

Bupa Finance plc

Notes to the Condensed Consolidated Financial Statements continued

for six months ended 30 June 2023 (unaudited)

1.5 Foreign exchange

The following significant exchange rates applied during the period:

	Average rate			Closing rate		
	30 June 2023	31 December 2022	30 June 2022	30 June 2023	31 December 2022	30 June 2022
Australian dollar	1.83	1.78	1.80	1.91	1.77	1.77
Brazilian real	6.25	6.38	6.59	6.09	6.38	6.37
Chilean peso	994.36	1,076.32	1,071.81	1,017.72	1,023.92	1,117.88
Danish krone	8.50	8.73	8.83	8.66	8.39	8.64
Euro	1.14	1.17	1.19	1.16	1.13	1.16
Hong Kong dollar	9.67	9.68	10.16	9.95	9.42	9.55
Mexican peso	22.40	24.88	26.32	21.78	23.54	24.54
New Zealand dollar	1.98	1.94	1.96	2.07	1.91	1.95
Polish zloty	5.28	5.50	5.51	5.16	5.28	5.46
Saudi riyal	4.63	4.64	4.87	4.76	4.54	4.57
Turkish lira ¹	33.04	22.58	20.32	33.04	22.58	20.32
US dollar	1.23	1.24	1.30	1.27	1.21	1.22

1. Closing rate of Turkish lira applied to average rate following the application of IAS 29.

Türkiye is a hyperinflationary economy and IAS 29 Financial Reporting in Hyperinflationary Economies has been applied from June 2022 onwards. As a consequence, the results and balances for the Group's Turkish operations have been adjusted for changes in the general purchasing power of the Turkish lira. In order to make this adjustment the Group refers to the CPI index published by the Turkish Statistical Institute. The value of CPI at 30 June 2023 was 1,351.59 (HY 2022: 977.88; FY 2022: 1,128.40) and the movement in CPI for the period ended 30 June 2023 was 223.19 (HY 2022: 290.93; FY 2022: 441.45), an increase of 19.8% (HY 2022: 42.4%; FY 2022: 64.3%). The introduction of IFRS 17 has impacted the application of IAS 29 in prior periods as it deems all components of an insurance contract to be monetary items, whereas under IFRS 4, the unearned premium provision and deferred acquisition costs were deemed to be non-monetary items. This has led to the restatement of the monetary loss and the net impact to profit before taxation for HY 2022 and FY 2022.

A loss of £4m (HY 2022 (restated): £18m; FY 2022 (restated): £25m) arising from the devaluation of net monetary assets has been recognised within net financial expense in the Condensed Consolidated Income Statement. This includes the impact of indexing amounts in the Condensed Consolidated Income Statement for the application of IAS 29, reducing profit before taxation by £5m for the period (HY 2022 (restated): £18m; FY 2022 (restated): £29m).

For segmental reporting purposes, the net impact of applying hyperinflationary accounting has been excluded from underlying profit and included within realised and unrealised FX gain/loss as this is how the Group measures performance of the business.

All Turkish lira amounts are translated to the Group's presentation currency of sterling, using the closing exchange rate in effect on 30 June 2023 of 33.04 (HY 2022: 20.32; FY 2022: 22.58). The impact of this adjustment is recorded within other foreign exchange translation differences in the Condensed Consolidated Statement of Comprehensive Income and within the foreign exchange translation reserve in the Condensed Consolidated Statement of Financial Position. The Group recognises the remaining exchange difference arising on consolidation within other foreign exchange translation differences through other comprehensive income in the foreign exchange translation reserve.

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	Care, health and other customer contract revenue	Other revenue restated ¹	Total non-insurance revenues restated ¹
For year ended 31 December 2022	£m	£m	£m
Bupa Health Insurance	7	2	9
Bupa Health Services	614	1	615
Bupa Villages and Aged Care Australia	318	37	355
Bupa Villages and Aged Care New Zealand	148	17	165
Bupa Hong Kong	195	3	198
Bupa Asia Pacific	1,282	60	1,342
Sanitas Seguros ¹	10	2	12
Sanitas Dental	119	4	123
Sanitas Hospitales and New Services	305	1	306
Sanitas Mayores	145	–	145
LUX MED	568	–	568
Bupa Acibadem Sigorta ¹	–	2	2
Bupa Chile	388	1	389
Care Plus	4	–	4
Bupa Mexico	11	–	11
Bupa Global Latin America	–	1	1
Europe and Latin America	1,550	11	1,561
Bupa UK Insurance ¹	21	2	23
Bupa Dental Care UK	487	–	487
Bupa Care Services	431	–	431
Bupa Health Services	196	1	197
Bupa Global and UK	1,135	3	1,138
Other	–	7	7
Other businesses	–	7	7
Consolidated non-insurance revenues	3,967	81	4,048

1. Amounts have been restated for the adoption of IFRS 17. Refer to Note 1.4.1.

4 Other income and charges

	For six months ended 30 June 2023	For six months ended 30 June 2022 restated ¹	For year ended 31 December 2022 restated ¹
	£m	£m	£m
Net loss on disposal and restructuring of businesses	(2)	(2)	(4)
Loss on revaluation of property	–	(1)	(33)
Net gain/(loss) on disposal of property, plant and equipment	3	–	(2)
Surplus on fair value of investment property ¹	12	12	28
Total other income and charges	13	9	(11)

1. Surplus on fair value of investment property has been reclassified from financial income and expense (see Note 5).

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5 Financial income and expense

Financial income

	For six months ended 30 June 2023	For six months ended 30 June 2022 restated ¹	For year ended 31 December 2022 restated ¹
	£m	£m	£m
Interest income:			
Investments at fair value through profit or loss	25	26	61
Investments at fair value through other comprehensive income	5	1	1
Investments at amortised cost	86	17	72
Net realised gain/(loss):			
Net realised gain/(loss) on investments at fair value through profit or loss	7	8	(13)
Net realised gain on financial investments at fair value through other comprehensive income	–	1	–
Net movement in fair value:			
Investments at fair value through profit or loss	19	(46)	(5)
Net foreign exchange translation gain	16	15	42
Total financial income	158	22	158

1. Surplus on fair value of investment property has been reclassified and is now presented within other income and charges (see Note 4).

