

**Bupa Insurance Limited**

**Annual Report and Accounts for the financial year ended  
31 December 2019**

**Registered Office:**

**1 Angel Court  
London  
EC2R 7HJ**

**Registered number: 3956433**

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# Strategic Report

## for the year ended 31 December 2019

The Directors present their annual report and the financial statements of Bupa Insurance Limited for the financial year ended 31 December 2019.

### Principal activities

Bupa Insurance Limited (the "Company") is the UK's largest health insurer and a leading provider of international health insurance providing medical cover to 2.7m customers worldwide.

The Company is wholly owned by the Bupa Group ("Bupa"), an international health insurer and provider. Over the past 70 years Bupa's global footprint has grown from origins in the UK to Australia, Spain, Poland, Chile, New Zealand, Hong Kong, Turkey, the US, Brazil, the Middle East and Ireland as well as having valuable partnerships with associate businesses in Saudi Arabia and India. Bupa has 17.5m health insurance customers, provides healthcare to over 15.8m people in its health clinics, hospitals and dental centres, and looks after around 22,000 aged care residents and employs around 83,000 people globally. Bupa was established in 1947 when 17 British provident associates and other UK funding organisations such as hospital contributory schemes came together. Their aim was to enable people to fund high-quality healthcare. Bupa is a company limited by guarantee with no shareholders, with profits reinvested in the business for the benefit of current and future customers.

We're driven by Bupa's purpose, helping people live longer, healthier, happier lives. It defines everything we do for our customers, inspiring and motivating us to improve our performance. The Company provides personal, corporate and small to medium enterprise ("SME") health insurance, as well as inward reinsurance and a small number of ancillary insurance products, such as cash plans, dental and travel insurance.

The two main health insurance segments are domestic private medical insurance ("PMI") predominantly in the UK market; and international private medical insurance ("IPMI") provided for individual consumers and employees requiring cover beyond their usual country of residence. The latter is underwritten both directly and through inward reinsurance.

Our principle operations take place in the UK, with branches sited in Denmark, Malta and Switzerland. Operational services, including the provision of mediation and administrative services are provided by Bupa Insurance Services Limited and some smaller group companies located in Egypt and Hong Kong.

### Key performance indicators

	2019	2018
Insured lives (millions)	2.7	2.7
Net premiums earned (£'m)	2,258.2	2,283.1
Profit before taxation, financial income and expense (£'m)	108.3	158.9
Net financial income and expense (£'m)	1.8	(16.4)
Profit before taxation (£'m)	110.1	142.5
Loss ratio <sup>1</sup>	71.9%	70.8%
Combined operating Ratio <sup>2</sup>	95.4%	93.2%
Solvency II (SII) coverage ratio (estimated) <sup>3</sup>	171%	175%

<sup>1</sup> Loss ratio is calculated as the ratio of claims incurred as a percentage of earned premiums

<sup>2</sup> Combined operating ratio is the ratio of total claims and expenses as a percentage of earned premiums

<sup>3</sup> The Solvency Capital Position and related disclosures are estimated values

### Results

Profit before tax reduced by 23% to £110m (2018: £143m) due to increased investment in technology capabilities and the cost of migrating IPMI EEA customers to an alternative Bupa insurance company located in Ireland, Bupa Global Designated Activity Company ("BGDAC"), in preparation for Brexit.

We grew customer numbers across all PMI segments which offset the reduction in IPMI insured lives.

The premium reduction of 1% to £2,258m (2018: £2,283m) reflects the change in product mix, from IPMI to PMI and Dental Insurance, migration of EEA customers to BGDAC, and competitive pricing to support customers' focus on value for money. This flowed through to a 1%pt increase in loss ratio which also reflected trends in medical inflation. Net financial income increased due to higher returns on the return seeking asset portfolio resulting from favourable market conditions during 2019.

## Strategic Report (continued)

for the year ended 31 December 2019

### Development

The economic and regulatory environments in our markets are constantly changing. Competition remains strong, with customer experience an increasingly important differentiator and technology playing a crucial role.

For PMI we further extended our mental health offering including the launch of our Family Mental HealthLine to support parents and carers with their children's mental health. We also launched Bupa Touch, a digital portal giving customers access to their policy, health assessment reports and other digital services like Virtual GP. Our customers' Net Promoter Scores ("NPS") improved significantly, and we are rated as 'Excellent' on the external Trustpilot survey. We were the first health insurer to be assessed by the Care Quality Commission ("CQC"), receiving a 'Good' rating.

In IPMI our focus on digitalising key processes and collaboration with our partners has improved NPS and customer retention. We launched Global Virtual Care, a digital GP service for employees and their families living abroad.

### Engaging with our stakeholders (Section 172(1) statement)

The Board has a duty to achieve Bupa's purpose of helping people live longer, healthier, happier lives. It does this by having regard for the interests of our customers, our people, our relationship with our suppliers and the impact of our operations on the communities in which we operate, and to ensure that we maintain a reputation for high standards of business conduct.

Our key stakeholders are our customers, our people, our shareholder, our regulators, our suppliers and the communities we operate in. All key Board decisions take into account the impact on relevant stakeholders.

Increasingly, stakeholders are looking to understand our performance across multiple areas from financial performance to products and services, innovation, governance, workplace practices and corporate citizenship. The Board endeavours to gain an understanding of the perceptions and attitudes of each stakeholder group and the weight they give to different issues. Where the views of different stakeholder groups do not align, the Board must decide on the best course of action to promote the Company's long-term success.

#### *Customers*

Customers are at the heart of our business. We aim to deliver truly outstanding, personalised customer experiences, ensuring great clinical outcomes and value for money.

The Risk Committee reviews the Conduct Risk Dashboard regularly, which includes key metrics to track how we are performing for our customers.

Key considerations for customers include:

- affordable health insurance that represents value for money
- high quality products with broad coverage and high standards of care
- simpler and quicker access to services, such as through digital applications

The Board has engaged with customers through site visits.

#### *People*

As a service organisation, our people are key to our business. We want our people to feel engaged and empowered to deliver great outcomes for our customers and be healthier and happier themselves.

The Conduct Risk Dashboard also includes key metrics to track how we are performing in relation to Culture and People. In addition the Board discusses the results of the twice-yearly employee survey (People Pulse) which assesses engagement across the Company.

The Board has engaged directly with employees through site visits.

Key themes for employees based on People Pulse results include:

- Company Prospects – being excited about Bupa's future
- Customer focus – helping to deliver a great customer experience
- Collaboration – focusing on efficient and effective working practices across teams
- Empowerment – feeling empowered to make decisions regarding their work

#### *Shareholder*

The Company's immediate parent company is Bupa Finance plc, which has a number of listed debt securities in issue. Therefore Bupa is required to operate in accordance with the relevant UK Listing Rules, Disclosure Guidance and Transparency Rules and the EU Market Abuse Regulation in respect of its announcements of financial results and operations.

## Strategic Report (continued)

for the year ended 31 December 2019

Briefing calls are held for bondholders to discuss Bupa's Annual and Half Year results. This provides an opportunity for them to question management on the financial performance and strategy of Bupa. Roadshows for bondholders are held annually and other significant developments are communicated via regulatory announcements, press releases and published on the website [www.bupa.com](http://www.bupa.com).

The Board has a number of ways in which it engages with its ultimate shareholder, Bupa. These include:

- Adherence to the matters reserved for the Bupa Board;
- A current Bupa NED sits on the Board;
- Periodic attendance of Group Senior Management Function 7 individuals at Board meetings;
- Annual attendance of the Board Chairman and Chief Executive Officer at the Bupa Board;
- Annual attendance of the Risk, Remuneration and Audit Committee Chairs at Bupa's equivalent Committees; and
- Adherence to Bupa's Subsidiary Governance Policy.

### Regulators

The Company operates in a regulated environment. The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by both the Financial Conduct Authority ("FCA") and the PRA. Regulators ultimately aim to protect customers and ensure that they receive high levels of care and are treated fairly. This clearly aligns with our strategy to put our customers front and centre.

Regulators expect us to:

- maintain sufficient capital to back our insurance business
- have robust and effective processes and controls in place to mitigate risks to protect our customers;
- provide a high quality experience of our services; and
- ensure we operate in a sustainable way.

The Board have a regular programme of interaction with the PRA and FCA and engage with them on key Board decisions.

### Suppliers

Suppliers are critical to delivering a high-quality service to our customers. We aim to treat our suppliers fairly and pay them within agreed timescales, holding ourselves to high standards of business conduct.

We work with our suppliers to ensure that they have effective controls in place to protect our customers' health and safety and the security and privacy of their data.

### Communities and Environment

We play an active role in the communities in which we operate and take care of the environment. Community and the environment form two pillars of our corporate responsibility and sustainability strategy and we currently have a focus on mental wellbeing and resilience. Through the Bupa UK Foundation we have recently partnered with Mind to provide mental health resources for children and young people and those that support them.

We are evaluating the business risks and opportunities associated with climate change, closely managing our environmental impact and actively promoting positive environmental practices. In 2019, Bupa started to define a new set of ambitions to respond to the current environment of climate emergency.

### Key decisions and their impact on stakeholders

The table below sets out a number of key decisions taken by the Board during the year, how stakeholder views were taken into account and competing interests balanced.

Board Decision	How we took stakeholders into account	Long-term implications
<b>Setting our 3 Year Plan</b>	<p><b>Customers and Shareholder</b></p> <p>Bupa's vision for 2024 – to be the most trusted health insurer and provider – is focused on our customers.</p> <p>Within the context of Bupa's Strategic Framework, the Company's strategy and three-Year Plan focusses on delivering the Bupa 2024 target outcomes including achieving market leading Net Promoter Scores.</p>	<p>The Bupa five-year vision aims to:</p> <ul style="list-style-type: none"> <li>- deliver outstanding experiences and outcomes for our customers</li> <li>- ensure our business is sustainable in the long-term</li> <li>- retain our competitive</li> </ul>

## Strategic Report (continued)

for the year ended 31 December 2019

		advantage by providing high quality products and services
<b>Investing in Information Technology</b>	<p><b>Customers and People</b> We are investing significant amounts in information technology and security to protect our customers' privacy and digitise our customers' experience.</p> <p>The Board considered this investment to be critical to the Company's future success and agreed that capital should be allocated to this activity in priority over investment in other initiatives.</p> <p>This also benefits our people by making their jobs easier and enabling them to spend more time on value-adding activities.</p>	<p>Cyber-security is an ever present threat that constantly evolves and we need to invest to protect our customers' data and maintain their trust in Bupa.</p> <p>Investing in digitisation will help Bupa meet changing customer expectations to interact with us more digitally and make processes more efficient, in turn helping us provide affordable products.</p>
<b>Responsible Investment Strategy</b>	<p><b>Customer, People, Shareholder, Communities, Environment, Regulator</b> In December 2019, the Board approved a new Responsible Investment ("RI") approach, which aligns with the RI standards approved by the Bupa Board in September 2019.</p> <p>The Board considered that it was likely that customers, staff and the Company's shareholder would expect the Company to be taking positive action with respect to Responsible Investment. In addition, the Board noted that regulators were increasingly focussed on sustainability in investment management such as EIOPA requiring inclusion of Environmental, Social and Governance ("ESG") considerations within Solvency II and the PRA requiring stress testing and financial disclosures on Climate Change.</p>	<p>Integration of ESG factors into investment decisions has been shown to reduce risk within bond portfolios, leading to a positive impact on risk-adjusted performance.</p> <p>In addition, excluding investment in sectors which have the most significant adverse impacts on society and the environment materially reduces both financial and reputational risks.</p>
<b>Dividends</b>	<p><b>Customer, Regulator and Shareholder</b> The Board approved two interim dividend payments during 2019 to distribute surplus profits to its shareholder.</p> <p>The Board consider the investment necessary in business operations and the financial strength of the Company e.g. liquidity, solvency and capital before approving any dividend.</p> <p>The dividends were in-line with the approved dividend policy and as such no confirmation of non-objection from the PRA was required.</p>	<p>Prudent financial management supports the long term success of the Company and its ultimate shareholder, Bupa, and motivates management to deliver strong and sustainable business performance aligned with Bupa's purpose: helping people live longer, healthier, happier lives.</p>

### Principal risks and uncertainties

Both the business performance and operations are subject to a number of risks and uncertainties. The Directors consider that the key risks and uncertainties relate to insurance risk, operational risk (including information security and privacy risks), investment risk, external market conditions, government and policy change, regulatory risk and Brexit.

Performance is monitored by the Board and senior management using operational, financial and other data. The Company Chief Risk Officer provides regular reporting to the Board Risk Committee on the risk profile of the Company and the key mitigation activities in place.

## Strategic Report (continued)

for the year ended 31 December 2019

### *Insurance risk*

The Company seeks to take insurance risk, in the natural course of business, within the Board's risk appetite.

There is a risk that the frequency, size or timing of claims on insurance policies varies from that expected, leading to an unexpected impact on financial returns. The Company is exposed to a number of factors due to writing medical insurance business, including medical inflation, shifts in demographics, changes in population health, developments in healthcare delivery and technology, and catastrophes. Each of these factors could affect product pricing, reserving, and claim risk accumulation. In addition, general macroeconomic trends and changes in government policy could affect the lapse and persistency behaviour of current and prospective customers.

Insurance risks are managed in a variety of ways. The Company's size and experience enables it to achieve stability in provider contracting for UK operations and it benefits from the geographic diversification elsewhere. The Company uses its data and experience to develop products that meet customers' needs and are priced competitively and fairly. In addition, the operations apply controls to underwriting and claims settlement. A significant mitigating factor is that the vast majority of business written is for short-term risks, which enable regular opportunities for re-pricing in the event of changes in claims trends. Refer to management of insurance risk in note 22.

### *Operational Risk*

The Company manages operational risks arising from its people, processes and systems through the three lines of defence model. First line management are responsible for identifying, managing, monitoring and reporting on risks, through documented policies, processes and controls. The second line risk function provides oversight and challenge, while the third line provides independent assurance. Appropriate controls are in place to mitigate potential risks and the Company continues to develop its risk and control culture, in order to embed risk management in the first line of defence.

