

**Bupa Insurance Limited**

**Annual Report and Accounts for the financial year ended  
31 December 2021**

**Registered office:**

**1 Angel Court  
London  
EC2R 7HJ**

**Registered number: 3956433**

Bupa Insurance Limited  
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# Strategic Report

## for the year ended 31 December 2021

The Directors present their annual report and the audited financial statements of Bupa Insurance Limited (the “Company”) for the financial year ended 31 December 2021. The ultimate parent of the Company is the British United Provident Association Limited (“Bupa Ltd” and together with its subsidiaries “Bupa” or the “Bupa Group”).

### Principal activities

The Company is the UK’s largest health insurer and a leading provider of international health insurance providing medical cover to 2,556k customers worldwide.

The Company is part of the Bupa Group, an international healthcare group. Over the past 75 years Bupa’s global footprint has grown from our origins in the UK to Australia, Spain, Poland, Chile, New Zealand, Hong Kong, Turkey, Mexico, the US, Brazil, the Middle East and Ireland. Bupa also has associate businesses in Saudi Arabia and India. Bupa has over 38m customers and employs around 84,000 people globally. Bupa was established in 1947 when 17 British provident associations and other UK funding organisations such as hospital contributory schemes came together. Their aim was to enable people to fund high-quality healthcare. Bupa Ltd is a company limited by guarantee with no shareholders, with profits reinvested in the business for the benefit of current and future customers.

We are driven by Bupa’s purpose, helping people live longer, healthier, happier lives and making a better world. 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 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 principal operations take place in the UK, with a branch sited in Switzerland and branches closed to new business in Denmark, Cyprus and Malta. The Denmark, Cyprus and Malta branches are expected to be formally removed in 2022. 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.

### COVID-19

During 2021 the impact of the COVID-19 pandemic has continued to be felt around the world. The emergence of the Delta variant led to the reintroduction of government measures, such as lockdowns and restrictions on international travel, to protect people and public health systems whilst vaccines were rolled out. The independent hospital sector was still available to our customers and we were well placed to continue meeting their needs through the investment we made to expand and enhance our digital health services during 2020 which we have built on further in 2021.

To support customers we have continued to expand our digital offer with almost 400k customers registered on BupaTouch, giving them online access to details on their cover and benefits and easy access to care. Over 70% of our business clients have also signed up to Bupa Connect, our online platform for intermediaries and business customers. We are providing over 8k digital GP appointments each week for our customers.

Despite the UK government announcing a new lockdown in January 2021, with a gradual easing of restrictions concluding in July, the independent hospital sector was available to our customers without significant restrictions during 2021. This is in contrast to the first UK lockdown in 2020 when some treatments in independent hospitals were delayed as they supported the NHS. We encouraged our customers to seek the healthcare they needed, however, we continued to see a lower than normal level of claims in the UK despite higher claims for some conditions. We expect delayed treatments will give rise to future claims rebound that will increase claims in 2022 and 2023.

In March 2021 we announced that we were delivering on our pledge to UK PMI customers to pass back any exceptional financial benefit ultimately arising as a result of COVID-19 by making rebate payments to eligible customers totalling £125m<sup>1</sup>, approximately equivalent to one month’s premium for most customers. We continue to hold a return of premium provision of £71m which reflects the lower claims experienced in 2020 and 2021 compared to expected levels.

The provision is calculated for eligible customers as net disruption to UK PMI claims due to the impact of COVID-19, including deduction of related costs and impact to profit, deferred claims we expect to rebound in the future and the payments we have already made to these customers. It represents the best estimate of exceptional financial benefits occurring from 23 March 2020 to 31 December 2021. The provision is sensitive to the level of deferred claims we experience compared to our estimates. We have confirmed that any further rebate payment would be made once the impact of deferred claims is clearer and we are able to

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<sup>1</sup> The £125m payment to customers comprised £110m of rebate payments under our pledge and £15m related to COVID-19 impacts within contractual payments under risk and profit share arrangements.

## Strategic Report (continued)

### for the year ended 31 December 2021

finally calculate the exceptional financial benefit arising to 31 December 2021. We consider this will then meet in full the pledge that we gave in 2020. Although we recognise there will be continued claims volatility as delayed claims rebound over the coming months and years, we are not anticipating COVID-19 related disruption in 2022. This is because healthcare services have been back to normal for a while, and the UK population with high levels of vaccination and recent government guidance is returning to pre-pandemic behaviours. In the notes to the financial statements (see note 17 Gross Technical Provisions) we illustrate sensitivities related to the deferred claim estimates demonstrating that the provision is returned to customers either as a rebate or future claims paid.

In IPMI the timing and impact of COVID-19 on health systems and government interventions varied by region. As a result some claims were delayed in 2020 which have been experienced in 2021 as claims rebounded.

#### Key performance indicators

|  | 2021    | 2020    |
|--|---------|---------|
| Insured customer lives (thousands)                         | 2,556   | 2,507   |
| Net premiums earned (£'m)                                  | 2,208.5 | 2,080.1 |
| Profit before taxation, financial income and expense (£'m) | 92.6    | 164.5   |
| Net financial income and expense (£'m)                     | 7.4     | 1.0     |
| Profit before taxation (£'m)                               | 100.1   | 165.5   |
| Loss ratio <sup>1</sup>                                    | 70.9%   | 64.0%   |
| Combined operating ratio <sup>2</sup>                      | 97.0%   | 92.5%   |
| Solvency II (SII) coverage ratio (estimated) <sup>3</sup>  | 175%    | 213%    |

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

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

<sup>3</sup> The Solvency Capital Position and related disclosures are estimated values and are unaudited at the time of approval of the financial statements.

#### Results

Profit before tax decreased by £65,393k to £100,084k (2020: £165,477k) due to the impact of COVID-19 disrupting claims in 2020, higher claims inflation experienced in our international business in 2021, partially offset by a gain on transfer of Civil Services Healthcare Society Limited's ("CS Healthcare") customers of £15,444k in 2021.

We estimate that in future years there will be an incremental £61,240k of the UK PMI claims incurred as a result of the impact of COVID-19 on 2020 and 2021.

We completed the transfer CS Healthcare's 17.3k customers on 1 January 2021, offering reinsurance over the sustainability of their health insurance, enhanced policy benefits and greater access to health and wellbeing benefits to support their physical and mental health. The transaction resulted in a gain on transfer of £15,444k which is recorded in other income with the portfolio contributing positively to profit.

Customer numbers grew by 49.1k to 2,556.5k driven by strong performance in the UK PMI, Dental and Cash Plan product lines and the CS Healthcare transfer. The overall growth was achieved despite a stationary Corporate market and challenging market conditions internationally with low market movement and contraction of existing policies, as well as the closure and runoff of our Travel Insurance portfolios in both our UK and international businesses.

Earned premiums increased by £128,374k, of which £72,358k is due to the significant proportion of the return of premium for UK PMI customers being provided for in 2020. The remaining increase in earned premiums is due to the growth in the UK including the impact of the portfolio transfer of CS Healthcare.

Net financial income of £7,444k (2020: £993k) reflects an increase from 2020 reflects an increase from 2020. This is principally driven by market volatility in 2020 as uncertainty surrounding COVID-19 led to a market shock.

#### Development

We continued to invest in digital services, new propositions and growth. In the UK registrations for BupaTouch, our digital offering allowing customers to access their cover and benefits, continue to grow with the services expanded and over 70% of our business customers have signed up to our online platform for intermediaries and customers, Bupa Connect. Additionally we have seen strong utilisation of our remote GP services. In 2021 we also extended our women's health support by launching a new Menopause HealthLine offering advice from specially trained nurses, and a Women's Health Hub providing information and guidance. CS Healthcare's 17.3k members transferred to Bupa on 1 January 2021, offering reinsurance over the sustainability of their health insurance, enhanced policy benefits and greater access to wellbeing benefits to support their physical and mental health.

In our IPMI business, we launched Private Client, a new product for Ultra-High Net Worth individuals. Private client combines direct access to private medical specialists and wellbeing therapies as part of a holistic, personalised health and wellbeing package tailored to individual clients with a dedicated lifecare concierge manager. Private client curates exceptional health and

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wellbeing services together in a simple package with one single point of contact focussing on prevention as well as treatment. We also introduced Bupa Lifeworks, a new digital wellbeing platform to support employees' wellbeing.

We have continued to support our people through the impacts of COVID-19 and have moved to a hybrid working model to provide them with more flexibility and allow them to work in the way and location that works best for them and us.

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

The Board has a duty to promote the success of the Company for the benefit of its members as a whole, whilst having regard for the interests of our customers, our people, 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.

The continuing impact of the COVID-19 pandemic required us to adapt our approach to engaging with our stakeholders to reflect their changing needs and expectations in light of the crisis as a result of pandemic restrictions and different ways of working.

#### 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;
- taking care of vulnerable customers and those in financial distress;
- high quality, fairly priced products with broad coverage and high standards of care; and
- simpler and quicker access to services, such as through digital applications.

Under normal circumstances the Board would engage with customers through site visits, and reviews of data on customer satisfaction and its drivers. In 2021, the Board met 11 times, including 7 times virtually, with additional focus given to the value customers derive from their policies and support the Company can provide.

#### People

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

The Conduct Risk Dashboard 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. Through the People Pulse every employee has the opportunity to participate and share their feedback openly. In our most recent survey in November 2021, 85% (2,127) of employees from the Company's service company took the opportunity to have their say which is 5pts higher than Glint's, our survey provider's, high-performance benchmark. Our employees left 6,308 comments with overall sentiment trending positively.

This provides insights to allow the prioritisation of actions in support of key business drivers. In 2021 the survey introduced some new questions to capture feedback on inclusion, wellbeing and sustainability, as well as how well people felt supported and communicated with during the pandemic. These questions sit alongside questions relating to areas such as 'company prospects', 'empowerment', the Bupa Values and Bupa's Speak Up whistleblowing channel. The engagement score was broadly flat at 73 (2020: 74) but we saw increases in many key drivers including Personal Growth, Empowerment and Company Prospects. The business has focussed on supporting and driving action in the areas our people identified as important.

Key themes for employees based on the 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; and

## Strategic Report (continued)

for the year ended 31 December 2021

- Empowerment – feeling empowered to make decisions regarding their work.

The Board has focussed on supporting employees by considering their physical and mental wellbeing needs during the period of time that our people have been working from home. Following the lifting of lockdown, policies and procedures were put in place to ensure that employees remained safe in a hybrid working model.

### *Shareholder*

The Company's immediate parent company is Bupa Finance plc, which has a number of listed debt securities in issue. Therefore, Bupa Ltd 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.

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

- adherence to the matters reserved for the Bupa Ltd Board;
- a current Bupa Ltd Non-Executive Director sits on the Board;
- periodic attendance of Group Senior Management individuals, who exercise significant influence over the Company, at Board meetings;
- annual attendance of the Board Chair and Chief Executive Officer at the Bupa Ltd Board;
- annual attendance of the Risk, Remuneration and Audit Committee Chairs at Bupa Ltd's equivalent Committees; and
- adherence to Bupa Ltd's Subsidiary Governance Policy.

### *Regulators*

The Company operates in a highly 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 has a regular programme of interaction with the PRA and FCA and engages 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*

Our purpose of helping people live longer, healthier, happier lives and making a better world extends to supporting our local communities and reducing our environmental impact.

As a first step to achieving net zero emissions by 2040, we have set science-based targets aligned with keeping global warming to no more than 1.5°C. We have joined the United Nation's Race to Zero campaign with Health Care Without Harm and, in the UK, we have also signed up to the Association of British Insurer's Climate Roadmap with a commitment to reach net zero by 2025 for our directly controlled emissions. For our scope 3 emissions, we are committed to working with our suppliers and our customers to decarbonise activities by 2040. As we work towards net zero carbon emissions, we continue to run our offices on renewable energy and offset any emissions by investing in One Carbon World's reforestation and renewable energy projects that contribute to the United Nation's Climate Neutral Now initiative.

Our community contribution focused on mental wellbeing through the work of the Bupa Foundation, which provides grants of a total of £1.5 million to national and local charities. Our employees play an active part in our community work both through the Bupa Foundation Community Committees and volunteering – thanks to our new policy, all employees now get up to three days paid volunteering leave per year. Our people continued to volunteer for our flagship Wellbeing for Educators programme which has provided wellbeing support to more than 4,000 teachers and charities and also as mentors for young people via our partnership with the charity Career Ready. The Bupa Foundation progressed its partnership with mental health charity Mind to offer vital support to young people via online resources.

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In partnership with the City Mental Health Alliance and the Bupa Foundation, we launched The Time To Act Report – this brings together the experiences and perspectives of over 1,000 young professionals and provides clear guidance as to what businesses can do to help their people to thrive and break down mental health stigma.

We sponsored Cheltenham Festivals' 'VoiceBox' at the Autumn Literature Festival – this new community initiative gives young people a platform to support positive mental wellbeing, fostering their creativity via an inclusive space which empowers them to celebrate the power of expression through art, writing, music and performance.