Financial expense

	For six months ended 30 June 2023	For six months ended 30 June 2022	For year ended 31 December 2022 ¹
	£m	£m	£m
Interest expense on financial liabilities at amortised cost	54	42	99
Finance charges in respect of leases and restoration provisions	25	23	46
Other financial expense ¹	12	17	29
Total financial expense	91	82	174

1. For year ended 31 December 2022, other financial expense includes £6m loss recognised following the early redemption of £47m of inflation-linked senior unsecured bonds, originally due to mature on 30 June 2033.

Other financial expenses for the six months ended 30 June 2023 include £10m (HY 2022: £10m; FY 2022: £20m) of imputed financial expenses in relation to interest-free refundable accommodation deposits received by the Group in respect of payment for aged care units in Bupa Villages and Aged Care Australia.

6 Taxation expense

The Group's effective taxation rate for the period was 22% (HY 2022 (restated): 33%; FY 2022 (restated): -48%), which is broadly in line with the current UK corporation taxation rate of 23.5%.

The Group operates in the UK where new tax legislation to implement a global minimum top-up tax has been substantively enacted. Since the newly enacted tax legislation in the UK is effective only from 1 January 2024, there is no current tax impact in the period (HY 2022: £nil). The Group has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax, and instead accounts for it as a current tax when it is incurred. If the top-up tax had applied in 2023, the impact would not have been material for the Group.

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7 Goodwill and intangible assets

	Goodwill	Computer software	Brands/ trademarks	Customer relationships	Other ¹	Total
At 30 June 2023	£m	£m	£m	£m	£m	£m
Net book value at beginning of period	1,981	339	120	187	113	2,740
Assets arising on business combinations	5	1	–	15	10	31
Additions	–	51	–	–	–	51
Amortisation for period	–	(38)	(4)	(16)	(20)	(78)
Other	–	(1)	–	–	–	(1)
Foreign exchange	(92)	(9)	–	(1)	(8)	(110)
Net book value at end of period	1,894	343	116	185	95	2,633

	Goodwill	Computer software	Brands/ trademarks	Customer relationships	Other ¹	Total
At 31 December 2022	£m	£m	£m	£m	£m	£m
Net book value at beginning of period	2,466	291	134	482	145	3,518
Assets arising on business combinations	14	2	3	2	–	21
Additions	–	111	–	–	–	111
Disposals	(2)	(1)	–	–	–	(3)
Amortisation for period	–	(72)	(8)	(53)	(42)	(175)
Impairment loss	(609)	(6)	(22)	(255)	(2)	(894)
Other	–	(1)	–	–	–	(1)
Foreign exchange	112	15	13	11	12	163
Net book value at end of period	1,981	339	120	187	113	2,740

	Goodwill	Computer software	Brands/ trademarks	Customer relationships	Other ¹	Total
At 30 June 2022	£m	£m	£m	£m	£m	£m
Net book value at beginning of period	2,466	291	134	482	145	3,518
Assets arising on business combinations	3	2	–	1	–	6
Additions	–	41	–	–	–	41
Disposals	(1)	(1)	–	–	–	(2)
Amortisation for period	–	(36)	(4)	(27)	(21)	(88)
Foreign exchange	98	10	5	8	10	131
Net book value at end of period	2,566	307	135	464	134	3,606

1. Predominantly comprises bed licences, distribution networks and licences to operate care homes.

Goodwill and intangible assets of £2,633m (HY 2022: £3,606m; FY 2022: £2,740m) include £396m (HY 2022: £733m; FY 2022: £420m) attributable to other intangible assets arising on business combinations, comprising brands/trademarks, customer relationships and other in the above table.

Computer software assets with a net book value of £343m (HY 2022: £307m; FY 2022: £339m) include £255m (HY 2022: £219m; FY 2022: £245m) attributable to capitalised internal development costs. The cost attributable to these assets is £551m (HY 2022: £477m; FY 2022: £526m). £47m of costs (HY 2022: £36m; FY 2022: £93m) were capitalised in the period.

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Goodwill by CGU is as follows:

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
Bupa Asia Pacific			
Bupa Australia Health Insurance	801	863	867
Bupa Health Services Australia	278	299	303
Bupa Villages and Aged Care Australia	–	–	104
Hong Kong	122	129	127
Europe and Latin America			
Bupa Chile	–	–	135
LUX MED	271	265	249
Sanitas Seguros	53	49	47
Sanitas Mayores	21	22	21
Bupa Acibadem Sigorta	44	53	50
Care Plus	30	29	29
Other	11	10	6
Bupa Global and UK			
Bupa Care Services	–	–	90
Bupa Dental Care UK	191	191	467
Bupa Global	68	68	68
Other	4	3	3
Total	1,894	1,981	2,566

Impairment testing of goodwill and indefinite life intangible assets

Goodwill and intangible assets with an indefinite useful life are tested at least annually for impairment in accordance with IAS 36 Impairment of Assets and IAS 38 Intangible Assets. As at 30 June 2023, all CGUs and intangible assets were reviewed for indicators of impairment. Where impairment indicators were identified an impairment test was carried out by comparing the net carrying value with the recoverable amount, using value in use calculations and based on the latest cash flow forecasts for CGUs as at 30 June 2023. Following the impairment recognised at 31 December 2022 in Bupa Dental Care UK, a full impairment test has been performed for the Bupa Dental Care UK CGU.