Information security risks and those associated with non-compliance with data protection, privacy and information governance requirements remain key risks for the Company, as they are for all insurance companies. The Company continues to ensure that controls are in place and strengthened where necessary to address these risks, including enhancing our event monitoring and incident management.

The services provided by the Company are underpinned by information technology systems and infrastructure that enable the delivery of core processes and products. Failure of these systems may reduce the ability of the Company to deliver products and services to its customer base or increase the risk of information security breaches. In addition, the Company has increased its focus on monitoring of third-party risks over recent years and has significantly improved its capability in this area.

The Company's IT services are provided by teams within the wider Bupa Group which are overseen by the Company's Chief Information Officer's (CIO) team. These IT teams are responsible for the development, maintenance and monitoring of IT services. A programme of work is in place to ensure the continued development and enhancement of all IT services to provide the level of services required by the business and adequately protect sensitive customer and business data.

An operational resilience framework exists to support continuity of important business services from potential significant disruptions or failures to effectively implement significant change. Undertaking significant change programmes introduces risks in relation to the capacity and capability of staff and senior management to continue to deliver on the strategic objectives, as well as on the change programmes themselves. The Company is focused on ensuring it has the right levels and amount of experience and succession plans to manage the business and deliver effective change management.

### *Investment risk*

Our long-term financial strategy is to facilitate growth without undue investment risk. The Company manages investment risk through setting risk appetites with respect to liquidity, interest rate and credit risk in order to reflect the short-term nature of the insurance liabilities and limit the investment risk charge contribution of the Company's Solvency Capital Requirement ("SCR").

This is achieved through primarily holding liquid investments with highly rated counterparties. Where the Company has invested in a limited portfolio of return seeking assets, the Company uses value at risk analysis to quantify and manage risk against these investments.

Assets are largely held in line with expected maturity profile of our insurance liabilities to ensure that we are able to meet liabilities as they fall due.

Environmental, Social and Governance ("ESG") criteria also influence investment practices, such as through the exclusion of certain types of sectors from the Company's investment portfolio. We ensure that ESG factors are included in the investment decision-making process including the use of external ESG ratings when considering new funds.

## Strategic Report (continued)

for the year ended 31 December 2019

### *Market and competitor activity*

PMI markets are highly competitive with companies seeking to attract customers through new products and benefits. There is also demand for innovation to meet the different needs of corporate customers and individuals, with increasing customer expectations on the use of technology to provide healthcare services. The Company keeps its competitive position in each of its markets under continuous scrutiny and regularly reviews strategic and tactical objectives.

### *Government and policy change*

As part of the strategic planning process, analysis is performed on the impact of possible political change on the Company's business model, such as changes in Insurance Premium Tax in the UK. The Company seeks to maintain a constructive dialogue with governments in its main areas of operation, promoting the benefits of high-quality, private healthcare alongside public provision.

### *Regulatory Risk*

The Company seeks to comply with all regulatory standards and to maintain awareness of, and where possible, anticipate regulatory change. Its principal financial regulators are the PRA and the FCA, with which the Board and senior managers maintain a close supervisory relationship. Both regulatory authorities have a significant regulatory agenda with increased focus on insurers. Key areas of interest include customer protection, operational resilience, culture and governance, fair pricing and value. The individual accountability regimes require regulated firms and senior management to act appropriately and with due care. The Company seeks to mitigate the risk that it may fail to meet regulatory expectations through an effective governance framework, particularly the three lines of defence model which helps to ensure the identification and management of relevant requirements and associated risks.

### *Brexit*

The Company has reviewed the risks associated with a range of Brexit outcomes and developed contingency plans.

EEA customers that renewed after 29 March 2019 have been offered alternative cover with another Insurer in the Bupa Group, BGDAC, and this phased referral of customers will continue until 29 March 2020.

Consideration has been given to the risks that Brexit raises for the Company's existing customers and the risk to the proposition due to any potential impact of Brexit on healthcare providers, including access to and increased costs of medication.

Analysis has been performed to evaluate the risks to the Company's assets including credit risk on the portfolio of investments and foreign exchange risk.

These risks are monitored, by the Board and senior management, both individually and collectively, and the Company has identified a range of mitigating actions to respond to the uncertainty of Brexit.

### *Climate change*

Climate change is one of the major risks we face as a society. The Company has minimal direct investment and insurance exposures in respect of the physical risks associated with climate change. However, the Company may be impacted by adverse economic outcomes from the transition to a lower-carbon economy if its products become unaffordable for customers. The impact on health, and hence claims experience, will manifest itself over a longer time frame. The ability to reprice policies annually provides a significant mitigant to adverse claims and expense experience.

The Company monitors and assesses the potential financial and operational impacts of climate change as part of its ORSA process, through emerging risk horizon scanning and stress and scenario testing. A Climate Change Committee has been established to manage the risks associated with climate change and track actions recommended by the Board Risk Committee. The Company's Chief Risk Officer is responsible for overseeing the identification and management of the financial and operational impacts of climate change, and is accountable for reporting to the Board under the Senior Managers Regime. The Company is committed to being a responsible and sustainable business and actively promotes positive environmental practices. At the end of 2019 the Company is fully offsetting all of its direct carbon usage.



## Strategic Report (continued)

for the year ended 31 December 2019

### Solvency

The Company maintains regulatory capital in line with its capital management objective as set out in note 23.

The Company is subject to the requirements of the SII Directive and must hold sufficient Eligible Own Funds to cover its SCR. The SII Eligible Own Funds as at 31 December 2019 were £452m (2018: £486m), well in excess of the SCR.

#### Solvency II Capital position<sup>1</sup>

	2019 £'m	2018 £'m
Eligible Own Funds	452	486
Solvency Capital Requirement	264	278
Surplus	188	208
Solvency ratio	171%	175%

#### Solvency II Eligible Own Funds<sup>1</sup>

	2019 £'m	2018 £'m
IFRS Equity attributable to shareholders	215	219
Valuation differences	41	58
Foreseeable dividend	-	-
Subordinated debt	344	356
Capital tiering restriction	(148)	(147)
<b>Solvency II Eligible Own Funds</b>	<b>452</b>	<b>486</b>

#### Components of Eligible Own Funds<sup>1</sup>

	2019 £'m	2018 £'m
Unrestricted Tier 1	256	277
Restricted Tier 1	64	69
Tier 2	132	140
<b>Total</b>	<b>452</b>	<b>486</b>

#### Solvency II Capital Requirements

The SCR is calculated in accordance with the Standard Formula specified in the SII legislation. The Company has obtained approval from the Prudential Regulation Authority (PRA) to substitute the insurance premium risk parameter in the formula with an Undertaking Specific Parameter (USP) which reflects the Company's own loss experience.

#### Analysis of the Solvency Capital Requirement<sup>1</sup>

% of diversified SCR	2019	2018
Premium & Reserve Risk	40.0%	35.0%
Operational Risk	23.0%	22.0%
Market Risk	20.0%	19.0%
Lapse Risk	13.0%	18.0%
Counterparty Risk	2.0%	3.0%
Catastrophe Risk	2.0%	3.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup>The Solvency Capital Position and related disclosures are estimated values

## **Strategic Report (continued)**

for the year ended 31 December 2019

### **Future Outlook**

We anticipate market conditions will remain challenging both in the UK and globally. Internal controls, particularly information security, will continue to be high on our agenda. We are committed to achieving sustainable growth across financial and non-financial goals, improving the customer experience, harnessing technology, further strengthening our brand and market position, and ensuring strong governance. We are committed to making a positive contribution to the health of the wider community, particularly mental wellbeing, and taking action to respond to the impacts of climate change. Like many other companies, we are closely monitoring the COVID-19 outbreak as it evolves. The situation is developing rapidly, and at this stage our efforts are focusing on managing the potential impacts on our customers, people and supply chain.

Registered office:

1 Angel Court  
London  
EC2R 7HJ

4 March 2020

**F Harris**  
**Director**

## Directors' Report

for the year ended 31 December 2019

### Results and dividends

The profit for the financial year after taxation amounted to £91.8m (2018: £115.9m). The Directors declared two interim dividends totalling £95.4m during the year ended 31 December 2019 (2018: £143.0m).

### Impact of Companies (Audit, Investigations and Community Enterprise) Act 2004

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company.

### Directors

Details of the present Directors and any other persons who served as a Director during the financial year are set out below

P J Evans	(appointed 1 July 2019)
F Harris	
S Kenton	(resigned 5 June 2019)
M C Ledlie	
S J O'Connor	
M J O'Dwyer	(appointed 22 May 2019)
A P Perry	
R A Phipps (Chairman)	
D W Smith	
C E Thompson	(resigned 2 July 2019)
Bupa Secretaries Limited (Company Secretary)	

### Employees

Details of the number of persons employed and gross remuneration are contained in note 4 to the financial statements. Every effort is made by the Directors and management to inform, consult and encourage the full involvement of staff on matters concerning them as employees and affecting the Company's performance.

### Employment of disabled persons

The Company is committed to providing equal opportunities to employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development; and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided.

### Employment policy

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting performance through management channels. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance.

The Bupa People Manager Expectations clearly sets out management expectations, including the need to listen to employees needs and issues. Speak up provides the opportunity for all employees to raise their views anonymously. The approach to managing performance includes setting performance expectations. Schemes exist to incentivise, recognise and reward performance.

### Stakeholders

A summary of how directors have engaged with suppliers, customers and others in a business relationship with the Company is included in the Section 172 statement in the Strategic Report.

## Directors' Report (continued)

for the year ended December 2019

### Corporate governance arrangements applied by the company

As part of Bupa's commitment to excellence, the Company aims, where appropriate, to operate to the same governance standards as are required of UK FTSE 100 companies and therefore chooses to apply the UK Corporate Governance Code 2018 (the Code). Throughout 2019 we applied the main principles and complied with all the provisions in the Code, to the extent they are applicable to a subsidiary company.

The table below sets out how we have complied with the Principles of the Code during 2019.

Principle	How we apply the Principle
<b>1. Board Leadership and Company Purpose</b>	
A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	<p>The Board is responsible for the long-term sustainable success of the Company for the benefit of its customers and wider stakeholders, now and in the future.</p> <p>The Board works to achieve this by:</p> <ul style="list-style-type: none"> <li>– providing clear leadership in setting the Company's strategy, culture and risk appetite to achieve its purpose;</li> <li>– overseeing management's implementation of strategy within a prudent and effective governance structure using a three lines of defence model;</li> <li>– receiving regular management information on customers and their views of the Company and our products; and</li> <li>– reviewing the results of employee surveys and interacting with our people through site visits.</li> </ul>
B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	<p>The schedule of matters reserved to the Board includes:</p> <ul style="list-style-type: none"> <li>– Setting the overall direction of the business having regard to Bupa's long-term objectives, business strategy, purpose, values, standards and culture; and</li> <li>– Reviewing performance in the light of the Company's strategy, objectives, business plan and budgets and ensuring that any necessary resources are in place in order to meet these objectives</li> </ul> <p>The Board holds an annual strategy meeting with updates on progress and deep dives, with additional strategy updates taking place throughout the year. The Board receives regular updates on culture and conduct throughout the year.</p>
C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	<p>The Board annually approves the Company's three-year plan, ensuring that sufficient resources are available to achieve the Company's objectives.</p> <p>The Board retains ultimate responsibility for risk management and internal controls, with detailed oversight carried out by the Audit and Risk Committees.</p> <p>On the recommendation of the Risk Committee, the Board sets the Company's Risk Appetite and Risk Management Framework. These set out the principal risks facing the Company and the nature and extent of risk the Board is willing for the Company to take in order to achieve the its strategic objectives.</p> <p>The Company's enterprise risk policies are approved by the Board or relevant Committee and overseen by the Risk Committee.</p>
D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	<p>We are a customer-focused business reliant on our people to deliver a great service.</p> <p>The Board receives regular management information and considers the impact of decisions on relevant stakeholders. There is a programme of engagement with our key stakeholders: customers, our people, our shareholder and our regulators.</p>
E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concerns.	<p>The Risk Committee, through the Conduct Risk Dashboard, receives detailed quarterly management information which includes metrics on people and culture issues. During the year, the Bupa Board approved revised people and corporate responsibility and sustainability strategies. These include ensuring that the Group's workforce policies and practices are consistent with our values and support our long-term sustainable success.</p> <p>The Board receives regular updates on the issues reported through Speak Up, and on investigations and actions taken. The Audit Committee annually reviews the Group's Speak Up Policy to ensure it is sufficiently robust and operating effectively.</p>

## Directors' Report (continued)

for the year ended December 2019

<b>2. Division of Responsibilities</b>	
F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	The Chairman leads the Board in an open and transparent manner, encouraging debate and challenge. He plays a pivotal role in fostering the effectiveness of the Board and the individual directors both in and outside the Boardroom. The Chairman works with the Company Secretary to ensure that sufficient time is available to discuss the agenda items for each Board meeting and to ensure that papers are of a high standard and circulated in a timely manner.
G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	<p>The Board comprises the CEO, CFO, MD Bupa Global, Chairman (who was independent on appointment), and four independent Non-Executive Directors (one of whom sits on the Bupa Board).</p> <p>The roles of the Chairman and CEO are separate with distinct accountabilities set out in their role profiles and Statements of Responsibility required under the Senior Managers &amp; Certification Regime.</p> <p>The CEO is responsible for the day-to-day leadership and management of the business, in line with the risk appetite and annual and long-term objectives approved by the Board.</p> <p>The CEO cascades his authority through a delegated authority framework. The Non-Executive Directors provide an independent view on the running of our business, governance and boardroom best practice. They oversee and constructively challenge management in its implementation of strategy within the Company's system of governance and the risk appetite set by the Board.</p> <p>Further details are contained in the Company's Management Responsibilities Map.</p>
H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Prior to their appointment as a director (and on any subsequent re-appointment for a further term), the Nomination Committee considers whether each Non-Executive Director has sufficient time to devote to their role with the Company. This is re-assessed by the Board annually and in light of any changes to a Non-Executive Director's external commitments during the year.
I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	<p>The Company Secretary advises the Board on company law and corporate governance matters. She works with the Chairman and Committee chairs to ensure that the right matters are escalated to the Board and Committees at the appropriate time and that sufficient time is devoted to strategic matters.</p> <p>The Company Secretary works with management to ensure that the Board receives papers of a high quality in a timely manner. She arranges Directors' induction and ongoing training and supports the succession planning for Non-Executive Directors and the recruitment of new Non-Executive Directors. She is responsible for ensuring compliance with the Group's Subsidiary Governance Enterprise Risk Policy which sets minimum standards of corporate governance across the Bupa Group.</p> <p>The appointment and removal of the Company Secretary is a matter reserved to the Board.</p>
<b>3. Composition, Succession and Evaluation</b>	
J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	<p>The Nomination Committee reviews the balance, structure and composition of the Board and its Committees and leads the process for appointments to the Board. It considers Board succession planning, with planning for senior management succession being carried out by the Board.</p> <p>All Board recruitment takes into account the Board Diversity Policy.</p>
K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given	The Nomination Committee reviews the balance, composition and structure of the Board, including reviewing the skills of each Non-Executive Director.