### 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, Regulators and Shareholder</b></p> <p>The Board approved the annual budget and base operating plan for the following three years. The Board monitors performance delivery against this Plan, taking action and engaging further where necessary.</p> <p>The Board chose a three-year assessment period because it ties in with our internal strategic planning process. Our planning considers all important financial and regulatory measures over the period and stresses the key risks facing the Company.</p> <p>Following the implementation of a new strategy by Bupa, the Board reviewed and updated its strategy to further enhance its focus on customers, growth, transformation and sustainability. All of these areas are to be supported by the digitalisation of the customer journey, an increased use of data to develop products that meet customers' needs and a move to a more agile culture to drive the transformation of the business and also fulfil Bupa's purpose to help people live longer, healthier, happier lives and making a better world.</p> <p>Stress and scenario testing was performed on the three-year plan and reviewed by the Board to ensure the Company would remain solvent and financially robust under adverse conditions.</p> | <p>The Plan aims to:</p> <ul style="list-style-type: none"> <li>– deliver outstanding experiences and outcomes for our customers, whilst ensuring that they continue to receive fair value from their products;</li> <li>– ensure our business is sustainable and grows in the long-term;</li> <li>– retain our competitive advantage by providing high quality products and services; and</li> <li>– limiting our impact on the environment</li> </ul>  |
| <b>Providing fair value to customers and response to COVID-19</b> | <p><b>Customers, Regulators and People</b></p> <p>Since the outbreak of COVID-19 in 2020, the Board has continued to review the impact on customers and employees to ensure that appropriate measures could be taken to support them throughout the pandemic. The Board continues to focus on ensuring good value and ongoing compliance with new regulation.</p> <p><b>Customers:</b> The Board received regular updates to ensure customer value continued to be assessed and provided across our product lines. The commitment to our UK PMI customers to return any exceptional financial benefit experienced by our UK PMI business line ultimately arising as a result of the COVID-19 pandemic was, in part, honoured through a rebate payment of £110m to fully insured UK PMI customers which was made during Q2 and Q3 of 2021.</p> <p>The Board commissioned Grant Thornton UK LLP to perform an independent review of our approach to allocating the rebate between eligible customers. They</p>  | <p>The impact of the COVID-19 pandemic on the global economy and ways of life has been profound. The successful rollout of vaccines and lifting of lockdowns have enabled a move to more normal conditions, supporting economic recovery, however conditions remain uncertain as the world learns to live with COVID-19 with different regions at different stages of recovery.</p> <p>The Company has remained resilient and well capitalised while also giving consideration to the value customers have been able to derive from our products and services.</p> |

**Strategic Report (continued)**  
for the year ended 31 December 2021

|   |  |  |
|---|--|--|
|   | <p>were satisfied that the approach is reasonable and strikes an equitable balance between fairness, simplicity and our desire to act promptly in distributing the rebate fund to date.</p> <p><b>Regulators:</b> The Board regularly met to ensure it had oversight of the impact of COVID-19 on the Company's finances. It was provided with the results of scenario stress tests and best estimate forecasts to ensure that the Company had sufficient solvency in accordance with the agreed regulatory thresholds. The Board had oversight of the Company's resilience and business continuity measures and, additionally, acted to ensure customers derived value from their products, honouring the commitment made to fully insured UK PMI customers. The Board had oversight of claims modelling to ensure our Undertaking Specific Parameter ("USP") continued to appropriately reflect the Company's own loss experience. This included an adjustment in 2021, agreed by the PRA, to reflect claims experience for the latest accident year.</p> <p><b>Employees:</b> The Board continued to ensure that the vast majority of our people who could work from home were provided with the necessary support and equipment to enable them to do so. Following the lifting of lockdown, policies and procedures were put in place to ensure that they remained safe in a hybrid working model.</p> |  |
| <b>Investing in Digitisation and Information Technology</b> | <p><b>Customers, People and Suppliers</b></p> <p>We are investing significant amounts in information technology and security to protect our customers' privacy, digitise our customers' experience and ensure our suppliers meet appropriate standards for services provided to our customers.</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-crimes such as ransomware attacks are an ever-present threat that constantly evolves and we need to invest to protect our customers' data and maintain their trust in the Company. Investing in digitisation will help the Company meet changing customer expectations to interact with us more digitally and make processes more efficient, in turn helping us to provide affordable products.</p> |
| <b>Dividends</b>  | <p><b>Customers, Regulators and Shareholder</b></p> <p>The Board considered the necessary investment in business operations along with the financial strength of the Company, such as liquidity, solvency and capital, including under stressed conditions, before approving the payment of dividends.</p> <p>In 2021 the directors declared two interim dividends totalling £130m, which were paid to the sole shareholder.</p>   | <p>Prudent financial management supports the long-term success of the Company and its ultimate shareholder, Bupa Ltd, and motivates management to deliver strong and sustainable business performance aligned with Bupa's purpose: helping people live longer, healthier, happier lives and make a better world.</p>   |

**Principal risks and uncertainties**

Both the business performance and operations are subject to a number of risks and uncertainties. Significant uncertainties persist through the continued impacts of the COVID-19 pandemic, the possibility of a UK-EU trade war arising from the post-Brexit relationship and more general economic challenges such as inflation and supply chain resilience. Additionally, the shift to a lower carbon economy and the potential impacts of climate change are now coming into sharper focus. Taking these macro-level conditions and the sector specific risks around competition and demand into account, there is a large range of potential outcomes that might impact the Company, our customer segments and our supply network. The Directors consider that the key risks and



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### for the year ended 31 December 2021

uncertainties relate to COVID-19, insurance risk, operational risk (including information security and privacy risks), investment risk, external market conditions, government and policy change, regulatory risk, Brexit and climate change. Performance and risk are monitored by the Board and senior management using operational, financial and other data. The Company's 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.

#### *COVID-19 risk*

The impact of COVID-19 continues to pose financial, operational and reputational risk including risks to operational resilience. The Stress and Scenario Testing ("SST") exercise, which assesses the impact on the Company's three-year plan, this year considered long, slow economic recovery from COVID-19 caused by a number of vaccine-resistant variants and delays to both vaccinations and the achievement of herd immunity. The prospective solvency positions are regularly monitored, and management actions are identified where required to ensure the Company remains within risk appetite.

The typical patterns of PMI demand continue to be disrupted as the effect of COVID-19 alters customer demand. Increased global economic instability affects consumer and corporate affordability and company employee numbers, whilst the value of PMI in the event of a health crisis has potential to rise as an alternative way to access services if there are backlogs in public health systems caused by the pandemic. The Financial Management Committee established in 2020 continues to provide advice and oversight of all key financial decisions affecting our customers, healthcare providers and business planning.

The Company has pledged to its UK PMI customers a commitment to pass back any exceptional financial benefit ultimately arising as a result of COVID-19, by rebate or other appropriate means. A return of premium of £110m was paid to fully insured UK PMI customers in 2021. Grant Thornton UK LLP were commissioned to perform an independent third-party review to ensure that the allocation approach was fair and reasonable across our different customer groups.

We have confirmed that any further rebate payment would be made once the impact of deferred claims is clearer and we are able to finally calculate the exceptional financial benefit arising to 31 December 2021, with any further rebate being impacted by COVID-19 claims experience and inflation.

While we do not anticipate future significant disruption in 2022, in the event that access to hospitals is materially impacted, customers will be advised how this will be treated at the time.

For operational risk considerations relating to COVID-19 please refer to the operational risk section below.

#### *Insurance risk*

The Company seeks to take insurance risk, in the natural course of business, within the Board's risk appetite. Insurance risk is that the frequency, size or timing of claims on insurance policies varies from that expected, leading to an unexpected impact on financial returns. Normally, 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. The weakened economic environment is likely to compound the existing affordability challenges in health insurance as premiums rise, driven by medical inflation which continues to increase at a higher rate than inflation.

During the pandemic, we have seen claims fall in part due to temporary reduced availability of provision and also due to changes in demand from customers. We are also seeing new causes of inflation from Personal Protective Equipment ("PPE") and reduced productivity in providers. Although lower claims are observed due to short term delays to elective healthcare, the average cost of claims that have been deferred could increase, as a consequence of the delay in treating progressive illnesses.

The Company's size and experience enables it to achieve stability in provider contracting for UK operations and it benefits from geographic diversification elsewhere. Claims uncertainty heightens the risk of inadequate pricing and/or underwriting of insurance policies, and of claims experience being materially adversely different to expectations. 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 enables regular opportunities for re-pricing in the event of changes in claims trends or market conditions. Refer to the insurance risk section in note 23.

#### *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 and established processes and controls. The second line risk function provides oversight and challenge, while the third line provides independent assurance. Appropriate key 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 and key controls assurance within the first line of defence.

## Strategic Report (continued)

### for the year ended 31 December 2021

Information security risks are 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 supplier risks over recent years and continues to enhance 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 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 and maintain the level of services required by the business and adequately protect sensitive customer and business data. In response to COVID-19, our office-based staff now work in a hybrid model mixing office and home working, enabled by technology to ensure that we continue to serve our customers and work together effectively. The longer-term impact of hybrid working on our employees has been assessed and appropriate support and checks have been put in place for our people. We have also rolled out remote services such as Digital GP and consultant appointments and diagnostics from home.

Significant programmes of transformational change are underway and the Company is investing (i) in information technology and security to protect our customers' privacy, (ii) to better manage and use its data, (iii) to digitise our customers' experience and (iv) to ensure our suppliers meet appropriate standards for services provided to our customers. Risks from transformational change are managed through programme delivery methodologies such as Agile practices. The Company is focused on ensuring it has the right levels of experience and robust succession plans to simultaneously manage the business and deliver effective transformational change in pursuit of its strategic objectives. Lastly, an operational resilience framework exists to support continuity of business services from potential significant disruptions or failures to effectively implement transformational change.

#### *Investment risk*

Our long-term financial strategy is to facilitate growth without undue investment risk. The majority of the Company's investment portfolio is held in highly liquid cash and cash equivalents with highly rated counterparties, matching the short-term nature of the insurance liabilities. The Company also maintains a limited Return-Seeking Assets ("RSA") portfolio comprised of bonds and loans to generate long term performance at an acceptable level of risk.

Investment risk is managed using a framework of prudent risk appetites and exposure limits. A value-at-risk based limit constrains the overall level of investment risk and the investment risk charge contribution to the Company's Solvency Capital Requirement ("SCR"). A liquidity risk appetite ensures adequacy of liquid resources in stress scenarios, counterparty exposure limits are used to reduce credit risk, and further limits are used to support the management of climate risk.

The Company's Responsible Investment approach ensures that Economic, Social and Governance ("ESG") factors are integrated within investment management, including the exclusion of certain sectors and the use of ESG ratings in manager selection and review processes. During the year targets were set to reduce the carbon emissions from within the investment portfolio in line with Bupa's ambition to achieve Net Zero by 2040.

#### *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 impact of COVID-19 on public finances has increased government pressures for additional tax revenue. The Company continues to engage with policymakers and 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, the fair treatment of vulnerable customers, 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

## Strategic Report (continued)

for the year ended 31 December 2021

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 continued to review and manage the risks associated with the UK having left the EU and any latent threat of a UK-EU trade war arising from this, with these implications managed within relevant functional and business unit Risk Committees. Mitigations are designed to protect Bupa's position from a customer, people, performance, regulatory and reputational perspective. 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 disrupted access to and increased costs of medication.

The Company has several branches in EEA states. These are now closed to new business and will be decommissioned in due course.

### 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. In addition to economic impacts the Company is exposed to reputation and regulatory compliance risk in the short-term and the impact on health, and hence claims experience, 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 Own Risk and Solvency Assessment process, through emerging risk horizon scanning and SST. The SST this year considered 'worst ever' flooding events occurring in consecutive years. The flooding scenario is climate change related and envisages an extreme flash flood occurring in two consecutive years, causing disruption to the provision of medical services and/or operational and customer servicing disruptions. In addition, the reverse stress testing ("RST") exercise, developed to understand how the Company could reach a position of non-viability according to the internal definition of business plan failure, is based on a new viral pandemic that is made possible due to factors result from climate change.

A Bupa Group-led programme is in place supported by suitable governance structures to manage the risks associated with climate change and to ensure compliance with regulatory requirements in relation to the risk management framework, disclosure and SST. The Company's Chief Risk Officer is responsible for overseeing the identification and management of climate change risk, 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. In June 2021 the PRA published the Climate Biennial Exploratory Scenario ("CBES") to explore the financial risks posed by climate change for the largest UK banks and insurers. The 'Late Action' scenario was performed to test the resilience of the Company's 2020 year-end economic balance sheet to climate related financial risks at different points in time over a 30-year horizon. The analysis did not identify any material concentrations of climate risk exposure in the Company's financial asset portfolio which would require any assets to be sold. Our SST programme continues to include stress tests relating to climate change, both over the short and long term.

### Solvency

The Company maintains regulatory capital in line with its capital management objective as set out in note 24.

The Company is subject to the requirements of the SII Directive and must hold sufficient Eligible Own Funds to cover its SCR. The Solvency II Eligible Own Funds as at 31 December 2021 were £497,900k (2020: £512,476k), well in excess of the SCR.

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

|                              | 2021<br>£'000 | 2020<br>£'000 |
|------------------------------|---------------|---------------|
| Eligible Own Funds           | 497,900       | 512,476       |
| Solvency Capital Requirement | 283,780       | 240,167       |
| Surplus                      | 214,120       | 272,309       |
| Solvency ratio               | 175%          | 213%          |

<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

## Strategic Report (continued)

for the year ended 31 December 2021

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

|  | 2021<br>£'000  | 2020<br>£'000  |
|--|----------------|----------------|
| IFRS Equity attributable to shareholders | 431,251        | 478,408        |
| Valuation differences                    | 66,649         | 34,068         |
| Subordinated debt                        | -              | -              |
| Capital tiering restriction              | -              | -              |
| <b>Solvency II Eligible Own Funds</b>    | <b>497,900</b> | <b>512,476</b> |

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

|                     | 2021<br>£'000  | 2020<br>£'000  |
|---------------------|----------------|----------------|
| Unrestricted Tier 1 | 497,900        | 512,476        |
| Restricted Tier 1   | -              | -              |
| Tier 2              | -              | -              |
| <b>Total</b>        | <b>497,900</b> | <b>512,476</b> |

### Solvency II Capital Requirements

The SCR is calculated in accordance with the Standard Formula specified in the Solvency II legislation. The Company has obtained approval from the PRA to substitute the insurance premium risk parameter in the formula with an USP which reflects the Company's own loss experience. A data adjustment was applied in the calculation of 2020 loss experience in light of the exceptional volatility in claims experienced as a result of COVID-19. The adjustment methodology has been approved by the PRA.