Key judgements in performing this testing are the assumptions underlying the five-year cash flow forecasts of the businesses. For Bupa Dental Care UK, the cash flows are driven by number of customers, available clinician hours, fee rates and operating expenses. The tests have not indicated that an impairment of goodwill is required, with the headroom increasing in the period. Sensitivities have been provided below showing the impact of a reasonably probable change to the discount rate, terminal growth rate or cash flows, none of which would give rise to an impairment.

	Headroom	Discount rate	Terminal growth rate	Reduction in headroom from 0.5% increase in discount rate	Reduction in headroom from 0.5% reduction in terminal growth rate	Reduction in headroom from 10% reduction in cash flows
	£m	%	%	£m	£m	£m
Bupa Dental Care UK	33	10.3	2.1	14	18	10

8 Property, plant and equipment

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
Net book value at beginning of period	3,691	3,793	3,793
Assets arising on business combinations	1	9	4
Additions	145	262	100
Transfer to assets held for sale	(2)	(35)	(14)
Disposals	(4)	(12)	(9)
Revaluations	–	(77)	10
Remeasurements	35	58	24
Depreciation charge for the period	(157)	(329)	(163)
Impairment loss	–	(124)	–
Other	–	1	–
Foreign exchange	(96)	145	87
Net book value at end of period	3,613	3,691	3,832

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Property, plant and equipment are the physical assets or rights to use leased assets, which are utilised by the Group to carry out business activities and generate revenues and profits. The majority of assets held relate to care homes, hospital properties, equipment and office buildings. Leased right-of-use assets relate primarily to property leases.

Freehold properties are initially measured at cost and subsequently at revalued amount less accumulated depreciation and impairment losses. These properties are subject to external valuations at least every three years. In years where a full external valuation is not completed, a directors' valuation is conducted based on significant underlying assumptions such as cash flows and other market variables. An internal review of the significant underlying assumptions is conducted during interim periods. Consideration is also given to whether there are any factors which indicate a full out-of-cycle external revaluation is required. Care homes, clinics and hospital freehold property valuations are either determined based on a capitalisation of earnings approach where each facility's normalised earnings are calculated based on what a reasonably efficient operator could be expected to achieve and is divided by an appropriate capitalisation rate to determine a value in use, or based on discounted future cash flow projections where the discount rate is determined according to the time value of money, the level of risk of the industry and the corresponding premium risk. All other properties are valued by external valuers, based on observable market values of similar properties.

No external valuations were performed as at 30 June 2023. An internal review of the significant underlying assumptions underpinning the property valuations as at 30 June 2023 resulted in no uplifts or write-downs in respect of owned property (HY 2022: uplifts of £10m, FY 2022: write-downs of £77m).

Impairment testing of tangible assets

Right-of-use assets have been reviewed for indicators of impairment as at 30 June 2023. Where impairment indicators were identified an impairment test was carried out by comparing the net carrying value with the recoverable amount, using the higher of fair value or the value in use based on the latest cash flow forecasts for CGUs as at 30 June 2023.

No impairments have been identified as at 30 June 2023 (HY 2022: £nil; FY 2022: £124m).

9 Investment property

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
At beginning of period	750	666	666
Additions	13	29	12
Disposals	–	(1)	(1)
Increase in fair value	12	29	12
Foreign exchange	(58)	27	11
At end of period	717	750	700

Investment properties are physical assets that are not occupied by the Group and are leased to third parties to generate rental income.

Investment properties are initially measured at cost and subsequently at fair value, determined individually, on a basis appropriate to the purpose for which the property is intended and with market transactions for similar properties in the same location. Where no active market exists, as is the case for retirement villages where each village is unique due to building configuration and location, these properties are valued using discounted cash flow projections. Investment property is revalued externally at least annually, with any gain or loss arising from a change in fair value recognised in the Condensed Consolidated Income Statement within other income and charges.

The carrying value of investment properties primarily consists of the Group's portfolio of retirement villages in Australia and New Zealand of £704m (HY 2022: £689m, FY 2022: £736m). At 30 June 2023 the properties were valued by management using internally prepared discounted cash flow projections, supported by the terms of any existing lease and other contracts. Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows.

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10 Post-employment benefits

The Group operates several defined benefit and defined contribution pension schemes for the benefit of employees and Directors.

The defined benefit pension schemes provide benefits based on final pensionable salary. The Group's net obligation in respect of the defined benefit pension is calculated separately for each scheme and represents the present value of the defined benefit obligation less the fair value of any scheme assets. The discount rate used is the yield at the reporting date on high-quality corporate bonds denominated in the currency in which the benefit will be paid and taking account of the maturities of the defined benefit obligations. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

Amount recognised in the Condensed Consolidated Income Statement

The total amount charged to the Condensed Consolidated Income Statement amounted to £2m (HY 2022 and FY 2022: £nil).