## Directors' Report (continued)

for the year ended December 2019

<p>to the length of service of the board as a whole and membership regularly refreshed.</p>	<p>In considering succession plans for the Board, the Nomination Committee also keeps the length of service of each Board member under review, recommends the re-appointment of the Non-Executive Directors and any extensions to their term and ensures that Board recruitment is commenced in a timely manner to regularly refresh the membership of the Board.</p>
<p>L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.</p>	<p>The annual board evaluation considers the composition and diversity of the Board and how effectively members work together.</p> <p>In 2019, a questionnaire-based Board evaluation was carried out which assessed the effectiveness of the Board and its Committees. The Chairman separately led an evaluation of each Director, with the Senior Independent Director leading the evaluation of the Chairman.</p>
<p><b>4. Audit, Risk and Internal Control</b></p>	
<p>M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.</p>	<p>The Board delegates detailed oversight of the internal audit function and the external auditor to the Audit Committee, together with oversight of the Company's system of internal controls over the integrity of the Annual Report and Accounts.</p> <p>On the recommendation of the Audit Committee, the Board reviewed and approved the 2019 Annual Report and Accounts.</p> <p>The Audit Committee leads the annual processes for assessing the effectiveness of the internal and external audit functions.</p>
<p>N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.</p>	<p>The Audit Committee reviewed the 2019 Annual Report and Accounts in early 2020 and was satisfied that it presents a fair, balanced and understandable assessment of the Company's position and prospects. It reported its findings to the Board.</p>
<p>O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.</p>	<p>An annual assessment of compliance with the enterprise risk policies is undertaken by management, overseen by the Risk function and reported on to the Audit and Risk Committees.</p> <p>The Risk and Audit Committees monitor the Company's risk management and internal control systems on behalf of the Board on a continuous basis and the Risk Committee reviews the Company's principle risks and recommends and changes to risk appetite to the Board.</p>
<p><b>5. Remuneration</b></p>	
<p>P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.</p>	<p>The Company applies the Bupa-wide remuneration policy to all its employees. This remuneration policy, set by the Group Remuneration Committee ("Group RemCo"), is designed to deliver market-competitive remuneration to promote the long-term success of Bupa and link reward to Bupa's strategic goals and purpose while promoting a prudent approach to risk.</p> <p>In assessing incentive outcomes, the Company's Remuneration Committee and the Group Remuneration Committee take into account actions and recommendations from executive and non-executive channels for the year to determine whether appropriate risk events have been recognised and dealt with accordingly.</p>
<p>Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.</p>	<p>The Company's Remuneration Committee provides its view to the Group RemCo regarding the on-going appropriateness and relevance of the Bupa-wide remuneration policy, which the Group RemCo will consider when considering amendments to the remuneration policy.</p> <p>No Director is involved in deciding their own remuneration outcome.</p>
<p>R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.</p>	<p>The Company's Remuneration Committee governs the remuneration of key executives, and considers if results have been achieved in a way that aligns with Bupa's values and with sustainable underlying business performance. The Company's Remuneration Committee is comprised of independent non-executive directors and there is cross-membership between the Company's Risk Committee and the Remuneration Committee. The Remuneration Committee has robust discussions on remuneration outcomes for the key executives, taking into account all relevant internal and external factors to ensure that any exercise of the Committee's discretion is suitable and justifiable.</p>

## Directors' Report (continued)

for the year ended December 2019

### Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that:

- So far as that each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

### External audit tender

The Bupa Audit Committee conducts the process to select the external auditor and recommends their appointment, re-appointment or removal to the Bupa Board for approval by its Association Members at each Annual General Meeting (AGM). As disclosed in last year's report, the Bupa Audit Committee agreed to put the external audit out to tender to comply with EU Audit Regulation (Regulation 537/2014/EU) transitional arrangements, which require the Group to rotate its audit firm at the time of next appointment on or after 17 June 2020.

The tender process ran from January to June 2019 and was run in compliance with statutory requirements that apply to a number of UK Subsidiaries, which included the Company, and guidance issued by the Financial Reporting Council. The recommendations from the Competition & Markets Authority's study on the statutory audit services market, published during the tender process, were taken into account.

The Bupa Annual Report 2019 sets out the full audit tender process and timeline.

#### *Shortlist*

The three eligible 'Big Four' firms were invited to tender and all three submitted proposals. Medium-tier audit firms were considered ahead of commencing the formal tender process, but the Audit Committee concluded that they would not be able to provide the quality and seamless service that an organisation of Bupa's complexity, scale and geographic diversity requires.

#### *Process*

The tender was led by a sub-committee comprising two Bupa Non-Executive Directors Nicholas Lyons and Clare Thompson, the CFO, Group Financial Controller and Corporate Development Director. Nicholas acted as chair of the sub-committee to mitigate any potential conflict of interest arising from Clare's former position as a partner of PwC. Appropriate members of management attended meetings as required.

The firms were given access to a data room providing information to help them understand our business and the scope of the audit and a period to ask questions to assist in preparing their submissions. Each firm was required to meet with specific stakeholders across Bupa including the chairs of the audit committees of each of its major insurance subsidiaries, which included the Company. This included introducing the proposed senior team members for the audit of each business to relevant senior stakeholders.

Each firm submitted a written proposal and technology presentation and gave a presentation to the sub-committee who then asked questions. Separate submissions were requested outlining proposed fees, however, this did not form part of the key decision criteria.

#### *Assessment criteria*

Each firm was assessed on the following criteria using a scorecard with an overarching criterion of audit quality:

- team and professional fit;
- demonstrating understanding of the business;
- value add;
- market/industry experience including regulatory experience; and
- seamless transition.

## **Directors' Report (continued)**

for the year ended December 2019

### *Recommendation and decision*

The Bupa Audit Committee held an additional meeting in June 2019 to discuss the assessment of each firm against the agreed criteria and the feedback received from management during meetings with the firms. The Bupa Audit Committee recommended two firms to the Board with PwC identified as the first choice. The Board noted that PwC:

- could provide the high quality of audit required;
- clearly demonstrated deep insurance expertise and strong expertise in relevant markets;
- demonstrated high levels of competence, experience and a clear quality focus;
- clearly understood Bupa's business in some depth; and
- had good experience of transitioning audits and good potential value-add.

Therefore, the Bupa Board agreed to appoint PwC as the Group's External Auditor from 1 January 2021 subject to Association Member approval at the 2021 AGM. This recommendation was made free from any influence by a third party and there are no contractual terms imposed on the Group of the kind mentioned in Article 16(6) of the EU Audit Regulation.

The Company's Board will formally accept the recommendation and appoint PwC for the year ended 31 December 2021 following the Bupa AGM in May 2021.

### *Transition*

PwC will shadow KPMG during their audit of Bupa's 2020 Annual Report and Accounts and the Non-Audit Services Policy has applied to PwC from 1 January 2020 to ensure their independence at appointment. The lead PwC audit partner attended an Audit Committee meeting following selection, to outline the firm's progress on reaching independence from Bupa and the firm's approach to transition. Bupa intends to tender the External Auditor appointment at least every ten years.

Registered office:

1 Angel Court  
London  
EC2R 7HJ

4 March 2020

**F Harris**

**Director**



## Statement of Directors' Responsibilities

for the year ended 31 December 2019

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate to Company or to cease operations or have no realistic alternative to do so.

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. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's corporate and financial information included on the Bupa Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report to the Members of Bupa Insurance

for the year ended 31 December 2019

## 1. Our opinion is unmodified

We have audited the financial statements of Bupa Insurance Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of profit and loss account and other comprehensive income, Balance sheet, Statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the regulated entities audit committee.

We were appointed as auditor by the directors on 7 June 2000. The period of total uninterrupted engagement is for the 20 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided

### Overview

Materiality: Financial statements as a whole

£7.1m (2018: £7.1m)

4.8% normalized profit before tax (2018: 5.0% of profit before tax)

Coverage: 95% (2018: 94%) of profit before tax

### Key audit matters

vs 2018

Recurring risk	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
Recurring risk	Valuation of provisions for claims under insurance contract liabilities	▶▶

## 2. Key audit matter: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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 summarise below the key audit matters (unchanged from 2018) in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matter.

# Independent Auditor's Report to the Members of Bupa Insurance (continued)

for the year ended 31 December 2019

The Risk	Our response
<p><b>The impact of uncertainties due to the UK exiting the European Union on our audit</b></p>	<p><b>Unprecedented levels of uncertainty</b></p>
<p><i>Refer to page 7 (principal risks and uncertainties),</i></p>	<p>All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of provisions for claims under insurance contracts, below, and related disclosures. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.</p>
<p><b>Valuation of provisions for claims under insurance contracts</b></p>	<p>In addition, we are required to consider the other information presented in the Strategic Report including the principal risks disclosure and to consider the directors' statement that the Strategic Report, Directors' Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.</p>
<p>(£218 million; 2018: £261 million)</p>	<p>Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p>
<p><i>Refer to page 29 (accounting policy) and page 39 (financial disclosures).</i></p>	<p><b>Subjective valuation</b></p>
<p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of provisions for claims under insurance contracts has a degree of estimation uncertainty as disclosed in note 22 of the financial statements.</p>	<p>The valuation of provisions for claims under insurance contracts for the Company comprises an actuarial best estimate and the margin over best estimate. Management uses a consistent actuarial reserving methodology and expects that the frequency, severity and settlement patterns of insurance claims are expected to be consistent with recently observed experience and trends. The short-term nature of the Company's insurance contracts means that movements in assumptions are generally not significant however the liability valuation would be sensitive to changes in actual experience data used.</p>
	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p>
	<ul style="list-style-type: none"> <li>- <b>Our Brexit knowledge:</b> We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks as well as management own assessment of the capital impact of an adverse Brexit outcome.</li> <li>- <b>Assessing transparency:</b> As well as assessing individual disclosures as part of our procedures on valuation of provisions for claims under insurance contracts we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.</li> </ul>
	<p><b>Our results</b></p>
	<ul style="list-style-type: none"> <li>- As reported under valuation of provisions for claims under insurance contracts, we found the resulting estimates to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.</li> </ul>
	<p>Our procedures included:</p>
	<ul style="list-style-type: none"> <li>- <b>Controls design and observation:</b> testing the design and implementation of the key controls over the provisioning process, including controls over the completeness and accuracy of the data supporting key calculations, such as the data in respect of current and historical claims;</li> <li>- <b>Benchmarking assumptions:</b> considering the Company's reserving methodology and claims experience against industry practice.</li> <li>- <b>Our actuarial expertise:</b> using our own actuarial specialists, inspecting the claims reserving report and evaluating and challenging the assumptions relating to current and future experience, including cost inflation and medical trends, and margin estimates. This is done by comparing them to expectations based on the Company's historical experience, current trends and our own industry knowledge;</li> <li>- <b>Sensitivity analysis:</b> considering sensitivity analyses completed by the Company to assess the adequacy of provisions in the event of severe but possible adverse deviations in key assumptions;</li> <li>- <b>Independent re-performance:</b> calculating our own estimate of the liability for private medical insurance using the Company's data, comparing to the liability calculated by the Company, and considering the impact of any significant differences.</li> <li>- <b>Test of detail:</b> Performing reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to ensure the integrity of the data used in the actuarial reserving process. We also compared samples of claims outstanding, to appropriate documentation, in order to test the valuation of individual claims provisions.</li> <li>- <b>Assessing transparency:</b> assessing the Company's disclosures relating to the provisions for claims under insurance contracts, particularly in relation to key and sensitive assumptions.</li> </ul>
	<p><b>Our results</b></p>
	<ul style="list-style-type: none"> <li>- We found the valuation of provisions for claims under insurance contracts to be acceptable (2018 result: acceptable)</li> </ul>

# Independent Auditor's Report to the Members of Bupa Insurance (continued)

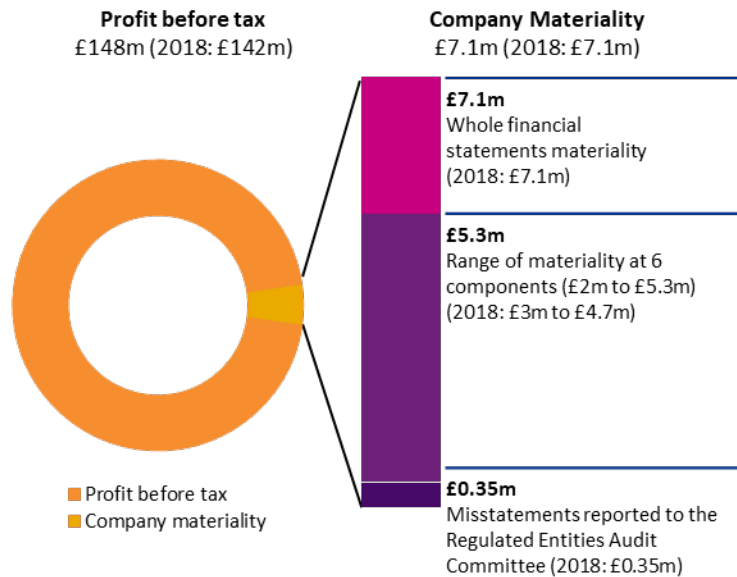
for the year ended 31 December 2019

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £7.1m (2018: £7.1m), determined with reference to a benchmark of profit before tax, normalized to exclude non-recurring project costs and releases of prior period claim provisions, of which it represents 4.8% (2018: 5% of profit before tax).