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

| % of diversified SCR   | 2021          | 2020        |
|------------------------|---------------|-------------|
| Premium & Reserve Risk | 40.0%         | 38.0%       |
| Operational Risk       | 22.0%         | 23.0%       |
| Market Risk            | 21.0%         | 25.0%       |
| Lapse Risk             | 14.0%         | 10.0%       |
| Counterparty Risk      | 2.0%          | 3.0%        |
| Catastrophe Risk       | 1.0%          | 1.0%        |
| <b>Total</b>           | <b>100.0%</b> | <b>100%</b> |

<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

### Future Outlook

The threat of COVID-19 to economies and health systems remains with the emergence of new variants, most recently Omicron, and varying levels of vaccination across the globe. The world is slowly learning to live with COVID-19 and in the UK, our key market, the vaccine roll out has been considered a success with limited measures in place to help control the virus. We are focusing on growth, transformation and sustainability ensuring that we are continuing to adapt and innovate by investing in and developing products and services to support growth as well as initiatives to improve efficiency and provide value for our customers.

Registered office:

1 Angel Court  
London  
EC2R 7HJ

1 March 2022

**F Harris**  
**Director**

# Directors' Report

## for the year ended 31 December 2021

### Results and dividends

The profit for the financial year after taxation amounted to £82.8m (2020: £133.4m). The Directors declared two interim dividends totalling £130m during the year ended 31 December 2021 (2020: nil).

### 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  
F Harris  
S Kenton (appointed 27 January 2021, resigned 1 October 2021)  
M C Ledlie  
S J O'Connor  
A P Perry  
R A Phipps (Chair)  
D W Smith

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. A summary of how the directors have engaged with employees and taken account of their interests is included in the Section 172 statement in the Strategic Report.

### 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 the Company's 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.

### Streamlined energy and Carbon reporting

The Company is exempt from reporting company specific information as it is a subsidiary of the British United Provident Association Limited and consolidated reporting is included in the Annual Report and Accounts of that company. Further detail on the commitments made by the Company and Bupa relating to carbon emissions can be found in the Section 172 statement within the Strategic Report.

## Directors' Report (continued)

for the year ended 31 December 2021

### Corporate governance arrangements applied by the Company

The Company is required by UK company legislation to disclose its corporate governance arrangements, including which corporate governance code it chooses to apply. The Company has chosen to apply the UK Corporate Governance Code 2018 (the Code) to the extent it is appropriate for a large, wholly owned subsidiary company with an ultimate parent company which itself seeks to comply with the Code.

The table below sets out how we have complied with the Principles of the Code during 2021.

| 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.</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 regular strategy meetings throughout the year with updates on progress and deep dives. 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 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 values of the Company are driven from the top by the Bupa Group through the Bupa Code, which all employees must adhere to and complete mandatory training on an annual basis. For the regulated business, employees in the Conduct Rules population must also adhere to the regulatory Conduct Rules. Directors' statutory duties are also set out in the Board's Corporate Governance Manual.</p> <p>The Risk Committee, through the Conduct Risk Dashboard, receives detailed quarterly management information which includes metrics on people and culture issues.</p> <p>A 'Speak Up' programme enables employees to raise any issues confidentially if they feel unable to discuss them with their manager. The Board receives biannual reports on the issues raised under the Speak Up</p> |

**Directors' Report (continued)**  
for the year ended 31 December 2021

|   |  |
|---|--|
|   | Policy. The Board also receives the results of the People Pulse surveys which provide an indication of the levels of employee engagement and any key issues which need to be elevated to the Board's attention.  |
| <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 Chair 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 Chair 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 Chief Executive Officer, Chief Financial Officer, Managing Director of Bupa Global, Chair (who was independent on appointment), and four independent Non-Executive Directors (one of whom sits on the Bupa Ltd Board).</p> <p>The roles of the Chair and Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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> |
| 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. The Company Secretary works with the Chair 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. The Company Secretary arranges Directors' induction and ongoing training and supports the succession planning for Non-Executive Directors and the recruitment of new Non-Executive Directors. The Company Secretary 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 31 December 2021

|  |   |
|--|---|
| <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 2021, a questionnaire-based Board evaluation was carried out which assessed the effectiveness of the Board and its Committees. The Chair separately led an evaluation of each Director, with the Senior Independent Director leading the evaluation of the Chair.</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 auditors 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 2021 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 2021 Annual Report and Accounts in early 2022 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 principal risks and recommends any 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 RemCo 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, informed by considerations including their oversight of the Company, regulatory requirements and their knowledge of best practice, to the Group RemCo regarding the on-going appropriateness and relevance of the Bupa-wide remuneration policy, which the Group RemCo will take into account 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 Company's 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 31 December 2021

### **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 auditors are 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 auditors are 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.

### **External Auditors Appointment**

Following approval by Bupa Ltd's Association Members at the 2021 Annual General Meeting, PwC was appointed as the Company's auditors with effect from the audit for the financial year ended 31 December 2021, by way of an ordinary shareholder's written resolution passed by the Company's sole shareholder on 7 July 2021.

Registered office:  
1 Angel Court  
London  
EC2R 7HJ

1 March 2022

**F Harris**

**Director**

## Statement of Directors' Responsibilities

for the year ended 31 December 2021

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 or 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 the Company or to cease operations or have no realistic alternative but 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 Auditors' Report to the members of Bupa Insurance Limited

for the year ended 31 December 2021

## Report on the audit of the financial statements

### Opinion

In our opinion, Bupa Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Balance Sheet as at 31 December 2021; Profit and Loss Account and Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

### Basis for opinion

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

### Independence

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

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

Other than those disclosed in Note 8, we have provided no non-audit services to the company in the period under audit.

### Our audit approach

#### Context

Bupa Insurance Limited is the UK's largest health insurer and a provider of international health insurance. The company is part of the Bupa Group, an international healthcare group. The company has two main health insurance segments being domestic private medical insurance predominantly in the UK market ("UK PMI"), and international private medical insurance ("IPMI") provided for individual consumers and employees requiring cover beyond their usual country of residence.

The year ended 31 December 2021 is our first year as the external auditors of the company. Following the external audit tender in 2019, we undertook certain transition activities, including attending key governance meetings during the 2020 financial reporting process. In planning for our first year audit, we met with the Audit Committee and members of management to discuss and understand the businesses and any significant changes during the year, and to understand their perspectives on associated business risks. We used this insight, in addition to our understanding of the previous auditors' approach, when forming our own views regarding the audit risks and as part of developing our planned audit approach to address those risks. Given the locations of the activities of the company, our team has predominantly been UK-based.

The COVID-19 pandemic has continued to have a significant global impact throughout 2021. In planning our audit, we have considered the impact of the pandemic on the company's business and the financial statements. Where necessary, we have utilised virtual technologies and collaborative workflow tools to obtain sufficient, appropriate audit evidence whilst working in this hybrid environment.

We have also considered the potential impact of climate change related factors in our audit, including challenging management on their assessment of how climate change related risks and opportunities impact the financial statements.

#### Overview

Audit scope

- The company has two reportable segments, UK PMI and IPMI. UK PMI comprises four reporting components. IPMI includes seven reporting components. In addition the Bupa Group provides treasury and investment management services to the company and these activities were treated as a component.

# Independent Auditors' Report to the members of Bupa Insurance Limited

## for the year ended 31 December 2021

- We conducted audit testing over nine components. These were selected based on our assessment of inherent risk and their financial significance to the company.
- Eight components were subject to an audit of their complete financial information.
- Specific audit procedures were performed on certain balances and transactions for one further component.
- Our audit scope provided coverage of 99.8% of FRS 101 Profit before taxation expense.

### Key audit matters

- Appropriateness of methodologies and assumptions in the valuation of insurance liabilities
- Return of Premium

### Materiality

- Overall materiality: £5,633,800 (2020: £5,500,000) based on 5% of Profit before taxation expense.
- Performance materiality: £4,225,350 (2020: £4,100,000).

### The scope of our audit

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

### Key audit matters

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

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

Return of Premium is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <p><b><i>Appropriateness of methodologies and assumptions in the valuation of insurance liabilities</i></b></p> <p>Refer to note 1.16 'Accounting estimates and judgements and note 17 'Gross technical provisions'.</p> <p>The Bupa liabilities are short-term in nature. Consistent with prior years, management has valued technical provisions using its actuarial reserving methodology and has included a margin over the best estimate. The key assumptions used by management include claims development patterns, claims cost inflation, seasonality and expected loss ratios, together with an additional assessment of the margin of prudence.</p> | <p>We engaged our actuarial specialists to perform an independent reprojection of the PMI and IPMI claim liabilities estimate as at 31 October 2021. In addition, we performed roll-forward procedures to the balance sheet date (i.e. 31 December 2021).</p> <p>In performing the independent reprojection of the estimate, our actuarial specialists have made expert judgements in the selection of their reserving assumptions in respect of:</p> <ul style="list-style-type: none"> <li>• the claims development patterns;</li> <li>• claims cost inflation;</li> <li>• seasonality; and</li> <li>• expected loss ratios.</li> </ul> <p>We compared our independent estimate to that of management, and investigated differences. We have assessed management's recorded technical provisions to determine whether they represent a reasonable estimate of future loss experience as well as the methodologies, assumptions, and processes underlying the technical provisions.</p> <p>We have tested key inputs of paid, incurred and reported claims in the actuarial modelling to the source data in the administration systems. We have reconciled the model outputs to the financial statements. We have considered significant adjustments to the modelled best estimate in more detail and challenged how these are determined and calculated an independent estimate where appropriate.</p> <p>Through the procedures detailed above and having considered the specific nature and circumstances of the company's business, we have concluded that</p> |

# Independent Auditors' Report to the members of Bupa Insurance Limited

for the year ended 31 December 2021

|  |  |
|--|--|
|  | management's use of assumptions and methodologies used in the valuation of insurance liabilities is appropriate.   |
| <p><b>Return of premium provision</b></p> <p>Refer to note 1.16 'Accounting estimates and judgements and note 17 'Gross technical provisions'.</p> <p>In the UK market, a public commitment was made to pass back any exceptional financial benefit ultimately arising as a result of COVID-19 to PMI customers and this has created a valid customer expectation. Therefore the company has made a provision for the best estimate of the expected cumulative return of premiums. The calculation of the return of premium provision is based on an assumption of future claims experience. The provision has reduced during the period following settlements made to policyholders. Any further return of benefits to customers is expected to be in the form of a premium rebate.</p> | <p>We engaged our actuarial specialists to perform methodology, assumptions and client model testing on management's analysis used to determine the value of return of premium included in the financial statements. As part of our work, we performed the following:</p> <ul style="list-style-type: none"> <li>• Challenged management on the methodology and assumptions used to derive the return of provision, including the extension of the claims bounceback into 2023;</li> <li>• Analysed the key assumptions in the return of premium provision focusing on changes in the disruption, bounceback and inflation;</li> <li>• Calculated sensitivities around the key assumptions in the model;</li> <li>• Applied computer-assisted audit techniques to the model to identify any errors or inconsistencies and performed a recalculation of management's model to test that it is operating as intended;</li> <li>• Identified and tested the data inputs which have the most influence on the value of the return of premium provision; and</li> <li>• Assessed whether the disclosures related to the return of premium provision are compliant with the applicable financial reporting standards.</li> </ul> <p>Through the procedures detailed above and having considered the specific nature and circumstances of the company's business, we have concluded that management's use of assumptions and methodologies used in the valuation of the return of premium provision is appropriate.</p> |

## How we tailored the audit scope

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

Based on the output of our risk assessment, along with our understanding of the company, we identified eight components for which a full scope audit of their financial information has been performed. This was determined by assessing those components considered to be financially significant and with reference to our risk assessment.

We identified a further one component where specific audit procedures were performed on certain balances and transactions to provide sufficient and appropriate audit coverage over individual financial statement line items

The components where we performed audit procedures included some operating in each of the company's operating segments and covered over 99.94% of Gross premiums written, 99.8%% of Profit before taxation expense and 99.83% of Total assets.

For the remaining components we performed an analysis to assess whether our planning assumption that there was no risk of material misstatement remained appropriate.

As the UK company audit team, we determined the level of involvement required at those components to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. In our role as company auditors, we exercised oversight of the work performed by auditors of the components including performing the following procedures:

- Issued Group instructions outlining areas requiring additional audit focus, including the key audit matters included above;
- Maintained an active dialogue with reporting component audit teams throughout the year; and
- Reviewed component team detailed working papers, where relevant.

Due to the impact of COVID-19, we were unable to visit overseas component teams in person. However we performed a detailed review of key audit working papers at all in-scope components remotely.

## Materiality

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

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

# Independent Auditors' Report to the members of Bupa Insurance Limited

for the year ended 31 December 2021

|  |  |
|--|--|
| <b>Overall company materiality</b>     | £5,633,800 (2020: £5,500,000).   |
| <b>How we determined it</b>            | 5% of Profit before tax  |
| <b>Rationale for benchmark applied</b> | Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £4,225,350 (2020: £4,100,000) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £281,690 (2020: £280,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

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

- Obtaining, evaluating and challenging management's going concern assessment specifically covering current and projected capital and liquidity positions using our knowledge of the company's business performance and review of regulatory correspondence;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern; and
- Inquiring and understanding the actions taken by management to mitigate the impacts of COVID-19, including reviewing attendance of all Audit Committee meetings in the year.