Amount recognised directly in other comprehensive income

The amounts credited directly to equity are:

	For six months ended 30 June 2023	For six months ended 30 June 2022	For year ended 31 December 2022
	£m	£m	£m
Actual return less expected return on assets	-	-	23
Gain arising from changes to financial assumptions	-	-	(26)
Loss arising from changes to experience assumptions	-	-	1
Gain arising from changes to demographic assumptions	-	-	(1)
Total remeasurement gains credited directly to equity	-	-	(3)

Assets and liabilities of schemes

The assets and liabilities in respect of the defined benefit pension schemes are as follows:

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
Present value of funded obligations	(54)	(54)	(82)
Fair value of scheme assets	49	49	75
Net assets of funded schemes	(5)	(5)	(7)
Present value of unfunded obligations	(2)	-	-
Net recognised liabilities	(7)	(5)	(7)
Represented on the Condensed Consolidated Statement of Financial Position:			
Net liabilities	(9)	(7)	(9)
Net assets	2	2	2
Net recognised liabilities	(7)	(5)	(7)

11 Restricted assets

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
Non-current restricted assets	41	40	46
Current restricted assets	85	79	83
Total restricted assets	126	119	129

Restricted assets are amounts held in respect of specific obligations and potential liabilities and may be used only to discharge those obligations and potential liabilities if and when they crystallise. The non-current restricted assets balance of £41m (HY 2022: £46m; FY 2022: £40m) consists of cash deposits held to secure a charge over certain unfunded pension scheme obligations (held in the Parent company). Included in current restricted assets is £82m (HY 2022: £77m; FY 2022: £74m) in respect of claims funds held on behalf of corporate customers.

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12 Financial investments

The Group generates cash from its underwriting, trading and financing activities and invests the surplus cash in financial investments. These include government bonds, corporate bonds, pooled investment funds and deposits with credit institutions.

Classification

All financial investments are initially recognised at fair value, which includes transaction costs for financial investments not classified at fair value through profit or loss. Financial investments are recorded using trade date accounting at initial recognition.

Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Group has transferred substantially all risks and rewards of ownership.

The Group has classified its financial investments into the following categories: at fair value through profit or loss, at fair value through other comprehensive income (FVOCI) and at amortised cost.

Impairment

Under IFRS 9, impairment provisions for expected credit losses (ECL) are recognised for financial investments measured at amortised cost and FVOCI. An allowance for either a 12-month or lifetime ECL is required, depending on whether there has been a significant increase in credit risk since initial recognition. For trade receivables, lifetime ECL is always applied. An assumption can be made that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (e.g. it is investment grade). The Group applies a 12-month ECL allowance to all assets other than trade receivables, as no significant increases in credit risk since initial recognition have been identified.

The measurement of ECL should reflect a probability-weighted outcome, the time value of money and the best available forward-looking information.

Financial investments are analysed as follows:

	At 30 June 2023		At 31 December 2022		At 30 June 2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Fair value through profit or loss						
Corporate debt securities and secured loans	308	308	301	301	307	307
Government debt securities	40	40	41	41	45	45
Pooled investment funds	482	482	459	459	463	463
Deposits with credit institutions	29	29	4	4	7	7
Other loans	6	6	7	7	7	7
Equities	30	30	32	32	14	14
Fair value through other comprehensive income						
Corporate debt securities and secured loans	33	33	41	41	49	49
Government debt securities	44	44	19	19	30	30
Amortised cost						
Corporate debt securities and secured loans	1,234	1,232	1,114	1,110	1,130	1,127
Government debt securities	496	497	468	468	342	344
Deposits with credit institutions	1,305	1,305	1,230	1,230	1,342	1,339
Total financial investments	4,007	4,006	3,716	3,712	3,736	3,732
Non-current	821	822	756	752	845	842
Current	3,186	3,184	2,960	2,960	2,891	2,890

Fair value of financial investments

An asset's fair value is the price at which an orderly transaction to sell or transfer the asset would take place between market conditions at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of the market participant that holds the asset). The objective of a fair value measurement is to estimate this price.

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The fair values of quoted investments in active markets are based on current bid prices. The fair values of unlisted securities and quoted investments for which there is no active market are established by using valuation techniques supported by market transactions and observable market data provided by independent third parties. These may include reference to the current fair value of other investments that are substantially the same and discounted cash flow analysis.

The fair values of financial investments are determined using different valuation inputs categorised into a three-level hierarchy. The different levels are defined by reference to the lowest level input that is significant to the fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An analysis of financial investment fair values by hierarchy level is as follows:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2023				
Fair value through profit or loss				
Corporate debt securities and secured loans	14	293	1	308
Government debt securities	22	18	–	40
Pooled investment funds	79	382	21	482
Deposits with credit institutions	29	–	–	29
Other loans	–	–	6	6
Equities	–	–	30	30
Fair value through other comprehensive income				
Corporate debt securities and secured loans	33	–	–	33
Government debt securities	44	–	–	44
Amortised cost				
Corporate debt securities and secured loans	469	763	–	1,232
Government debt securities	292	205	–	497
Deposits with credit institutions	–	1,305	–	1,305
Total financial investments	982	2,966	58	4,006

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2022				
Fair value through profit or loss				
Corporate debt securities and secured loans	21	279	1	301
Government debt securities	22	19	–	41
Pooled investment funds	89	347	23	459
Deposits with credit institutions	4	–	–	4
Other loans	–	–	7	7
Equities	–	–	32	32
Fair value through other comprehensive income				
Corporate debt securities and secured loans	38	3	–	41
Government debt securities	19	–	–	19
Amortised cost				
Corporate debt securities and secured loans	488	622	–	1,110
Government debt securities	290	178	–	468
Deposits with credit institutions	–	1,230	–	1,230
Total financial investments	971	2,678	63	3,712