We agreed to report to the Regulated Entities Audit Committee any corrected or uncorrected identified misstatements exceeding £0.35m (2018: £0.35m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the 14 Company's reporting components, we subjected 6 (2018: 6) to full scope audits. For the residual 8 components, we performed analysis at an aggregated Company level to re-examine our assessment that there were no significant risks of material misstatement within these.



We instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. We approved the component materialities, which ranged from £2m to £5.3m, having regard to the mix of size and risk profile of the Company across the components. The work on all components in scope was performed by component auditors.

We visited component locations in the United Kingdom to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors and others that were not physically visited. At these visits and meetings, the findings reported to us were discussed in more detail, and any further work required by us was then performed by the component auditor.

# Independent Auditor's Report to the Members of Bupa Insurance (continued)

for the year ended 31 December 2019

The components within the scope of our work accounted for the percentages illustrated below.



#### 4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- adverse insurance reserves development;
- a deterioration in claims experience, potentially caused by market wide catastrophe event(s); and
- a deterioration in the valuation of the Company's investments arising from a significant change in the economic environment.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

# Independent Auditor's Report to the Members of Bupa Insurance (continued)

for the year ended 31 December 2019

## 5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## 6. We have nothing to report on the other matters on which we are required to report by exception

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

- 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
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 7. Respective responsibilities

### *Directors' responsibilities*

As explained more fully in their statement set out on page 16, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### *Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these

## **Independent Auditor's Report to the Members of Bupa Insurance (continued)**

for the year ended 31 December 2019

may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

### **8. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Thomas Tyler (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 St. Peter's Square  
Manchester  
M2 3AE

4 March 2020

## Profit and Loss account and Statement of Comprehensive Income

for the year ended 31 December 2019

<b>TECHNICAL ACCOUNT</b>	<b>Notes</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
<b>Revenues</b>			
Gross premiums written	2	2,328,793	2,382,904
Outward reinsurance premiums		(88,867)	(92,640)
Premiums written, net of reinsurance	2	2,239,926	2,290,264
Change in the gross provision for unearned premiums		22,537	(13,481)
Reinsurers' share of change in the gross provision for unearned premiums		(4,228)	6,335
		<b>18,309</b>	<b>(7,146)</b>
<b>Net premiums earned</b>	<b>2</b>	<b>2,258,235</b>	<b>2,283,118</b>
Other technical income, net of reinsurance		4,570	4,477
<b>Total revenues</b>		<b>2,262,805</b>	<b>2,287,595</b>
Gross claims paid		(1,728,806)	(1,660,542)
Reinsurers' share of claims paid		67,190	60,838
<b>Gross claims paid net of reinsurance</b>		<b>(1,661,616)</b>	<b>(1,599,704)</b>
Gross change in the provision for claims		38,835	(16,341)
Reinsurers' share of change in the provision		(110)	(1,282)
		<b>38,725</b>	<b>(17,623)</b>
<b>Net claims incurred</b>	<b>2</b>	<b>(1,622,891)</b>	<b>(1,617,327)</b>
Net operating expenses	3	(531,629)	(511,405)
<b>Total claims and expenses</b>		<b>(2,154,520)</b>	<b>(2,128,732)</b>
<b>Profit before taxation, financial income and expense</b>		<b>108,285</b>	<b>158,863</b>
<b>NON-TECHNICAL ACCOUNT</b>			
Investment income	5	17,513	16,142
Unrealised gains on investments		22,477	3,303
Investment expenses	6	(26,019)	(24,607)
Unrealised losses on investments		(12,152)	(11,222)
<b>Net financial income/(expense)</b>		<b>1,819</b>	<b>(16,384)</b>
<b>Profit before taxation expense</b>		<b>110,104</b>	<b>142,479</b>
Taxation on profit on ordinary activities	8	(18,273)	(26,565)
<b>Profit for the financial year</b>		<b>91,831</b>	<b>115,914</b>
<b>Total comprehensive income for the year</b>		<b>91,831</b>	<b>115,914</b>

All profits are derived from continuing operations.

Notes 1-25 form part of these financial statements.



## Balance Sheet

for the year ended 31 December 2019

<b>ASSETS</b>	<b>Notes</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
<b>Investments</b>			
Investment property	9	54,950	54,700
Land and buildings	10	16,128	-
Financial investments	11	849,304	850,834
		<b>920,382</b>	<b>905,534</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	17	29,846	33,057
Claims outstanding	17	9,758	10,111
		<b>39,604</b>	<b>43,168</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations:			
Policyholders		608,229	723,647
Intermediaries		1,510	1,937
Debtors arising out of reinsurance operations		179,458	82,755
Other debtors	12	63,488	55,014
		<b>852,685</b>	<b>863,353</b>
Cash at bank and in hand	13	165,316	227,360
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	14	77,000	68,930
Other prepayments and accrued income		3,454	1,901
		<b>80,454</b>	<b>70,831</b>
<b>Total assets</b>		<b>2,058,441</b>	<b>2,110,246</b>

Notes 1-25 form part of these financial statements

**Balance Sheet (continued)**  
for the year ended 31 December 2019

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
<b>Capital and reserves</b>			
Called up share capital	15	57,209	57,209
Profit and loss reserve		157,830	161,399
<b>Total capital and reserves</b>		<b>215,039</b>	<b>218,608</b>
<b>Subordinated liabilities</b>			
	16	335,990	335,933
<b>Gross technical provisions</b>			
Provisions for unearned premiums	17	1,004,618	1,025,857
Claims outstanding	17	218,030	260,511
		1,222,648	1,286,368
<b>Provisions for other risks</b>	18	<b>5,156</b>	<b>4,579</b>
<b>Deposits received from reinsurers</b>			
		5,657	5,536
<b>Creditors</b>			
Creditors arising out of direct insurance operations		9,582	10,334
Creditors arising out of reinsurance operations		72,782	78,332
Deferred taxation	19	2,199	1,968
Deferred reinsurance commission		433	-
Other creditors	20	173,246	168,588
Leases liabilities	21	15,709	-
		273,951	259,222
<b>Total liabilities</b>		<b>1,843,402</b>	<b>1,891,638</b>
<b>Total equity and liabilities</b>		<b>2,058,441</b>	<b>2,110,246</b>

These financial statements were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:

**F Harris**  
Director

**P J Evans**  
Director

## Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £'000	Investment revaluation reserve £'000	Profit and loss reserve £'000	Total £'000
<b>Balance as at 1 January 2019</b>	<b>57,209</b>	<b>-</b>	<b>161,399</b>	<b>218,608</b>
Profit for the year	-	-	91,831	91,831
<b>Transactions with owners recorded directly in equity</b>				
Dividends paid	-	-	(95,400)	(95,400)
<b>As at 31 December 2019</b>	<b>57,209</b>	<b>-</b>	<b>157,830</b>	<b>215,039</b>
	Share capital £'000	Investment revaluation reserve £'000	Profit and loss reserve £'000	Total £'000
Balance as at 1 January 2018	57,209	602	188,580	246,391
Adoption of IFRS 9	-	(602)	(95)	(697)
Balance at 1 January 2018, (restated)	57,209	-	188,485	245,694
Profit for the year	-	-	115,914	115,914
<b>Transactions with owners recorded directly in equity</b>				
Dividends paid	-	-	(143,000)	(143,000)
<b>As at 31 December 2018</b>	<b>57,209</b>	<b>-</b>	<b>161,399</b>	<b>218,608</b>

Notes 1-25 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 1 Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") under the historical cost convention.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As the Company is a wholly owned subsidiary undertaking of The British United Provident Association Limited (Bupa), a company registered in England and Wales, which publishes consolidated accounts, the Company has not included details of transactions with other Bupa Group companies which are subsidiary undertakings of Bupa.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Statement of cash flows and related notes;
- Related party transactions with fellow Bupa Group companies;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The financial statements are presented in sterling, which is also the Company's functional currency, rounded to thousands.

### 1.1 Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

#### **IFRS 16**

The Company has adopted IFRS 16 Leases with a date of initial application of 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The IAS 17 distinction between operating and finance leases is removed for lessee contracts under IFRS 16, with all lease rights and obligations now being recognised on the balance sheet on a similar basis to finance leases under IAS 17. A lease liability is recognised for all leases, reflecting the present value of the lease payments discounted using the company's incremental borrowing rate. The lease liability is measured at amortised cost and settled over the life of the lease. A corresponding right-of-use asset is also recognised and depreciated over the life of the lease.

The Company has applied IFRS 16 using the modified retrospective approach, where the right-of-use assets equal the lease liabilities on transition, adjusted by the amount of any prepayments and lease incentives received. There is no restatement of comparative information and the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to the opening balance of retained earnings. In applying IFRS 16 on transition, the Company has used the following practical expedients permitted by the standard:

- The Company has elected not to reassess whether a contract is or contains a lease as defined in IFRS 16 at the date of initial application. For contracts entered into before the transition date, the Company relied on its assessment made when applying IAS 17 and IFRIC 4. Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at transition date.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

The impact of adoption of IFRS 16 is set out below:

	Remeasurement adjustments £'000	Reclassifications £'000	Total £'000
Land and buildings (right-of-use assets)	15,732	247	15,979
Other debtors	-	(247)	(247)
Lease liabilities	(15,732)	-	(15,732)
<b>Total impact on net assets</b>	-	-	-

The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligation as at 31 December 2018.

	2019 £'000
Operating lease commitments at 31 December 2018 under IAS 17 as disclosed in the financial statements	-
Correction to operating lease commitments	29,308
Total undiscounted operating lease commitments	29,308
Effect of discounting using the incremental borrowing rate at 1 January 2019	(13,576)
<b>Lease liabilities recognised under IFRS 16 at 1 January 2019</b>	<b>15,732</b>

The weighted average incremental borrowing rate applicable to the lease liabilities on 1 January 2019 was 2.86%.

### **IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 has been developed by the IFRS Interpretation Committee to provide greater clarity on how uncertain tax treatments should be recognised and measured under IAS 12. IFRIC 23 is effective from 1 January 2019 and covers all income taxes within the scope of IAS 12. Under IFRIC 23, a tax provision should be recognised if it is probable that a taxation authority will not accept the tax treatment adopted by an entity. When measuring the uncertainty, an entity can select from either the "most likely amount" or the "expected value" method, based on which approach better predicts the ultimate outcome. The amendment had no immediate impact on the Company on transition.

### **1.2 Going concern**

The Directors have conducted an assessment of the Company's going concern status based on its current position and forecast results. After making suitable enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and Financial Statements.

### **1.3 Foreign currencies**

#### **a) Foreign branches**

The activities of the foreign branches are carried out as an extension of the Company. All foreign branches have a sterling functional currency.

#### **b) Foreign transactions**

Transactions in foreign currencies other than the functional currency of the Company are translated to the respective functional currency of the Company or its foreign operations. Realised exchange differences arising on transactions of foreign currency amounts are recorded in the Profit and Loss account.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the Balance Sheet date; the resulting foreign exchange gain or loss is recognised in operating expenses, except where the gain or loss arises on financial assets or liabilities and then it is presented in financial income or expense as appropriate. Non-monetary assets and liabilities denominated in a foreign currency at historic cost are translated using the exchange rate at the date of the transaction; no exchange differences therefore arise. Non-monetary assets and liabilities denominated in a foreign currency which are held at fair value are translated using the exchange rate ruling at the date that the fair value was determined.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 1.4 Investment properties

Investment properties are physical assets that are not occupied by the Company and are leased to Bupa Group companies to generate rental income or held by the Company for capital appreciation or both.

Investment properties are measured at fair value, determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location.

In an active market, investment properties are valued annually by an independent valuer, holding a recognised and relevant professional qualification, and with recent experience in the location and category of investment property being valued.

Any gain or loss arising from a change in the fair value is recognised in the Profit and Loss account within financial income and expense.

### 1.5 Provisions for other risks

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Although provisions are made where payments can be reliably estimated, the amounts provided are based upon a number of assumptions that are inherently uncertain and therefore the amount that is ultimately paid could differ from the amount recorded.

### 1.6 Basis of accounting for underwriting activities

Underwriting activities are accounted for on an annual "accident year" basis.

#### a) Other technical income

Other technical income relates to outward reinsurance commission income received by the Company.

#### b) Net premiums earned

Net premiums earned represent the premiums earned relating to risk exposure for the reported financial year. They comprise gross premiums written, net of reinsurance and expected lapses, adjusted for the change in the net provision for unearned premiums during the financial year.

The unearned premium provision represents the proportion of premiums written in the financial year that relate to periods of risk in future accounting years.

Premiums are shown gross of commissions payable and net of insurance premium taxes that may apply in certain jurisdictions.

#### c) Outward reinsurance premiums

Outward reinsurance premiums represent the reinsurance premiums payable for contracts entered into that relate to risk mitigation for the reported financial year. These comprise written premiums ceded to reinsurers, adjusted for the reinsurers' share of the movement in the gross provision for unearned premiums.

In cases where the Company cedes reinsurance for the purpose of limiting its net loss potential, the arrangements do not relieve the Company of its direct obligations under insurance policies written.

Premiums, losses and other amounts relating to reinsurance treaties are recognised over the period from inception of a treaty to expiration of the related business. The actual profit and loss is therefore recognised not at inception but as such profit and loss emerges. Any initial reinsurance commission is recognised on the same basis as the acquisition costs incurred.

#### d) Net claims incurred

The gross technical provision for claims represents the estimated liability arising from claims episodes in current and preceding financial years which have not yet given rise to claims paid. The provision includes an allowance for claims management and handling expenses.

The gross technical provision for claims is estimated based on current information and the ultimate liability may vary as a result of subsequent information and events. Adjustments to the amount of claims provision for prior years are included in the technical account in the financial year in which the change is made.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year, in respect of contracts commencing before that date, are expected to exceed the related unearned premiums, less related deferred acquisition costs. The methods used, and estimates made for claims provisions are reviewed regularly.