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

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

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

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

## Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

# Independent Auditors' Report to the members of Bupa Insurance Limited

## for the year ended 31 December 2021

### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

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

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

#### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to appropriateness of methodologies and assumptions in the valuation of insurance liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management, senior management involved in the company's Risk and Compliance functions and legal function, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulation and fraud;
- Reviewing relevant meeting minutes including those of the Audit Committee;
- Attendance at the Audit Committee and the Regulated Entities' Reporting and Disclosure Committee;
- Reviewing data regarding policyholder complaints, the company's register of litigations and claims, and compliance reports in so far they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of insurance contract liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, posted by infrequent users, or posted with descriptions indicating a higher level of risk; and
- Assessing the impact of COVID-19 on the inherent risk of fraud, including potential opportunities for fraud with remote working.

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

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

# **Independent Auditors' Report to the members of Bupa Insurance Limited**

## **for the year ended 31 December 2021**

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

### **Use of this report**

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

## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

### **Appointment**

Following the recommendation of the Audit Committee, we were appointed by the members on 6 July 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the years ended 31 December 2021 to 31 December 2021.

Mark Bolton (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
1 March 2022



## Profit and Loss Account and Statement of Comprehensive Income

for the year ended 31 December 2021

| TECHNICAL ACCOUNT  | Note | 2021<br>£'000 | 2020<br>£'000 |
|--|------|---------------|---------------|
| <b>Revenues</b>  |      |               |               |
| Gross premiums written   | 2    | 2,383,215     | 2,158,105     |
| Outward reinsurance premiums   |      | (104,866)     | (107,342)     |
| Premiums written, net of reinsurance                                     | 2    | 2,278,349     | 2,050,763     |
| Change in the gross provision for unearned premiums                      |      | (71,090)      | 24,013        |
| Reinsurers' share of change in the gross provision for unearned premiums |      | 1,230         | 5,339         |
|  |      | (69,860)      | 29,352        |
| <b>Net premiums earned</b>   | 2    | 2,208,489     | 2,080,115     |
| Other technical income, net of reinsurance                               |      | 11,273        | 7,502         |
| <b>Total revenues</b>  |      | 2,219,762     | 2,087,617     |
| Gross claims paid  |      | (1,635,125)   | (1,400,953)   |
| Reinsurers' share of claims paid   |      | 77,953        | 60,918        |
| <b>Gross claims paid net of reinsurance</b>                              |      | (1,557,172)   | (1,340,035)   |
| Gross change in the provision for claims                                 |      | (11,175)      | 3,305         |
| Reinsurers' share of change in the provision                             |      | 2,082         | (454)         |
|  |      | (9,093)       | 2,851         |
| <b>Net claims incurred</b>   | 2    | (1,566,265)   | (1,337,184)   |
| Net operating expenses   | 3    | (576,301)     | (585,949)     |
| <b>Total claims and expenses</b>   |      | (2,142,566)   | (1,923,133)   |
| Other income   | 5    | 15,444        | -             |
| <b>Profit before taxation, financial income and expense</b>              |      | 92,640        | 164,484       |
| <b>NON-TECHNICAL ACCOUNT</b>   |      |               |               |
| Investment income  | 6    | 18,264        | 7,447         |
| Unrealised gains on investments  |      | 23,791        | 39,388        |
| Investment expenses  | 7    | (5,249)       | (22,968)      |
| Unrealised losses on investments   |      | (29,362)      | (22,874)      |
| <b>Net financial income</b>  |      | 7,444         | 993           |
| <b>Profit before taxation expense</b>                                    |      | 100,084       | 165,477       |
| Taxation on profit on ordinary activities                                | 9    | (17,241)      | (32,108)      |
| <b>Profit for the financial year</b>                                     |      | 82,843        | 133,369       |
| <b>Total comprehensive income for the year</b>                           |      | 82,843        | 133,369       |

All profits are derived from continuing operations.

Notes 1-26 form part of these financial statements.

## Balance Sheet

as at 31 December 2021

| <b>ASSETS</b>                                       | <b>Note</b> | <b>2021<br/>£'000</b> | <b>2020<br/>£'000</b> |
|---|-------------|-----------------------|-----------------------|
| <b>Investments</b>                                  |             |                       |                       |
| Investment property                                 | 10          | 55,150                | 54,956                |
| Land and buildings                                  | 11          | 17,833                | 15,854                |
| Financial investments                               | 12          | 896,385               | 943,711               |
|   |             | <b>969,368</b>        | <b>1,014,521</b>      |
| <b>Reinsurers' share of technical provisions</b>    |             |                       |                       |
| Provision for unearned premiums                     | 17          | 31,108                | 29,754                |
| Claims outstanding                                  | 17          | 11,323                | 9,162                 |
|   |             | <b>42,431</b>         | <b>38,916</b>         |
| <b>Debtors</b>                                      |             |                       |                       |
| Debtors arising out of direct insurance operations: |             |                       |                       |
| Policyholders                                       |             | 588,455               | 563,276               |
| Intermediaries                                      |             | 23                    | 1,454                 |
| Debtors arising out of reinsurance operations       |             | 145,655               | 158,310               |
| Other debtors                                       | 13          | 45,940                | 62,086                |
|   |             | <b>780,073</b>        | <b>785,126</b>        |
| <b>Cash at bank and in hand</b>                     | 14          | <b>158,194</b>        | <b>185,396</b>        |
| <b>Prepayments and accrued income</b>               |             |                       |                       |
| Deferred acquisition costs                          | 15          | 81,571                | 79,336                |
| Other prepayments and accrued income                |             | 2,253                 | 4,957                 |
|   |             | <b>83,824</b>         | <b>84,293</b>         |
| <b>Total assets</b>                                 |             | <b>2,033,890</b>      | <b>2,108,252</b>      |

Notes 1-26 form part of these financial statements

## Balance Sheet (continued)

as at 31 December 2021

| <b>EQUITY AND LIABILITIES</b>                        | <b>Note</b> | <b>2021<br/>£'000</b> | <b>2020<br/>£'000</b> |
|--|-------------|-----------------------|-----------------------|
| <b>Equity</b>  |             |                       |                       |
| Called up share capital                              | 16          | 187,209               | 187,209               |
| Profit and loss reserve                              |             | 244,042               | 291,199               |
| <b>Total equity</b>                                  |             | <b>431,251</b>        | <b>478,408</b>        |
| <b>Gross technical provisions</b>                    |             |                       |                       |
| Provisions for unearned premiums                     | 17          | 1,126,994             | 1,119,660             |
| Claims outstanding                                   | 17          | 227,076               | 213,157               |
|  |             | <b>1,354,070</b>      | <b>1,332,817</b>      |
| <b>Provisions for other risks</b>                    | 18          | <b>5,810</b>          | <b>3,484</b>          |
| <b>Deposits received from reinsurers</b>             |             | <b>7,939</b>          | <b>8,064</b>          |
| <b>Creditors</b>                                     |             |                       |                       |
| Creditors arising out of direct insurance operations |             | 16,370                | 23,079                |
| Creditors arising out of reinsurance operations      |             | 58,597                | 66,488                |
| Deferred taxation                                    | 19          | 3,993                 | 2,945                 |
| Deferred reinsurance commission                      |             | 1,460                 | 708                   |
| Other creditors                                      | 20          | 136,670               | 176,782               |
| Lease liabilities                                    | 21          | 17,730                | 15,477                |
|  |             | <b>234,820</b>        | <b>285,479</b>        |
| <b>Total liabilities</b>                             |             | <b>1,602,639</b>      | <b>1,629,844</b>      |
| <b>Total equity and liabilities</b>                  |             | <b>2,033,890</b>      | <b>2,108,252</b>      |

Notes 1-26 form part of these financial statements

These financial statements were approved by the Board of Directors on 1 March 2022 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 2021

|   | Share capital<br>£'000 | Profit and<br>loss reserve<br>£'000 | Total<br>£'000   |
|---|------------------------|-------------------------------------|------------------|
| <b>Balance as at 1 January 2021</b>                         | <b>187,209</b>         | <b>291,199</b>                      | <b>478,408</b>   |
| Profit for the year   | -                      | <b>82,843</b>                       | <b>82,843</b>    |
| <b>Transactions with owners recorded directly in equity</b> |                        |                                     |                  |
| Dividends paid  | -                      | <b>(130,000)</b>                    | <b>(130,000)</b> |
| <b>As at 31 December 2021</b>                               | <b>187,209</b>         | <b>244,042</b>                      | <b>431,251</b>   |

|  | Share capital<br>£'000 | Profit and<br>loss reserve<br>£'000 | Total<br>£'000 |
|--|------------------------|-------------------------------------|----------------|
| Balance as at 1 January 2020                         | 57,209                 | 157,830                             | 215,039        |
| Profit for the year                                  | -                      | 133,369                             | 133,369        |
| Transactions with owners recorded directly in equity |                        |                                     |                |
| Issue of share capital                               | 130,000                | -                                   | 130,000        |
| <b>As at 31 December 2020</b>                        | <b>187,209</b>         | <b>291,199</b>                      | <b>478,408</b> |

Notes 1-26 form part of these financial statements.

# Notes to the Financial Statements

## for the year ended 31 December 2021

### 1 Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006 and the provisions of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) relating to insurance companies, and applicable accounting standards in the United Kingdom. The Company 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 Ltd"), 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 Ltd.

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 International Financial Reporting Standards ("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

The Company has consistently applied the accounting policies to all periods presented in these financial statements.

##### 1.1 (a) Financial asset classification

Following an internal review of financial asset classification, £169m of assets have been restated from deposits with credit institutions at amortised cost to corporate debt securities and secured loans at amortised cost as at 31 December 2020.

##### 1.1 (b) Changes in financial reporting requirements

A number of amended standards and interpretations became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments.

### 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. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the Annual Report and accounts and in the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and Financial Statements.

The going concern assessment has been made with consideration to the principal impacts and risks posed to the Company, including impact of COVID-19. As part of their assessment of the Company's ability to continue as a going concern the Directors looked at the financial performance, capital management, cash flow, solvency and future outlook of the Company, including under severe but plausible scenarios and severe and concurrent risks as part of stress testing and reverse stress testing. Scenarios considered included a long economic recovery from COVID-19 in addition to climate-related risks. Under such scenarios, significant short-term reductions in profitability arise, however the Company would still remain within its risk appetites for regulatory solvency and liquidity. Additional management actions would allow the downside impact to be further mitigated by reducing expenditure, reducing dividends to the Company's parent or divesting investments.

As part of their assessment, the Directors have given due regard to the liquidity, regulatory capital and the ability of the company to meet obligations over a three-year time horizon in line with our planning cycle and reflective of the short-tail nature of our business. The Company is well capitalised with a strong liquidity position and investment-grade credit rating, with £647m of liquid assets available at 31 December 2021 and a Solvency II capital ratio of 175%. The Directors have a reasonable expectation that the Company is expected to remain well-capitalised over the Company's three-year planning horizon. Despite ongoing uncertainty with COVID-19, the Directors do not consider that COVID-19 changes the conclusion of the Company's going concern assessment and the Company remains sufficiently reserved for uncertainty surrounding timing and scale of anticipated claims rebound through Solvency II technical provisions and customer rebate provision.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### 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.

#### Foreign transactions

Transactions in foreign currencies other than the functional currency of the Company are translated to the functional currency of the Company. 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.

### 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) Gross premiums written

Gross premiums written represent the total premiums receivable for the whole period of cover of policies inception during the reporting period. Premiums are recognised on the commencement date of the policy. Premiums are shown gross of commissions payable and net of insurance premium taxes that may apply in certain jurisdictions.

#### c) 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.

## Notes to the Financial Statements (continued)

### for the year ended 31 December 2021

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

In circumstances where a return of premiums is likely to be due to policyholders, a provision for the return of premium is established within the provision for unearned premiums. The return premium is treated as an adjustment to the initial premium, reducing gross premium income.

#### **d) 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.

#### **e) Gross claims incurred**

The gross technical provision for claims represents the estimated liability arising from claims episodes where the treatment or insured service occurred 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.

Provision is made for unexpired risks when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and administrative expenses. The expected claims are calculated having regard only to contracts commencing prior to the balance sheet date. The methods used, and estimates made for claims provisions are reviewed regularly. Any identified deficiency is charged to the Profit and Loss Account, initially by writing off deferred acquisition costs, and subsequently by establishing an unexpired risk provision for losses arising in excess of deferred acquisition costs.

#### **f) 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.

#### **g) 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 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 exception:

- 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.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

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 Ltd, 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 Ltd.

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.

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 Profit and Loss Account 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 Profit and Loss Account. |

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 23.3.

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:



## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

- 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 are classified as fair value through profit or loss and 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.

All derivative contracts are subject to a credit support annex with variation margin receivable included within 'other debtors' and variation margin payable included within 'other creditors'.

### 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 subordinated debt held by the Company was fully repaid on 17 September 2020. The coupon payable on the loan in 2020 was recognised as an investment expense within net financial expense.

### 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 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 the Profit and Loss Account 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 restoration 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 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 2021

### 1.16 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.

- Outstanding claims provision: The key assumptions used in the calculation of the outstanding claims provision include claims development, margin of prudence, claims cost inflation and seasonality (Gross technical provisions, note 17).
- Return of premium provision: The key assumption in the calculation of the return of premium provision is the estimated cost of deferred claims expected to rebound (Gross technical provisions, note 17).
- Provision for unexpired risks: The key assumption used in the liability adequacy test is the projection of future expected claims cashflows including associated claims management expenses (Gross technical provisions, note 17).
- Investment property: The key assumption is the property yield (note 10).

## 2. Analysis of underwriting results

### (i) Analysis by class

|                                       | Net Written<br>Premiums<br>£'000 | Premiums earned<br>£'000 | Claims incurred<br>£'000 |
|---------------------------------------|----------------------------------|--------------------------|--------------------------|
| <b>2021</b>                           |                                  |                          |                          |
| Direct insurance: accident and health | 2,078,979                        | 2,029,497                | (1,333,038)              |
| Inward reinsurance                    | 304,236                          | 282,628                  | (313,262)                |
| Outward reinsurance                   | (104,866)                        | (103,636)                | 80,035                   |
| <b>Total</b>                          | <b>2,278,349</b>                 | <b>2,208,489</b>         | <b>(1,566,265)</b>       |

|                                       | Net Written<br>Premiums<br>£'000 | Premiums earned<br>£'000 | Claims incurred<br>£'000 |
|---------------------------------------|----------------------------------|--------------------------|--------------------------|
| <b>2020</b>                           |                                  |                          |                          |
| Direct insurance: accident and health | 1,869,072                        | 1,895,951                | (1,131,440)              |
| Inward reinsurance                    | 289,033                          | 286,167                  | (266,209)                |
| Outward reinsurance                   | (107,342)                        | (102,003)                | 60,465                   |
| <b>Total</b>                          | <b>2,050,763</b>                 | <b>2,080,115</b>         | <b>(1,337,184)</b>       |

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

|              | 2021<br>£'000    | 2020<br>£'000    |
|--------------|------------------|------------------|
| UK PMI       | 1,684,944        | 1,457,820        |
| IPMI         | 698,271          | 700,285          |
| <b>Total</b> | <b>2,383,215</b> | <b>2,158,105</b> |

| Geographic        | 2021<br>£'000    | 2020<br>£'000    |
|-------------------|------------------|------------------|
| United Kingdom    | 2,301,114        | 1,995,315        |
| EU member states  | 34,256           | 99,366           |
| Rest of the world | 47,845           | 63,424           |
| <b>Total</b>      | <b>2,383,215</b> | <b>2,158,105</b> |

Geographical analysis is based on where the business is written.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### 3. Net operating expenses

|  | 2021<br>£'000  | 2020<br>£'000  |
|--|----------------|----------------|
| Commission and other acquisition costs           | 190,397        | 185,602        |
| Changes in deferred acquisition costs            | (2,185)        | (2,355)        |
| Staff costs (see note 4)                         | 473            | 576            |
| Net (gain)/loss on foreign exchange transactions | (2,706)        | 1,730          |
| Expenses payable to Bupa Group companies         | 383,070        | 396,576        |
| Reinsurers share of expenses                     | (6,677)        | (8,037)        |
| Other operating expenses                         | 13,929         | 11,857         |
| <b>Total</b>                                     | <b>576,301</b> | <b>585,949</b> |

### 4. Staff costs and Directors' remuneration

The Company has two employees in the Switzerland office. All other staff are remunerated and employed through the Company's service company, Bupa Insurance Services Limited and recharged to the Company.

#### (i) Staff costs

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

|           | 2021 | 2020 |
|-----------|------|------|
| Employees | 2    | 2    |

|                | 2021     | 2020     |
|----------------|----------|----------|
| Administration | 2        | 2        |
| <b>Total</b>   | <b>2</b> | <b>2</b> |

|                       | 2021<br>£'000 | 2020<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 388           | 534           |
| Social security costs | 23            | -             |
| Pension costs         | 62            | 42            |
| <b>Total</b>          | <b>473</b>    | <b>576</b>    |

#### (ii) Directors' remuneration

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

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| Emoluments  | 1,430         | 1,294         |
| Company contributions to defined contribution pension schemes | 6             | 16            |
| Amounts receivable under long-term incentive schemes          | 548           | 552           |
| <b>Total</b>  | <b>1,984</b>  | <b>1,862</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 Group defined benefit pension scheme (2020: None).

The remuneration of the highest paid Director was:

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| Emoluments  | 522           | 480           |
| Company contributions to defined contribution pension schemes | 3             | 4             |
| Amounts receivable under long-term incentive schemes          | 282           | 329           |
| <b>Total</b>  | <b>807</b>    | <b>813</b>    |

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### 5. Other income

Other income of £15,444k represents the gain on net assets acquired from CS Healthcare.

### 6. Investment income

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| Income from Bupa Group undertakings:           |               |               |
| Interest receivable                            | 1,038         | 192           |
| Rental income on investment property           | 3,766         | 3,634         |
| Income from investments held at amortised cost | 5,957         | 3,621         |
| Realised foreign exchange gains                | 7,503         | -             |
| <b>Total</b>                                   | <b>18,264</b> | <b>7,447</b>  |

### 7. Investment expenses

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| Interest payable to Bupa Group undertakings                       | -             | 14,692        |
| Realised foreign exchange losses                                  | -             | 1,078         |
| Realised losses on other investments                              | -             | 3,676         |
| Investment management expenses payable to Bupa Group undertakings | 1,103         | 1,058         |
| Other interest payable  | 4,146         | 2,213         |
| Net impairment loss on financial assets                           | -             | 251           |
| <b>Total</b>  | <b>5,249</b>  | <b>22,968</b> |

### 8. Expenses and auditors' remuneration

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| Fees payable to the Company's auditors for the audit services | 1,009         | 1,120         |
| Non-audit assurance services                                  | 164           | 122           |
| <b>Total</b>  | <b>1,173</b>  | <b>1,242</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.

### 9. Taxation on profit on ordinary activities

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| <b>Analysis of taxation charge in the financial year</b> |               |               |
| <b>Current Tax</b>                                       |               |               |
| UK tax on income for the year                            | 16,211        | 31,173        |
| UK tax adjustments in respect of prior periods           | (18)          | 182           |
|  | <b>16,193</b> | <b>31,355</b> |
| Double tax relief  | (2,003)       | (2,656)       |
| Foreign tax on income for the year                       | 1,358         | 2,656         |
| Foreign tax adjustments in respect of prior years        | 645           | -             |
|  | <b>2,003</b>  | <b>2,656</b>  |
| <b>Total current tax</b>                                 | <b>16,193</b> | <b>31,355</b> |
| <b>Deferred Tax</b>                                      |               |               |
| Origination and reversal of temporary differences        | 250           | 384           |
| Adjustments in respect of prior period                   | (115)         | 90            |
| Changes in tax rates                                     | 913           | 279           |
| <b>Total deferred tax</b>                                | <b>1,048</b>  | <b>753</b>    |
| <b>Tax expense</b>                                       | <b>17,241</b> | <b>32,108</b> |

The UK corporation tax rate will increase from 19% to 25% with effect from 1 April 2023. Deferred tax on temporary differences expected to reverse after this date are recognised at 25%.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

The total taxation expense recognised in the Profit and Loss Account of £17,241k (2020: £32,108k) represents a headline effective tax rate of 17.2% (2020: 19.4%) against a statutory UK prevailing tax rate of 19.0% (2020: 19.0%).

### 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:

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| Profit before tax expense  | 100,084       | 165,477       |
| UK corporation tax rate  | 19.0%         | 19.0%         |
| Tax at the UK corporation tax rate                                   | 19,016        | 31,441        |
| <b>Effects of the recurring tax reconciliation items:</b>            |               |               |
| Deductions not allowable for tax purposes                            | 246           | 205           |
| Non assessable income  | (2,749)       | -             |
| Changes in tax rates   | 959           | 279           |
| Transfer pricing adjustments   | (98)          | (89)          |
|  | (1,642)       | 395           |
| <b>Effects of non-recurring tax reconciliation items:</b>            |               |               |
| Tax adjustments in respect of prior periods                          | (133)         | 272           |
|  | 17,241        | 32,108        |
| <b>Taxation expense at the effective rate of 17.2% (2020: 19.4%)</b> | <b>17,241</b> | <b>32,108</b> |

As at 31 December 2021, the Company had deductible temporary differences relating to unrelieved foreign tax of £2,541k (2020: £2,601k) for which no deferred taxation asset was recognised due to uncertainty over the utilisation of those temporary differences.

### 10. Investment property

|                        | 2021<br>£'000 | 2020<br>£'000 |
|------------------------|---------------|---------------|
| At beginning of year   | 54,956        | 54,950        |
| Assets acquired        | 1,200         | -             |
| Additions              | -             | 6             |
| Increase in fair value | 194           | -             |
| Disposals              | (1,200)       | -             |
| <b>At end of year</b>  | <b>55,150</b> | <b>54,956</b> |

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 Company holds an investment property which is an office building, "Bupa Place", leased to another Bupa Group company. During the year the Company acquired an investment property from CS Healthcare which was also disposed of during the year. For Bupa Place a net initial yield of 5.30% (2020: 5.32%) 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 (0.25%) would result in a change in fair value of plus £2,750k or minus £2,450k (2020: plus £2,750k or minus £2,450k).

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 £54,572k (2020: £54,572k).

### 11. Land and buildings

| <b>Cost or valuation</b>   | <b>2021<br/>£'000</b> |
|----------------------------|-----------------------|
| At 1 January 2021          | 16,398                |
| Assets acquired            | 189                   |
| Remeasurement              | 2,186                 |
| Disposals                  | -                     |
| <b>At 31 December 2021</b> | <b>18,773</b>         |

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

| <b>Depreciation</b>                       |              |
|---|--------------|
| At 1 January 2021                         | (544)        |
| Charge for the year                       | (396)        |
| Disposals                                 | -            |
| <b>At 31 December 2021</b>                | <b>(940)</b> |
| <b>Net book value at 31 December 2021</b> |              |
| Net book value at 31 December 2020        | 15,854       |

The Company leases two car parks which have been recognised as right-of-use assets.

### 12. Financial investments

|  | 2021                    |                     | 2020   |  |
|--|-------------------------|---------------------|--|--|
|  | Carrying Value<br>£'000 | Fair Value<br>£'000 | Carrying Value<br>restated <sup>1</sup><br>£'000 | Fair Value<br>restated <sup>1</sup><br>£'000 |
| <b>Fair value through profit or loss:</b>                |                         |                     |  |  |
| Corporate debt securities and secured loans              | 311,128                 | 311,128             | 310,848  | 310,848                                      |
| Government debt securities                               | 16,681                  | 16,681              | 16,735   | 16,735                                       |
| Pooled investment funds                                  | 37,454                  | 37,454              | 37,978   | 37,978                                       |
| <b>Amortised cost:</b>                                   |                         |                     |  |  |
| Corporate debt securities and secured loans <sup>1</sup> | 298,588                 | 298,871             | 365,801  | 366,455                                      |
| Deposits with credit institutions <sup>1</sup>           | 232,534                 | 232,549             | 212,349  | 213,381                                      |
| <b>Total financial investments</b>                       | <b>896,385</b>          | <b>896,683</b>      | <b>943,711</b>                                   | <b>945,397</b>                               |
| Non-current  | 450,074                 | 450,073             | 361,234  | 361,234                                      |
| Current  | 446,311                 | 446,610             | 582,477  | 584,163                                      |

<sup>1</sup> The Company's certificate of deposits held at amortised cost have been reclassified from Deposits with credit institutions to Corporate debt securities.

#### 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 fair value 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).

An analysis is as follows:

|   | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|------------------|----------------|
| <b>2021</b>                                 |                  |                  |                  |                |
| <b>Fair value through profit or loss:</b>   |                  |                  |                  |                |
| Corporate debt securities and secured loans | 12,755           | 298,289          | 84               | 311,128        |
| Government debt securities                  | -                | 16,681           | -                | 16,681         |
| Pooled investment funds                     | 37,454           | -                | -                | 37,454         |
| <b>Amortised cost:</b>                      |                  |                  |                  |                |
| Corporate debt securities and secured loans | 195,867          | 103,004          | -                | 298,871        |
| Deposits with credit institutions           | -                | 232,549          | -                | 232,549        |
| <b>Total financial investments</b>          | <b>246,076</b>   | <b>650,523</b>   | <b>84</b>        | <b>896,683</b> |

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

|  | Level 1<br>restated <sup>1</sup><br>£'000 | Level 2<br>restated <sup>1</sup><br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|--|---|---|------------------|----------------|
| 2020   |   |   |                  |                |
| Fair value through profit or loss:                       |   |   |                  |                |
| Corporate debt securities and secured loans              | -   | 310,848                                   | -                | 310,848        |
| Government debt securities                               | 16,735                                    | -   | -                | 16,735         |
| Pooled investment funds                                  | 37,978                                    | -   | -                | 37,978         |
| Amortised cost:  |   |   |                  |                |
| Corporate debt securities and secured loans <sup>1</sup> | 197,455                                   | 169,000                                   | -                | 366,455        |
| Deposits with credit institutions <sup>1</sup>           | -   | 213,381                                   | -                | 213,381        |
| <b>Total financial investments</b>                       | <b>252,168</b>                            | <b>693,229</b>                            | <b>-</b>         | <b>945,397</b> |

<sup>1</sup> The Company's certificate of deposits held at amortised cost have been reclassified from Deposits with credit institutions to Corporate debt securities.

The Level 3 Investments in Corporate debt securities and secured loan of £84k consist of common bonds held within the Ashmore fund.

### 13. Other debtors

|  | 2021<br>£'000 | 2020<br>£'000 |
|--|---------------|---------------|
| Amounts owed by Bupa Group undertakings <sup>1</sup> | 12,478        | 8,889         |
| Corporation tax receivable                           | 21,815        | 15,620        |
| Derivative assets                                    | 4,566         | 32,703        |
| Other debtors  | 7,081         | 4,874         |
| <b>Total</b>   | <b>45,940</b> | <b>62,086</b> |

<sup>1</sup>Included within amounts owed by Bupa Group undertakings is £2,272k (2020: £3,291k) relating to intragroup reinsurance debtors.

Other debtors are carried at amortised cost net of provisions for expected credit losses. Information regarding the ageing of other debtors is shown in note 23. 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 categorised as level two in the fair value hierarchy. The Company holds foreign currency forward contracts to mitigate the Company's currency exposure. Please refer to note 23.2 Foreign exchange risk for more details.

### 14. Cash at bank and in hand

|                            | 2021<br>£'000  | 2020<br>£'000  |
|----------------------------|----------------|----------------|
| Cash at bank and in hand   | 157,734        | 185,106        |
| Restricted access deposits | 460            | 290            |
| <b>Total</b>               | <b>158,194</b> | <b>185,396</b> |

The restricted access deposits of £460k (2020: £290k) 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 £107,707k (2020: £136,935k) of cash equivalents.

### 15. Deferred acquisition costs

The movement in deferred acquisition costs is as follows:

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| At the beginning of the year                  | 79,336        | 77,000        |
| Acquisition costs deferred                    | 153,641       | 158,376       |
| Acquisition costs released to Profit and Loss | (151,406)     | (156,040)     |
| <b>At end of the year</b>                     | <b>81,571</b> | <b>79,336</b> |

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### 16. Called up share capital

|   | 2021<br>£'000  | 2020<br>£'000 |
|---|----------------|---------------|
| Allotted, called up and fully paid  |                |               |
| 187,208,702 ordinary shares of £1 each (2020: 187,208,702 ordinary shares of £1 each) | <b>187,209</b> | 187,209       |

On 17 September 2020, 130,000,000 ordinary shares were issued for £130,000k.

### 17. Gross technical provisions

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

| 2021  | Gross<br>£'000   | Reinsurance<br>£'000 | Net<br>£'000     |
|---|------------------|----------------------|------------------|
| At beginning of year                              | 1,119,660        | (29,754)             | 1,089,906        |
| Liabilities acquired                              | 9,804            | -                    | 9,804            |
| Return of premium provision movement <sup>1</sup> | (73,955)         | -                    | (73,955)         |
| Written premiums in respect of future periods     | 2,383,215        | (104,867)            | 2,278,348        |
| Earned in the year                                | (2,311,730)      | 103,513              | (2,208,217)      |
| <b>At end of year</b>                             | <b>1,126,994</b> | <b>(31,108)</b>      | <b>1,095,886</b> |

<sup>1</sup>The movements in the return of premium provision are analysed in the following table.

#### Analysis of movement in return of premium provision

| 2021                               | 2021<br>£'000 |
|------------------------------------|---------------|
| At beginning of year               | 145,157       |
| Rebate payments made               | (109,998)     |
| Charged to Profit and Loss Account | 36,043        |
|                                    | (73,955)      |
| <b>At end of year</b>              | <b>71,202</b> |

#### Analysis of movement in provision for claims

| 2021                             | Gross<br>£'000 | Reinsurance<br>£'000 | Net<br>£'000   |
|----------------------------------|----------------|----------------------|----------------|
| At beginning of year             | 213,157        | (9,162)              | 203,995        |
| Liabilities acquired             | 2,582          | -                    | 2,582          |
| Increase for current year claims | 1,666,741      | (79,220)             | 1,587,521      |
| Cash paid to settle claims       | (1,635,125)    | 77,953               | (1,557,172)    |
| Decrease for prior year claims   | (20,441)       | (815)                | (21,256)       |
| Foreign exchange                 | 162            | (79)                 | 83             |
| <b>At end of year</b>            | <b>227,076</b> | <b>(11,323)</b>      | <b>215,753</b> |

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

| 2020  | Gross<br>£'000   | Reinsurance<br>£'000 | Net<br>£'000     |
|---|------------------|----------------------|------------------|
| At beginning of year                          | 1,004,618        | (29,846)             | 974,772          |
| Return of premium provision movement          | 145,157          | -                    | 145,157          |
| Written premiums in respect of future periods | 2,158,105        | (107,342)            | 2,050,763        |
| Earned in the year                            | (2,188,220)      | 107,434              | (2,080,786)      |
| <b>At end of year</b>                         | <b>1,119,660</b> | <b>(29,754)</b>      | <b>1,089,906</b> |



## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### Analysis of movement in provision for claims

| 2020                             | Gross<br>£'000 | Reinsurance<br>£'000 | Net<br>£'000 |
|----------------------------------|----------------|----------------------|--------------|
| At beginning of year             | 218,030        | (9,758)              | 208,272      |
| Increase for current year claims | 1,409,123      | (60,068)             | 1,349,055    |
| Cash paid to settle claims       | (1,400,953)    | 60,918               | (1,340,035)  |
| Decrease for prior year claims   | (11,475)       | (396)                | (11,871)     |
| Foreign exchange                 | (1,568)        | 142                  | (1,426)      |
| At end of year                   | 213,157        | (9,162)              | 203,995      |

### Assumptions for general insurance business

#### Unearned premiums

The unearned premium provision represents premiums written that relate to periods of risk in future accounting periods. It is calculated using time apportionment, which is not materially different from a calculation based on the pattern of incidence of risk.

In circumstances where a return of premiums is likely to be due to policyholders, a provision for the return of premium is established within the provision for unearned premiums. The return of premium is treated as an adjustment to the initial premium, reducing gross premium income.

A provision for return of premiums was established in 2020 due to the commitment to UK PMI customers to pass back any exceptional financial benefit experienced by the UK PMI business line ultimately arising as a result of the COVID-19 pandemic. At 31 December 2021, the return of premium provision is estimated to be £71,202k (2020: £145,157k) which relates to eligible premiums that have been fully earned. The net reduction in the provision reflects £109,998k payment of rebates to eligible customers partly offset by an increase charged to the Profit and Loss Account of £36,043k to reflect the best estimate of exceptional financial benefit at 31 December 2021. A further £18,378k of return of premium provision relating to eligible premiums that were earned in 2021 has been charged to the Profit and Loss Account. Separate to the return of premium provision, a further £15,659k was paid to risk and profit share customers due to COVID-19 impacts on their contractual payments. The return of premium provided for excludes associated IPT. The amount paid to customers will be inclusive of IPT which will then be recovered from HMRC by the Company.

The return of premium provision reflects the best estimate of exceptional financial benefit ultimately arising from COVID-19 during the period 23 March 2020 to 31 December 2021. It is calculated by estimating the net reduction in claims costs of £242,440k, and deducting the estimated costs of deferred claims ("rebound") and COVID-19 related claims inflation expected to be incurred of £61,240k and the rebate made in 2021 of £109,998k. The net reduction in claims cost is calculated as the disruption caused by COVID-19 adjusted to take account of deferred claims that have already rebounded and incremental costs and profit impacts, attributable to COVID-19.

The key assumption in determining the return of premium provision is the value of deferred claims expected to rebound. It is expected that deferred claims will be incurred over 2022 and 2023. The assumed level of deferred claims within the rebate is sensitive to the cost of healthcare and customer behaviour. Claims are only provided for when a claims episode has occurred so delays to medical treatments that reduce claims in 2020 and 2021, but are expected to rebound later, are not included in the return of premium and increase profit in 2021 with the expectation that there will be an equivalent reduction in profit when the claims are incurred. To calculate the best estimate Return of Premium provision we have selected a deferred claim assumption from the lower end of the range of reasonable estimates.

The following table shows the impact on the return of premium provision and profit before tax of reasonable variations in the deferred claims assumption:

| 2021  | Return of Premium<br>Provision<br>£'000 | Profit before<br>taxation expense<br>£'000 |
|---|---|--|
| Increase in estimated deferred claims rebound | (14,100)                                | 14,100                                     |
| Decrease in estimated deferred claims rebound | 14,100                                  | (14,100)                                   |

The sensitivity reflects a possible range of deferred claims rebound given the uncertainty involved in making this estimate. It illustrates that a £14,100k increase in estimated deferred claims rebound and COVID-19 related claims inflation to £75,340k would reduce the return of premium provision at 31 December 2021 by the same amount. The release of return of premium provision would result in £14,100k additional profit before taxation expense in 2021 which would be fully offset by the impact of higher customer claims incurred in 2022 and 2023 when deferred claims are expected to rebound. Conversely, a £14,100k decrease in the estimate of deferred claims rebound would result in an equivalent increase in the return of premium provision

## Notes to the Financial Statements (continued)

### for the year ended 31 December 2021

and reduce profit before taxation expense at 31 December 2021. The change in estimate could be as a result of a different average cost of claims and, or, a different volume of deferred claims rebounding.

#### Provision for claims

The process of recognising liabilities arising from general insurance entails the estimation of future payments to settle incurred claims and associated claims handling expenses. 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; and
- 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 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 of reasonably possible variations in assumptions in the carrying value of insurance contract liabilities at the end of the reporting period:

|   | Increase in<br>claims<br>£'000 | Increase in<br>expenses<br>£'000 |
|---|--------------------------------|----------------------------------|
| <b>2021</b>   |                                |                                  |
| <b>Change in variable</b>                                     | <b>5%</b>                      | <b>10%</b>                       |
| <b>Reduction in profit net of reinsurance before taxation</b> | <b>10,054</b>                  | <b>988</b>                       |
| <b>2020</b>   |                                |                                  |
| Change in variable  | 5%                             | 10%                              |
| Reduction in profit net of reinsurance before taxation        | 9,447                          | 1,013                            |

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 including claims that may have been delayed as a result of COVID-19 disruption and claim adjustment expenses, capitalised deferred acquisition costs, and maintenance expenses exceeds the corresponding unearned premiums, while considering anticipated investment income. Any identified deficiency is charged to the Profit and Loss Account, initially by writing off deferred acquisition costs, and subsequently by establishing an unexpired risk provision within the unearned premium provision for losses arising in excess of deferred acquisition costs. At 31 December 2021 the liability adequacy tests showed no deficiencies. This conclusion is sensitive to the timing of the deferred claims rebound whereby a deficiency could arise if a significant proportion of deferred claims rebound occurred in the first half of 2022, however, this scenario is considered to be remote.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### 18. Provisions for other risks

| 2021                               | Regulatory<br>£'000 | Other<br>£'000 | Total<br>£'000 |
|------------------------------------|---------------------|----------------|----------------|
| At beginning of year               | -                   | 3,484          | 3,484          |
| Charged to Profit and Loss Account | 6,406               | 4,193          | 10,599         |
| Utilisation of the provision       | (6,406)             | -              | (6,406)        |
| Released in the year               | -                   | (1,869)        | (1,869)        |
| Foreign exchange                   | -                   | 2              | 2              |
| <b>At end of year</b>              | <b>-</b>            | <b>5,810</b>   | <b>5,810</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 customer remediation provisions and insurance premium tax ("IPT") payments:

- Customer remediation provision of £4,371k to provide for the costs of compensation where necessary to ensure that we deliver fair value and good customer outcomes. Due to the nature of the customer remediation provisions, the timing and potential cost is uncertain.
- The provision for possible IPT payments of £600k (2020: £1,710k) 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

|   | 2021<br>£'000 | 2020<br>£'000 |
|---|---------------|---------------|
| At the beginning of the year – net deferred taxation liability  | 2,945         | 2,199         |
| Charged to Profit and Loss Account                              | 1,048         | 753           |
| Foreign exchange  | -             | (7)           |
| <b>At the end of the year – net deferred taxation liability</b> | <b>3,993</b>  | <b>2,945</b>  |

Net deferred taxation liability is analysed as follows:

|                                | 2021<br>£'000 | 2020<br>£'000 |
|--------------------------------|---------------|---------------|
| Accelerated capital allowances | 1,972         | 1,409         |
| Investment property            | 2,021         | 1,536         |
| <b>Total</b>                   | <b>3,993</b>  | <b>2,945</b>  |

### 20. Other creditors

|  | 2021<br>£'000  | 2020<br>£'000  |
|--|----------------|----------------|
| Insurance premium taxation payable                   | 53,370         | 46,808         |
| Amounts owed to Bupa Group undertakings <sup>1</sup> | 44,745         | 56,205         |
| Accruals and deferred income                         | 17,428         | 27,635         |
| Derivative liabilities                               | 3,203          | 25,497         |
| Trade creditors                                      | 574            | 69             |
| Other creditors                                      | 17,350         | 20,568         |
| <b>Total</b>   | <b>136,670</b> | <b>176,782</b> |

<sup>1</sup>Included within amounts owed to Bupa Group undertakings is £11,123k (2020: £11,906k) relating to intragroup reinsurance creditors.

All derivatives are categorised as level two in the fair value hierarchy. The Company holds foreign currency forward contracts to mitigate the Company's currency exposure. Please refer to note 23.2 Foreign exchange risk for more details.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### 21. Lease liabilities

|                                      | 2021<br>£'000 | 2020<br>£'000 |
|--------------------------------------|---------------|---------------|
| At the beginning of the period       | 15,477        | 15,709        |
| Remeasurement                        | 2,376         | -             |
| Repayments                           | (768)         | (673)         |
| Interest on lease liabilities        | 645           | 441           |
| <b>Total lease liabilities</b>       | <b>17,730</b> | <b>15,477</b> |
| Falling due within one year          | 341           | 240           |
| Falling due after more than one year | 17,389        | 15,237        |

### 22. Civil Service Healthcare Society Limited

On 1 January 2021, the Company and Bupa Insurance Services Limited completed the transfer of the engagements of the Civil Services Healthcare Society Limited ("CS Healthcare") under Part VIII of the Friendly Societies Act 1992. CS Healthcare operated a private medical insurance business, primarily for individuals. In recent years, CS Healthcare had been impacted by rising healthcare and administration costs and the increased costs of regulatory compliance. CS Healthcare decided to transfer its trade and assets to Bupa in the long-term interest of its members to provide added security, continuity of cover and enhanced benefits. The transfer was subject to regulatory approval and a CS Healthcare member vote.

As part of this transaction, the Company completed a portfolio transfer from CS Healthcare comprising insurance assets and liabilities, an office property and financial investments. There was no consideration paid for this transaction with the Company assuming responsibility for the ongoing insurance liabilities and obligations of CS Healthcare and receiving the associated insurance assets of CS Healthcare. The other assets and liabilities of CS Healthcare were acquired by Bupa Insurance Services Limited. The fair value of assets and liabilities transferred was £15,444k, which resulted in an equivalent gain on transfer recorded in Other Income in the Profit and Loss Account. Included in the Profit and Loss Account is revenue of £24,275k and a profit before taxation of £4,668k in relation to the CS Healthcare business transferred.

The fair value of assets and liabilities transferred on 1 January 2021 is presented below:

|                               | 2021<br>£'000 |
|-------------------------------|---------------|
| <b>Assets</b>                 | <b>£'000</b>  |
| Property, plant and equipment | 1,200         |
| Trade receivables             | 8,027         |
| Other financial investments   | 19,180        |
| Cash                          | 269           |
| <b>Total Assets</b>           | <b>28,676</b> |
| <b>Liabilities</b>            |               |
| Technical provisions          | 12,386        |
| Trade and other payables      | 846           |
| <b>Total liabilities</b>      | <b>13,232</b> |
| <b>Net assets acquired</b>    | <b>15,444</b> |

### 23. 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' approach to the governance of risk management;

1. Business management is responsible for the identification and assessment of risks and controls;
2. Risk functions provide oversight 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 effectiveness of internal controls.

The principal significant risks of the Company and how they are mitigated are described on pages 8 to 11.

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 Risk Committee reviews and monitors any significant risks.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

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

### 23.1 Insurance risk

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

#### 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 premiums 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 direct impacts of climate change on health are unclear but these impacts are likely to emerge over time and the short-tailed nature of our products allows us to respond to these developments, although this can be limited by pricing controls in some markets.

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

## Notes to the Financial Statements (continued)

### for the year ended 31 December 2021

claims development assumptions are generally not significant. The development claims settlement 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 relate to potential claims payments that have not been resolved within one year is not material. The small provisions that relate to longer than one year can be calculated with reasonable confidence.

In the early stages of the pandemic, government restrictions across many of our markets affected insurance customers' ability to access treatment in private healthcare facilities and make claims, particularly for elective procedures. A proportion of the resultant shortfall in claims is expected to rebound after the reporting date and this could result in the cost of claims increasing in the long run, due to the deferred costs of treating undiagnosed or under-treated illnesses. A specific reserve is not held for deferred treatments as they have not yet occurred. A best estimate of the proportion of UK PMI claims that have been delayed and are likely to return in 2022 forms part of the return of premium provision calculation (note 17) related to the commitment to UK PMI customers. As with any estimate of this nature there is inherent uncertainty in the key judgements which may impact the return of premium.

#### 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 there are no additional financial risks, including interest rate risk, arising from the contracts.

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 Travel claims and thus higher than expected claims costs. The impact is deemed immaterial as the Travel portfolio is in run-off. 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.

As a result of the COVID-19 pandemic, in the short term we experienced lower claims as elective surgery and other procedures were delayed due to independent healthcare services being engaged to support COVID-19 patients. The cost of claims in the long run could go up as the deferred cost of treating undiagnosed or under-treated illness after delays in elective treatment may be higher. We will take specific actions where we deem appropriate to support and maintain value for our customers, and we expect the impact on profitability of the actions taken to be broadly neutral in the long-term. Actions taken to date include a pledge to UK PMI customers to pass back any exceptional financial benefit ultimately arising as a result of COVID-19 and, across the Company, financial distress measures have been introduced to support customers.

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

### 23.2 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 £365,263k at 31 December 2021 (2020: £365,851k) and the 1-year VaR93.3 figure attributable to the portfolio is £30,100k at 31 December 2021 (2020: £25,800k).

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 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 both 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.

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

| 2021   | Net currency exposure<br>£'000 | Currency contracts<br>£'000 | Net currency exposure including hedges<br>£'000 |
|--|--------------------------------|-----------------------------|---|
| US dollar  | (87,810)                       | (221,845)                   | (309,655)                                       |
| United Arab dirham                                   | -                              | 108,644                     | 108,644   |
| Hong Kong dollar                                     | (1,687)                        | 37,536                      | 35,849  |
| Singapore dollar                                     | -                              | 30,155                      | 30,155  |
| Euro   | 62,679                         | (68,777)                    | (6,098)   |
| Danish krone   | (6,543)                        | -                           | (6,543)   |
| Swiss franc  | (1,719)                        | -                           | (1,719)   |
| Australian dollars                                   | -                              | -                           | -   |
| Other  | 108                            | 3,942                       | 4,050   |
| <b>Total foreign currency denominated net assets</b> | <b>(34,972)</b>                | <b>(110,345)</b>            | <b>(145,317)</b>                                |

| 2020   | Net currency exposure<br>£'000 | Currency contracts<br>£'000 | Net currency exposure including hedges<br>£'000 |
|--|--------------------------------|-----------------------------|---|
| US dollar  | (37,104)                       | (182,218)                   | (219,322)                                       |
| United Arab dirham                                   | -                              | 89,039                      | 89,039  |
| Hong Kong dollar                                     | (219)                          | 34,634                      | 34,415  |
| Singapore dollar                                     | -                              | 31,540                      | 31,540  |
| Euro   | 61,209                         | (68,127)                    | (6,918)   |
| Danish krone   | (972)                          | -                           | (972)   |
| Swiss franc  | (3,150)                        | -                           | (3,150)   |
| Australian dollars                                   | 258                            | -                           | 258   |
| Other  | 108                            | 6,820                       | 6,928   |
| <b>Total foreign currency denominated net assets</b> | <b>20,130</b>                  | <b>(88,312)</b>             | <b>(68,182)</b>                                 |

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

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 the Bupa Group and the following exchange rates applied during the financial year:

|                    | Average rate |        | Closing rate |         |
|--------------------|--------------|--------|--------------|---------|
|                    | 2021         | 2020   | 2021         | 2020    |
| US dollar          | 1.3757       | 1.2836 | 1.3532       | 1.3668  |
| United Arab dirham | 5.0532       | 4.7148 | 4.9704       | 5.0203  |
| Hong Kong dollar   | 10.6930      | 9.9556 | 10.5500      | 10.5965 |
| Singapore dollar   | 1.8485       | 1.7693 | 1.8239       | 1.8073  |
| Euro               | 1.1632       | 1.1240 | 1.1888       | 1.1192  |
| Danish krone       | 8.6524       | 8.3846 | 8.8405       | 8.3316  |
| Swiss franc        | 1.2577       | 1.2040 | 1.2338       | 1.2105  |
| Australian dollars | 1.8320       | 1.8614 | 1.8611       | 1.7740  |

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:

| 2021                     | Gain/(loss) included in                        | Gain/(loss) included in                    |
|--------------------------|--|--|
|                          | Profit and Loss,<br>strengthening 10%<br>£'000 | Profit and Loss,<br>weakening 10%<br>£'000 |
| US dollar                | 29,348   | (35,870)                                   |
| United Arab dirham       | (9,877)  | 12,072                                     |
| Hong Kong dollar         | (3,273)  | 4,000                                      |
| Singapore dollar         | (2,741)  | 3,351                                      |
| Euro                     | 872  | (1,065)                                    |
| Danish krone             | 532  | (650)                                      |
| Other                    | (456)  | 557  |
| <b>Total sensitivity</b> | <b>14,405</b>                                  | <b>(17,605)</b>                            |

| 2020                     | Gain/(loss) included in                        | Gain/(loss) included in                    |
|--------------------------|--|--|
|                          | Profit and Loss,<br>strengthening 10%<br>£'000 | Profit and Loss,<br>weakening 10%<br>£'000 |
| US dollar                | 14,675   | (17,935)                                   |
| United Arab dirham       | (8,094)  | 9,893                                      |
| Hong Kong dollar         | (3,129)  | 3,824                                      |
| Singapore dollar         | (2,867)  | 3,504                                      |
| Euro                     | 852  | (1,041)                                    |
| Danish krone             | 367  | (449)                                      |
| Other                    | (494)  | 603  |
| <b>Total sensitivity</b> | <b>1,310</b>                                   | <b>(1,601)</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, the balance sheet value of its investment in fixed rate bonds and the balance sheet value of fixed rate debt issued. Floating rate assets represent a natural hedge for floating rate liabilities. The net balance on which the Company was exposed as at 31 December 2021 was £837,232k (2020: £898,199k).

During 2020, the Company's sole interest-bearing financial liability, a £330.0m subordinated bond, was repaid. This was an undated, fixed interest liability with a call date of 16 September 2020.



## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

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 £6,326k (2020: £4,745k). 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.

### 23.3 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).

The investment profile at 31 December is as follows:

|                                     | 2021<br>£'000    | 2020<br>(Restated <sup>1</sup> )<br>£'000 |
|-------------------------------------|------------------|---|
| Investment grade counterparties     | 934,393          | 1,007,159                                 |
| Non-investment grade counterparties | 120,255          | 121,948                                   |
| <b>Total</b>                        | <b>1,054,648</b> | <b>1,129,107</b>                          |

<sup>1</sup> Amounts have been restated to reflect the reallocation of £70m of financial assets from non-investment grade counterparties to investment grade counterparties.

Investment grade counterparties include cash at bank and in hand of £157,734k (2020: £185,396k). 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:

|                                     | Corporate debt<br>securities and<br>secured loans<br>£'000 | Deposits with<br>credit<br>institutions<br>£'000 | Restricted<br>Assets<br>£'000 | Cash and cash<br>Equivalents<br>£'000 | Total<br>£'000 |
|-------------------------------------|--|--|-------------------------------|---------------------------------------|----------------|
| <b>2021</b>                         |  |  |                               |                                       |                |
| AAA                                 | 195,494  | -  | -                             | 43,030                                | 238,524        |
| AA- to AA+                          | -  | 164,076  | -                             | 24,967                                | 189,043        |
| A- to A+                            | 103,094  | 68,527   | 460                           | 89,308                                | 261,389        |
| BBB- to BBB+                        | -  | -  | -                             | 381                                   | 381            |
| Below BBB- (below investment grade) | -  | -  | -                             | 48                                    | 48             |
| <b>Total</b>                        | <b>298,588</b>   | <b>232,603</b>                                   | <b>460</b>                    | <b>157,734</b>                        | <b>689,385</b> |
| ECL                                 | -  | (69)   | -                             | -                                     | (69)           |
| <b>Carrying amount</b>              | <b>298,588</b>   | <b>232,534</b>                                   | <b>460</b>                    | <b>157,734</b>                        | <b>689,316</b> |

|                                     | Corporate debt<br>securities and<br>secured loans<br>Restated <sup>1</sup><br>£'000 | Deposits with<br>credit<br>institutions<br>Restated <sup>12</sup><br>£'000 | Restricted<br>Assets<br>£'000 | Cash and cash<br>Equivalents<br>£'000 | Total<br>£'000 |
|-------------------------------------|---|--|-------------------------------|---------------------------------------|----------------|
| <b>2020</b>                         |   |  |                               |                                       |                |
| AAA                                 | 196,812   | -  | -                             | 9,145                                 | 205,957        |
| AA- to AA+                          | 40,050  | 90,011   | -                             | 63,645                                | 193,706        |
| A- to A+                            | 128,950   | 123,088  | 290                           | 110,770                               | 363,098        |
| BBB- to BBB+                        | -   | -  | -                             | 828                                   | 828            |
| Below BBB- (below investment grade) | -   | -  | -                             | 718                                   | 718            |
| <b>Total</b>                        | <b>365,812</b>  | <b>213,099</b>   | <b>290</b>                    | <b>185,106</b>                        | <b>764,307</b> |
| ECL                                 | (11)  | (750)  | -                             | -                                     | (761)          |
| <b>Carrying amount</b>              | <b>365,801</b>  | <b>212,349</b>   | <b>290</b>                    | <b>185,106</b>                        | <b>763,546</b> |

<sup>1</sup> The Company's certificate of deposits held at amortised cost have been reclassified from Deposits with credit institutions to Corporate debt securities.

<sup>2</sup> Amounts have been restated to reflect the reallocation of £70m of deposits with credit institutions from below investment grade to AA- to AA+.

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:

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

|   | Not past due<br>or impaired<br>£'000 | 0-3 months<br>£'000 | 3-6 months<br>£'000 | 6 months<br>to 1 year<br>£'000 | Greater<br>than 1 year<br>£'000 |
|---|--------------------------------------|---------------------|---------------------|--------------------------------|---------------------------------|
| <b>2021</b>   |                                      |                     |                     |                                |                                 |
| Insurance debtors gross value                       | 686,719                              | 30,935              | 18,060              | 7,163                          | 954                             |
| Provision for bad debt - insurance debtors - direct | (5)                                  | (1,202)             | (4,868)             | (3,409)                        | (215)                           |
| <b>Insurance debtors net value</b>                  | <b>686,714</b>                       | <b>29,733</b>       | <b>13,192</b>       | <b>3,754</b>                   | <b>739</b>                      |
| Trade and other receivables                         | 3,263                                | 2,709               | 4                   | 77                             | 82                              |
| ECL provision                                       | -                                    | -                   | -                   | -                              | -                               |
| <b>Trade and other receivables net value</b>        | <b>3,263</b>                         | <b>2,709</b>        | <b>4</b>            | <b>77</b>                      | <b>82</b>                       |

|   | Not past due<br>or impaired<br>£'000 | 0-3 months<br>£'000 | 3-6 months<br>£'000 | 6 months<br>to 1 year<br>£'000 | Greater<br>than 1 year<br>£'000 |
|---|--------------------------------------|---------------------|---------------------|--------------------------------|---------------------------------|
| <b>2020</b>   |                                      |                     |                     |                                |                                 |
| Insurance debtors gross value                       | 629,730                              | 61,280              | 17,392              | 15,492                         | 10,230                          |
| Provision for bad debt - insurance debtors - direct | -                                    | (544)               | (947)               | (5,591)                        | (4,002)                         |
| <b>Insurance debtors net value</b>                  | <b>629,730</b>                       | <b>60,736</b>       | <b>16,445</b>       | <b>9,901</b>                   | <b>6,228</b>                    |
| Trade and other receivables                         | 4,484                                | 269                 | 30                  | 32                             | 59                              |
| ECL provision                                       | -                                    | -                   | -                   | -                              | -                               |
| <b>Trade and other receivables net value</b>        | <b>4,484</b>                         | <b>269</b>          | <b>30</b>           | <b>32</b>                      | <b>59</b>                       |

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                      | ECL   | Gross                                       | ECL      | Gross                    | ECL   | Gross                             | ECL         | Gross                       | ECL   | Gross                   | ECL            | Gross             | ECL   | Gross                     | ECL   |
| <b>2021</b>                          | £'000                      | £'000 | £'000                                       | £'000    | £'000                    | £'000 | £'000                             | £'000       | £'000                       | £'000 | £'000                   | £'000          | £'000             | £'000 | £'000                     | £'000 |
| At beginning of year                 | 16,735                     |       | 507,659                                     | (11)     | 37,978                   |       | 382,098                           | (750)       | 4,874                       |       | 734,124                 | (11,084)       | 290               |       | 185,106                   |       |
| Recognition and settlement           | (247)                      |       | 101,870                                     | 11       | (524)                    |       | (149,495)                         | 681         | 1,287                       |       | 8,518                   | 1,417          | 170               |       | (26,984)                  |       |
| Write offs                           | -                          |       | -   | -        | -                        |       | -                                 | -           | -                           |       | -                       | -              | -                 |       | -                         |       |
| Foreign exchange and other movements | 193                        |       | 187   | -        | -                        |       | -                                 | -           | (26)                        |       | 1,190                   | (32)           | -                 |       | (388)                     |       |
| <b>At end of year</b>                | <b>16,681</b>              |       | <b>609,716</b>                              | <b>-</b> | <b>37,454</b>            |       | <b>232,603</b>                    | <b>(69)</b> | <b>6,135</b>                |       | <b>743,832</b>          | <b>(9,699)</b> | <b>460</b>        |       | <b>157,734</b>            |       |

**Notes to the Financial Statements (continued)**  
for the year ended 31 December 2021

|                                      | 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                   |                   |                           |
|                                      | Restated <sup>1</sup>      |                |             | Restated <sup>1</sup>                       |                |              |                          |                                   |                 |                             |                         |                   |                           |
| 2020                                 | £'000                      | £'000          | £'000       | £'000                                       | £'000          | £'000        | £'000                    | £'000                             | £'000           | £'000                       | £'000                   | £'000             |                           |
| At beginning of year                 | 26,337                     | 537,912        | (509)       | 45,504                                      | 240,060        | -            | 4,516                    | 793,953                           | (4,756)         | -                           | -                       | 165,316           |                           |
| Recognition and settlement           | (9,602)                    | 138,784        | 498         | (7,526)                                     | (26,961)       | (750)        | 335                      | (55,285)                          | (6,804)         | 290                         | -                       | 21,038            |                           |
| Write offs                           | -                          | -              | -           | -   | -              | -            | -                        | -                                 | -               | -                           | -                       | -                 |                           |
| Foreign exchange and other movements | -                          | (36)           | -           | -   | -              | -            | 23                       | (4,544)                           | 476             | -                           | -                       | (1,248)           |                           |
| <b>At end of year</b>                | <b>16,735</b>              | <b>676,660</b> | <b>(11)</b> | <b>37,978</b>                               | <b>213,099</b> | <b>(750)</b> | <b>4,874</b>             | <b>734,124</b>                    | <b>(11,084)</b> | <b>290</b>                  | <b>-</b>                | <b>185,106</b>    |                           |

<sup>1</sup> The Company's certificate of deposits held at amortised cost have been reclassified from Deposits with credit institutions to Corporate debt securities

In the table above, where asset class has no ECL provision due to being held at fair value, no ECL column is presented.

**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<br>£'000 | Gross amounts of recognised financial liabilities set off in the balance sheet<br>£'000 | Net amounts of financial assets/Liabilities presented in the balance sheet<br>£'000 | Related amounts not set off in the balance sheet |                                   | Net Amount<br>£'000 |
|----------------------------------|---|---|---|--|-----------------------------------|---------------------|
|                                  |   |   |   | Financial instruments<br>£'000                   | Cash collateral received<br>£'000 |                     |
| <b>As at 31 December 2021</b>    |   |   |   |  |                                   |                     |
| Derivative financial assets      | 4,566   | -   | 4,566   | (1,231)  | -                                 | 3,335               |
| Derivative financial liabilities | (3,203)   | -   | (3,203)   | 1,231  | 3,241                             | 1,269               |
| Cash at bank and in hand         | 189,883   | (32,149)  | 157,734   | -  | -                                 | 157,734             |
| Other debtors                    | 41,374  | -   | 41,374  | -  | (3,241)                           | 38,133              |
| Other creditors                  | (133,467)   | -   | (133,467)   | -  | -                                 | (133,467)           |
| <b>Total</b>                     | <b>99,153</b>   | <b>(32,149)</b>   | <b>67,004</b>   | <b>-</b>   | <b>-</b>                          | <b>67,004</b>       |

|                                  | Gross amounts of recognised financial assets<br>£'000 | Gross amounts of recognised financial liabilities set off in the balance sheet<br>£'000 | Net amounts of financial assets/Liabilities presented in the balance sheet<br>£'000 | Related amounts not set off in the balance sheet |                                   | Net Amount<br>£'000 |
|----------------------------------|---|---|---|--|-----------------------------------|---------------------|
|                                  |   |   |   | Financial instruments<br>£'000                   | Cash collateral received<br>£'000 |                     |
| <b>As at 31 December 2020</b>    |   |   |   |  |                                   |                     |
| Derivative financial assets      | 32,703  | -   | 32,703  | (23,761)   | (1,530)                           | 7,412               |
| Derivative financial liabilities | (25,497)  | -   | (25,497)  | 23,761   | 10,271                            | 8,535               |
| Cash at bank and in hand         | 222,938   | (37,832)  | 185,106   | -  | -                                 | 185,106             |
| Other debtors                    | 29,383  | -   | 29,383  | -  | (10,271)                          | 19,112              |
| Other creditors                  | (151,285)   | -   | (151,285)   | -  | 1,530                             | (149,755)           |
| <b>Total</b>                     | <b>108,242</b>  | <b>(37,832)</b>   | <b>70,410</b>   | <b>-</b>   | <b>-</b>                          | <b>70,410</b>       |

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

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 electing 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.

### 23.4 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<br>liabilities<br>£'000 | Insurance<br>contract<br>liabilities<br>£'000 | Other liabilities<br>under<br>insurance<br>contracts<br>issued<br>£'000 | Trade and<br>other<br>creditors<br>£'000 | Lease<br>Liabilities<br>£'000 | Derivative<br>liabilities<br>£'000 | Total<br>£'000   |
|-------------------------------|--------------------------------------|---|---|--|-------------------------------|------------------------------------|------------------|
| <b>As at 31 December 2021</b> |                                      |   |   |  |                               |                                    |                  |
| 2022                          | -                                    | 1,354,070                                     | 76,426  | 133,467                                  | 769                           | 3,203                              | 1,567,935        |
| 2023                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2024                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2025                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2026                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2027-2031                     | -                                    | -   | -   | -  | 3,365                         | -                                  | 3,365            |
| After 2031                    | -                                    | -   | -   | -  | 16,100                        | -                                  | 16,100           |
| <b>Total</b>                  | <b>-</b>                             | <b>1,354,070</b>                              | <b>76,426</b>   | <b>133,467</b>                           | <b>22,926</b>                 | <b>3,203</b>                       | <b>1,590,092</b> |
| <b>Carrying value</b>         | <b>-</b>                             | <b>1,354,070</b>                              | <b>76,426</b>   | <b>133,467</b>                           | <b>17,730</b>                 | <b>3,203</b>                       | <b>1,584,896</b> |

|                               | Subordinated<br>liabilities<br>£'000 | Insurance<br>contract<br>liabilities<br>£'000 | Other liabilities<br>under insurance<br>contracts issued<br>£'000 | Trade and<br>other<br>creditors<br>£'000 | Lease<br>Liabilities<br>£'000 | Derivative<br>liabilities<br>£'000 | Total<br>£'000   |
|-------------------------------|--------------------------------------|---|---|--|-------------------------------|------------------------------------|------------------|
| <b>As at 31 December 2020</b> |                                      |   |   |  |                               |                                    |                  |
| 2021                          | -                                    | 1,332,817                                     | 98,339  | 151,285                                  | 673                           | 25,497                             | 1,608,611        |
| 2022                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2023                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2024                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2025                          | -                                    | -   | -   | -  | 673                           | -                                  | 673              |
| 2026-2030                     | -                                    | -   | -   | -  | 3,365                         | -                                  | 3,365            |
| After 2030                    | -                                    | -   | -   | -  | 16,773                        | -                                  | 16,773           |
| <b>Total</b>                  | <b>-</b>                             | <b>1,332,817</b>                              | <b>98,339</b>   | <b>151,285</b>                           | <b>23,503</b>                 | <b>25,497</b>                      | <b>1,631,441</b> |
| <b>Carrying value</b>         | <b>-</b>                             | <b>1,332,817</b>                              | <b>98,339</b>   | <b>151,285</b>                           | <b>15,477</b>                 | <b>25,497</b>                      | <b>1,623,415</b> |

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:

## Notes to the Financial Statements (continued)

for the year ended 31 December 2021

|                            | Cash at bank<br>and in hand<br>£'000 | Deposits with<br>credit<br>institutions<br>£'000 | Government<br>debt<br>securities<br>£'000 | Corporate<br>debt<br>securities<br>and secured<br>loans<br>£'000 | Pooled<br>investment<br>funds<br>£'000 | Total<br>£'000   |
|----------------------------|--------------------------------------|--|---|--|--|------------------|
| <b>As at December 2021</b> |                                      |  |   |  |  |                  |
| 2021                       | 157,734                              | 232,603  | 397                                       | 175,927  | 37,454                                 | 604,115          |
| 2022                       | -                                    | -  | 636                                       | 107,427  | -                                      | 108,063          |
| 2023                       | -                                    | -  | 914                                       | 55,061   | -                                      | 55,975           |
| 2024                       | -                                    | -  | 246                                       | 68,282   | -                                      | 68,528           |
| 2025                       | -                                    | -  | 663                                       | 110,045  | -                                      | 110,708          |
| 2026-2030                  | -                                    | -  | 2,262                                     | 69,599   | -                                      | 71,861           |
| After 2030                 | -                                    | -  | 11,563                                    | 23,375   | -                                      | 34,938           |
| <b>Total</b>               | <b>157,734</b>                       | <b>232,603</b>                                   | <b>16,681</b>                             | <b>609,716</b>   | <b>37,454</b>                          | <b>1,054,188</b> |

|                            | Cash at bank<br>and in hand<br>£'000 | Restated<br>Deposits with<br>credit<br>institutions <sup>1</sup><br>£'000 | Government<br>debt securities<br>£'000 | Restated<br>Corporate<br>debt securities<br>and secured<br>loans <sup>1</sup><br>£'000 | Pooled<br>investment<br>funds<br>£'000 | Total<br>£'000   |
|----------------------------|--------------------------------------|---|--|--|--|------------------|
| <b>As at December 2020</b> |                                      |   |  |  |  |                  |
| 2021                       | 185,106                              | 212,349   | -                                      | 248,844  | 37,978                                 | 684,277          |
| 2022                       | -                                    | -   | 267                                    | 99,160   | -                                      | 99,427           |
| 2023                       | -                                    | -   | 662                                    | 119,688  | -                                      | 120,350          |
| 2024                       | -                                    | -   | 945                                    | 55,427   | -                                      | 56,372           |
| 2025                       | -                                    | -   | 553                                    | 64,602   | -                                      | 65,155           |
| 2026-2030                  | -                                    | -   | 2,811                                  | 74,042   | -                                      | 76,853           |
| After 2030                 | -                                    | -   | 11,497                                 | 14,886   | -                                      | 26,383           |
| <b>Total</b>               | <b>185,106</b>                       | <b>212,349</b>  | <b>16,735</b>                          | <b>676,649</b>   | <b>37,978</b>                          | <b>1,128,817</b> |

<sup>1</sup>The Company's certificate of deposits held at amortised cost have been reclassified from Deposits with credit institutions to Corporate debt securities

### 24. 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.

In the EU the Solvency II framework governs insurance industry regulation and prudential capital requirements. In the UK the Prudential Regulation Authority continues to apply the Solvency II framework, following the end of the Brexit transition period on 31 December 2020.

The Company 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 Solvency II framework. 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. A data adjustment was applied in the calculation of 2020 loss experience in light of the exceptional volatility in claims experienced as a result of COVID-19. The adjustment methodology has been approved by the PRA.

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

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 annually.

## Notes to the Financial Statements (continued)

### for the year ended 31 December 2021

The Company's Eligible Own Funds, determined in accordance with the SII valuation rules, were £497,900k<sup>1</sup> (2020: £512,476k) which was in excess of the estimated SCR of £283,779k<sup>1</sup> (2020: £240,167k). This represented a Solvency coverage ratio of 175% (2020: 213%). 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 £431,251k as at 31 December 2021 (2020: £478,408k).

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

#### **25. 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.

##### **(ii) Guarantees**

The Company had issued no guarantees at the Balance Sheet date.

##### **(iii) Financial commitments**

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

#### **26. 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 Ltd"), 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 Ltd are prepared in accordance with International Financial Reporting Standards as adopted by the UK 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.