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	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
At 30 June 2022				
Fair value through profit or loss				
Corporate debt securities and secured loans	26	280	1	307
Government debt securities	27	18	–	45
Pooled investment funds	115	326	22	463
Deposits with credit institutions	7	–	–	7
Other loans	–	–	7	7
Equities	–	–	14	14
Fair value through other comprehensive income				
Corporate debt securities and secured loans	45	4	–	49
Government debt securities	30	–	–	30
Amortised cost				
Corporate debt securities and secured loans	527	600	–	1,127
Government debt securities	171	173	–	344
Deposits with credit institutions	–	1,339	–	1,339
Total financial investments	948	2,740	44	3,732

Transfers between fair value hierarchy levels

The Group's policy is to determine whether transfers have occurred between fair value hierarchy levels at the end of a reporting period. Classification is reassessed based on the lowest level input that is significant to the fair value measurement as a whole.

There were no transfers between fair value hierarchy levels in the period (HY 2022: £nil; FY 2022: £nil).

The Group currently holds Level 3 financial investments totalling £58m (HY 2022: £44m; FY 2022: £63m). The majority of Level 3 investments are unlisted equities and pooled investment funds valued at recent subscription values and conversion prices, which are considered to be unobservable inputs. Changes to the valuation assumptions which are reasonably possible could result in a change in fair value of plus or minus £3m.

The table below shows movement in the Level 3 assets measured at fair value:

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
Balance at beginning of period	63	34	34
Additions	–	4	3
Disposals	–	–	(1)
Net (decrease)/increase in fair value ¹	(2)	24	7
Foreign exchange	(3)	1	1
Balance at end of period	58	63	44

1. All gains and losses are recognised in net financial income/(expense) in the Condensed Consolidated Income Statement.

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13 Insurance contracts

The Group applies the premium allocation approach (PAA) for the measurement for the majority of insurance contracts. The majority of the Group's contracts automatically qualify as the coverage period of each contract in the group is one year or less. For the remaining contracts it is reasonably expected that using the PAA would produce a measurement of the liability for remaining coverage (LFRC) that would not differ materially from the one that would be produced applying the general measurement model (GMM). The Group has one legacy portfolio with a contract boundary of greater than one year where the contracts are onerous and a GMM valuation has been used.

On initial recognition of each group of insurance contracts, the carrying amount of the LFRC is measured at the premiums received less any directly attributable acquisition costs deferred. Revenue is released on a pattern of time basis over the coverage period. The Groups default policy is not to adjust the LFRC to reflect the time value of money and the effect of financial risk, as the Group expects on initial recognition of each group of contracts that the time between providing each part of the services and the related premium due date is no more than one year. However, businesses can seek approval to apply discounting in exceptional circumstances. Acquisition costs are expensed as they are incurred for all contracts with a coverage period of one year or less.

The liability for incurred claims (LFIC) represents the estimated liability arising from claims episodes in current and preceding financial years which have not yet given rise to claims paid. A claims episode is an insured medical service that the Group has an obligation to fund which could be consultation fees, diagnostic investigations, hospitalisation or treatment costs. The liability includes an allowance for claims management and handling expenses.

The Group recognises the LFIC of a group of insurance contracts as the present value of the expected cash flows required to settle the obligation with an adjustment for non-financial risk. The Group does not adjust the future cash flows for the time value of money and the effect of financial risk for portfolios in which incurred claims are expected to be paid within one year of occurrence except for in exceptional circumstances.

The LFIC across the group is set in line with Bupa's Claims Reserving standards, at a level to achieve an appropriate probability of sufficiency and is estimated based on current information. The ultimate liability may vary as a result of subsequent information and events. A risk adjustment is added that reflects the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils insurance contracts. The Group has estimated the risk adjustment using a confidence level approach at the 85th percentile (HY 2022 and FY 2022: 85th percentile).

Bupa Acıbadem Sigorta has applied discounting to both the LFRC and LFIC due to the high interest rate and high inflation environment in Türkiye and Bupa Global has applied discounting to LFIC as a proportion of claims are settled over a period that is greater than one year. In addition, the LFRC for the legacy individual health policies in Brazil has been discounted due to the long-term nature of these contracts.

In circumstances where a return of premiums is due to policyholders, a provision is established within the LFIC. A provision for the return of premiums was established in 2020 in respect of Bupa Insurance Limited following the commitment to pass back to eligible customers any exceptional financial benefits experienced by the UK PMI business that ultimately arose as a result of the COVID-19 pandemic. As a result of a step-change in claims, the estimate of deferred claims rebound has been reassessed and has resulted in the return of premium provision being released in full during the first half of 2023 such that there is no provision remaining at 30 June 2023 (FY 2022: £59m; HY 2022: £60m).

The LFIC also includes a provision of £175m (HY 2022: £86m; FY 2022: £87m) for cash payments to Australian health insurance customers under the COVID-19 customer support programme. A provision is recognised at the point the Group formally announces the payment and insurance revenue recognised within the Condensed Consolidated Income Statement are reduced accordingly. The provision is subsequently utilised on payment to the eligible customers. As the cash payments reflect a distinct promise associated with the return of COVID-19 claims savings to customers, the provision is reflected as a non-distinct investment component. A deferred tax asset of £55m has been recognised in relation to the HY 2023 provision.

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13.1 Insurance contracts roll forward

	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment	
For six months ended 30 June 2023	£m	£m	£m	£m	£m
Insurance contract liabilities at 1 January	1,081	100	1,176	21	2,378
Insurance revenue	(5,234)	–	–	–	(5,234)
Insurance service expenses	–	(26)	5,074	3	5,051
Incurred claims and other expenses	–	–	4,919	15	4,934
Losses on onerous contracts and reversals of those losses	–	(26)	–	–	(26)
Changes to liabilities for incurred claims relating to past service	–	–	155	(12)	143
Insurance service result	(5,234)	(26)	5,074	3	(183)
Foreign exchange	(36)	(3)	(59)	(1)	(99)
Finance expense from insurance contracts issued	–	6	2	–	8
Total changes in statement of comprehensive income	(5,270)	(23)	5,017	2	(274)
Other movements	2	–	6	–	8
Non-distinct investment component	(175)	–	175	–	–
Cash flows					
Premiums received	5,737	1	–	–	5,738
Claims and other expenses paid	–	–	(4,934)	–	(4,934)
Total cash flows	5,737	1	(4,934)	–	804
Insurance contract liabilities at 30 June	1,375	78	1,440	23	2,916

Included within the loss component is £49m (HY 2022: £45m; FY 2022: £45m) related to insurance contracts measured on a GMM basis.

	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment	
For year ended 31 December 2022	£m	£m	£m	£m	£m
Insurance contract liabilities at 1 January	985	94	1,098	14	2,191
Insurance revenue	(10,033)	–	–	–	(10,033)
Insurance service expenses	–	8	9,326	5	9,339
Incurred claims and other expenses	–	–	9,302	–	9,302
Losses on onerous contracts and reversals of those losses	–	8	–	–	8
Changes to liabilities for incurred claims relating to past service	–	–	24	5	29
Insurance service result	(10,033)	8	9,326	5	(694)
Foreign exchange	20	10	62	2	94
Finance income from insurance contracts issued	–	(16)	–	–	(16)
Total changes in statement of comprehensive income	(10,013)	2	9,388	7	(616)
Other movements	–	–	(38)	–	(38)
Non-distinct investment component	(87)	–	87	–	–
Cash flows					
Premiums received	10,196	4	–	–	10,200
Claims and other expenses paid	–	–	(9,359)	–	(9,359)
Total cash flows	10,196	4	(9,359)	–	841
Insurance contract liabilities at 31 December	1,081	100	1,176	21	2,378

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For six months ended 30 June 2022	Liability for remaining coverage		Liability for incurred claims		Total £m
	Excluding loss component £m	Loss component £m	Estimates of present value of future cash flows £m	Risk adjustment £m	
Insurance contract liabilities at 1 January	985	94	1,098	14	2,191
Insurance revenue	(4,809)	–	–	–	(4,809)
Insurance service expenses	–	4	4,474	2	4,480
Incurred claims and other expenses	–	–	4,368	3	4,371
Losses on onerous contracts and reversals of those losses	–	4	–	–	4
Changes to liabilities for incurred claims relating to past service	–	–	106	(1)	105
Insurance service result	(4,809)	4	4,474	2	(329)
Foreign exchange	46	10	44	–	100
Finance income from insurance contracts issued	–	(22)	–	–	(22)
Total changes in statement of comprehensive income	(4,763)	(8)	4,518	2	(251)
Other movements	–	–	(38)	–	(38)
Non-distinct investment component	(86)	–	86	–	–
Cash flows					
Premiums received	5,117	3	–	–	5,120
Claims and other expenses paid	–	–	(4,388)	–	(4,388)
Total cash flows	5,117	3	(4,388)	–	732
Insurance contract liabilities at 30 June	1,253	89	1,276	16	2,634

13.2 Reinsurance contracts roll forward

For six months ended 30 June 2023	Asset for remaining coverage £m	Amount recoverable on incurred claims £m	Total £m
Reinsurance contract assets at 1 January	(18)	39	21
Allocation of reinsurance premiums	(73)	–	(73)
Amounts recoverable from reinsurers for incurred claims:			
Amounts recoverable for incurred claims and other expenses	–	53	53
Changes to amounts recoverable for incurred claims relating to past service	–	13	13
Net expense from reinsurance contracts held	(73)	66	(7)
Foreign exchange	–	(1)	(1)
Cash flows			
Premiums paid	71	–	71
Recoveries from reinsurance	–	(54)	(54)
Total cash flows	71	(54)	17
Reinsurance contract assets at 30 June	(20)	50	30

A risk adjustment is estimated on the amount recoverable on incurred claims using a confidence level approach at the 85th percentile (HY 2022 and FY 2022: 85th percentile). As this totals less than £1m, this has not been separately presented.

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For year ended 31 December 2022	Asset for remaining coverage £m	Amount recoverable on incurred claims £m	Total £m
Reinsurance contract assets at 1 January	(17)	35	18
Allocation of reinsurance premiums	(116)	–	(116)
Amounts recoverable from reinsurers for incurred claims:			
Amounts recoverable for incurred claims and other expenses	–	94	94
Net expense from reinsurance contracts held	(116)	94	(22)
Foreign exchange	2	(1)	1
Cash flows			
Premiums paid	113	–	113
Recoveries from reinsurance	–	(89)	(89)
Total cash flows	113	(89)	24
Reinsurance contract assets at 31 December	(18)	39	21

For six months ended 30 June 2022	Asset for remaining coverage £m	Amount recoverable on incurred claims £m	Total £m
Reinsurance contract assets at 1 January	(17)	35	18
Allocation of reinsurance premiums	(57)	–	(57)
Amounts recoverable from reinsurers for incurred claims:			
Amounts recoverable for incurred claims and other expenses	–	43	43
Net expense from reinsurance contracts held	(57)	43	(14)
Foreign exchange	–	1	1
Cash flows			
Premiums paid	44	–	44
Recoveries from reinsurance	–	(35)	(35)
Total cash flows	44	(35)	9
Reinsurance contract assets at 30 June	(30)	44	14

14 Assets and liabilities held for sale

	At 30 June 2023 £m	At 31 December 2022 £m	At 30 June 2022 £m
Assets held for sale			
Property, plant and equipment	22	31	21
Investment property	1	1	1
Inventories	1	–	–
Total assets held for sale	24	32	22
Liabilities associated with assets held for sale			
Provisions for liabilities and charges	–	(1)	(1)
Total liabilities held for sale	–	(1)	(1)
Net assets held for sale	24	31	21

Net assets held for sale as at 30 June 2023 predominantly comprise a number of care homes within Bupa UK Care Services, Bupa Villages and Aged Care Australia and Bupa Villages and Aged Care New Zealand, an office within Care Plus in Brazil, as well as a number of dental practices within Bupa Dental Care UK.

Net assets held for sale as at 31 December 2022 predominantly comprised a number of care homes within Bupa UK Care Services, Bupa Villages and Aged Care Australia and Bupa Villages and Aged Care New Zealand and an office within Care Plus in Brazil. As at 30 June 2022, net assets held for sale comprised a number of care homes within Bupa Villages and Aged Care Australia and Bupa Villages and Aged Care New Zealand and an office within Care Plus in Brazil.

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15 Cash and cash equivalents

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
Cash at bank and in hand	1,202	1,141	1,256
Short-term deposits	346	262	297
Total cash and cash equivalents	1,548	1,403	1,553

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments (including money market funds) with original maturities of three months or less, which are subject to an insignificant risk of change in value.

Bank overdrafts of £3m (HY 2022: £1m; FY 2022: £2m) that are repayable on demand are reported within other interest-bearing liabilities (Note 16) in the Condensed Consolidated Statement of Financial Position. Demand deposits with restrictions on use set by a third party that fundamentally change their nature are reported within restricted assets in the Condensed Consolidated Statement of Financial Position. Both of these are considered components of cash and cash equivalents for the purpose of the Condensed Consolidated Statement of Cash Flows.

16 Borrowings

	At 30 June 2023	At 31 December 2022	At 30 June 2022
	£m	£m	£m
Subordinated liabilities			
Subordinated unguaranteed bonds	746	998	997
Total subordinated liabilities	746	998	997
Other interest-bearing liabilities			
Senior unsecured bonds	599	600	599
Fair value adjustment in respect of hedged interest rate risk	(63)	(60)	(41)
Bank loans and overdrafts	415	108	266
Total other interest-bearing liabilities	951	648	824
Total borrowings	1,697	1,646	1,821
Non-current	985	1,287	1,305
Current	712	359	516

Subordinated unguaranteed bonds

On 25 April 2023, the Company redeemed the outstanding maturing £250m of the £500m 5% fixed rate subordinated notes.

Other interest-bearing liabilities

The Group maintains a £900m revolving credit facility in the name of the Company, which matures in December 2027, with a one year extension option. The facility was drawn down by £380m as at 30 June 2023 (HY 2022: £230m; FY 2022: £70m). Bank loans and overdrafts bear interest at commercial rates linked to SONIA for sterling or equivalent for other currencies.

Fair value of financial liabilities

The fair value of a financial liability is defined as the amount for which the liability could be exchanged in an arm's-length transaction between informed and willing parties. Fair values of subordinated liabilities and senior unsecured bonds are calculated based on quoted prices. The fair values of quoted liabilities in active markets are based on current offer prices. The fair values of financial liabilities for which there is no active market are established using valuation techniques. These may include reference to the current fair value of other instruments that are substantially the same and discounted cash flow analysis.

Financial liabilities are categorised into a three-level hierarchy. A description of the different levels is detailed in Note 12.

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An analysis of borrowings by fair value classification is as follows:

	At 30 June 2023			At 31 December 2022			At 30 June 2022		
	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Subordinated liabilities	632	–	632	906	–	906	942	–	942
Senior unsecured bonds	540	–	540	545	–	545	565	–	565
Bank loans and overdrafts	–	415	415	2	106	108	–	266	266
Total fair value	1,172	415	1,587	1,453	106	1,559	1,507	266	1,773

The Group does not have any Level 3 financial liabilities.

17 Restricted Tier 1 (RT1) notes

On 24 September 2021, the Company issued £300m of RT1 notes with a fixed coupon of 4.000% paid semi-annually in arrears. Transaction costs of £3m were recognised in respect of the issue. The total coupon paid during the period was £6m (HY 2022: £6m; FY 2022: £12m).

The RT1 notes are perpetual with no fixed maturity or redemption date. The notes have a first call date of 24 March 2032 and interest is payable at the sole and absolute discretion of the Company, with cancelled interest providing no rights to the holder of the notes nor being considered a default. The RT1 notes are therefore treated as equity. The notes are convertible to share capital of the Company on the occurrence of certain trigger events.

18 Business combinations and disposals

In June 2023, the Group acquired the insurance and medical business of Asefa, S.A. Seguros y Reaseguros, an insurance company specialising in the construction industry that operates in Spain, for a consideration of £24m. Intangible assets consisting of customer relationships, distribution networks and computer software totalling £26m, other net assets of £(7)m and resulting goodwill of £5m were recognised on acquisition.

During the period, the Group completed the sale of care homes and retirement village in Bupa Villages and Aged Care New Zealand for a consideration of £6m and the sale of a care home within Bupa UK Care Services for a consideration of £3m. Other minor disposals in the period included dental clinics in Australia and closure of clinics in China.

There was a settlement of deferred and contingent consideration of £1m during the period in respect of prior period acquisitions.

19 Commitments and contingencies

Capital commitments

Capital expenditure for the Group contracted at 30 June 2023 but for which no provision has been made in the Condensed Consolidated Financial Statements amounted to £32m (HY 2022: £54m; FY 2022: £40m). Of this, £31m (HY 2022: £53m; FY 2022: £40m) relates to aged care facility and retirement village project commitments in Australia and New Zealand and care homes in the UK; specifically £23m (HY 2022: £27m; FY 2022: £21m) in relation to property, plant and equipment and £8m (HY 2022: £26m; FY 2022: £19m) in relation to investment property.

Contingent assets

The Group currently has no contingent assets.

Contingent liabilities

The Group has contingent liabilities arising in the ordinary course of business. These include losses which might arise from litigation, consumer matters, other disputes, regulatory compliance (including data protection) and interpretation of law (including employment law and tax law). It is not considered that the ultimate outcome of any contingent liabilities other than the items below relating to Isapre Cruz Blanca could have a significant adverse impact on the financial condition of the Group.

As disclosed in the 2022 Annual Report and Accounts, the negative impact of judicial and regulatory action on the Isapre insurance industry in Chile continues. The method of implementation of the statutory risk factor table following the Supreme Court decision of December 2022 remains unclear. The deadline for such implementation has been extended from May 2023 to November 2023 and may be extended further. The Chilean government proposed a new draft law to address the uncertainty in May. This is going through the legislative process and is subject to debate, amendment and other material changes, and even rejection. As part of this process, the local regulator, the Superintendent of Health (SIS), presented to the Senate's Health

Bupa Finance plc

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Committee. As part of this presentation, the SIS shared a draft methodology to illustrate the application of the new draft law. In summary terms, for the period of May 2020 to November 2022 this showed a negative financial impact of the draft law on the Isapre sector of CLP 929bn (£913m) and on Isapre Cruz Blanca of CLP 233bn (£229m). The value calculated using this basis will increase as time passes. This calculation was shared for illustrative purposes only, is not binding and may be revised. The topic of the timing of payments (if due) was not discussed. The current status of the new draft law is that it is being discussed by the Senate's Health Committee.

Given the continuing uncertainty, Isapre Cruz Blanca consider there to be a wide range of possible outcomes and resultant future cash outflows and is unable to reliably estimate the value of any such future retrospective payments, therefore, no IFRS provision has been recognised as at 30 June 2023.

There continues to be a broad range of possible outcomes, however, in contrast to the requirements of IFRS, under Solvency II the Group is required to include a value for contingent liabilities, even if the amount of the obligation cannot be measured with sufficient reliability. As at 30 June 2023, the Group included an allowance of £160m (FY 2022: £100m) for this contingent liability for retrospective payments within the Solvency II regulatory balance sheet. As previously stated, the final impact is likely to differ materially from this value and this is a calculation for Solvency II purposes and not a pre-estimate of all actual or potential losses relating to Isapre Cruz Blanca. Any retrospective payments finally determined to be due in respect of historic policies as a result of this ruling would be liabilities for Isapre Cruz Blanca.

In addition to the above Supreme Court decision, the regulator-approved Garantias Explicitas en Salud (GES) pricing increases, in place since October 2022, are subject to judicialisation. The annualised impact to revenue of these price increases is approximately £90m. A ruling is expected later in the year which could lead to liabilities for retrospective payments. The situation is uncertain and any potential financial impact is contingent on the future outcome of the judicialisation. Therefore, no IFRS provision has been recognised as at 30 June 2023.

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Statement of Directors' responsibilities for six months ended 30 June 2023

We confirm that to the best of our knowledge:

- The condensed set of financial statements have been prepared in accordance with UK-adopted International Accounting Standard 34 Interim Financial Reporting and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.
- The interim management report includes a fair review of the information voluntarily provided in accordance with the requirements of:
 - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year.
 - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Bupa Finance plc are listed in the Directors' Report for the year ended 31 December 2022. There have been no changes in Directors since the publication of the Company's Annual Report and Accounts for the year ended 31 December 2022.

By order of the Board

James Lenton
Director
2 August 2023

Clare Binmore
Director

Independent review report to Bupa Finance plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Bupa Finance plc's condensed consolidated interim financial statements (the "interim financial statements") in the Condensed Consolidated Half Year Financial Statements of Bupa Finance plc for the 6 month period ended 30 June 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority as if the company were required to comply with these rules.

The interim financial statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 30 June 2023;
- the Condensed Consolidated Income Statement for the period then ended;
- the Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Condensed Consolidated Half Year Financial Statements of Bupa Finance plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority as if the company were required to comply with these rules.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Condensed Consolidated Half Year Financial Statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Condensed Consolidated Half Year Financial Statements, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Condensed Consolidated Half Year Financial Statements in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority as if the company were required to comply with these rules. In preparing the Condensed Consolidated Half Year Financial Statements, including the interim financial statements, the directors are responsible for assessing the group'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 group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Condensed Consolidated Half Year Financial Statements based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority as if the company were required to comply with these rules and for no other purpose. We do not, in giving this conclusion, 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.