### e) Reinsurers' share of claims

Reinsurers' share of claims incurred represents recoveries from reinsurers on claims paid, adjusted for the reinsurers' share of the change in the gross technical provision for claims. The recoverable balances due from reinsurers are assessed for impairment at each balance sheet date. Impairments are accounted for within the technical account on an incurred loss basis.

### f) Acquisition costs

Acquisition costs included within net operating expenses, represent commissions payable and other direct expenses related to the acquisition of insurance contract revenues written during the financial year. Acquisition costs that have been paid that relate to subsequent periods are deferred and recognised in the technical account across the period in which the benefit has been recognised, on a straight-line basis.

## 1.7 Current and deferred taxation

The taxation expense on the profit for the year comprises current and deferred taxation.

Current taxation comprises the expected tax payable or receivable on the taxable profit and loss for the period using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustments to the tax payable or receivable in respect of previous years.

Deferred taxation is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more taxation benefits, with the following exceptions:

- Provision is made for taxation on gains arising from the revaluation of property to its market value, the fair value adjustment of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the Balance Sheet date there is a binding agreement to dispose of the assets concerned and without it being possible to claim rollover relief. However, no provision is made where, on the basis of all available evidence at the Balance Sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred taxation assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

## 1.8 Related party transactions

As the Company is a wholly owned subsidiary undertaking of Bupa, a company registered in England and Wales, which publishes consolidated accounts, the Company has not included details of transactions with other Bupa Group companies which are subsidiary undertakings of Bupa.

FRS 101 also exempts entities from disclosure of compensation for key management personnel as required by IAS 24. There were no other related party transactions.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Bupa Group, the Company designates these as insurance arrangements, and accounts for them as such. In this respect, provision for expected claims is made on an incurred basis.

## 1.9 Investment income and expenses

Investment income comprises interest income, realised gains on investments, changes in the fair value of items recognised at fair value through profit or loss, changes in the fair value of derivatives and foreign exchange gains and losses. Interest income except in relation to assets classified as fair value through profit or loss, is recognised in the non-technical account as it accrues, using the effective interest method.

Investment expenses include interest payable on subordinated liabilities, realised losses on investments, changes in the fair value of items recognised at fair value through profit or loss, changes in the fair value of derivatives and other investment expenses.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

## Notes to the Financial Statements (continued)

### for the year ended 31 December 2019

Changes in the value of financial assets designated as at fair value through profit or loss are recognised within investment income or expense as an unrealised gain or loss while the asset is held, this represents the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

#### 1.10 Financial Investments

The Company has classified its financial investments into the following categories: fair value through profit or loss and amortised cost. The Directors determine the classification of all financial investments at initial recognition. Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Company has transferred substantially all risks and rewards of ownership.

Measurement	Criteria and treatment
Fair value through profit or loss	Debt and equity instruments where performance is managed and evaluated on a fair value basis and the objective is to realise cash flows through the sale of the assets. The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the statement of Profit and Loss in the period in which they arise.
Amortised cost	Non-derivative debt instruments where the contractual characteristics of the financial assets represent solely payments of principal and interest and the objective is to hold the instrument to collect cash flows over its life. Any disposals are expected to be infrequent or insignificant. The investments are measured at amortised cost using the effective interest method, less any impairment losses. Any discount or premium on purchase is amortised over the life of the investment through the Statement of Profit and Loss.

Impairment provisions on financial investments held at amortised costs are based on expected credit losses, "ECL". This is calculated based on either 12-month or life-time ECL depending on whether there has been a significant increase in credit risk since initial recognition. As all the financial assets at amortised cost are either investment grade or short term, a 12-month ECL is applied. For financial investments, an option pricing probability model is used as the basis for assessing ECL. An analysis of ECL provisions is provided in note 22.3.

Financial investments carried at fair value are measured using different valuation inputs categorised into a three-level hierarchy. The different levels have been 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 one 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).

#### 1.11 Derivative financial instruments

Derivative financial instruments consist of currency forward contracts and swaps. Derivatives which are classified as fair value through profit and loss are recognised initially at fair value; attributable transaction costs are recognised in the profit and loss account when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit and loss account.

The fair value of currency forward contracts, swaps and options is determined using forward exchange rates derived from market sourced data at the balance sheet date, with the resulting value discounted back to present value.

#### 1.12 Debtors

Insurance debtors are carried at amortised cost less provision for impairment. Non-insurance debtors are carried at amortised cost less expected credit losses.

Provision for ECL for non-insurance debtors are measured at lifetime ECL. Where appropriate, a provision matrix is used to estimate ECL. Under a provision matrix, receivables are grouped into customer segments and further divided into categories by age. Historical credit loss experience and any relevant forward-looking information is then used to establish the ECL provision for each category. Based on this methodology, non-insurance debtors ECL provisions have been assessed as nil.

#### 1.13 Subordinated liabilities

Subordinated liabilities are stated at amortised cost using the effective interest method. The coupon payable on the loan is recognised as an investment expense within net financial expense.



## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 1.14 Creditors

Creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

### 1.15 Accounting estimates and judgements

The preparation of financial statements to conform with FRS 101 requires the use of certain accounting estimates and assumptions that affect the reported assets, liabilities, income and expenses. It also requires the Directors to exercise judgement in applying the Company's accounting policies. The estimates and assumptions are based on historical experience and other related variables, updated to reflect current trading performance. The estimates and assumptions are reviewed on an ongoing basis and are considered to be appropriate but actual results may differ from these estimates.

Estimates by management in applying the Company's accounting policies that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in subsequent periods, are set out below and in more detail in the related notes.

- Gross technical provisions: The key assumptions used in the calculation of the outstanding claims provision include claims development, margin of prudence, claims cost inflation and seasonality. (note 17)
- Investment property: The key assumption is the property yield. (note 9)

### 1.16 Leases of property

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the company's incremental borrowing rate taking into account the duration of the lease.

The lease liability is subsequently measured at amortised cost using the effective interest method, with the finance cost charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability. It is remeasured when there is a change in future lease payments arising from a change in index rate or if the Company changes its assessment of whether it will exercise an extension or termination option. The lease liability is recalculated using a revised discount rate if the lease term changes as a result of a modification or re-assessment of an extension or termination option. The leases currently held by the Company do not contain any extension or terminations options.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore properties to their original condition, less any lease incentives received. The right-of-use asset, excluding restorations costs, is typically depreciated on a straight-line basis over the lease terms. In addition, the right-of-use asset may be adjusted for certain remeasurements of the lease liability, such as indexation and market rent review uplifts. Restoration costs included in the right-of-use asset are amortised over the same term as the corresponding provision, which may be longer than the IFRS 16 contractual lease term.

The Company has elected not to recognise the right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less or leases that are of low value (£4,000). Lease payments associated with these leases are expensed on a straight-line basis over the lease term.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 2. Analysis of underwriting results

#### (i) Analysis by class

	Net Written Premiums £'000	Premiums earned £'000	Claims incurred £'000
<b>2019</b>			
Direct insurance: accident and health	2,045,627	2,063,927	(1,419,912)
Inward reinsurance	283,166	287,403	(270,059)
Outward reinsurance	(88,867)	(93,095)	67,080
<b>Total</b>	<b>2,239,926</b>	<b>2,258,235</b>	<b>(1,622,891)</b>

	Net Written Premiums £'000	Premiums earned £'000	Claims incurred £'000
<b>2018</b>			
Direct insurance: accident and health	2,090,236	2,090,358	(1,395,599)
Inward reinsurance	292,668	279,065	(281,284)
Outward reinsurance	(92,640)	(86,305)	59,556
<b>Total</b>	<b>2,290,264</b>	<b>2,283,118</b>	<b>(1,617,327)</b>

#### (ii) Segmental analysis of gross premiums written

	2019 £'000	2018 £'000
UK PMI	1,581,506	1,553,739
IPMI	747,287	829,165
<b>Total</b>	<b>2,328,793</b>	<b>2,382,904</b>

Geographic	2019 £'000	2018 (restated) <sup>1</sup> £'000
United Kingdom	2,148,188	2,154,259
EU member states	123,987	158,993
Rest of the world	56,618	69,652
<b>Total</b>	<b>2,328,793</b>	<b>2,382,904</b>

<sup>1</sup>2018 written premiums of £116,585k have been reclassified from United Kingdom to EU member states to correct the allocation.

Geographical analysis is based on where the business is written.

### 3. Net operating expenses

	2019 £'000	2018 £'000
Commission and other acquisition costs	183,880	155,495
Changes in deferred acquisition costs	(7,787)	(5,431)
Staff costs (see note 4)	1,150	1,829
Net (gain) / loss on foreign exchange transactions	(1,057)	5,175
Expenses payable to Bupa Group companies	347,937	345,257
Reinsurers share of expenses	(8,572)	(8,297)
Other operating expenses	16,078	17,377
<b>Total</b>	<b>531,629</b>	<b>511,405</b>

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 4. Staff costs and Directors' remuneration

All of the Company's employees employed during the year work in our Copenhagen and Switzerland offices. All other staff are remunerated and employed through the Company's service company, Bupa Insurance Services Limited and recharged to Bupa Insurance Limited.

#### (i) Staff costs

The average number of employees during the year was as follows:

	2019	2018
Employees	10	55

	2019 <sup>1</sup>	2018
Administration	10	51
Sales	-	4
<b>Total</b>	<b>10</b>	<b>55</b>

<sup>1</sup>At the end of the year only one employee remained employed by the Company.

	2019 £'000	2018 £'000
Wages and salaries	1,332	3,316
Social security costs	5	504
Pension costs	79	325
<b>Total<sup>1</sup></b>	<b>1,416</b>	<b>4,145</b>

<sup>1</sup>Staff costs within 2019 include £266k of claims handling costs. (2018: £2,316k)

#### (ii) Directors' remuneration

The Directors split their time between the Company and Bupa Insurance Services Limited. Therefore, emoluments are disclosed in both companies.

	2019 £'000	2018 £'000
Emoluments	1,546	1,496
Company contributions to defined contribution pension schemes	31	13
Amounts receivable under long-term incentive schemes	742	68
<b>Total</b>	<b>2,319</b>	<b>1,577</b>

The emoluments of the directors are borne entirely by other Bupa Group companies. The table above reflects the value of the qualifying services provided by the directors to the Company during the year.

There are no Directors who are members of a Bupa defined benefit pension scheme (2018: None).

The remuneration of the highest paid Director was:

	2019 £'000	2018 £'000
Emoluments	492	487
Company contributions to defined contribution pension schemes	8	8
Amounts receivable under long-term incentive schemes	319	34
<b>Total</b>	<b>819</b>	<b>529</b>

### 5. Investment income

	2019 £'000	2018 £'000
Income from Bupa Group undertakings:		
Interest receivable	256	239
Rental income on investment property	2,605	-
Income from investments held at amortised cost	8,119	6,467
Realised capital gains on investments	1,256	6,187
Interest receivable on overseas tax refund	252	-
Realised foreign exchange gains	5,025	3,249
<b>Total</b>	<b>17,513</b>	<b>16,142</b>

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 6. Investment expenses

	2019 £'000	2018 £'000
Interest payable to Bupa Group undertakings	21,392	20,625
Realised losses on other investments	-	64
Investment management expenses payable to Bupa Group undertakings	1,012	1,048
Other interest payable	3,418	2,652
Net impairment loss on financial assets	197	218
<b>Total</b>	<b>26,019</b>	<b>24,607</b>

### 7. Expenses and auditors' remuneration

	2019 £'000	2018 £'000
Fees payable to the Company's auditors for the audit services	1,056	937
Non-audit assurance services	94	98
<b>Total</b>	<b>1,150</b>	<b>1,035</b>

Fees payable to the Company's auditors represent the amount for the audit of the Company's annual accounts and are exclusive of VAT.

### 8. Taxation on profit on ordinary activities

#### Analysis of taxation charge in the financial year

	2019 £'000	2018 £'000
<b>Current Tax</b>		
UK tax on income for the year	20,471	26,153
UK tax adjustments in respect of prior periods	571	(438)
	<b>21,042</b>	<b>25,715</b>
Double tax relief	<b>(2,495)</b>	<b>(1,153)</b>
Foreign tax on income for the year	2,419	1,153
Foreign tax adjustments in respect of prior years	<b>(2,924)</b>	-
	<b>(505)</b>	<b>1,153</b>
<b>Total current tax</b>	<b>18,042</b>	<b>25,715</b>
<b>Deferred Tax</b>		
Origination and reversal of temporary differences	438	601
Adjustments in respect of prior period	<b>(180)</b>	361
Changes in tax rates	<b>(27)</b>	<b>(112)</b>
<b>Total deferred tax</b>	<b>231</b>	<b>850</b>
<b>Tax expense</b>	<b>18,273</b>	<b>26,565</b>

The total taxation expense recognised in the profit and loss account of £18,273k (2018: £26,565k) represents a headline effective tax rate of 16.6% (2018: 18.6%) against a statutory UK prevailing tax rate of 19% (2018: 19%).

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### Reconciliation of effective tax rate

The differences between the total current taxation charge shown above and the amount calculated by applying the standard rate of UK corporation taxation to the profit before taxation is as follows:

	2019 £'000	2018 £'000
Profit before tax expense	110,104	142,479
UK Corporation tax rate	19%	19%
Tax at the UK corporation rate	20,920	27,071
<b>Effects of the recurring tax reconciliation items:</b>		
Deductions not allowable for tax purposes	7	-
Income not taxable or taxable at concessionary rates	-	(223)
Changes in tax rates	(27)	(113)
Transfer pricing adjustments	(93)	(93)
	(113)	(429)
<b>Effects of non-recurring tax reconciliation items:</b>		
Tax adjustments in respect of prior periods	(2,534)	(77)
<b>Taxation expense at the effective rate of 16.6% (2018: 18.6%)</b>	<b>18,273</b>	<b>26,565</b>

As at 31 December 2019, the Company had deductible temporary differences relating to unrelieved foreign tax of £2,815k (2018: £2,276k) for which no deferred taxation asset was recognised due to uncertainty over the utilisation of those temporary differences.

