VITALITY HEALTH INSURANCE LIMITED

Annual Report and Financial Statements

For the year ended 30 June 2018

Incorporated and registered in England and Wales. Registered No: 02123483

CONTENTS

Vitality Health Insurance Limited

DIRECTORS AND OFFICERS

Directors in office at the date of signing the financial statements

Adrian Gore
Andrew Foster*
Ayanda Ntsaluba*
Neville Koopowitz
Sebastian Coe*
Stephen Sarjant*
Andrew Crossley*
Rosemary Hilary*
Nicholas Caplan*
Monty Hilkowitz*
Alastair Lyons*

*Independent Non-Executive

Company Secretary in office at the date of signing the financial statements

Jennifer Thorn

Registered office

3 More London Riverside
London
SE1 2AQ

Registered number

02123483

Independent auditors

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

Vitality Health Insurance Limited

STRATEGIC REPORT

The directors present their Strategic report, Report of the Directors and the audited financial statements for the year ended 30 June 2018.

Vitality Health Insurance Limited ("the Company"), is a private company limited by shares, incorporated in the United Kingdom. The Company is one of five companies that along with the holding company make up the Discovery Holdings Europe Limited group of companies ("Vitality"). Within Vitality there are two sub-groups, "VitalityHealth" and "VitalityLife". The Company sits within VitalityHealth along with 3 other companies. The Company owns 100% of Vitality Health Limited (Reg. No. 05051253) whose registered office is 3 More London Riverside, London, SE1 2AQ. The Company also has a 20% investment in Healthcode Limited (Reg. No. 03867872) whose registered office is Swan Court, Waterman's Business Park, Kingsbury Crescent, Staines, Surrey, TW18 3BA.

Principal activities and business review

The principal activity of the Company was the undertaking of general insurance business in the United Kingdom, particularly the provision and administration of private medical insurance and other health insurance products.

Since 1 March 2011 all VitalityHealth new business has been underwritten by Vitality Health Limited. Since 1 October 2013, upon renewal, all private medical insurance business underwritten by the Company began to be migrated to Vitality Health Limited. As a result, from 1 October 2013 the Company's book of insurance business was effectively put into run off and no business was written by the Company in the year ended 30 June 2018 and as at 30 June 2018 there were no active insurance policies being underwritten. The Company continues to pay eligible claims in respect of policies in-force prior to 30 June 2015 and is classified as an insurance underwriter. At 30 June 2018 the Company remains regulated by both the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") and as such falls into the scope of the Solvency II regime, a harmonised EU-wide insurance regulatory regime which prescribes capital requirement and asset / liability valuation standards for assessing regulatory solvency.

At 30 June 2018 the Company does not hold a provision (2017: £nil) for claims incurred but not yet received by the Company in respect of policies underwritten by the Company in the past.

The profit before tax for the year to 30 June 2018 was £921k (2017: profit of £583k). The net assets of the Company as at 30 June 2018 were £332,492k (2017: £336,372k). During the year to 30 June 2018, £nil of capital (2017: £8,700k of capital) was injected into a subsidiary, Vitality Health Limited. The 30 June 2017 capital injection was made in order to enable the Company to maintain a buffer over its regulatory capital requirements.

All contracts of employment are held by Vitality Corporate Services Limited, a fellow group company within VitalityHealth. Vitality Corporate Services Limited provides management services to the Company. As the Company has no active insurance policies no staff costs have been recharged to the Company as the services the staff provide to this Company are considered incidental to those provided to VitalityHealth and VitalityLife.

Future outlook

The VitalityHealth vision and purpose is to focus on health and wellness and to continue to differentiate itself in the marketplace. By focusing on lifestyle as well as illness, VitalityHealth will create awareness of the real issues facing society, empower members to make positive change and contribute towards a healthier nation. With this vision and purpose VitalityHealth aims to build a substantial profitable business.

As noted above the Company underwrites no active insurance policies but does continue to pay claims in respect of polices that were active in prior years. Management expect the Company to continue as the immediate parent Company to Vitality Health Limited.

Principal risks and uncertainties

As the Company is in run-off and does not have any remaining insurance liabilities the key risk of the Company is the valuation of the investment in subsidiaries on the statement of financial position. Investments in subsidiaries are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate.

Financial risk management

The Company manages its various financial risks as outlined in note 3 to the financial statements.

Key performance indicators (KPIs)

As the Company no longer writes any insurance business and is in run-off as described above, KPIs are not relevant for the year ended 30 June 2018. For the year ended 30 June 2018 the Company's profit was generated by the receipt of investment income principally from interest on long term subordinated loans receivable from Vitality Health Limited, combined with a net recovery for claims incurred related to policies in-force prior to 30 June 2015.

Environmental matters and social and community issues

The Company recognises its responsibilities with regard to environmental matters, including the impact of the Company's business activities on the environment, and actively works towards reducing this impact.

On behalf of the board

Neville Koopowitz
Director
Vitality Health Insurance Limited (Reg No: 02123483)

16 October 2018

REPORT OF THE DIRECTORS

Directors

Apart two new appointments in the year as noted 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.

