adverse experience

There is a risk that future premiums, investment returns and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Insurance liabilities are calculated using best estimates plus the addition of various margins to avoid premature recognition of profits and to provide for a buffer against future adverse experience. In addition, the Company maintains shareholder capital to meet substantial deviations in experience beyond those provided for in the liability calculations.

The Company is required to demonstrate solvency to the Prudential Regulation Authority thus needs to maintain sufficient shareholder assets, over and above the assets required to meet shareholder liabilities. Further details can be seen in note 7.

4.9 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with insurance liabilities due to insufficient cash being available to meet commitments as and when they become due. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

The Company maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, the Company's expected liabilities are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

4.10 Policy wording/legal risks

There is a risk that VLL could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings or complaints by policyholders.

The risk is managed when new products are developed. All policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

4.11 Reputational risk

Reputational risk is the risk of negative market reaction towards the Company and/or the fund managers it uses to manage its unit-linked funds which may lead to lapses and low sales volumes.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations and are subject to a rigorous sign-off process.

The Company only uses reputable fund managers and performs due diligence when working with new fund managers and strategic partners managing its unit linked funds.

The Company’s management reviews all product offerings to minimize the reputational risk.

4.12 Concentration risk

Claims experience risk

There is a risk that a concentration of risk can lead to worse than expected experience. The Company maintains a well-diversified portfolio of policies. Reinsurance helps protect against this risk, and reduces the exposure to large individual claims.

Withdrawal concentration risk

There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. The Company has a well-diversified book of business which is spread across a large number of brokers and agents.

4.13 Insurance risk sensitivities

The table below discloses sensitivities to assets arising from non-unit linked insurance contract reserves to key insurance risks noted above. The sensitivities are shown on both a gross and net of reinsurance basis.

	Gross Exposure		Net Exposure	
	Assets arising from insurance contract reserves £'000	Change from base assumption %	Assets arising from insurance contract reserves £'000	Change from base assumption %
Base: 30 June 2023 assumptions	**854,194**	-	**499,845**	-
Lapses +10% (e.g. from x% to 1.1x%)	818,265	(4.2)	463,969	(7.2)
Lapses -10% (e.g. from x% to 0.9x%)	891,907	4.4	539,228	7.9
Investment return and inflation +1% (e.g. from 5% to 6%)	852,528	(0.2)	503,515	0.7
Investment return and inflation -1% (e.g. from 5% to 4%)	848,010	(0.7)	488,620	(2.2)
Expense assumption +10%	838,750	(1.8)	484,401	(3.1)
Expense assumption -10%	869,638	1.8	515,289	3.1
Mortality and morbidity +10%	694,212	(18.7)	445,130	(10.9)
Mortality and morbidity -10%	1,016,327	19.0	554,500	10.9
Real curve -1% and inflation +1%	871,146	2.0	517,801	3.6
Real curve +1% and inflation –1%	835,717	(2.2)	480,606	(3.8)
Interest + 1%	834,540	(2.3)	485,072	(3.0)
Interest - 1%	865,186	1.3	507,211	1.5
Base: 30 June 2022 assumptions	**781,766**	-	**428,291**	-
Lapses +10% (e.g. from x% to 1.1x%)	746,580	(4.5)	393,999	(8.0)
Lapses -10% (e.g. from x% to 0.9x%)	818,724	4.7	464,045	8.3
Investment return and inflation +1% (e.g. from 5% to 6%)	785,538	0.5	433,051	1.1
Investment return and inflation -1% (e.g. from 5% to 4%)	767,049	(1.9)	414,853	(3.1)
Expense assumption +10%	767,987	(1.8)	414,513	(3.2)
Expense assumption -10%	795,545	1.8	442,070	3.2
Mortality and morbidity +10%	639,783	(18.2)	380,349	(11.2)
Mortality and morbidity -10%	925,840	18.4	475,922	11.1
Real curve -1% and inflation +1%	797,077	2.0	442,162	3.2
Real curve +1% and inflation –1%	764,737	(2.2)	412,451	(3.7)
Interest + 1%	768,680	(1.7)	417,872	(2.4)
Interest - 1%	782,002	—	429,089	0.2

Sensitivity analysis is not performed on liabilities arising from insurance contracts for unit-linked contracts on the basis that no material risk is currently retained by the Company as noted in note 4.

5 Management of financial risk

The Company's activities expose it to a variety of financial risks. Financial risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

- *Equity price risk:* The impact of changes in equity prices and dividend income.
- *Interest rate risk:* The impact of changes in market interest rates.
- *Currency risk:* The impact of changes in foreign exchange risks.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash being available to meet commitments as and when they become due.

Financial risks are managed by the Company as follows:

- The Company has appointed reputable external asset managers to manage its investments.
- The Actuarial Committee reviews the overall matching of shareholder and policyholder assets to their respective liabilities.
- The Unit-linked committee oversees that the Company has adequate systems and controls to administer and manage unit-link funds fairly and that assets backing unit-linked policies are appropriate for policyholders.
- The Finance Executive Committee is a sub-committee of the Group Executive Committee and meets at least once a month to focus on financial planning, review and strategy; and
- The Reinsurance Investments and Capital Committee (RICCO) is a sub-committee of the Executive Committee and meets at least twice monthly to focus on shareholder assets and the performance of asset managers responsible for managing these assets.

The Company has not significantly changed the processes used to manage its risks from previous periods.

To assist in the analysis of the financial risk that the Company is exposed to, the Statement of financial position has been divided into two categories based on the nature of the products provided by the Company. A description of the categories used is given below:

- **Unit-linked Insurance Contracts** – this category relates to insurance contracts issued by the Company which have a component that is linked to the units of an underlying investment portfolio. For this component, the Company holds the assets on which the prices are based. However, the gross unit liabilities are adjusted by the expected present value of future charges less the expected present value of future expenses and risk claims. The unit-linked component is not accounted for separately from the host insurance contract. For these contracts, the majority of the financial risk is borne by the policyholder. Further details are provided in note 5.1

- **Other insurance contracts and shareholder financial assets and liabilities** – this category relates to:

  a. **Other insurance contracts issued by the Company** – This relates to insurance contracts issued by the Company that are not unit-linked. These insurance contracts result in the Company recognising a negative insurance contract reserve as future cash inflows on these contracts are expected to exceed future cash outflows. As a negative reserve is recognised, no matching assets are specifically held by the Company to match these insurance cash flows.

  b. **Shareholder financial assets and liabilities** – This relates to assets and liabilities used to operate the Company, meet day to day liquidity requirements (including the writing of new business), ensure sufficient capital is held to meet regulatory requirements and to generate investment return for the Company.

The following tables reconcile the statement of financial position to the classes of risk and categories listed above.

	Unit-Linked Insurance Contracts	Other Insurance Contracts and shareholder financial assets and liabilities	Total reported in Statement of Financial Position
	£'000	£'000	£'000
30 June 2023			
Assets arising from insurance contract reserves	—	854,194	**854,194**
Investment in subsidiary	—	471,000	**471,000**
Intangible assets	—	6,591	**6,591**
Investments at fair value through profit and loss	303,741	2,988	**306,729**
Investments at amortised cost	—	3,525	**3,525**
Loans and receivables including insurance receivables	20,564	17,298	**37,862**
Reinsurance receivables	—	44,951	**44,951**
Deferred tax	—	10,477	**10,477**
Current tax	—	881	**881**
Fair value of derivative contracts	—	—	**—**
Derivative collateral	—	—	**—**
Cash and cash equivalents	58,469	46,767	**105,236**
Total Assets per statement of financial position	**382,774**	**1,458,672**	**1,841,446**
Liabilities arising from insurance contract reserves	382,396	—	**382,396**
Liabilities arising from reinsurers share of insurance contract reserves	—	354,349	**354,349**
Reinsurance payables	—	21,619	**21,619**
Claims payable	—	61,963	**61,963**
Trade and other payables	378	39,154	**39,532**
Fair value of derivative contracts	—	—	**—**
Long term unsubordinated loans payable	—	57,550	**57,550**
Subordinated loans payable	—	31,900	**31,900**
Total Liabilities per statement of financial position	**382,774**	**566,535**	**949,309**

	Unit-Linked Insurance Contracts	Other Insurance Contracts and shareholder financial assets and liabilities	Total reported in Statement of Financial Position
	£'000	£'000	£'000
30 June 2022			
Assets arising from insurance contract reserves	—	781,766	781,766
Investment in subsidiary	—	456,800	456,800
Intangible assets	—	6,889	6,889
Investments at fair value through profit and loss	667,280	23,709	690,989
Investments at amortised cost	—	10,411	10,411
Loans and receivables including insurance receivables	5,962	20,599	26,561
Reinsurance receivables	—	30,467	30,467
Deferred tax	—	9,057	9,057
Current tax	—	102	102
Derivative collateral	—	1,770	1,770
Cash and cash equivalents	66,662	58,982	125,644
Total assets per statement of financial position	**739,904**	**1,400,552**	**2,140,456**
Liabilities arising from insurance contract reserves	732,447	—	732,447
Liabilities arising from reinsurers share of insurance contract reserves	—	353,475	353,475
Reinsurance payables	—	18,681	18,681
Claims payable	—	51,632	51,632
Trade and other payables	7,457	31,663	39,120
Fair value of derivative contracts	—	3,889	3,889
Long term unsubordinated loans payable	—	—	—
Subordinated loans payable	—	73,050	73,050
Total liabilities per statement of financial position	**739,904**	**532,390**	**1,272,294**

The financial risks associated with each category are discussed below.

For the purposes of disclosing financial risks only financial assets and financial liabilities are considered. A reconciliation of the Statement of financial position to the risk management disclosures is shown below:

	As at 30 June	
Financial Assets	**2023**	2022
	£'000	£'000
Total assets as reported in statement of financial position	**1,841,446**	**2,140,456**
Less: Assets arising from insurance contract reserves*	(854,194)	(781,766)
Less: Investment in subsidiary	(471,000)	(456,800)
Less: Intangible assets	(6,591)	(6,889)
Less: Deferred tax	(10,477)	(9,057)
Less: Current tax	(881)	(102)
Total Financial Assets	**498,303**	**885,842**

	As at 30 June	
Financial Liabilities	**2023**	2022
	£'000	£'000
Total liabilities as reported in statement of financial position	**949,309**	**1,272,294**
Less: Liabilities arising from insurance contract reserves*	(382,396)	(732,447)
Less: Liabilities arising from reinsurers share of insurance contract reserves*	(354,349)	(353,475)
Total Financial Liabilities	**212,564**	**186,372**

*For the purposes of the financial risk management disclosures for market risk, credit risk and liquidity risk, assets and liabilities arising from insurance contract reserves and liabilities arising from reinsurers share of insurance contract reserves have been excluded and the applicable related risks have been disclosed within the insurance risk management section to better reflect the associated risks to the Company.

5.1 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS-defined insurance contract with a component that is linked to the units of an underlying investment portfolio. For this component, the Company holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. The unit-linked component is not accounted for separately from the host insurance contract.

	Held at risk of insurance policyholders	
	2023	2022
	£'000	£'000
Investments at fair value through profit and loss	303,741	667,280
Loans and receivables including insurance receivables	20,564	5,962
Cash and cash equivalents	58,469	66,662
Total financial assets	**382,774**	**739,904**
Trade and other payables	378	7,457
Total financial liabilities	**378**	**7,457**

Market, Credit and Liquidity Risk

The assets and liabilities summarised above relate to unit-linked insurance contracts. The liabilities to policyholders under these contracts are consequently invested in matching assets. The Company retains no material price, currency, liquidity, credit or interest rate risk in respect of these contracts.

Liquidity risk in respect of selling the underlying units is borne by the policyholders as the Company has the right to delay the sale of units when there is insufficient liquidity in the underlying assets.

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

As the Company has no material market, credit or liquidity risk in respect of these contracts risk disclosures have not been presented for unit-linked assets and liabilities.

5.2 Other insurance contracts and shareholder financial assets and liabilities

	Held at risk of the Company	
	2023	2022
	£'000	£'000
Investments at fair value through profit and loss	2,988	23,709
Investments at amortised cost	3,525	10,411
Loans and receivables including insurance receivables	17,298	20,599
Reinsurance receivables	44,951	30,467
Fair value of derivative contracts	—	—
Cash and cash equivalents	46,767	58,982
Total financial assets	**115,529**	**144,168**
Reinsurance payables	21,619	18,681
Claims payable	61,963	51,632
Trade and other payables	39,154	31,663
Fair value of derivative contracts	—	3,889
Long term unsubordinated loans payable	57,550	—
Subordinated loans payable	31,900	73,050
Total financial liabilities	**212,186**	**178,915**

5.2.1 Market Risk

Currency risk

The Company has exposure to foreign exchange risk arising from exposure to the South African Rand (ZAR). Foreign exchange risk arises from commercial transactions and assets held overseas. The Company has a significant ZAR denominated cost base through its outsourcing arrangements with Discovery Life Limited and therefore holds ZAR in South African bank accounts to meet the Company's foreign currency liquidity requirements. The tables below analyse the exposure of the Company as at 30 June 2023 and 30 June 2022:

	Exposure to Functional & Presentation Currency	GBP exposure to South African Rand	Total
	£'000	£'000	£'000
30 June 2023			
Investments at fair value through profit and loss	2,988	—	2,988
Investments at amortised cost	31	3,494	3,525
Loans and receivables including insurance receivables	17,298	—	17,298
Reinsurance receivables	44,951	—	44,951
Cash and cash equivalents	46,682	85	46,767
Total financial assets	**111,950**	**3,579**	**115,529**
Reinsurance payables	21,619	—	21,619
Claims payable	61,963	—	61,963
Trade and other payables	37,328	1,826	39,154
Long term unsubordinated loans payable	57,550	—	57,550
Subordinated loans payable	31,900	—	31,900
Total financial liabilities	**210,360**	**1,826**	**212,186**

	Exposure to Functional & Presentation Currency	GBP exposure to South African Rand	Total
	£'000	£'000	£'000
30 June 2022			
Investments at fair value through profit and loss	23,709	—	23,709
Investments at amortised cost	10,411	—	10,411
Loans and receivables including insurance receivables	20,599	—	20,599
Reinsurance receivables	30,467	—	30,467
Cash and cash equivalents	53,912	5,070	58,982
Total financial assets	**139,098**	**5,070**	**144,168**
Reinsurance payables	18,681	—	18,681
Claims payable	51,632	—	51,632
Trade and other payables	30,135	1,528	31,663
Fair value of derivative contracts	3,889	—	3,889
Long term unsubordinated loans payable	—	—	—
Subordinated loans payable	73,050	—	73,050
Total financial liabilities	**177,387**	**1,528**	**178,915**

Sensitivity to currency risk

	FX Movement (ZAR/GBP)			
	Impact on result before tax		Impact on shareholders equity Corporate tax rate assumed 20.50% (2022: 19.00%)	
	+10%	**-10%**	**+10%**	**-10%**
	£'000	**£'000**	**£'000**	**£'000**
2023	**(175)**	**175**	**(139)**	**139**
2022	(354)	354	(287)	287

Equity price risk

The Company's investment in open ended investment companies includes indirect holdings in equities. However, the size of these holdings means equity price risk does not represent a material financial risk to the Company.

Interest rate risk

The Company holds financial assets and liabilities that are exposed to fixed and floating interest rates. The table below analyses the fixed and floating rate exposure at the balance sheet date:

	Fixed rate at balance sheet date	**Floating rate at balance sheet date**	**Non-interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
30 June 2023				
Investments at fair value through profit and loss	—	2,988	—	2,988
Investments at amortised cost	3,494	31	—	3,525
Loans and receivables including insurance receivables	—	—	17,298	17,298
Reinsurance receivables	—	—	44,951	44,951
Cash and cash equivalents	—	46,767	—	46,767
Total financial assets	**3,494**	**49,786**	**62,249**	**115,529**
Reinsurance payables	—	—	21,619	21,619
Claims payable	—	—	61,963	61,963
Trade and other payables	—	—	39,154	39,154
Long term unsubordinated loans payable	—	57,550	—	57,550
Subordinated loans payable	—	31,900	—	31,900
Total financial liabilities	**—**	**89,450**	**122,736**	**212,186**

	Fixed rate at balance sheet date	Floating rate at balance sheet date	Non-interest bearing	Total
	£'000	£'000	£'000	£'000
30 June 2022				
Investments at fair value through profit and loss	—	23,709	—	23,709
Investments at amortised cost	—	10,411	—	10,411
Loans and receivables including insurance receivables	—	—	20,599	20,599
Reinsurance receivables	—	—	30,467	30,467
Fair value of derivative contracts	—	—	—	—
Cash and cash equivalents	—	58,982	—	58,982
Total financial assets	**—**	**93,102**	**51,066**	**144,168**
Reinsurance payables	—	—	18,681	18,681
Claims payable	—	—	51,632	51,632
Trade and other payables	—	—	31,663	31,663
Fair value of derivative contracts	—	3,889	—	3,889
Long term unsubordinated loans payable	—	—	—	—
Subordinated loans payable	—	73,050	—	73,050
Total financial liabilities	**—**	**76,939**	**101,976**	**178,915**

Sensitivity to interest rate risk

Whilst the Company holds financial assets and liabilities at the balance sheet date with both fixed and floating interest rate exposure the valuation of these assets and liabilities at 30 June 2023 is not materially exposed to interest rate risk with the exception of the insurance contract reserves and derivatives. The sensitivities of the insurance contract reserves are disclosed in note 4.

The following table illustrates the impact on the profit before tax and shareholders' equity of a change in market interest rates to derivatives as at 30 June 2023:

	Impact on profit before tax		**Impact on shareholders' equity Corporation tax rate assumed 20.50% (2022: 19.00%)**	
	Change in market interest rates relative to 30 June			
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
2023	**—**	**—**	**—**	**—**
2022	15,523	(19,525)	12,574	(12,574)

5.2.2 Credit risk

The Company is exposed to credit risk in a number of key areas. These risks are managed according to the nature of the assets held by the Company. Each key area is analysed separately below.

The Company's policy is to write off financial assets to profit and loss when the counterparty is no longer expected to pay its contractual cash flows to the Company or where the recovery of these cash flows is not economically viable.

(a) Credit risk relating to investments and cash and cash equivalents

This risk is managed by monitoring exposure to external financial institutions against agreed limits per institution. Credit ratings are provided below using Standard & Poor's ratings.

	AAA	AA to A	BBB or lower	Unrated	Total
	£'000	£'000	£'000	£'000	£'000
30 June 2023					
Investments at fair value through profit and loss	—	—	—	2,988	2,988
Investments at amortised cost	—	31	3,494	—	3,525
Fair value of derivative contracts	—	—	—	—	—
Cash and cash equivalents	11,338	35,344	85	—	46,767
Total	**11,338**	**35,375**	**3,579**	**2,988**	**53,280**
30 June 2022					
Investments at fair value through profit and loss	—	20,819	—	2,890	23,709
Investments at amortised cost	—	10,411	—	—	10,411
Fair value of derivative contracts	—	—	—	—	—
Cash and cash equivalents	43,884	10,028	5,070	—	58,982
Total	**43,884**	**41,258**	**5,070**	**2,890**	**93,102**

For investments at amortised cost and cash and cash equivalents, the Company has assessed the need to hold expected credit loss provisions against these balances. These provisions would be immaterial if recognised by the Company.

(b) Credit risk relating to loans and receivables (including insurance receivables)

The table below summarises the Company's exposure to credit risk in respect of loans and receivables including insurance receivables.

	30 June	
	2023	2022
	£'000	£'000
Receivables arising from insurance contracts:		
Premium debtors	18,552	16,439
Less: Provision for impairment of premium debtors	(1,771)	(1,527)
Other loans and receivables:		
Agents and brokers	2,424	2,471
Other debtors	19,803	5,566
Amounts owed from related parties - excluding subordinated loans	—	4,958
Less: Provision for impairment of other loans and receivables	(1,146)	(1,346)
Total loans and receivables	**37,862**	**26,561**

Credit risk relating to loans and receivables (including insurance receivables) is managed as follows:

- Premium debtors are not rated by the Company as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and small companies that arises when a policyholder is in arrears on their policy premiums. Premium debtors that are past due are handled by a specialized credit control and policy retention area in the business. The Company ages its overdue premium debtors and applies provision percentages to each ageing category based on past experience and expectations regarding future recoverability. The provision has been calculated in accordance with IAS 39.

- Agents and brokers are subject to a comprehensive relationship management program including periodic credit assessment. Agents and brokers are not rated by the Company as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission clawbacks are offset against future payments and hence the risk of outstanding commission clawbacks is reduced significantly. Given the nature of the balances, the Company uses the simplified approach for impairment provisions under IFRS 9 with lifetime expected credit losses being recognised. The provision has been calculated in accordance with IFRS 9.

The movement in the provision for impairment during the year was as follows:

	2023	2022
	£'000	£'000
Balance beginning of year	2,873	3,126
Increase / (decrease) in provision	44	(253)
Balance at 30 June	**2,917**	2,873

(c) Credit risk relating to reinsurance receivables

This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Credit exposure to reinsurers is also limited through the use of a number of reinsurers. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by the Company are rated A or higher by Standard & Poor's. No impairments are held against reinsurance receivables and there is no history of default for the Company in respect of these balances.

5.2.3 Liquidity Risk

Cash flow forecasting is performed by the Company. The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. This forecasting takes into consideration the Company's reinsurance financing plans and, if applicable, external regulator or legal requirements – such as Solvency II capital requirements.

The Company sets the acceptable level of liquidity risk through the Financial Risk Policy. The main features of the policy are:

- Liquidity risk is only incurred in the pursuit of the Company's corporate and financial objectives, and in particular its investment objectives.
- Limits on the volume of financial assets held which are both not quoted and not regularly traded on a recognised exchange.
- Limits on the volume of non-cash investments.
- Establishing contingency funding plans to ensure adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Subordinated loans payable have been disclosed based on the earliest repayment date exercisable by the Company without regulatory restriction as shown in note 27 using interest rates at the balance sheet date. The amounts are the undiscounted contractual payments and will therefore not agree to the statement of financial position.

		Contractual cash flows		
	Total	< 1 year	1 – 5 years	> 5 years
	£'000	£'000	£'000	£'000
30 June 2023				
Reinsurance payables	21,619	21,619	—	—
Claims payable	61,963	61,963	—	—
Trade and other payables	39,154	39,154	—	—
Long term unsubordinated loans payable	88,469	5,151	83,318	—
Subordinated loans payable	51,586	3,509	48,077	—
Total contractual cash flows	**262,791**	**131,396**	**131,395**	**—**
30 June 2022				
Reinsurance payables	18,681	18,681	—	—
Claims payable	51,632	51,632	—	—
Trade and other payables	31,663	31,663	—	—
Long term unsubordinated loans payable	—	—	—	—
Subordinated loans payable	108,074	6,051	102,023	—
Total contractual cash flows	**210,050**	**108,027**	**102,023**	**—**

6 Fair value estimation

The Company’s financial instruments measured at fair value have been analysed using a fair value hierarchy that reflects the significance of the inputs used in valuing those instruments. The fair value hierarchy is based on the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

This category includes listed equity shares, government securities and certain supranational institution bonds and exchange traded futures and options.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

This category includes listed corporate bonds, commercial paper, certificates of deposit, non-participating investment contracts, third party investments in consolidated funds and derivative instruments that are not exchange traded.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

Level 3 financial instruments principally include unlisted equity instruments and corporate bonds for which prices are not available from third party pricing providers.

	Level 1	**Level 2**	**Level 3**	**Total**
	£’000	**£’000**	**£’000**	**£’000**
30 June 2023				
Financial assets at fair value through profit and loss	306,729	—	—	**306,729**
Total financial assets and liabilities at fair value	**306,729**	**—**	**—**	**306,729**
30 June 2022				
Financial assets at fair value through profit and loss	690,989	—	—	**690,989**
Fair value of derivative contracts	—	(3,889)	—	**(3,889)**
Total financial assets and liabilities at fair value	**690,989**	**(3,889)**	**—**	**687,100**

For the amounts disclosed in the fair value hierarchy table above relating to non-derivative contracts, the look-through basis has not been applied to the financial asset at FVPL. These amounts represent investments in Open Ended Investment Companies.

The derivative contracts held by the company at 30 June 2022 were interest rate swaps - over the counter (OTC) traded derivatives and therefore not exchange traded. The fair value had been derived using market data from secondary markets and information provided by the swaps counterparty. The fair value of the swaps was derived using discounted cash flow models with the key assumption being market interest rates and gilt prices as at 30 June 2022.

7 Capital management

As a firm authorised by the PRA to write insurance business, the Company falls into the scope of the Solvency II regulations. Solvency II is a harmonised EU-wide insurance regulatory regime, transcribed into UK law and the PRA handbook, that among other things prescribes capital requirements and asset / liability valuation standards for assessing regulatory solvency capital requirements. The Company has processes to regularly measure and report its capital requirements as well as the availability of capital over this level. All requirements have been met for the years ended 30 June 2023 and 30 June 2022.

Policies and objectives

The purpose of the capital management policy is to set out how capital should be managed within the Vitality UK Group of companies. The goal of the policy is to manage the risks associated with solvency capital and funding in line with each company's risk appetite. The policy describes and defines the associated risks in the context of each company and how these risks could materialise and impact the business. Further it outlines the relevant risk principles and appetites, and describes the minimum standards each company in the group should implement to manage the risks within appetite. The objective of the policy is efficient deployment of capital to entities within the group while optimising risk adjusted returns, reducing the cost of capital and maximising expected earnings while (i) keeping within the stated risk appetites, (ii) meeting regulatory requirements and regulators' expectations, (iii) allowing for investment and reinsurance strategies, and (iv) having regard to the consolidated group solvency requirements.

Compliance with the policy is assessed at least annually while the policy is reviewed at least every two years. Alongside ensuring the Company complies with the required level of capital, the Company also seeks to foster an environment of regulatory compliance within the group's culture, strategy and decision making; continually develop and enhance the group's regulatory compliance capability; actively communicate the effectiveness and benefits of compliance management to all stakeholders; and be able to provide reasonable and independent assurance to senior management, the Board and regulators.

The Company determines its Solvency Capital Requirement (SCR) using the standard formula set out under Solvency II. It must, at all times, hold sufficient capital to meet or exceed the SCR. In addition, the Board of Directors of the Company has set a risk appetite statement in order to maintain a certain amount of surplus capital in excess of these requirements in order to absorb changes in both the level of capital and the SCR. The risk appetite is set to safeguard the interests of its policyholders, having regard to the nature and risk of the insurance contracts underwritten, while providing a satisfactory return to shareholders. As part of the Company's regular risk monitoring and capital management processes the level of surplus is regularly assessed with actions taken to secure additional capital should the level fall close to the risk appetite.

Measuring and monitoring of capital

A comprehensive programme of stress and scenario testing helps to assess the resilience of the Company's capital position, and in the event that a risk crystallises with the result that capital falls below specified thresholds the Company can invoke its Recovery and Resolution Plan. This includes a toolkit of potential management actions that could be taken to obtain additional capital or to reduce the amount of risk accepted, for example by changing the reinsurance or investment strategy.

As at 30 June 2023, the Company disclosed regulatory available capital of £574,976k (2022: £627,396k) in accordance with Solvency II. The highest capital requirement the Company was subject to at 30 June 2023 was the SCR (2022: SCR) which prescribed a capital requirement of £272,099k (2022: £297,066k). On this basis capital coverage was therefore 211% of the SCR (2022: 211% of the SCR).

The Company has complied with all externally imposed capital requirements to which it was subject throughout the year.

8 Insurance premium revenue and classes of business

The Company has three main classes of business:

	Year ended 30 June	
	2023	2022
	£'000	£'000
Individual life insurance - Non unit-linked	207,017	177,951
Serious illness cover – Non unit-linked	48,559	41,742
Individual Life & Serious illness cover – Non unit-linked	**255,576**	**219,693**
Individual life insurance - Unit-linked	57,181	331,676
Total insurance premium revenue	**312,757**	**551,369**
Premiums ceded to reinsurers	(162,802)	(139,370)
Net insurance premium revenue	**149,955**	**411,999**

During the year the Company did not write any business outside the United Kingdom, and accordingly, no geographic division of information is disclosed in respect of gross premiums earned.

9 Finance Income

	Year ended 30 June	
	2023	2022
	£'000	£'000
Interest income - cash and cash equivalents	3,203	776
Interest income - collective investment undertakings disclosed as cash equivalents	1,455	76
Interest income - term deposits held at amortised cost	219	85
Dividends received - subsidiary	12,500	33,227
Total finance income	**17,377**	**34,164**

10 Net fair value gain on financial assets at fair value through profit or loss

	Year ended 30 June	
	2023	2022
Net fair value gains and (losses) on:	**£'000**	£'000
Investments in open ended investment companies	24,965	(58,187)
Gains on derivative contracts	2,025	74,535
Total net fair value gains	**26,990**	**16,348**

11 Net claims and policyholder benefits

	Year ended 30 June	
	2023	2022
	£'000	£'000
Individual life & protection insurance (non unit-linked)		
Gross claims incurred	74,745	65,160
Less: Reinsurance recoveries	(45,956)	(38,003)
Total life & protection Insurance (non unit-linked)	**28,789**	**27,157**
Unit-linked insurance		
Withdrawals and drawdowns	430,680	50,547
Total unit-linked insurance	**430,680**	**50,547**
Total net claims and policyholders' benefits	**459,469**	**77,704**

12 Acquisition costs and administrative expenses

	Year ended 30 June	
	2023	2022
Acquisition costs	£'000	£'000
Commission costs	92,760	77,447
Total acquisition costs	**92,760**	**77,447**
Administrative expenses		
Sales and marketing	62,616	56,905
Administration and operations	70,774	61,844
Amortisation of intangible assets	2,505	3,225
Total administrative expenses	**135,895**	**121,974**
Reinsurers' share of acquisition and administrative expenses	**(106,039)**	**(89,740)**

Acquisition and administrative expenses are partially financed through reinsurance financing. This financing meets the definition of reinsurance under IFRS 4 due to the transfer of lapse risk. When a new tranche of reinsurance financing is received, the income is offset by an increase in the best estimate cash outflows in the insurance contract reserves, leading to an insignificant impact on the profitability of the Company.

VCSL incurs the overall audit and non-audit fees on behalf of the Vitality group of companies and then recharges them to the other group entities.

Included in the recharged expenses above is £409k (2022: £426k) of fees payable to the Company's auditors for the audit of the Company's financial statements.

A further £182k (2022 £167k) of fees was payable to the Company's auditors for the audit of the annual Solvency II regulatory reporting. Non-audit fees for Solvency II audits in subsidiaries are disclosed in the respective entities' financial statements.

Staff costs

All contracts of employment for UK staff are held by VCSL, a fellow group company. All staff costs incurred by VCSL in respect of the VitalityLife and VitalityInvest branded products are apportioned between the policies underwritten by PAC and those underwritten by VLL and are recharged to the Company accordingly. For the year ended 30 June 2023 staff costs of £51,170k (2022: £41,509k) were recharged to the Company by VCSL.

13 Finance costs

	Year ended 30 June	
	2023	2022
	£'000	£'000
Interest payable on subordinated loans	6,821	4,988
Interest on long term unsubordinated borrowings	—	2,739
Other interest expenses	2,464	186
Total finance costs	**9,285**	**7,913**

14 Income tax

	Year ended 30 June	
	2023	2022
(a) Current year tax charge:	**£'000**	£'000
Current tax:		
Current year tax charge	(599)	(12,335)
Adjustment in respect of prior years	(1,380)	(197)
Total current tax charge	**(1,979)**	**(12,532)**
Deferred tax:		
Deferred tax charge for the year	(599)	(1,377)
Effect of tax rate change	272	(325)
Adjustment in respect of prior years	1,747	339
Total deferred tax credit / (charge)	**1,420**	**(1,363)**
Total tax charge	**(559)**	**(13,895)**

The tax assessed for the year is lower (2022: lower) than the standard rate of corporation tax in the United Kingdom for the year ended 30 June 2023 of 20.50% (2022: 19.00%). The difference is explained below:

	Year ended 30 June	
	2023	2022
(b) Reconciliation of tax:	**£'000**	£'000
Profit before tax	24,534	110,305
Tax at 20.50% (2022 19.00%)	(5,029)	(20,958)
Effects of:		
Adjustment in respect of prior years	367	142
Non-taxable group income	2,564	6,314
Permanent differences for transfer pricing adjustments	1,267	932
Effect of tax rate change	272	(325)
Tax charge on profit	**(559)**	**(13,895)**

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was enacted on 10 June 2021. Current and deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes has been applied.

15 Directors emoluments

The Directors are employed by VCSL and by companies in the Discovery Limited group. Other than as disclosed below, no director has received any incremental emoluments or other benefits for services to the Company.

The remuneration disclosed below represents the amounts recharged by VCSL in respect of the services provided by the Directors to the Company.

	Year ended 30 June	
	2023	2022
	£'000	£'000
Aggregate emoluments in respect of qualifying services	2,744	2,884
Compensation for loss of office	—	275
Aggregate pension contributions to money purchase schemes	16	17
Aggregate amounts receivable under the Long Term Incentive Plan	736	909
Total	**3,496**	**4,085**
Details of highest paid director		
Aggregate emoluments in respect of qualifying services	1,028	1,007
Aggregate pension contributions to money purchase schemes	3	2
Aggregate amounts receivable under the Long Term Incentive Plan	252	273
Total	**1,283**	**1,282**

The remuneration shown above is in respect of twelve (2022: thirteen) directors. Four (2022: Five) directors were participating in the Long Term Incentive Scheme administered by VCSL.

16 Investment in subsidiary

The Company owns 100% of the share capital of VHIL, a company registered and incorporated in England and Wales (Reg. No. 02123483), registered office of 3 More London Riverside, London, SE1 2AQ.

The principal activity of VHIL is to act as the holding company of Vitality Health Limited, a company whose principal activity is the underwriting of general insurance business. Vitality Health Limited is a company registered and incorporated in England and Wales (Reg. No. 05051253), registered office of 3 More London Riverside, London, SE1 2AQ.

The carrying value of all investments in subsidiaries at the statement of financial position date are held at cost less accumulated impairment on the basis that projected future performance supports management's view that these holdings are not impaired.

17 Assets arising from insurance contracts reserves and liabilities arising from reinsurers share of insurance contract reserves

	Year ended 30 June	
	2023	2022
	£'000	£'000
Long-term insurance contracts – gross	854,194	781,766
Less: Reinsurers share	(354,349)	(353,475)
Long-term insurance contracts – net	**499,845**	**428,291**
Current	33,156	39,379
Non-current	466,689	388,912
Total	**499,845**	**428,291**

Reconciliation of movement in net insurance contract reserves

	Year ended 30 June	
	2023	2022
	£'000	£'000
Balance at beginning of the year	**428,291**	**359,338**
Expected unwind of reserves	(43,496)	(34,793)
Unwind of discount rate	17,186	6,705
New business written	78,514	72,687
Experience variances	46,181	31,475
Modelling and methodology changes	(9,087)	324
Economic assumption changes	(7,260)	116
Non-economic assumption changes	(10,056)	(7,331)
Change in claims incurred but not reported	(428)	(230)
Balance at end of the year	**499,845**	**428,291**

The policyholder reserves for VitalityLife are calculated per policy on a prospective, discounted cash flow basis as the difference between the present value of expected future net benefit payments plus expected future expenses (including commission) and the present value of expected future net premiums. These cash flows are projected using best estimate assumptions of future expected mortality, morbidity, lapses, costs, inflation and interest rates, adjusted for margins for adverse deviation in line with INSPRU regulation and discretionary margins.

The reserves are calculated gross and net of the impact of reinsurance arrangements.

Further details regarding the insurance contract reserves can be seen in note 3 and 4.

18 Intangible assets

	Capitalised software development costs and total £'000
Cost	
At 1 July 2021	27,798
Additions in the year	3,428
Disposals in the year	(14,387)
At 30 June 2022 and 1 July 2022	**16,839**
Additions in the year	3,104
Disposals in the year	(9,555)
At 30 June 2023	**10,388**
Accumulated amortisation	
At 1 July 2021	**(12,288)**
Amortisation in the year	(3,225)
Disposals in the year	5,563
At 30 June 2022 and 1 July 2022	**(9,950)**
Amortisation in the year	(2,505)
Disposals in the year	8,658
At 30 June 2023	**(3,797)**
Net book amount at 30 June 2022	**6,889**
Net book amount at 30 June 2023	**6,591**

During the prior year a review was undertaken regarding whether the intangible assets held within VitalityInvest met the criteria of an asset under IAS 38. This review was prompted by the guidance released from IFRIC in April 2021 regarding the capitalisation of cloud computing costs.

The outcome of the review suggested that the criteria of an intangible asset had not been met for all development costs relating to a particular supplier as sufficient control had not been obtained. These assets, amounting to a net book value of £4.4m, were therefore derecognised in the year to 30 June 2022 and treated as a prepayment over the term of the licence. Subsequently all internally generated staff costs with a net book value of £3.6m that attributed to this asset class were also derecognised in the year to 30 June 2022.

19 Deferred tax

	As at 30 June	
	2023	2022
(a) Components of deferred tax:	**£'000**	£'000
Carried forward losses	10,477	9,057
Total deferred tax asset	**10,477**	**9,057**
(b) Movement in deferred tax comprise:		
At the beginning of the year	9,057	10,420
Amounts credited / (charged) to the statement of comprehensive income	1,420	(1,363)
At the end of the year	**10,477**	**9,057**

Deferred tax assets of £1,972k (2022: nil) are expected to be recovered within 12 months, however this is dependent upon the profitability of the Company and other companies in the group in the next 12 months.

The recognition of the deferred tax asset is supported by the expected future profitability of the Company and other companies in the group.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was enacted on 10 June 2021. Current and deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes has been applied.

20 Investments

The Company's investments (excluding those held in cash and cash equivalents) are summarized by measurement category in the table below:

	As at 30 June	
	2023	2022
	£'000	£'000
Investments at fair value through profit or loss:		
Investments in open ended investment company funds	306,729	690,989
Investments held at amortised cost:		
Term deposits and notice accounts	3,525	10,411
Total investments	**310,254**	**701,400**
Held to back unit-linked policyholder liabilities	**303,741**	**667,280**

Maturity profile

– Investments held to back unit-linked policyholder liabilities have no fixed maturity and can be withdrawn at short-notice to match policyholder withdrawals.

– Term deposits have the following earliest maturity profile from the balance sheet date:

	1 month or less £'000	1 to 3 months £'000	3 to 6 months £'000	Total £'000
As at 30 June 2023	—	—	3,525	**3,525**
As at 30 June 2022	—	—	10,411	**10,411**

– The remaining investments can be withdrawn at short-notice.

– All investments at fair value through profit and loss can be liquidated within 12 months of the balance sheet date.

21 Loans and receivables including insurance receivables

	As at 30 June	
	2023	2022
	£'000	£'000
Receivables arising from insurance contracts:		
Premium debtors	18,552	16,439
Less: Provision for impairment of premium debtors	(1,771)	(1,527)
Other loans and receivables:		
Agents and brokers	2,424	2,471
Other debtors	19,803	5,566
Amounts owed from related parties - excluding subordinated liabilities	—	4,958
Less: provision for impairment of other loans and receivables	(1,146)	(1,346)
Total loans and receivables including insurance receivables	**37,862**	**26,561**

All loans and receivables including insurance receivables are expected to be settled within twelve months. The carrying amounts above reasonably approximate the fair value at year end.

22 Reinsurance receivables and reinsurance payables

	As at 30 June	
	2023	2022
	£'000	£'000
Reinsurance receivables		
Reinsurers share of claims outstanding	44,951	30,467
Total reinsurance receivables	**44,951**	**30,467**
Reinsurance payables		
Amounts due to reinsurance financiers	(14,780)	(12,508)
Other reinsurance liabilities	(6,839)	(6,173)
Total reinsurance payables	**(21,619)**	**(18,681)**
Liabilities arising from reinsurers share of insurance contract reserves	(354,349)	(353,475)
Total liabilities arising from reinsurers share of insurance contract reserves	**(354,349)**	**(353,475)**
Net reinsurance liabilities	**(331,017)**	**(341,689)**

With the exception of the liabilities arising from reinsurers share of insurance contract reserves all reinsurance receivables and payables are expected to be settled within 12 months. See note 4 for the expected unwind of the liabilities arising from reinsurers share of insurance contract reserves.

23 Derivative contracts

	As at 30 June	
	2023	2022
	£'000	£'000
Interest rate swaption	—	—
Interest rate swap	—	(3,889)
Total fair value of derivative contracts	**—**	**(3,889)**

As at 30 June 2023 the Company is party to no open over-the-counter derivative contracts (2022: 5).

As 30 June 2023 the Company is no longer holding derivatives contracts to management the impact of interest rate volatility on profitability.

Derivative instruments held by the Company did not qualify for hedge accounting.

Movement in fair value of derivative contracts

	Year ended 30 June	
	2023	2022
	£'000	£'000
Opening fair value of derivative contracts	**(3,889)**	**19,135**
Cash paid / (received) on purchased derivatives	1,864	(97,559)
Gain in fair value through profit and loss	2,025	74,535
Closing fair value of derivative contracts	**—**	**(3,889)**

Summary of open derivative contracts and maturity analysis

a. *Interest rate swaps*

	Average receive fixed interest rate As at 30 June		**Average pay fixed interest rate As at 30 June**		**Notional principal value £'000 As at 30 June**		**Net Fair value (Liability) £'000 As at 30 June**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Less than 1 year	—	—	—	—	—	—	—	—
1 to 2 years	—	—	—	—	—	—	—	—
2 to 5 years	—	—	—	—	—	—	—	—
5 years +	—	0.840%	—%	2.434%	—	89,500	—	(3,889)

At 30 June 2022 all interest rate swaps required the Company to pay the fixed rate and receive the floating rate. Therefore, as the underlying reference rates increase the fair value of the interest rate swaps increase.

b. *Interest rate swaptions*

	Average receive fixed interest rate strike price As at 30 June		**Average pay fixed interest rate strike price As at 30 June**		**Notional principal value £'000 As at 30 June**		**Net Fair value Asset / (Liability) £'000 As at 30 June**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Less than 1 year	—	—	—	—	—	—	—	—
1 to 2 years	—	1.151%	—	1.151%	—	—	—	—
2 to 5 years	—	—	—	—	—	—	—	—
5 years +	—	—	—	—	—	—	—	—

A swaption is an option granting the Company the right but not the obligation to enter into an underlying interest rate swap. In the pay fixed interest rate swaptions listed above if the reference rate exceeds the strike price at expiration of the swaption then the Company will benefit from the value of an interest rate swap at the expiration date based on the Company paying the fixed rate equal to the strike price and receiving the floating rate at expiration of the swaption.

At 30 June 2022 all derivatives were held with third parties.

Derivative contracts held with third parties are collateralised with cash. Total cash collateral pledged at 30 June 2023 was nil (2022: £1,770k) against third party derivative liabilities of nil (2022: £3,889k).

24 Cash and cash equivalents

	As at 30 June	
	2023	2022
	£'000	£'000
Cash at bank and on hand	93,898	81,760
Highly liquid investments	11,338	43,884
Total cash and cash equivalents	**105,236**	**125,644**

All balances are subject to a variable interest rate. The average effective interest earned on cash and cash equivalents was 4.22% (2022: 0.84%).

Highly liquid investments include amounts held in highly diversified and liquid liquidity funds with low levels of volatility and a weighted average maturity of less than 3 months.

Short-term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest or other penalties.

Cash and cash equivalents include balances within the unit-linked funds of £58,469k (2022: £66,662k) which are restricted and therefore not available for general business use.

25 Ordinary share capital and share premiums

	30 June 2023 Number of Shares	**30 June 2023 £'000**	30 June 2022 Number of Shares	30 June 2022 £'000
Ordinary shares				
Authorised				
Ordinary shares of £1 each	No Maximum	No Maximum	No Maximum	No Maximum
Called up, issued and fully paid				
Ordinary shares of £1 each	459,508,500	459,508	459,508,500	459,508
Total	**459,508,500**	**459,508**	**459,508,500**	**459,508**
Share premium arising on:				
Ordinary shares	2,708,499	268,142	2,708,499	268,142
Total	**2,708,499**	**268,142**	**2,708,499**	**268,142**

There is one class of ordinary share, and all shares issued carry equal voting rights. All issued shares are fully called up and paid.

The Company issued no (2022: no) ordinary shares during the year.

26 Liabilities arising from insurance contract reserves

	As at 30 June	
	2023	2022
	£’000	£’000
Unit-linked insurance contracts		
Balance at beginning of the year	732,447	506,586
Premiums received	55,610	330,178
Withdrawals and drawdowns	(430,680)	(50,547)
Fees	(1,012)	(1,076)
Distributions	1,404	276
Fair value adjustment for change in unit value	24,627	(57,943)
Movement in non-unit liability for unit-linked business	—	4,973
Balance at end of the year	**382,396**	**732,447**

Closing liabilities from insurance contract reserves comprise of:

	As at 30 June	
	2023	2022
	£’000	£’000
Unit liabilities	382,396	732,447
Non-unit liabilities	—	—
Balance at end of the year	**382,396**	**732,447**

27 Subordinated loans payable

	As at 30 June	
	2023	2022
	£'000	£'000
Tier II subordinated loans	31,900	73,050
Total subordinated loans payable	**31,900**	**73,050**

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

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

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

Loan Type	Counterparty	Repayment Date	Reference rate*	Interest rate margin above reference rate	Loan Balance £'000	
					2023	**2022**
Subordinated	DHEL	1 April 2027	A	6.50%	—	24,650
Subordinated	DHEL	1 November 2027	A	6.50%	—	6,000
Subordinated	DHEL	1 June 2028	A	6.50%	—	8,000
Subordinated	DHEL	30 June 2028	A	6.50%	—	2,500
Subordinated	DHEL	21 August 2028	A	6.50%	9,000	9,000
Subordinated	DHEL	24 November 2028	A	6.50%	6,500	6,500
Subordinated	DHEL	1 March 2029	A	6.65%	2,801	2,801
Subordinated	DHEL	1 June 2029	A	6.65%	7,099	7,099
Subordinated	DHEL	1 August 2029	A	6.65%	6,500	6,500
Total					**31,900**	**73,050**

* Reference rate A is the Bank of England Base Rate.

The loans are held in the statement of financial position at amortised cost which is not materially different to the fair value at 30 June 2023. There were £41,150K subordinated loan principal repayments in the year ended 30 June 2023 (2022: nil).

28 Claims payable

	As at 30 June	
	2023	2022
	£'000	£'000
Notified but unpaid claims	61,963	51,632
Total claims outstanding – gross	**61,963**	**51,632**
Reinsurers share of claims outstanding	(39,422)	(30,443)
Total claims outstanding – net	**22,541**	**21,189**

29 Trade and other payables

	As at 30 June	
	2023	2022
	£'000	£'000
Amounts owed to related parties - excluding subordinated liabilities	23,878	22,762
Trade payables and accrued expenses	14,023	14,876
Premiums received in advance of coverage date	1,631	1,482
Total trade and other payables	**39,532**	**39,120**

All trade and other payables are expected to be settled within twelve months. The carrying amounts above reasonably approximate the fair value at year end.

30 Related party transactions

	Year ended / as at 30 June 2023			
	Sales to and interest and dividends received from:	**Purchases from and interest paid to:**	**Amounts owed to:**	**Amounts owed from:**
	£'000	**£'000**	**£'000**	**£'000**
Immediate Parent Company	—	6,822	90,902	—
Other Discovery Group Companies	—	17,152	1,826	—
Vitality Group Companies	12,500	117,429	22,425	17,708
Total	**12,500**	**141,403**	**115,153**	**17,708**

	Year ended / as at 30 June 2022			
	Sales to and interest received from:	**Purchases from and interest paid to:**	**Amounts owed to:**	**Amounts owed from:**
	£'000	**£'000**	**£'000**	**£'000**
Immediate Parent Company	—	7,727	73,050	3,918
Other Discovery Group Companies	—	16,823	1,528	—
Vitality Group Companies	33,227	105,537	22,762	16,656
Total	**33,227**	**130,087**	**97,340**	**20,574**

Amounts shown as purchases from Vitality group companies and Discovery group companies relate primarily to intercompany recharges for services rendered and interest paid on loans.

Amounts owed to the immediate parent company includes subordinated loans of £31,900k (2022: £73,050k) as disclosed in note 27 and £57,550k (2022: nil) long term unsubordinated loans.

All of the carrying amounts above reasonably approximate fair value at year end.

All transactions between key management and the Company during the year are on commercial terms which are equivalent to those available to all employees of the Company. Key management personnel had loans of £nil (2022: £nil).

During the year to 30 June 2023, key management personnel made no contribution to products sold by the Company (2022: nil).

31 Movement in operating assets and liabilities

	As at 30 June	
	2023	2022
	£'000	£'000
Increase in operating assets:		
Assets arising from insurance contract reserves	(72,428)	(79,629)
Loans and receivables including insurance receivables	(11,301)	(10,047)
Reinsurance receivables	(14,484)	(6,645)
Derivative collateral	1,770	(1,770)
	(96,443)	**(98,091)**
(Decrease) / increase in operating liabilities:		
Liabilities arising from insurance contract reserves	(350,051)	225,861
Liabilities arising from reinsurers share of insurance contract reserves	874	10,676
Reinsurance payables	2,938	(3,137)
Claims payable	10,331	10,262
Trade and other payables	412	772
	(335,496)	**244,434**
Net (decrease) / increase in operating assets and liabilities	**(431,939)**	**146,343**

32 Parent and ultimate controlling party

The immediate parent undertaking is DHEL.

The Company is 100% (2022: 100%) owned by DHEL, a company incorporated in England and Wales.

DHEL is 100% (2022: 100%) owned by Discovery Group Europe Limited, a company incorporated in England and Wales. The smallest group to consolidate these financial statements is Discovery Holdings Europe Limited. The consolidated financial statements can be obtained from 3 More London Riverside, London, SE1 2AQ.

The ultimate controlling party of Discovery Group Europe Limited is Discovery Limited, a company incorporated in the Republic of South Africa.

The ultimate controlling party of the Company and largest group to consolidate these financial statements is Discovery Limited. The consolidated financial statements of Discovery Limited can be obtained from Discovery Limited, 1 Discovery Place, Sandton, PO Box 786722, South Africa.