### 9. Investment property

	2019 £'000	2018 £'000
At beginning of year	54,700	50,590
Additions	70	3,906
Increase in fair value	180	204
<b>At end of year</b>	<b>54,950</b>	<b>54,700</b>

The investment property is measured at fair value, determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location and factoring in an appropriate yield. The yield of 5.5% (2018: 5.25%) is used by the independent valuer and reflects the investment characteristics of the property including; building quality, location, tenant and lease term. A change in the yield of value (0.4%) would result in a change in fair value of plus or minus £3.5m (2018: £4.5m).

The investment property held is classified as level three in the fair value hierarchy. In an active market, the portfolio is valued annually by an independent valuer, holding a recognised and relevant professional qualification, and with recent experience in the location and category of investment property being valued. The historical cost of investment property is £54.6m (2018: £54.5m).

The Company leases out the investment property to another Bupa Group company.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 10. Land and buildings

Cost or valuation	2019 £'000
At 1 January 2019	-
Adoption of IFRS16	15,979
Remeasurement	419
<b>At 31 December 2019</b>	<b>16,398</b>
	<b>2019 £'000</b>
At 1 January 2019	-
Charge for the year	(270)
<b>At 31 December 2019</b>	<b>(270)</b>
	<b>2018 £'000</b>
At 1 January 2018	-
Charge for the year	(270)
<b>At 31 December 2018</b>	<b>(270)</b>
<b>Net book value at 31 December 2019</b>	<b>16,128</b>
<b>Net book value at 1 January 2019</b>	<b>-</b>
<b>Net book value at 31 December 2018</b>	<b>-</b>

The Company leases two car parks in relation to our investment property, which have been recognised as right-of-use assets.

### 11. Financial investments

	2019		2018	
	Carrying Value £'000	Fair Value £'000	Carrying Value £'000	Fair Value £'000
<b>Fair value through profit or loss:</b>				
Corporate debt securities and secured loans	320,430	320,430	283,759	283,759
Government debt securities	26,337	26,337	30,466	30,466
Pooled investment funds	45,504	45,504	41,196	41,196
<b>Amortised cost:</b>				
Corporate debt securities and secured loans	216,973	217,500	341,488	340,758
Deposits with credit institutions	240,060	240,267	153,925	154,189
<b>Total financial investments</b>	<b>849,304</b>	<b>850,038</b>	<b>850,834</b>	<b>850,368</b>
Non-current	467,566	467,558	504,052	503,303
Current	381,738	382,480	346,782	347,065

#### Fair value of financial investments

The fair value of a financial instrument is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. The fair values of quoted investments in active markets are based on current bid prices. The fair values for all other financial investments are determined through discounted cash flow valuation techniques using observable inputs or are sourced from multiple third parties.

Financial instruments carried at fair value are measured using different valuation methods categorised into a three level hierarchy. The different levels have been 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).

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

An analysis is as follows:

	Level 1 £'000	Level 2 £'000	Total £'000
<b>2019</b>			
<b>Fair value through profit or loss:</b>			
Corporate debt securities and secured loans	-	320,430	320,430
Government debt securities	26,337	-	26,337
Pooled investment funds	45,504	-	45,504
<b>Amortised cost:</b>			
Corporate debt securities and secured loans	217,500	-	217,500
Deposits with credit institutions	-	240,267	240,267
<b>Total financial investments</b>	<b>289,341</b>	<b>560,697</b>	<b>850,038</b>

	Level 1 £'000	Level 2 £'000	Total £'000
<b>2018</b>			
<b>Fair value through profit or loss</b>			
Corporate debt securities and secured loans	-	283,759	283,759
Government debt securities <sup>1</sup>	30,466	-	30,466
Pooled investment funds	41,196	-	41,196
<b>Amortised cost</b>			
Corporate debt securities and secured loans	340,758	-	340,758
Government debt securities	-	-	-
Deposits with credit institutions	-	154,189	154,189
Other loans	-	-	-
<b>Total financial investments</b>	<b>412,420</b>	<b>437,948</b>	<b>850,368</b>

<sup>1</sup>Government debt securities have been reclassified from level 2 to level 1 as there are quoted prices in active markets for identical assets.

### 12. Other debtors

	2019 £'000	2018 £'000
Amounts owed by Bupa Group undertakings <sup>1</sup>	13,146	25,105
Corporation tax receivable	27,687	16,127
Derivatives assets	18,139	1,152
Other debtors	4,516	12,630
<b>Total</b>	<b>63,488</b>	<b>55,014</b>

<sup>1</sup>Included within amounts owned by Bupa Group undertakings is £2,867k relating to intergroup reinsurance debtors.

Trade and other debtors are carried at amortised cost net of provisions for expected credit losses. Information regarding the ageing of trade and other debtors is shown in Note 22. All other debtors are classified as receivables under IFRS 15, as a receivable is an entity's right to consideration that is unconditional i.e. only the passage of time is required before payment is due.

All derivatives are disclosed as level two in the three-level hierarchy. The Company holds foreign currency forward contracts to mitigate the Company's currency exposure. Please refer to Note 22.2 Foreign exchange risk for more details.

### 13. Cash at bank and in hand

	2019 £'000	2018 £'000
Cash at bank and in hand	165,316	226,307
Restricted access deposits	-	1,053
<b>Total</b>	<b>165,316</b>	<b>227,360</b>

The restricted access deposits are nil (2018: £1,053k) relate to claims funds held on behalf of corporate customers. These amounts may be used only to discharge those obligations and potential liabilities if and when they crystallise.

Cash at bank and in hand includes £124,993k (2018: £121,051k) of cash equivalents.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 14. Deferred acquisition costs

The movement in deferred acquisition costs is as follows:

	2019 £'000	2018 £'000
At the beginning of the year	68,930	63,499
Acquisition costs deferred	178,250	101,986
Acquisition costs released to profit and loss	(170,180)	(96,555)
<b>At end of the year</b>	<b>77,000</b>	<b>68,930</b>

### 15. Called up share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
57,208,702 ordinary shares of £1 each (2018: 57,208,702 ordinary shares of £1 each)	57,209	57,209

### 16. Subordinated liabilities

	2019 £'000	2018 £'000
Subordinated loan	335,990	335,933

The Company has a £330.0m subordinated loan from Bupa Finance plc (the Lender). The loan has no fixed repayment date but is callable on 16 September 2020. Interest is payable at the following rates:

- At 6.250% p.a. to the first call date of 16 September 2020.
- Subsequently at a rate per annum which is determined by the Lender to be the aggregate of 2.725% and the gross redemption yield of the benchmark gilt in respect of that reset interest calculation period.

In the event of the winding up of the Company, the claims of the Lender are subordinated in right of payment to the claims of the other creditors of the Company.

The fair value of the subordinated loan is £344,633k (2018: £348,346k).

### 17. Gross technical provisions

#### Analysis of movement in provision for unearned premium

2019	Gross £'000	Reinsurance £'000	Net £'000
At beginning of year	1,025,857	(33,057)	992,800
Written premiums in respect of future periods	2,328,793	(88,867)	2,239,926
Earned in the year	(2,350,032)	92,078	(2,257,954)
<b>At end of year</b>	<b>1,004,618</b>	<b>(29,846)</b>	<b>974,772</b>

#### Analysis of movement in provision for claims

	Gross £'000	Reinsurance £'000	Net £'000
At beginning of year	260,511	(10,111)	250,400
Increase for current year claims	1,720,151	(65,780)	1,654,371
Cash paid to settle claims	(1,728,806)	67,190	(1,661,616)
Decrease for prior year claims	(30,266)	(1,300)	(31,566)
Foreign exchange	(3,560)	243	(3,317)
<b>At end of year</b>	<b>218,030</b>	<b>(9,758)</b>	<b>208,272</b>



## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

Analysis of movement in provision for unearned premium

2018	Gross £'000	Reinsurance £'000	Net £'000
At beginning of year	1,012,988	(27,225)	985,763
Written premiums in respect of future periods	2,382,904	(92,640)	2,290,264
Earned in the year	(2,370,035)	86,808	(2,283,227)
At end of year	1,025,857	(33,057)	992,800

Analysis of movement in provision for claims

	Gross £'000	Reinsurance £'000	Net £'000
At beginning of year	239,208	(10,994)	228,214
Increase for current year claims	1,680,746	(59,143)	1,621,603
Cash paid to settle claims	(1,660,542)	60,838	(1,599,704)
Decrease for prior year claims	(3,863)	(413)	(4,276)
Foreign exchange	4,962	(399)	4,563
At end of year	260,511	(10,111)	250,400

*Assumptions for general insurance business*

The process of recognising liabilities arising from general insurance entails the estimation of future payments to settle incurred claims and associated claims handling expenses, as well as assessing whether additional provisions for unexpired risk are required. The principal assumptions in the estimation of the liability relate to the expected frequency, severity and settlement patterns of insurance claims, which are expected to be consistent with recently observed experience and trends. The aim of claims reserving is to select assumptions and reserving methods that will produce the best estimate of the future cash outflows for the subject claims; it is an uncertain process which also requires judgements to be made. The resulting provisions for outstanding claims incorporate a margin for adverse deviation, over and above the best estimate liability, the quantum of which reflects the level of this uncertainty.

Estimation techniques are used in the calculation of the claims outstanding which are valued at a point estimate. The claims outstanding comprises the estimated costs of claims and claims handling expense for the two claims components as follows:

- Claims reported but not paid
- Claims incurred but not reported ("IBNR")

Claims reported but not paid are computed from direct data extraction from claims administration and accounting systems. For IBNR the method of computation is based upon the development of previously settled claims and the extrapolation of payments to date for each prior month.

Claims development patterns are analysed; where distinct sub-portfolios with different claims cost and development characteristics exist, further analysis is undertaken to derive assumptions for reserving that are appropriate and can be applied to relatively homogeneous groups of policies. Such sub-portfolios may be defined by product line, risk profile, geography or market sector. Various established reserving methods for general insurance are considered, typically basic chain ladder, Bornhuetter-Ferguson and pure risk cost methods. Additional consideration is given to the treatment of large claims, claim seasonality, claims inflation and currency effects, for which appropriate adjustments to assumptions and methods are made.

While there is some diversity in the development profile of health insurance claims across the Company, such claims are generally highly predictable in both frequency and average amount, and claims are settled quickly following the medical event for which the benefit is claimed. Medical expenses claims are typically, substantially fully-settled within just a few months. Claims management practices such as pre-authorisation of the claim with the insured, electronic claims settlement and effective network provider arrangements can reduce the development period to four to six months.

Insurance provisions are best estimates. Actual experience of claims costs and/or administrative expenses may well vary from that anticipated in the reserving estimates.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

Insurance provisions are inevitably estimates. Actual experience of claims costs and/or administrative expenses may vary from that anticipated in the reserving estimates.

The following table shows the impact on profit before tax, and consequently equity, of reasonably possible variations in assumptions in the carrying value of insurance contract liabilities at the end of the reporting period:

	Increase in claims £'000	Increase in expenses £'000
<b>2019</b>		
Change in variable	5%	10%
Reduction in profit net of reinsurance before taxation	9,732	929
<b>2018</b>		
Change in variable	5%	10%
Reduction in profit net of reinsurance before taxation	11,829	724

Since premium provisions include profit margins, variances from expectations can be absorbed by these margins.

### *Liability adequacy testing*

Liability adequacy tests are performed for all insurance portfolios. For short duration contracts, a premium deficiency is recognised if the sum of expected costs of future claims and claim adjustment expenses, capitalised deferred acquisition costs, and maintenance expenses exceeds the corresponding unearned premiums, while considering anticipated investment income. Such a deficiency would be immediately recognised in the Profit and Loss Account.

### 18. Provisions for other risks

	Regulatory £'000	Other £'000	Total £'000
At beginning of year	-	4,579	4,579
Charged to profit and loss account	5,153	618	5,771
Utilisation of the provision	(5,153)	-	(5,153)
Foreign exchange	-	(41)	(41)
<b>At end of year</b>	<b>-</b>	<b>5,156</b>	<b>5,156</b>

Regulatory provisions relate to levies payable to the PRA and the FCA. Such levies are generally determined on a capped percentage of revenues basis. Payments are normally made annually, although the frequency may be increased or decreased at the discretion of the regulatory body. The provision is a best estimate of the forthcoming payments considering the likely liability and expected business performance.

Other provisions relate principally to possible insurance premium tax ("IPT") payments and legal, contract and customer remediation provisions.

The provision for possible IPT payments of £1,859k (2018: £1,897k) relates to countries where there is a potential IPT exposure but the regulations in the country do not oblige the Company to pay IPT, therefore uncertainty exists around the timing and amount of potential payments.

### 19. Deferred taxation

	2019 £'000	2018 £'000
At the beginning of the year - net deferred taxation liability	1,968	1,118
Charged to profit and loss account	231	850
<b>At the end of the year – net deferred taxation liability</b>	<b>2,199</b>	<b>1,968</b>

Net deferred taxation liability is analysed as follows:

	2019 £'000	2018 £'000
Accelerated capital allowances	780	717
Investment property	1,419	1,251
<b>Total</b>	<b>2,199</b>	<b>1,968</b>

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 20. Other creditors

	2019 £'000	2018 £'000
Insurance premium taxation payable	51,089	49,428
Amounts owed to Bupa Group undertakings	65,124	70,045
Accruals and deferred income	23,830	33,320
Derivative liabilities	11,027	5,367
Trade creditors	640	1,298
Other creditors	21,536	9,130
<b>Total</b>	<b>173,246</b>	<b>168,588</b>

<sup>1</sup>Included within amounts owned to Bupa Group undertakings is £12,585k (2018: £10,668k) relating to intergroup reinsurance creditors.

### 21. Lease liabilities

	2019 £'000
At the beginning of the period	-
Adoption of IFRS16	15,732
Remeasurement	189
Repayments	(655)
Interest on lease liabilities	443
<b>Total lease liabilities</b>	<b>15,709</b>
<b>Falling due within one year</b>	<b>673</b>
<b>Falling due after more than one year</b>	<b>15,036</b>

### 22. Risk management

The Directors are responsible for identifying, evaluating and managing risks faced by the Company and consider the acceptable level of risk, the likelihood of these risks materialising, how to reduce the risk and the cost of operating particular controls relative to the benefit from managing the related risks.