The following individuals were appointed as independent non-executive directors of the Company during the year:

Monty Hilkowitz	30 January 2018
Alastair Lyons	07 June 2018

The directors are not subject to retirement 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 Vitality Health Insurance Limited. 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.

Results and dividend

A dividend was paid during the year to the Company's parent company, Discovery Holdings Europe Limited, in the amount of £4,633k (2017: £Nil).

The results for the year ended 30 June 2018 are set out on page 13, within the statement of comprehensive income. During the year Vitality Health Limited repaid a loan of £4,633k (2017: £nil) to the Company, as set out in Note 10.

Financial risk management

The Company manages its various financial risks as outlined in note 3 to the financial statements.

Future developments

See the strategic report on page 5 for the future outlook.

Political donations and political expenses

No contributions were made for political purposes during the year (2017: £nil).

REPORT OF THE DIRECTORS (CONTINUED)

Statement of Directors' responsibilities

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the 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 IFRSs as adopted by the European Union 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 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to independent auditors

In the case of each director in office at the date the Report of the Directors is approved, it is confirmed that:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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.

They have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed by the directors.

On behalf of the board

Neville Koopowitz

Director

Vitality Health Insurance Limited (Reg No: 02123483)

16 October 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH INSURANCE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Vitality Health Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 2018; the Statement of comprehensive income, the Statement of cash flows, 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.

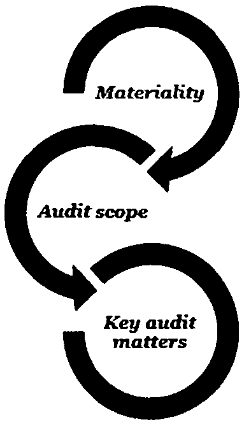
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in Note 6 to these financial statements, we have provided no non-audit services to the company in the period from 1 July 2017 to 30 June 2018.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH INSURANCE LIMITED (CONTINUED)

Our audit approach

Overview



- Overall materiality: £125,000 (£2017:£171,000), based on 1% of total assets (excluding investments).

- We scope the audit, based on materiality, by financial statement line item. As there are no branches or other locations no scoping by location is performed.

- We have no key audit matters to report.

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed 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. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Financial Conduct Authority's and Prudential Regulation Authority's regulations and the UK tax legislation applicable to the Company. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation; review of correspondence with and reports to the regulator; review of the Company's litigation, claims and legal expenses provided by management; enquiries of the Board, management, the risk and compliance function and internal audit; and review of internal audit and compliance reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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. We determined that there were no key audit matters applicable to the company to communicate in our report.

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 entity is a single business within the wider Vitality UK Group. There is a single finance function for the entity and no other branches or locations that required scoping. The entity operates solely in the UK. As a single entity there are no group scoping considerations and the entity is audited on a full scope basis and hence testing has been performed over all material financial statement line items.

No work is performed by component auditors in support of the audit opinion.

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 materiality	£125,000 (£171,000)
How we determined it	1% of total assets (excluding investments).
Rationale for benchmark applied	Since FY16 Vitality Health Insurance Limited has been winding down, with the trade transferred over to Vitality Health Limited and hence minimal transactions have gone through the Statement of comprehensive income, therefore total assets has been used as the benchmark. It should be noted that we have excluded the value of the investment in Vitality Health Limited when calculating total assets as this would otherwise distort the materiality and would not show a true reflection of the size of the company if included. A rule of thumb of 1% has been used because the entity is an EU PIE.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6,000 (2017: £8,425) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2018 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 set out on page 7, 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY HEALTH INSURANCE LIMITED (CONTINUED)

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.

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/auditorsresponsibilities. 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 received 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 22 June 1994 to audit the financial statements for the 6 month period ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement is 24 years, covering the years ended 31 December 1994 to 30 June 2018.

Thomas

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 October 2018

Vitality Health Insurance Limited

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Year ended 30 June 2018 £'000	2017 £'000
Revenue			
Investment return	5	692	722
Other income		13	39
Total income		**705**	**761**
Expenses			
Claims and benefits (recovered) / paid		(217)	158
Claim recoveries from reinsurers		-	(20)
Net claims and benefits paid		**(217)**	**138**
Gross changes in insurance contract liabilities for claims		-	(50)
Reinsurers' share of change in insurance contract liabilities for claims		-	3
Net changes in insurance contract liabilities for claims		-	**(47)**
Administrative expenses	0a	1	87
Total expenses		**(216)**	**178**
Profit before tax		**921**	**583**
Tax expense	7	(168)	(113)
Profit and total comprehensive income for the year		**753**	**470**

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.

Vitality Health Insurance Limited

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Assets			
Non-current assets			
Investment in subsidiaries	9	319,750	319,750
Long term subordinated loans receivable	10	11,394	15,326
Deferred tax asset	11	191	353
Investment in associates	13	186	199
		331,521	**335,628**
Current assets			
Other assets	14	80	-
Cash and cash equivalents	15	977	1,201
		1,057	**1,201**
Total assets		**332,578**	**336,829**
Equity			
Equity attributable to the Company's equity holders			
Ordinary shares	16	258,350	258,350
Retained earnings		74,142	78,022
Total equity		**332,492**	**336,372**
Current liabilities			
Other liabilities	17	86	457
Total liabilities		**86**	**457**
Total equity and liabilities		**332,578**	**336,829**

The financial statements on pages 13 to 37 were authorised for issue by the board of directors on 16 October 2018 and signed on its behalf

Neville Koopowitz
Director
Vitality Health Insurance Limited (Reg No: 02123483)

The notes on pages 17 to 37 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Ordinary share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 July 2016	249,650	77,552	327,202
Profit and total comprehensive income for the year	-	470	470
Ordinary share capital issued	8,700	-	8,700
At 30 June 2017 and 1 July 2017	**258,350**	**78,022**	**336,372**
Profit and total comprehensive income for the year	-	753	753
Dividends paid during the year	-	(4,633)	(4,633)
At 30 June 2018	**258,350**	**74,142**	**332,492**

The notes on pages 17 to 37 are an integral part of these financial statements

Vitality Health Insurance Limited

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Year ended 30 June 2018 £'000	2017 £'000
Cash flows from operating activities			
Profit before tax		921	583
Adjustments for:			
Fair value losses / (gains) on investment in associates	5	13	(48)
Movement in operating assets and liabilities	18	(537)	285
Increase in interest on long term subordinated loans receivable	10	(701)	(656)
Payment / (receipt) for group relief received / surrendered		80	(20)
Net cash (used in) / generated from operating activities		**(224)**	**144**
Cash flows from investing activities			
Subordinated loan receivable repayment received	10	4,633	-
Investment in subsidiaries	9	-	(8,700)
Net cash used in investing activities		**4,633**	**(8,700)**
Cash flows from financing activities			
Proceeds from issuance of new shares	16	-	8,700
Dividends paid		(4,633)	-
Net cash (used in) / generated from financing activities		**(4,633)**	**8,700**
(Decrease) / increase in cash and cash equivalents		(224)	144
Cash and cash equivalents at the beginning of the year	15	1,201	1,057
Cash and cash equivalents at the end of the year	15	**977**	**1,201**
Supplemental disclosures on cash flow from operating activities			
Investment return	5	692	722
Administrative expenses	6	1	87

The notes on pages 17 to 37 are an integral part of these financial statements

1. Significant accounting policies

1.1 Basis of preparation

The financial statements of Vitality Health Insurance Limited (the Company) for the year ended 30 June 2018 have been prepared on the going concern basis and in accordance with International Financial Reporting Standards (IFRS), as issued by the Accounting Standards Board (IASB) and endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee (IFRS IC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS 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 2.

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.

1.2 Summary of significant accounting policies

(a) Basis of consolidation

The financial statements contain information about Vitality Health Insurance Limited as an individual company and do not contain consolidated financial information as the parent of a company. 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 undertakings are included by full consolidation in the consolidated financial statements of its ultimate controlling party, Discovery Limited, a company registered in the Republic of South Africa, whose financial statements are publicly available.

(b) Insurance contracts

Insurance contracts are those contracts where the Company has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. The Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

(c) Impairment of non-financial assets

The carrying amounts of non-financial 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. An impairment loss is recognised in the statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount.

1. Significant accounting policies (continued)

1.2 Summary of significant accounting policies (continued)

(c) Impairment of non-financial assets (continued)

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit, or group of units, to which the asset belongs.

(d) Financial assets and liabilities

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company does not make use of the held to maturity or available for sale classifications. Loans and receivables are carried at amortised cost.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit and loss

A financial asset is classified into the FVPL category at inception if:

- It is acquired principally for the purpose of selling in the short-term, or
- It forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking.

Financial assets carried at FVPL are initially recognised at fair value with transaction costs expensed in the statement of comprehensive income. These assets are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the "Fair value gains and losses on financial assets" are included in the statement of comprehensive income. Interest is accrued and presented in "Investment income".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Financial liabilities

Financial liabilities are classified at initial recognition, as loans and borrowings or payables. They are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs where applicable.

1. Significant accounting policies (continued)

1.2 Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

Interest bearing loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss when the liabilities are derecognised. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income using the effective interest method.

Other financial liabilities
Other financial liabilities include borrowings, and trade and other payables. This encompasses a contractual obligation to deliver cash or another financial asset to another entity. 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 through profit or loss.

(e) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or counterparty.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position include cash in hand, cash at banks and 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 loans and receivables and are therefore measured at amortised cost.

For the purpose of the Statement of Cash Flows, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts.

(g) Current and deferred tax

Current tax expense is based on taxable profits and losses for the year after adjustments in respect of prior years. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and the carrying amount in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred

1. Significant accounting policies (continued)

1.2 Summary of significant accounting policies (continued)

(g) Current and deferred tax (continued)

income tax liability is settled. Deferred income 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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority.

(h) Insurance contracts

Gross premiums
Gross premiums returned relate to refunds on cancelled policies. As no business is being written by the Company there is no gross written or earned premium for the year ended 30 June 2018.

Insurance benefits and claims
Gross benefits and claims incurred include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Where applicable, deductions are made for reinsurance and other recoveries, taking into account an assessment of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

An outstanding claims provision is made at the year-end for the estimated cost of treatments incurred but not settled at the statement of financial position date, including the cost of treatments incurred but not yet reported. The estimated cost of treatments includes expenses to be incurred in settling claims and a deduction for other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing outstanding claims provisions, it is likely that the final outcome will be different from the original liability established.

(i) Other liabilities

Other liabilities represent obligations to pay for goods and services that have been acquired in the ordinary course of business.

(j) Interest income

Interest income is recognised using the effective interest method.

1. Significant accounting policies (continued)

1.2 Summary of significant accounting policies (continued)

(k) Investments in Group undertakings and participating interests

In the statement of financial position of the Company, investments in Group undertakings and participating interest are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate.

1.3 Change in accounting policy and disclosures

(i) New standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 July 2017 have had a material impact on the Company.

(ii) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018, and have not been applied in preparing these financial statements. These are not expected to have a significant effect on the Company as the Company is in run-off and no longer writing insurance business.

IFRS 9 *Financial instruments*
This standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through the statement of comprehensive income. The Company has not yet completed a full assessment.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. These concerns include temporary volatility in reported results. This standard is not expected to have a material impact on the Company as it is in run-off.

IFRS 17 *Insurance Contracts,* sets out a single principle-based standard for the recognition, measurement, presentation and disclosure of all types of insurance contracts. The current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. This standard will not have a material impact on the Company as the Company no longer writes any insurance business.

There are no other IFRSs or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Company.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are regularly reviewed in light of emerging experience and adjusted where required. There are not deemed to be any critical accounting estimates or assumptions in the application of accounting policies for the Company.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Capital management Note 3
- Financial risk management and policies Note 3
- Sensitivity analysis disclosures Note 12

3. Risk management policies

(a) Governance framework

The Company's risk management policy ensures that the risks taken in meeting the Company's corporate, financial and regulatory objectives are identified and managed in accordance with the approved risk framework.

The Company takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Company risk profile.

The Company manages risks through a risk management framework, which allows for the identification, assessment, control and monitoring of risks. The Company has established effective risk management systems and controls within the framework for the following high-level categories of risk: insurance, credit, liquidity, market, operational and capital management.

(b) Insurance risk

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. It is the risk of adverse deviations from the cash flows assumed when pricing or reserving for insurance contracts.

The Company sets the acceptable level of insurance risk through its insurance risk policy. The main features of the policy were:

- Insurance risk is only incurred in the pursuit of the Company's corporate and financial objectives, in particular to grow the business subject to maintaining adequate financial strength.

- The writing of business only on approved rates, which have regard to experience of significant factors such as claims experience, persistency and expenses.

3. Risk management policies (continued)

(b) Insurance risk (continued)

- The use of reinsurance where appropriate.
- The monitoring of the adequacy of reserves to cover insurance liabilities.
- Regular monitoring of the solvency capital of the Company (see note (g) below).

Insurance risk is only undertaken within the permitted activities of the Company.

All insurance business was migrated to Vitality Health Limited in 2015 and no new business has been written since then. As a result insurance risk has reduced from then and is primarily limited to the risks in respect of being liable to pay eligible claims for legacy policies in-force prior to 30 June 2015.

The Company's insurance risk is concentrated in the United Kingdom.

The Company was party to a number of reinsurance quota share agreements described below at 30 June 2016 however all reinsurance contracts were recaptured effective 30 September 2016. The previous agreements that were in place are outlined below:

- The Company was previously a party to a quota share agreement that effectively reinsured 15% of the risk profit of all individual and SME business.
- The Company was previously a party to a second quota share agreement that effectively reinsured 12% of the risk profit of all individual and SME business.

These agreements were all financing in nature, effectively creating income to the Company at the start of the agreement which was then repaid via ceded premiums and claims over the duration of the agreement. As a result of the migration of insurance business from the Company to Vitality Health Limited the reinsurance agreements in place migrated to Vitality Health Limited. The Company no longer holds any assets or liabilities in respect of the reinsurer's share of claims reserves held by the Company at 30 June 2018. There are no longer any reserves for claims incurred but not received on policies in-force prior to 30 June 2018.

(c) Credit risk

Credit risk is the risk incurred whenever the Company is exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform those obligations in a timely manner. The Company sets the acceptable level of credit risk through its credit risk policy.

The overriding requirement of the policy, which covers all assets beneficially owned by the Company, is that all assets are of sufficient quality and are sufficiently well diversified to represent appropriate backing for its liabilities, capital and reserves. The policy also requires compliance with all applicable legislation and regulation and sets further limits under specific types of financial instruments, as summarised below.

Cash and cash equivalents
Maximum exposure limits to external counterparties are set with reference to both short and long-term credit ratings issued by Standard & Poor's and Moody's.

3. Risk management policies (continued)

(c) Credit risk (continued)

Other financial instruments
All intermediaries are approved and regulated by the Prudential Regulation Authority and/or the Financial Conduct Authority. The Company's credit risk is concentrated in the United Kingdom.

The following table provides information regarding the aging of any financial assets that are past due but not impaired:

	Neither past due nor impaired	Financial assets past due but not impaired 0-3 months	3 – 6 months	6 – 12 months	> 12 months	Total and carrying value in statement of financial position
	£'000	£'000	£'000	£'000	£'000	£'000
30 June 2018						
Investment in associates	186	-	-	-	-	186
Other assets	80	-	-	-	-	80
Long term subordinated loans receivable	11,394	-	-	-	-	11,394
Cash and cash equivalents	977	-	-	-	-	977
Total	**12,637**	-	-	-	-	**12,637**
30 June 2017						
Investment in associates	199	-	-	-	-	199
Long term subordinated loans receivable	15,326	-	-	-	-	15,326
Cash and cash equivalents	1,201	-	-	-	-	1,201
Total	**16,726**	-	-	-	-	**16,726**

The following table analyses the financial assets bearing credit risk using Standard & Poor's ratings:

	Credit Rating AAA		AA		A		BBB or lower		Unrated		Total*
	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	£'000
30 June 2018											
Cash and cash equivalents	-	-	7.7	973	-	4	-	-	-	-	**977**
Investment in associate	-	-	-	-	-	-	-	-	1.5	186	**186**
Long term subordinated loans receivable	-	-	-	-	-	-	-	-	90.2	11,394	**11,394**
Other assets	-	-	-	-	-	-	-	-	0.6	80	**80**
Total	-	-	**7.7**	**973**	-	**4**	-	-	**92.3**	**11,660**	**12,637**

3. Risk management policies (continued)

(c) Credit risk (continued)

The following table analyses the financial assets bearing credit risk using Standard & Poor's ratings:

	Credit Rating										
	AAA		AA		A		BBB or lower		Unrated		Total*
	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	£'000
30 June 2017											
Cash and cash equivalents	-	-	-	-	7.2	1,201	-	-	-	-	**1,201**
Investment in associate	-	-	-	-	-	-	-	-	1.2	199	**199**
Long term subordinated loans receivable	-	-	-	-	-	-	-	-	91.6	15,326	**15,326**
Total	-	-	-	-	**7.2**	**1,201**	-	-	**92.8**	**15,525**	**16,726**

*Carrying value in the statement of financial position

Reconciliation of financial assets for the purposes of IFRS 7 disclosures to total assets:

		Year ended 30 June	
	Note	**2018** **£'000**	2017 £'000
Investment in associates	13	186	199
Other assets	14	80	-
Long term subordinated loans receivable	10	11,394	15,326
Cash and cash equivalents	15	977	1,201
Total financial assets		**12,637**	**16,726**
Non-financial assets		319,941	320,103
Total assets		**332,578**	**336,829**

The Company's financial assets and liabilities held 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.

As at 30 June 2018 the Company had no assets or liabilities that fall under Level 1 (2017: £nil).

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).

3. Risk management policies (continued)

(c) Credit risk (continued)

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.

As at 30 June 2018 the Company had no assets or liabilities that fall under Level 2 (2017: £nil).

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.

Only the unlisted equity holding falls under Level 3 as at 30 June 2018 and 2017.

The following tables show the position in the fair value hierarchy of the financial assets held at fair value through the income statement:

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity securities				
At 30 June 2017 and 1 July 2017	-	-	199	199
Fair value through profit and loss	-	-	(13)	(13)
At 30 June 2018	-	-	**186**	**186**

(d) Liquidity or funding risk

Liquidity risk is the risk that the Company, although solvent, does not have sufficient liquid financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company sets the acceptable level of liquidity risk through the Liquidity 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 following table illustrates the earliest possible time period in which general insurance contract liabilities and other financial liabilities could be paid out. All the cash flows depicted below are on an undiscounted basis (and are reconciled to the statement of financial position in the subsequent table):

3. Risk management policies (continued)

(d) Liquidity or funding risk (continued)

	Total	Contractual cash flows < 1 year	1 – 5 years	> 5 years
	£'000	£'000	£'000	£'000
At 30 June 2018				
Other financial liabilities	86	86	-	-
Total	**86**	**86**	-	-
At 30 June 2017				
Other financial liabilities	457	457	-	-
Total	**457**	**457**	-	-

Reconciliation of financial liabilities for the purposes of IFRS 7 disclosures to total liabilities

		Year ended 30 June	
		2018	2017
	Note	**£'000**	£'000
Other liabilities	17	86	457
Total financial liabilities and total liabilities		**86**	**457**

(e) Market risk

Market risk is the risk that as a result of market movements the Company may be exposed to fluctuations in the value of its assets, in the amount of its liabilities or the income from its assets. Sources of general market risk include movements in interest rates, equities and foreign exchange rates.

The Company sets the acceptable level of market risk through the market risk policy. The main features of the policy are:

- Market risk is only incurred in the pursuit of the Company's corporate and financial objectives, in particular, its investment objectives.
- Asset allocation and portfolio limit structures are established for each asset class.
- Aggregate exposure limits that are in line with the regulatory requirements.

The following table illustrates the impact on the result before tax and shareholders equity of a change in market interest rates and equity values.

	Impact on result before tax				**Impact on shareholders equity** Corporation tax rate assumed 19.00% (2017: 19.75%)			
	£'000				**£'000**			
	Interest rate movement		**Equity movement**		**Interest rate movement**		**Equity movement**	
	+1%	**-1%**	**+10%**	**-10%**	**+1%**	**-1%**	**+10%**	**-10%**
At 30 June 2018	**144**	**(144)**	**19**	**(19)**	**117**	**(117)**	**16**	**(16)**
At 30 June 2017	**161**	**(161)**	**18**	**(18)**	**129**	**(129)**	**14**	**(14)**

3. Risk management policies (continued)

(e) Market risk (continued)

The Company has no exposure to foreign exchange risk.

(f) Operational risk

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

The Company sets an acceptable level of operational risk through the operational risk policy. The policy also requires compliance with applicable legislation and regulations.

A strategy to control the operational risk exposures identified is based on a combination of one or all of the following: modify operations such that there is no exposure to the risk; accept exposure to the risk and choose not to control the risk; or accept exposure to the risk and control the exposure by risk transfer or risk treatment.

The level of control and nature of the controls implemented is based on, amongst other things the:

- Potential cause and impact of the risk.
- Likelihood of the risk happening in the absence of any controls.
- Ease with which the risk could be insured against.
- Cost of implementing controls to reduce the likelihood of the risk occurring.
- Operational risk appetite.

(g) Capital Management

Regulatory capital and reporting regime

The insurance regulatory regime "Solvency II", applicable in the UK, prescribes capital requirements and asset / liability valuation standards for assessing regulatory solvency. Capital measurement and reporting processes have been put in place by the Company to meet the new Solvency II requirements.

Policies and objectives

The objective of the Company's capital management policy is to define principles and guiding philosophy for capital management that ensures capital and solvency levels are managed effectively in line with the defined risk appetites. The policy and objectives are reviewed at least annually. Alongside ensuring the Company complies with capital requirements imposed by its regulator (the PRA) the guiding principles for the policy are to:

- Foster an environment of regulatory compliance within the group's culture, strategy and decision making
- Continually develop and enhance the groups regulatory compliance capability
- Actively communicate the effectiveness and benefits of compliance management to all stakeholders
- Being able to provide reasonable and independent assurance to the Company's key management, board and regulator.

3. Risk management policies (continued)

(g) Capital Management (continued)

The group is required to hold sufficient capital (measured in accordance with PRA valuation rules) to meet the PRA capital requirements (solvency capital requirement) determined under the Solvency II Directive and associate requirements. The Company derives its capital requirements under the PRA standard formula measure.

Management intends to maintain surplus capital in excess of these requirements to absorb changes in both capital levels and capital requirements in line with defined risk appetites. Management considers these risk appetites sufficient to safeguard the interest of its policyholders, having regard to the nature and risk of the insurance contracts underwritten, whilst providing a satisfactory return to shareholders.

Measuring and monitoring of capital

The actual and projected capital position of the Company is monitored on a regular basis through a number of forums and governance committees including the board of directors as well as through the Company's own risk and solvency assessment process (ORSA). In the event that sufficient capital is not projected to be available actions would be taken to obtain additional capital or to reduce the amount of risk accepted and therefore reduce the capital requirement through for example, reinsurance or investment strategy.

At 30 June 2018 the Company disclosed regulatory capital of £122,779k (2017:£115,331k) in accordance with Solvency II. The highest capital requirement the Company was subject to at 30 June 2018 was the Solvency Capital Requirement ("SCR") (2017: SCR) which prescribed a capital requirement of £24,906k (2017: £23,914k). On this basis capital coverage was therefore 493.0% of the SCR (2017: 482.3% of the SCR).

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

4. Class of business

The Company wrote one class of business, that of accident and health general insurance. As the Company is effectively in run-off there were no active insurance policies underwritten during the year.

5. Investment return

	Year ended 30 June	
	2018	2017
	£'000	£'000
Interest income:		
Cash and cash equivalents	4	18
Interest on long term subordinated loans receivable	701	656
Other investment (loss) income:		
Revaluation of investment in associate	(13)	48
Total investment return	**692**	**722**

6. Acquisition costs and administrative expenses

(a) Administrative expenses

	Year ended 30 June	
	2018	2017
	£'000	£'000
Other administrative expenses	1	87
Total administrative expenses	**1**	**87**

Vitality Corporate Services Limited incurs the overall audit and non-audit fees on behalf of the Vitality group of companies. The fees for the Company in the amount of £16k (2017: £15k) payable to the Company's auditor for the audit of the Company's financial statements and £17k (2017: £19k) in relation to the audit of regulatory returns have not been recharged to the Company.

(b) Staff costs

From 1 August 2010, Vitality Corporate Services Limited began to provide management services to the Company including the recharge of expenses incurred on its behalf. All staff costs incurred by Vitality Corporate Services Limited in respect of the VitalityHealth branded products are allocated and recharged between group companies. As the Company has no active insurance policies no staff costs have been recharged to the Company as the services the staff provide to this Company are considered incidental to those provided to the rest of VitalityHealth.

7. Tax expense

	Year ended 30 June	
	2018	2017
	£'000	£'000
(a) Current year tax expense		
Current tax:		
Current year tax expense	(86)	-
Adjustment in respect of prior years	80	(20)
Total current tax expense	**(6)**	**(20)**
Deferred Tax:		
Adjustment in respect of prior years	(72)	25
Deferred tax expense for the year	(90)	(118)
Total deferred tax expense	**(162)**	**(93)**
Total tax expense	**(168)**	**(113)**

The tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in United Kingdom for the year ended 30 June 2018 of 19.00% (2017: 19.75%). The difference is explained in the following table:

7. Tax expense (continued)

	Year ended 30 June	
	2018	2017
	£'000	£'000
(b) Reconciliation of tax		
Profit before tax	921	583
Tax at 19.00% (2017: 19.75%)	(175)	(115)
Effects of:		
Permanent differences	-	9
Change in tax rate on deferred tax	-	(12)
Adjustment in respect of prior years	7	5
Total tax expense	**(168)**	**(113)**

8. Directors remuneration

The directors are employed by Vitality Corporate Services Limited and by companies in the Discovery Limited group. There are no members of key management other than the executive directors. The directors receive no incremental emoluments for their services as directors of the Company as the services provided to the Company are incidental to the services they provide to the rest of group.

9. Investment in subsidiaries

	As at 30 June	
	2018	2017
	£'000	£'000
Ordinary shares in Vitality Health Limited:		
At beginning of the year	319,750	311,050
Investment during the year	-	8,700
At end of the year	**319,750**	**319,750**

Vitality Health Limited is a company incorporated in the United Kingdom (Reg. No. 05051253) whose registered office is 3 More London Riverside, London, SE1 2AQ.

During the year ended 30 June 2017, the Company injected an additional £8,700k in Vitality Health Limited in return for 87,000 shares.

10. Long term subordinated loans receivable

Long term subordinated loans of £11,394k (2017: £15,326k) have been provided by the Company to Vitality Health Limited. During the year ended 30 June 2018 Vitality Health Limited repaid a loan of £4,633k to the Company. The loans are repayable on 31 December 2020, and accrue interest at a floating rate of 400 basis points over 3 month LIBOR. The amortised cost approximates fair value.

11. Deferred tax asset

		As at 30 June	
	Note	**2018** **£'000**	2017 £'000
Deferred tax asset comprise:			
Accelerated capital allowances		189	289
Short term timing differences		2	64
Deferred tax asset		**191**	**353**
Movements in deferred tax asset comprise:			
At beginning of the year		353	446
Amounts charged to the statement of comprehensive income	7	(162)	(93)
At end of the year		**191**	**353**

Deferred tax assets of £37k (2017: £110k) are expected to be recovered within twelve months.

The recognition of the deferred tax asset is supported by the expected future profitability of the Company. The primary source of these profits is the investment return on assets held by the Company.

The valuation of the deferred tax assets takes into account the reduction in the UK main corporation tax rate to 17% that is effective from 1 April 2020. The rate change to 19% was substantively enacted into UK law on 26 October 2015 in Finance (No. 2) Act 2015, and the further reduction to 17% was substantively enacted on 6 September 2016 in The Finance Act 2016.

12. Insurance contract liabilities

(a) Claims development tables

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the estimated outstanding liability by accident year to the amount appearing in the statement of financial position.

Accident year – Gross

	12 months ended 30 Jun 2013 £'000	12 months ended 30 Jun 2014 £'000	12 months ended 30 Jun 2015 £'000	12 months ended 30 Jun 2016 £'000	12 months ended 30 Jun 2017 £'000	12 months ended 30 Jun 2018 £'000	Total £'000
Estimate of ultimate claims costs:							
- at end of accident year	133,180	122,574	35,804	-	-	-	
- one year later	131,131	118,741	36,860	-	-		
- two years later	131,105	118,804	36,960	-			
- three years later	131,157	118,810	36,742				
- four years later	131,159	118,811					
- five years later	131,159						
Current estimate of ultimate claims	**131,159**	**118,811**	**36,742**	-	-	-	-
Cumulative payments to date	131,159	118,811	36,742	-	-	-	-
Liability recognised in the statement of financial position	-	-	-	-	-	-	-
Liability in respect of prior years	-	-	-	-	-	-	-
Total liability recognised in the statement of financial position	-	-	-	-	-	-	-

12. Insurance contract liabilities (continued)

(b) Claims development tables (continued)

Accident year – Net

	12 months ended 30 Jun 2013 £'000	12 months ended 30 Jun 2014 £'000	12 months ended 30 Jun 2015 £'000	12 months ended 30 Jun 2016 £'000	12 months ended 30 Jun 2017 £'000	12 months ended 30 Jun 2018 £'000	Total £'000
Estimate of ultimate claims costs:							
- at end of accident year	125,026	97,819	27,172	-	-	-	
- one year later	124,237	95,387	28,394	-	-		
- two years later	124,209	95,539	28,410	-			
- three years later	124,271	95,540	28,410				
- four years later	124,271	95,540					
- five years later	124,271						
Current estimate of ultimate claims	**124,271**	**95,540**	**28,410**	-	-	-	-
Cumulative payments to date	124,271	95,540	28,410	-	-	-	-
Liability recognised in the statement of financial position	-	-	-	-	-	-	-
Liability in respect of prior years	-	-	-	-	-	-	-
Total liability recognised in the statement of financial position	-	-	-	-	-	-	-

13. Investment in associates

	As at 30 June	
	2018	2017
	£'000	£'000
Equity securities – unquoted	186	199
Total investment in associates	**186**	**199**

Investment in associates represents the Company's 20% investment in Healthcode Limited (Reg. No. 03867872) whose registered office is Swan Court, Waterman's Business Park, Kingsbury Crescent, Staines, Surrey, TW18 3BA. The investment in Healthcode is recognised under the equity method in accordance with IAS 28.

It is the Company's intention to hold investments in equity securities for more than twelve months. 100% of the above equity securities are UK based.

14. Other assets

	As at 30 June	
	2018	2017
	£'000	£'000
Amounts due from related parties	80	-
Total other assets	**80**	-

The carrying amounts above reasonably approximate fair value at 30 June 2018.

15. Cash and cash equivalents

	As at 30 June	
	2018	2017
	£'000	£'000
Money at call and short notice	977	1,201
Total cash and cash equivalents	**977**	**1,201**

All balances are subject to a variable interest rate. The average interest rate earned was not relevant for the year ended 30 June 2018 as the majority of the investment return is generated from interest on the subordinated loans and not the small cash balances which generate an insignificant amount of interest income. At 30 June 2018 the average interest rate was 0.34% (2017: 1.59%).

16. Ordinary share capital

	30 June 2018 Number of Shares	30 June 2018 £'000	30 June 2017 Number of Shares	30 June 2017 £'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	258,350,000	258,350	258,350,000	258,350

During the year ended 30 June 2017 the Company issued 8,700,000 ordinary shares on the following dates: 31 March 2017 (2,500,000 ordinary shares) and 30 June 2017 (6,200,000 ordinary shares). No ordinary shares were issued were issued in the year ended 30 June 2018.

17. Other liabilities

	As at 30 June	
	2018 £'000	2017 £'000
Amounts owed to related parties	-	438
Trade creditors	-	19
Current income tax	86	-
Total other liabilities	**86**	**457**

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

18. Movement in operating assets and liabilities

	Year ended 30 June	
	2018 £'000	2017 £'000
Decrease in operating assets:		
Reinsurers share of insurance contract liabilities	-	10
Amounts receivable from reinsurers	-	52
Other assets	(80)	420
	(80)	**482**
Decrease in operating liabilities:		
Insurance contract liabilities	-	(50)
Creditors arising out of reinsurance operations	-	(10)
Other liabilities	(457)	(137)
	(457)	**(197)**
Net (increase) / decrease in operating assets and liabilities	**(537)**	**285**

The movement in other liabilities excludes £86k (2017: £nil) in respect of the current income tax liability.

19. Related party transactions

	As at and Year ended 30 June 2018			
	Sales to:	Purchases from:	Amounts owed to:	Amounts owed from:
	£'000	£'000	£'000	£'000
Immediate parent company	-	-	-	80
Other Vitality group companies	-	-	-	11,394
	-	-	-	**11,474**

	As at and Year ended 30 June 2017			
	Sales to:	Purchases from:	Amounts owed to:	Amounts owed from:
	£'000	£'000	£'000	£'000
Immediate parent company	-	92	-	-
Other Vitality group companies	-	62	438	15,313
	-	**154**	**438**	**15,313**

Amounts shown in the current year as amounts owed to the immediate parent company relate to group relief. Amounts shown in the current year as amounts owed from Other Vitality group companies relates to the subordinated loans described in Note 10.

Amounts shown in the prior year as purchases from other Vitality group companies relate primarily to the purchase and sale of tax group relief. Amounts shown in the prior year as amounts owed from Other Vitality group companies relates to the subordinated loans referred to in Note 10.

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. At 30 June 2018 and 2017 there were no key management personnel loans. During the year to 30 June 2018 and 2017 key management personnel made no contribution to products sold by the Company.

20. Parent and ultimate controlling party

The immediate parent undertaking is Discovery Holdings Europe Limited, a company incorporated in the United Kingdom.

Discovery Holdings Europe Limited is 99.0% (2017: 99.00%) owned by Discovery Group Europe Limited and 1.0% (2017: 1.0%) owned by a number of key management personnel of Discovery Holdings Europe Limited and its subsidiaries.

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 the smallest and largest group to consolidate these financial statements is Discovery Limited. The consolidated financial statements of Discovery Limited can be obtained from Discovery Limited, PO Box 786722, Sandton, South Africa.