The Company operates the three lines of defence model;

1. Business management is responsible for the identification and assessment of risks and controls;
2. Risk functions provide support and challenge the completeness and accuracy of risk assessments and the adequacy of mitigation plans; and
3. Internal audit provides independent and objective assurance on the robustness of the risk management framework, and the appropriateness and effectiveness of internal controls.

The principal significant risks of the Company and how they are mitigated are described on pages 5 to 7.

The Company has adopted a risk management strategy that endeavours to mitigate these risks, which is approved by the Board. In managing these exposures, the Company's Investment Committee reviews and monitors any significant investment and market risks.

The Company has exposure to a number of risks from its use of financial instruments and risks associated with its insurance business. These have been categorised into the following types of risk, and details of the nature, extent and how the Company has managed these risks is described below:

1. Insurance risk
2. Market risk
3. Credit risk
4. Liquidity risk

#### 22.1 Insurance risk

Insurance risk consists of underwriting and pricing risks which relate to inadequate tariffs of insurance products as well as reserving risk which relates to the potential inadequacy of claims provision.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### Underwriting risk

Underwriting risk refers to the potential deviation from the actuarial assumptions used for setting insurance premium rates which could lead to premium inadequacy. Underwriting risk is therefore concerned with both the setting of adequate premium rates (pricing risk) and the management of claims (claims risk) for insurance policies.

### Pricing risk

Pricing risk relates to the setting of adequate premium rates taking into consideration the volume and characteristics of the insurance policies issued, such as future claim projections. External influences on pricing risk include (but are not limited to) competitors' pricing and product design initiatives, and regulatory environments. The level of influence from these external factors can vary significantly between regions and largely depend on the maturity of health insurance markets and the role of the regulator. Actuarial analysis performed on a regular basis combined with an understanding of local market dynamics and the ability to change premium rates when necessary are effective risk mitigations.

The Company's dominant product is an annually renewable health insurance contract. This permits insurance premium rate revisions to respond quickly to changes in customer risk profiles, claims experience and market considerations.

The ability to review premium rates is a significant mitigant to pricing risk. The Company does not underwrite material insurance business that commits it to cover risks at premiums fixed beyond a 12-month period from inception or renewal.

### Claims risk

Claims risk is the risk of claims exceeding the amounts assumed in the premium rates. This can be driven by an adverse fluctuation in the amount and incidence of claims incurred and external factors such as medical inflation greater than that included in the premium rates.

Claims risk is managed and controlled by means such as pre-authorisation of claims, outpatient benefit limits, the use of consultant networks and agreed networks of hospitals and charges. Specific claims management processes vary across the Company depending on local requirements, market environment and practice.

Adverse claims experience, for example, which is caused by external factors such as medical inflation, will affect cash flows after the date of the financial statements. Recent claims experience is reflected in these financial statements in claims paid and in the movement in the claims provisions.

Generally, the Company's health insurance contracts provide for the reimbursement of incurred medical expenses, typically in-hospital for treatment related to acute, rather than chronic, medical conditions. The contracts do not provide for capital sums or indemnified amounts. Therefore, claims experience is necessarily underpinned by prevailing rates of illness giving rise to hospitalisations. Claims risk is generally mitigated by the Company having processes to ensure that both the treatments and the consequent reimbursements are appropriate.

### Reserving risk

Reserving risk is the risk that provisions made for claims incurred prove to be insufficient in light of later events and claims experience. There is a relatively low exposure to reserving risk compared to underwriting risk due to the very short-term nature of our claims development patterns. The short-term nature of the Company's insurance contracts means that movements in claims development assumptions are generally not significant. The development claims patterns are kept under constant review to maintain the validity of the assumptions and, hence, the validity of the estimation of recognised insurance liabilities.

The amount of claims provision at any given time that relates to potential claims payments that have not been resolved within one year is not material. The small provisions that relates to longer than one year can be calculated with reasonable confidence.

### Other risks relating to underwriting health insurance business

Claims provisions are not discounted and their short-term nature means that changes in interest rates have no impact on reserving risk. In addition, the future premium income and claims outflows of health insurance premium liabilities are largely unaffected by changes in interest rates. However, changes to inflationary factors such as wage inflation and medical cost inflation affect the value of future claims outflows.

None of the Company's insurance contracts contain embedded derivatives so the contracts do not in that respect give rise to interest rate risk.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

The Company is exposed to foreign currency risk through some of the insurance liabilities which are settled in a local currency. Where possible these liabilities are matched to assets in the relevant currency to provide an economic hedge to this exposure.

The majority of the Company's insurance activities are single line health portfolios. Even though only one line of business is involved, the Company does not have significant concentrations of insurance risk for the following reasons:

- product diversity between domestic and expatriate, and individual and corporate health insurance; and
- a variety of claims type exposures across diverse medical providers - consultants, nursing staff, clinics, individual hospitals and hospital groups.

Only in select circumstances does the Company use reinsurance. The reinsurance used does not give rise to a material counterparty default exposure for the Company. Restrictions are in place on the credit quality and amount of reinsurance ceded to individual counterparties.

### Geographical concentrations of risk

The Company is exposed to the risk that a single event occurs in a location which would result in a large number of claims arising under a group risk policy. This is mitigated by diversifying the Company's portfolio of risk across several countries.

### Catastrophe risk

A natural disaster or a man-made disaster could potentially lead to a large number of claims and thus higher than expected claims costs. In the majority of jurisdictions, the Company is not contractually liable for such claims. Risks are further reduced by excess of loss cover by Bupa and external providers. Bupa's Group Actuarial function oversees and implements strategic improvements to ensure overall adequacy of these arrangements. Consideration of pandemics forms part of our regular stress and scenario testing.

### 22.2 Market risk

Market risk is the risk of adverse financial impact due to changes in fair values of future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, commodity prices, credit spread and equity prices. The focus of the Company's long-term financial strategy is to facilitate growth without undue balance sheet risk.

The Company actively manages market risk by ensuring that the majority of its cash and investments are held with highly rated credit institutions.

Where the Company has moved away from money market investments and invested in a limited portfolio of return seeking assets (principally bonds), the Company uses a value at risk analysis ("VaR") to quantify risk, taking account of asset volatility and correlation between asset classes. The VaR is measured at the 93.3rd percentile (i.e. 1-in-15 year probability) over a 1 year horizon. The return seeking asset portfolio was £392,271k at 31 December 2019 (2018: £357,363k) and the 1-year VaR 93.3 figure attributable to the portfolio is £28,400k at 31 December 2019 (2018: £30,500k).

In addition to local VaR analysis, the Company's overall cash and investment portfolio is managed by limiting the contribution of the combined investment risk charge to the Company's SCR.

### Foreign exchange risk

The Company is exposed to transactional foreign exchange risks arising from commercial transactions and translational foreign exchange risk arising from the Company's net exposure to foreign currency assets, and liabilities.

Transactional exposures arise as a result of differences between the currency of local revenues (mainly GBP, USD and EUR) and costs (various currencies) with key exposures are to the US dollar, United Arab Emirates dirham, Hong Kong dollar, Singapore dollar, Euro, Danish krone and Swiss franc.

The SII Economic Balance Sheet (EBS) is exposed to foreign currency transactional and translational exposures. A program is in place to reduce the foreign exchange exposures and minimise the foreign exchange charge within the SII Solvency Capital Requirement (SCR). The program aims to hedge a significant proportion of the forecast foreign currency exposure through forward foreign exchange contracts for the coming year. The remaining currency exposures are deemed to be acceptable but are kept under review by management.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

The carrying value of net assets categorised by currency is as follows:

2019	Net currency exposure £'000	Currency contracts £'000	Net currency exposure including hedges £'000
US dollar	(13,620)	(229,000)	(242,620)
United Arab dirham	-	106,300	106,300
Hong Kong dollar	(455)	38,200	37,745
Singapore dollar	-	33,200	33,200
Euro	56,136	(62,900)	(6,764)
Danish krone	(3,523)	-	(3,523)
Swiss franc	(3,690)	-	(3,690)
Australian dollars	2,678	-	2,678
Other	-	7,100	7,100
<b>Total foreign currency denominated net assets</b>	<b>37,526</b>	<b>(107,100)</b>	<b>(69,574)</b>

2018	Net currency exposure £'000	Currency contracts £'000	Net currency exposure including hedges £'000
US dollar	(39,009)	(243,731)	(282,740)
United Arab dirham	-	123,905	123,905
Hong Kong dollar	294	39,066	39,360
Singapore dollar	-	34,538	34,538
Euro	72,059	(66,169)	5,890
Danish krone	(5,228)	(6,859)	(12,087)
Swiss franc	(3,790)	-	(3,790)
Australian dollars	(55)	-	(55)
Other	112	8,348	8,460
<b>Total foreign currency denominated net assets</b>	<b>24,383</b>	<b>(110,902)</b>	<b>(86,519)</b>

The table presents the 'net currency exposure' of the Company's UK GAAP net assets which drive translational foreign exchange risk. The 'currency contracts' present the open foreign currency hedges, entered into as part of the SII EBS hedging program, which aim to mitigate forecast foreign currency transactional exposures. These derivative contracts are not designated hedges. 'Net currency exposures including hedges' presents the summation of the UK GAAP net currency exposure at year end and open SII EBS hedges. As the balances are unrelated, no offset is expected.

The rates used by the Company were the same as those applied across Bupa and the following exchange rates applied during the financial year:

	Average rate		Closing rate	
	2019	2018	2019	2018
US dollar	1.2767	1.3351	1.3240	1.2746
United Arab dirham	4.6895	4.9039	4.8631	4.6810
Hong Kong dollar	10.0032	10.4642	10.3124	9.9831
Singapore dollar	1.7412	1.8004	1.7805	1.7372
Euro	1.1399	1.1303	1.1803	1.1131
Danish krone	8.5154	8.4245	8.8196	8.3107
Swiss franc	1.2686	1.3057	1.2809	1.2527
Australian dollars	1.8366	1.7860	1.8865	1.8097

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

The impact of a hypothetical 10% strengthening and weakening of Sterling against the currencies below, with all other variables constant, would have increased / (decreased) profit before taxation and reserves by the amounts shown below:

2019	Gain/(loss) included in Profit and Loss, strengthening 10% £'000	Gain/(loss) included in Profit and Loss, weakening 10% £'000
US dollar	19,022	(23,249)
United Arab dirham	(9,664)	11,811
Danish krone	(35)	43
Hong Kong dollar	(3,431)	4,194
Singapore dollar	(3,018)	3,689
Euro	1,373	(1,678)
Other	(736)	899
<b>Total sensitivity</b>	<b>3,511</b>	<b>(4,291)</b>

2018	Gain/(loss) included in Profit and Loss, strengthening 10% £'000	Gain/(loss) included in Profit and Loss, weakening 10% £'000
US dollar	24,452	(29,885)
United Arab dirham	(11,264)	13,767
Danish krone	1,306	(1,597)
Hong Kong dollar	(3,578)	4,373
Singapore dollar	(3,140)	3,838
Euro	(1,147)	1,402
Other	(231)	282
<b>Total sensitivity</b>	<b>6,398</b>	<b>(7,820)</b>

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk arising from fluctuations in market rates. This affects the return on floating rate assets, the cost of floating rate liabilities and the balance sheet value of its investment in fixed rate bonds. Floating rate assets represent a natural hedge for floating rate liabilities. The net balance on which the Company was exposed as at 31 December 2019 was £926,998k (2018: £765,222k).

The Company's sole interest-bearing financial liability is the £330.0m subordinated debt (see note 16). This is a fixed interest liability which has no repayment date, however the interest rate is due to be reset in 2020.

The impact of a hypothetical rise of 100 bps in interest rates at the reporting date, on an annualised basis, would have decreased profit and reserves by £6,806k (2018: decrease £3,103k). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

The impact of a hypothetical fall of 100 bps in interest rates on an annualised basis would have the inverse effect to that stated in the previous paragraph.

### 22.3 Credit risk

Credit risk is the risk that the Company will suffer a financial loss as a result of a counterparty failing to meet all or part of their contractual obligations. Bupa Group Treasury manages the Company's credit risk under the guidance of the Investment Committee.

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least 'A' by two of the three key rating agencies used by the Company (unless specifically approved by the Investment Committee).

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

The investment profile at 31 December is as follows:

	2019 £'000	2018 £'000
Investment grade counterparties	886,870	955,131
Non-investment grade counterparties	127,750	123,063
<b>Total</b>	<b>1,014,620</b>	<b>1,078,194</b>

Investment grade counterparties include cash at bank and in hand of £165,316k (2018: £228,236k). The investments which are held with non-investment grade counterparties are classed as debt securities and loans. Non-investment grade counterparties are those rated below BBB- / Baa3.

Information regarding the credit rating of financial assets held at amortised cost is provided below:

2019	Corporate debt securities and secured loans £'000	Deposits with credit institutions £'000	Restricted Assets £000	Cash and cash Equivalents £'000	Total £000
AAA	177,491	-	-	1,876	179,367
AA- to AA+	29,949	121,136	-	90,067	241,152
A- to A+	10,042	118,924	-	71,745	200,711
BBB to BBB+	-	-	-	1,080	1,080
BBB- and below	-	-	-	548	548
<b>Total</b>	<b>217,482</b>	<b>240,060</b>	<b>-</b>	<b>165,316</b>	<b>622,858</b>
ECL	(509)	-	-	-	(509)
Carrying amount	<b>216,973</b>	<b>240,060</b>	<b>-</b>	<b>165,316</b>	<b>622,349</b>

2018	Corporate debt securities and secured loans £'000	Deposits with credit institutions £'000	Restricted Assets £000	Cash and cash Equivalents £'000	Total £000
AAA	198,960	-	-	2,962	201,922
AA- to AA+	93,245	75,440	1,053	124,922	294,660
A- to A+	49,412	78,574	-	96,846	224,832
BBB to BBB+	-	-	-	1,453	1,453
BBB- and below	-	-	-	124	124
<b>Total</b>	<b>341,617</b>	<b>154,014</b>	<b>1,053</b>	<b>226,307</b>	<b>722,991</b>
ECL	(129)	(89)	-	-	(218)
Carrying amount	<b>341,488</b>	<b>153,925</b>	<b>1,053</b>	<b>226,307</b>	<b>722,773</b>

Information regarding the ageing of financial investments, assets arising from insurance operations, and the value of the impairment made against these assets, is provided below:

2019	Not past due or impaired £'000	0-3 months £'000	3-6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000
Insurance debtors gross value	694,136	49,409	26,239	13,699	10,471
Provision for bad debt - insurance debtors - direct	-	(490)	(312)	(3,330)	(625)
<b>Insurance debtors net value</b>	<b>694,136</b>	<b>48,919</b>	<b>25,927</b>	<b>10,369</b>	<b>9,846</b>
Trade and other receivables	4,025	428	33	30	-
ECL provision	-	-	-	-	-
<b>Trade and other receivables net value</b>	<b>4,025</b>	<b>428</b>	<b>33</b>	<b>30</b>	<b>-</b>



## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

2018	Not past due or impaired £'000	0-3 months £'000	3-6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000
Insurance debtors gross value	671,644	104,087	18,532	14,793	3,001
Provision for bad debt - insurance debtors - direct	(150)	(477)	(353)	(2,007)	(731)
Insurance debtors net value	671,494	103,610	18,179	12,786	2,270
Trade and other receivables	12,300	318	8	4	-
ECL provision	-	-	-	-	-
Trade and other receivables net value	12,300	318	8	4	-

Information regarding the Expected Credit Loss allowance by class of financial investments at amortised cost and fair value through profit or loss is shown below.

	Government debt securities			Corporate debt securities and secured loans			Pooled Investments Funds		Deposits with credit institutions		Trade and other receivables		Other insurance debtors		Restricted assets		Cash and cash equivalents		
	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross			Gross	Gross	
2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of year	30,466	625,376	(129)	41,196	154,015	(90)	12,630	812,057	(3,718)	-	-	-	-	-	-	-	-	-	226,307
Recognition and settlement	(4,129)	(87,912)	(380)	4,308	86,045	90	(8,088)	(9,586)	(1,173)	-	-	-	-	-	-	-	-	-	(58,772)
Write offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	448	-	-	-	-	(26)	(8,518)	135	-	-	-	-	-	-	-	-	-	(2,219)
<b>At end of year</b>	<b>26,337</b>	<b>537,912</b>	<b>(509)</b>	<b>45,504</b>	<b>240,060</b>	<b>-</b>	<b>4,516</b>	<b>793,953</b>	<b>(4,756)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>165,316</b>

	Government debt securities			Corporate debt securities and secured loans			Pooled Investments Funds		Deposits with credit institutions		Trade and other receivables		Other insurance debtors		Restricted assets		Cash and cash equivalents		
	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross			Gross	Gross	
2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of year	28,651	394,624	(55)	125,101	148,740	(40)	21,762	756,442	(1,781)	1,053	-	-	-	-	-	-	-	-	262,155
Recognition and settlement	-	222,701	-	(83,905)	5,275	-	(9,147)	38,462	(1,851)	-	-	-	-	-	-	-	-	-	(38,826)
Write offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	1,815	8,051	(74)	-	-	(50)	15	17,153	(86)	-	-	-	-	-	-	-	-	-	2,978
<b>At end of year</b>	<b>30,466</b>	<b>625,376</b>	<b>(129)</b>	<b>41,196</b>	<b>154,015</b>	<b>(90)</b>	<b>12,630</b>	<b>812,057</b>	<b>(3,718)</b>	<b>1,053</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>226,307</b>

In the table above no ECL columns exist where no ECL is held as assets are either held at fair value or no ECL charge has been recognised.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### Offsetting Financial Assets and Financial Liabilities

#### a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangement and similar agreements.

	Gross amounts of recognised financial assets £'000	Gross amounts of recognised financial liabilities set off in the balance sheet £'000	Net amounts of financial assets/Liabilities presented in the balance sheet £'000	Related amounts not set off in the balance sheet		Net Amount £'000
				Financial instruments £'000	Cash collateral received £'000	
<b>As at 31 December 2019</b>						
Derivative financial assets	18,139	-	18,139	(7,643)	(980)	9,516
Derivative financial liabilities	(11,027)	-	(11,027)	7,643	9,700	6,316
Cash at bank and in hand	206,219	(40,903)	165,316	-	-	165,316
Other debtors	45,349	-	45,349	-	(9,700)	35,649
Other creditors	(162,219)	-	(162,219)	-	980	(161,239)
<b>Total</b>	<b>96,461</b>	<b>(40,903)</b>	<b>55,558</b>	<b>-</b>	<b>-</b>	<b>55,558</b>

	Gross amounts of recognised financial assets £'000	Gross amounts of recognised financial liabilities set off in the balance sheet £'000	Net amounts of financial assets/Liabilities presented in the balance sheet £'000	Related amounts not set off in the balance sheet		Net Amount £'000
				Financial instruments £'000	Cash collateral received £'000	
<b>As at 31 December 2018</b>						
Derivative financial assets	1,152	-	1,152	(46)	(9,624)	(8,518)
Derivative financial liabilities	(5,367)	-	(5,367)	46	289	(5,032)
Cash at bank and in hand	284,798	(57,438)	227,360	-	-	227,360
Other debtors	53,862	-	53,862	-	(289)	53,573
Other creditors	(163,221)	-	(163,221)	-	9,624	(153,597)
<b>Total</b>	<b>171,224</b>	<b>(57,438)</b>	<b>113,786</b>	<b>-</b>	<b>-</b>	<b>113,786</b>

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bupa Group and the counterparty allows for net settlement of the relevant financial assets and liabilities with both elect to settle on a net basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### 22.4 Liquidity risk

Liquidity risk is the risk that the Company will not have available funds to meet its liabilities when they fall due. The Company enjoys a strong liquidity position and adheres to strict liquidity management policies as set by its Investment Committee.

Liquidity is managed by currency and by considering the segregation of accounts required for regulatory purposes.

The contractual maturities of financial liabilities and the expected maturities of other liabilities including estimated interest payments of the Company as at 31 December are as follows:

	Subordinated liabilities £'000	Insurance contract liabilities £'000	Other liabilities under insurance contracts issued £'000	Trade and other creditors £'000	Lease Liabilities £'000	Derivative liabilities £'000	Total £'000
<b>As at 31 December 2019</b>							
2020	350,625	1,222,648	88,454	162,219	673	11,027	1,835,646
2021	-	-	-	-	673	-	673
2022	-	-	-	-	673	-	673
2023	-	-	-	-	673	-	673
2024	-	-	-	-	673	-	673
2025-2029	-	-	-	-	3,365	-	3,365
After 2029	-	-	-	-	17,446	-	17,466
<b>Total</b>	<b>350,625</b>	<b>1,222,648</b>	<b>88,454</b>	<b>162,219</b>	<b>24,176</b>	<b>11,027</b>	<b>1,859,149</b>
<b>Carrying value</b>	<b>335,990</b>	<b>1,222,648</b>	<b>88,454</b>	<b>162,219</b>	<b>15,709</b>	<b>11,027</b>	<b>1,836,047</b>

	Subordinated liabilities £'000	Insurance contract liabilities £'000	Other liabilities under insurance contracts issued (restated) £'000 <sup>1</sup>	Trade and other creditors £'000	Lease Liabilities £'000	Derivative liabilities £'000	Total £'000
<b>As at 31 December 2018</b>							
2019	-	-	-	-	-	-	-
2020	20,625	1,286,368	94,202	163,221	-	5,367	1,569,783
2021	350,625	-	-	-	-	-	350,625
2022	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-
2024-2028	-	-	-	-	-	-	-
After 2028	-	-	-	-	-	-	-
<b>Total</b>	<b>371,250</b>	<b>1,286,368</b>	<b>94,202</b>	<b>163,221</b>	<b>-</b>	<b>5,367</b>	<b>1,920,408</b>
<b>Carrying value</b>	<b>335,933</b>	<b>1,286,368</b>	<b>94,202</b>	<b>163,221</b>	<b>-</b>	<b>5,367</b>	<b>1,885,091</b>

<sup>1</sup>This has been restated to include other liabilities insurance balances of £88,666k

The Company manages liquid cash and deposits with financial institutions against a short-term duration benchmark, and also maintains externally managed portfolios of longer-term debt securities. The maturity profile of financial assets at 31 December is as follows:

	Cash at bank and in hand £'000	Deposits with credit institutions £'000	Government debt securities £'000	Corporate debt securities and secured loans £'000	Pooled investment funds £'000	Total £'000
<b>As at December 2019</b>						
2020	165,316	240,060	687	95,487	45,504	547,054
2021	-	-	761	96,729	-	97,490
2022	-	-	1,320	192,777	-	194,097
2023	-	-	1,663	94,826	-	96,489
2024	-	-	2,894	-	-	2,894
2025-2029	-	-	7,272	34,871	-	42,143
After 2029	-	-	11,740	23,222	-	34,962
<b>Total</b>	<b>165,316</b>	<b>240,060</b>	<b>26,337</b>	<b>537,912</b>	<b>45,504</b>	<b>1,015,129</b>

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

	Cash at bank and in hand £'000	Deposits with credit institutions £'000	Government debt securities <sup>1</sup> £'000	Corporate debt securities and secured loans £'000	Pooled investment funds <sup>2</sup> £'000	Total £'000
As at December 2018						
2019	227,360	153,925	509	192,774	41,196	615,764
2020	-	-	1,947	15,226	-	17,173
2021	-	-	1,328	218,302	-	219,630
2022	-	-	2,165	48,096	-	50,261
2023	-	-	2,465	127,951	-	130,416
2024-2028	-	-	11,613	22,898	-	34,511
After 2028	-	-	10,439	-	-	10,439
<b>Total</b>	<b>227,360</b>	<b>153,925</b>	<b>30,466</b>	<b>625,247</b>	<b>41,196</b>	<b>1,078,194</b>

<sup>1</sup> Government debt securities have been restated to reflect the duration of their maturity periods.

<sup>2</sup> Pooled investment funds maturity has been restated to reflect that it is payable on demand.

### 23. Capital management

The Company's capital management objective is to maintain sufficient capital to safeguard the Company's ability to continue as a going concern and to protect the interests of all its customers, investors, regulator and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development.

The Company has issued a £330.0m (2018: £330.0m) callable subordinated perpetual loan. This loan is accounted for as a liability in these financial statements but is, to the extent that it is eligible, treated as solvency capital for regulatory and management purposes.

The Company's capital position is kept under constant review and is reported monthly to the Board.

The Company is subject to the requirements of the SII Directive and must hold sufficient capital to cover its Solvency Capital Requirement ("SCR"). In addition, the Company maintains a buffer in excess of this capital requirement, calibrated in line with the capital risk appetite set by the Board. The SCR is calculated in accordance with the Standard Formula specified in the SII regulations. The Company has obtained approval from the Prudential Regulation Authority ("PRA") to substitute the premium risk parameter in the formula with an Undertaking Specific Parameter ("USP"), which reflects the Company's own loss experience.

At least annually, the Company carries out an Economic Capital Assessment ("ECA") in which it makes its own quantification of how much capital is required to support its risks. The ECA is used to assess how well the Standard Formula SCR reflects the Company's actual risk profile.

The ECA forms part of the Own Risk and Solvency Assessment ("ORSA") which comprises all the activities by which the Company establishes the level of capital required to meet its solvency needs over the planning period given the Company's strategy and risk appetite. The conclusions from these activities are summarised in the ORSA report which is reviewed by the Risk Committee, approved by the Board and submitted to the PRA at least annually.

The Company's Eligible Own Funds, determined in accordance with the SII valuation rules, The Company's Eligible Own Funds, determined in accordance with the SII valuation rules were £452m<sup>1</sup> (2018: £486m) which was in excess of the estimated SCR of £264m<sup>1</sup> (£278m). This represented a Solvency coverage ratio of 171% (2018: 175%). This decrease is due to decrease in regulatory capital driven by dividends paid in excess of capital generated.

The Company uses a variety of metrics to monitor its capital position including UK Generally Accepted Accounting Practice capital and reserves, which are £215m as at 31 December 2019 (2018: £219m).

Other than disclosed above there have been no changes to what is managed as capital or the Company's capital management objectives, policies or procedures during the year.

<sup>1</sup>The Solvency Capital Position and related disclosures are estimated values and are unaudited at the time of approval of the financial statements

### 24. Contingent liabilities, guarantees and other financial commitments

#### (i) Contingent liabilities

Under a Bupa Group registration, the Company is jointly and severally liable for Value Added Tax ("VAT") due by certain other Bupa Group Companies.

The Company has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, disputes, regulatory compliance (including data protection) and interpretation of tax law. It is not considered that the ultimate outcome of any contingent liabilities will have a significant adverse impact on the financial condition of the Company.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2019

### (ii) Guarantees

On 15 December 2004, Bupa Finance plc issued £330.0m callable subordinated perpetual guaranteed bonds on the London Stock Exchange. Bupa Insurance Limited acted as the guarantor in the issue, irrevocably guaranteeing the bond on a subordinated basis. Were the Company to repay part or all of the guaranteed bonds, the amount would be deducted from balances owed to Bupa Finance plc. The guarantee has been designated as an insurance contract.

### (iii) Financial commitments

The Company had no financial commitments at the Balance Sheet date.

## 25. Immediate and ultimate parent company

The immediate parent undertaking of the Company is Bupa Finance plc, a company incorporated in England and Wales, the registered office of which is, 1 Angel Court, London, EC2R 7HJ.

The ultimate parent undertaking of the Company, and the largest group into which these financial statements are consolidated, is The British United Provident Association Limited ("Bupa"), a company incorporated in England and Wales, the registered office of which is, 1 Angel Court, London, EC2R 7HJ. The consolidated financial statements of Bupa are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public. The smallest group into which these financial statements are consolidated is that headed by Bupa Finance plc.

Copies of the accounts of both companies can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ.