RESULTS IN LINE WITH EXPECTATIONS

HIGHLIGHTS
- Revenue[1] £6.0bn, up 4% at constant exchange rates (CER)[2] (2018: £5.8bn)
- IFRS profit before taxation £257m, down 16% at actual exchange rates (AER) (2018: £306m)
- Underlying profit[3] before taxation £242m, down 19% at CER (2018: £298m)
- Solvency II capital coverage ratio[4] of 165% (FY 2018: 191%)

Performance review
We delivered positive results in a number of our businesses across Spain, Poland and Hong Kong, and in Bupa Global. These were more than offset by: the challenges we are experiencing in our Australian health insurance and aged care businesses; our ongoing investment in information technology to enhance security and digitise customer experience; and the impact of implementing the new accounting standard, IFRS 16: Leases.

We have a strong financial position, enabling us to balance short-term profit delivery with long-term investment for sustainable growth. We are committed to growing sustainably, investing in the services we offer to our customers and tightly managing costs. We expect the operating environment to remain challenging in some of our markets in the near-term, especially in Australia and Chile. We are clear about the challenges we face and are confident that we have the right strategy to navigate them.

Market Unit performance (CER)
- Australia and New Zealand: revenue down 1%; underlying profit declined 41%, mainly due to Australian health insurance and aged care businesses
- Europe and Latin America: revenue up 5%; underlying profit stable
- UK: revenue up 1%; underlying profit down 28%, mainly due to investment in information technology, performance in dental and the impact of IFRS 16
- International Markets: revenue up 17%; underlying profit up 33%

Other operational highlights
- Integration of Bupa Acıbadem Sigorta in Turkey, acquired in January, is on track
- Australian Defence Force (ADF) health contract commenced on 1 July, providing healthcare cover to 85,000 personnel
- Launched new mental health cover within consumer health insurance policies in the UK
- Developed *Salud Conectada* (Connected Health) programme in Spain, for hospital patients to be monitored remotely by medical professionals, using wearables, Big Data and Artificial Intelligence (AI)
- Associate business, Bupa Arabia, was reappointed as the health insurance provider for the Saudi Basic Industries Corporation (SABIC), effective from July
- New Irish insurer commenced trading activity in March to serve international private medical insurance customers living in the EU (but outside the UK and Ireland)
- Good progress across our corporate responsibility agenda, creating shared value for our customers, people and communities.

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[1] Revenues from our associate and joint venture businesses are excluded from our reported figures. Customer numbers and the appropriate share of profit from our associate and joint venture businesses are included in our reported figures.
[2] All figures presented are at constant exchange rates (CER) unless otherwise stated. We use CER to compare trading performance in a consistent manner to the prior year. We have retranslated our 2018 results using 2019 average exchange rates.
[3] Underlying profit is a non-GAAP financial measure which means it is not comparable to other companies. Underlying profit reflects our trading performance and excludes a number of items otherwise included in IFRS profit, to facilitate year-on-year comparison. These items include the impairment of intangible assets and goodwill arising on business combinations, as well as market movements such as gains or losses on foreign exchange, on return-seeking assets, on property revaluations and other material items not considered part of trading performance.
[4] The 2019 Solvency II capital coverage ratio is an estimated value, and unaudited. It represents the position of the Parent (The British United Provident Association Ltd).

Financial position

- o Net cash generated from operating activities was £506m, up £13m (3%) on prior year (2018: £493m)
- o Bupa Finance plc senior debt ratings are unchanged at A3 (stable) by Moody's and A- (stable) by Fitch
- o Leverage ratio higher at 25.5% (FY 2018: 24.7%), and 33.3% when including the impact of IFRS 16 (FY 2018 Proforma[5]: 32.6%)
- o Solvency II capital coverage ratio[4] of 165% (FY 2018 191%, FY 2018 Proforma[6]: 166%)

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(Bupa 10252 LV)

About Bupa Finance plc

Bupa Finance plc (the Company) is a company incorporated in England and Wales. The condensed consolidated half year financial statements comprise the financial results and position of the Company and its subsidiary companies (together referred to as the Group). The immediate and ultimate parent of the Company is The British United Provident Association Limited (the Parent), which is also the ultimate parent company of the Bupa Group (Bupa).

Bupa's purpose is helping people live longer, healthier, happier lives.

With no shareholders, our customers are our focus. We reinvest profits into providing more and better healthcare for the benefit of current and future customers.

Health insurance accounts for the major part of our business with 16.7m customers and contributes around 75% of revenue. We operate clinics, dental centres and hospitals in some markets, with around 15m customers. We care for around 22,300 residents in our UK, Australia, New Zealand and Spain aged care businesses.

We directly employ around 80,000 people, principally in the UK, Australia, Spain, Poland, Chile, New Zealand, Hong Kong, Turkey, the US, Brazil, the Middle East and Ireland. We also have associate businesses in Saudi Arabia and India.

For more information, visit www.bupa.com.

[5] Leverage position for FY 2018 when including the impact of IFRS 16.
[6] Solvency coverage position assessed for FY 2018 after taking into consideration the impact of IFRS and the acquisition of Acibadem Sigorta.

Management review

Group performance in the first half of 2019 was in line with our expectations and as signalled in the full year 2018 results announcement. Revenue was up by 4% to £6.0bn and underlying profit of £242m, was down by 19% year-on-year, both at CER.

We delivered positive results in a number of our businesses across Spain, Poland and Hong Kong, and in Bupa Global. These were more than offset by the challenges we are experiencing in our Australian health insurance and aged care businesses; our ongoing investment in information technology to enhance security and digitise customer experience; and the impact of implementing the new accounting standard, IFRS 16: Leases. We have a strong financial position, enabling us to balance short-term profit delivery with long-term investment for sustainable growth.

In Australia, customers face affordability pressures as the cost of living rises and wage growth remains low. This has impacted the take-up of health insurance. The Government has continued to restrict premium increases to a level lower than claims inflation, and this is affecting results across the health insurance industry. We are taking steps to ensure we provide great value for money and quality for our customers. In aged care, we are addressing a number of compliance and service issues in our care home business in Australia, including making investments to drive improvements.

Across the Group, we invested heavily in our businesses, particularly in information technology to enhance security, digitise customer experience and increase efficiency. This investment has an impact on our profitability in the short-term, but it is the right thing to do for our customers and for the Group's future sustainable growth. In Spain, digital propositions like *Blua* and *Salud Conectada,* enable us to carve out a distinctive market position as a leading player in healthcare. We are proud of the leadership we are taking in mental health in the UK, with the launch of new mental health cover within consumer health insurance policies.

We invested in complementary health provision services which support and reinforce our health insurance positions. We further expanded our presence in dental with practice acquisitions and new openings in Australia, the UK, Spain and Poland. On 1 July, we started providing healthcare cover to 85,000 Australian Army, Navy and Air Force personnel through our ADF contract.

In January, we entered the Turkish health insurance market. Bupa Acıbadem Sigorta, with over 550,000 customers, is an innovative and growing business and the first stage of the integration process is going well.

We made good progress across our corporate responsibility agenda, creating shared value for our customers, people and communities. We are contributing through the Bupa Foundations in Australia, Spain and the UK, and increasing the use of renewable energy. Our employee engagement score was 78%, with 6,000 more people giving feedback since our last survey launched in October 2018.

We recently announced a simplification of our organisation structure to accelerate organic growth, strengthen governance and increase efficiency. From the second half of the year onwards, the Group will be structured as three Market Units: Australia & New Zealand; Europe & Latin America; and Bupa Global & UK. We will report our full year 2019 results in accordance with this new structure.

Over the period, we appointed new members to the Bupa Executive Team. Mark Glenn joined us from Barclays in July as Chief Information Officer, where he held senior technology roles. We are delighted to have him on board to lead this strategic agenda. Dr Paula Franklin, Bupa Global & UK's Chief Medical and Risk Officer, takes on the leadership of the global medical function from 1 August, alongside her current responsibilities in the UK. Dr Paul Zollinger-Read CBE, who has been Bupa's Chief Medical Officer since 2012, stepped down on 31 July.

Outlook

We are committed to growing sustainably, investing in the services we offer to our customers and tightly managing costs. We expect the operating environment will remain challenging in some of our markets, especially in Australia and Chile. We are clear about the challenges we face and are confident that we have the right strategy to navigate them.

MARKET UNIT PERFORMANCE

Australia and New Zealand

	Revenue	**Underlying profit**
HY 2019	£2,254m	£92m
HY 2018 (CER)	£2,266m	£157m
% growth (CER)	1% decline	41% decline

In Australia and New Zealand, we operate in difficult market conditions. Revenue was down 1% and underlying profit decreased 41% on last year. These results were driven by the challenges impacting our Australian health insurance and aged care businesses.

In Australia, customers are facing affordability pressures, with wages growing slower than the cost of living. For this year, we have the lowest health insurance premium increase for our customers in 17 years, after the Government approved an average premium increase of 2.99%. This increase is lower than claims inflation and compares to an industry average of 3.25%. Net Promoter Scores and retention levels have significantly improved as a result of our focus on customer experience, effective communication on rate increases and industry reforms aimed at assisting customer understanding and affordability. Our customer transformation programme is helping to provide more personalised services and improved customer experience.

In Health Services, we performed in line with expectations, with lower revenue in Bupa Dental offset by good performance from Bupa Medical Clinics. Since winning the Australian Defence Force contract in January, we have worked to ensure a smooth transition with services commencing from 1 July.

Our Australian aged care business was materially impacted by lower occupancy and higher costs. We have a number of homes operating under regulatory sanction and we are working with the regulator to make improvements in order to enhance care and support for our residents and their families. In addition, we engaged with the Royal Commission into Aged Care Quality and Safety which is examining the whole aged care system in Australia.

A number of divestments in our New Zealand aged care business resulted in a more focused portfolio. The performance in our retained portfolio was stable year-on-year. We are investing in integrated care home villages with new developments in the pipeline.

Europe and Latin America

	Revenue	**Underlying profit**
HY 2019	£1,558m	£86m
HY 2018 (CER)	£1,487m	£86m
% growth (CER)	5%	0%

In Europe and Latin America, we delivered good revenue growth of 5% year-on-year, while underlying profit remained flat on last year. Excluding the impact of IFRS 16, underlying profit was up 7% on 2018.

In Spain, our health insurance business delivered steady performance, driven by successful bancassurance partnerships as well as the positive impact of Néctar Seguros which was acquired in 2018. *Blua,* our digital proposition, goes from strength to strength. In the first half of the year, 460,000 customers had access to video consultations, representing a 57% increase year-on-year, with more than 1,800 doctors across all specialties.

Sanitas Dental delivered strong performance driven by the increase in customer numbers with dental cover. We opened four new dental centres, as part of our dental expansion plan.

Sanitas Hospitales and New Services benefitted from the acquisition of Ginemed, an IVF and fertility service provider, acquired in December 2018. The integration of this business is going well. We made progress in digital innovation, with our programme *Salud Conectada*. This is a health ecosystem which uses wearables, Big Data and AI, allowing patients to be supported and monitored by our medical professionals remotely. In the first half of the year, over 1,000 patients used this service.

Sanitas Mayores, our aged care business in Spain, maintained an average occupancy rate of 95% in 2019. We opened a new care home in Vitoria and a day care centre in Barcelona.

In Poland, LUX MED delivered strong results, particularly in our corporate subscriptions and inpatient businesses. We opened eight health clinics and 11 dental centres.

Our business in Chile delivered good revenue growth, driven by our outpatient business and increased activity in the Clínica Bupa Santiago hospital. There is some uncertainty in the private health insurance sector with a delay in the approval of the triennial premium rate increase together with wider developments in the reform of the Isapres insurance system. We are monitoring the situation closely and engaging with the Government.

UK

	Revenue	**Underlying profit**
HY 2019	£1,269m	£42m
HY 2018	£1,252m	£58m
% growth	1%	28% decline

In the UK, revenue was stable, while underlying profit was down 28% mainly due to our investment in information security, performance in our dental business and the impact of IFRS 16.

Our health insurance portfolio remained stable to 2018 at 2.2m customers. We launched a new mental health cover within our consumer policies. This builds on our Business Mental Health Advantage cover, which was included in corporate customers' policies last year.

We acquired 13 dental practices, growing our market position to a total of 483 centres. Underlying performance was impacted by sector-wide pressures due to a shortage of dentists. We are committed to becoming the dental employer of choice introducing pay increases for dental nurses and a comprehensive enhanced benefits package for dental employees.

In our aged care business, we drove quality improvements and now have eight care homes rated 'Outstanding' by the Care Quality Commission. We opened our eighth Richmond Village in Wood Norton.

In our clinics business, we launched Bupa Smart DNA offering personalised fitness and wellness insights. At the Bupa Cromwell Hospital, we opened our new children and young people's outpatient department.

International Markets

	Revenue	Underlying profit
HY 2019	£945m	£32m
HY 2018 (CER)	£811m	£24m
% growth (CER)	17%	33%

Revenue in International Markets grew by 17% and underlying profit was up 33% year-on-year.

In January, we acquired Acıbadem Sigorta, Turkey's second largest health insurer, and have started the integration of this business, which is progressing well.

We continue to see progress in Bupa Global, as we focus on improving customer retention and Net Promoter Scores. Our authorised insurer in Ireland started operations in March to serve customers living in the EU (but outside the UK and Ireland). Care Plus in Brazil delivered good results.

Bupa Hong Kong focused on customer proposition and service capabilities. Our clinics business, which operates under the Quality HealthCare brand, performed well driven by an increase in corporate customers and a rise in walk-in patients. We are closely following the developments in the social and political situation.

Our associate business, Bupa Arabia, was reappointed as the health insurance provider for the Saudi Basic Industries Corporation (SABIC). Our results also benefitted from the increase in our stake, completed in August 2018.

Max India, our partner in our associate business, is selling its stake to True North, an Indian private equity group, subject to regulatory approval. We look forward to working with True North to grow Max Bupa.

FINANCIAL REVIEW

Overview

The Group's results were in line with expectations. The positive performance in a number of our businesses was more than offset by the challenges in our Australian insurance and aged care businesses, our ongoing investment commitment in information technology and the impact of the new accounting standard, IFRS 16, due to the significant number of leased properties in our provision and aged care businesses.

Revenue was £6.0bn, up 4% on prior year (£5.8bn at CER). IFRS profit decreased by 16% to £257m (2018: £306m AER), while underlying profit of £242m was down 19% (2018: £298m CER). Excluding the acquisition of Acıbadem Sigorta in January 2019, and the impact of IFRS 16, revenue grew 2% and underlying profit was down on prior year by 19% at CER.

We generated cash from operating activities of £506m, up £13m on prior year. Our Parent's estimated capital coverage ratio of 165% at 30 June 2019 remains strong and comfortably above risk appetite.

Bupa Finance plc's senior debt rating remains unchanged since December 2018.

Revenue (CER)

We achieved revenue growth of 4% across the Group.

Revenue in our insurance businesses grew by 4% versus last year. Our Australian health insurance portfolio remained stable to 2018 with 4 million customers. Revenue was flat to last year due to the benefit of the annual premium rate increase and improvements in retention being offset by lower net new business.

Our Spanish health insurance business grew revenue by 3% through strong performance in the bank partnership channel and from the acquisition of Néctar Seguros, a book of around 34,000 customers, in October 2018. Our insurance business in the UK delivered stable growth compared to 2018. In International Markets, our health insurance businesses increased revenue by 18% driven by the addition of Bupa Acıbadem Sigorta in Turkey, and year-on-year revenue growth in Bupa Global and Bupa Hong Kong.

Our provision businesses grew revenue by 2% and customer numbers were up 4%, with year-on-year increases across the majority of our markets. We delivered strong growth in our corporate subscription business in Poland and in Bupa Chile's outpatient business, Integramédica, as well as Clínica Bupa Santiago hospital which opened in the second quarter of 2018.

In our aged care businesses, revenue was flat to 2018. In Australia, revenue fell by around 4% mainly reflecting the lower average occupancy rate of 89%, down 6 percentage points from last year (2018: 95%). Our Spanish aged care business, Sanitas Mayores, continues to perform well with the average number of residents up 3% on last year. The average occupancy rate remained strong at 95%. In the UK, revenue was up on the prior period with the average care home occupancy rate improving by 3 percentage points on last year to 86% (2018: 83%).

Underlying profit (CER)

As previously reported, the methodology for calculating underlying profit was refined at full year 2018 to provide a better representation of underlying performance while reducing the number of items excluded from underlying profit[7]. Comparators have been restated to reflect this updated methodology.

In line with expectations, Group underlying profit declined by 19% to £242m for the first six months of 2019 (2018: £298m at CER). On a like-for-like basis, when excluding the acquisition of Acıbadem Sigorta, 4%, and the impact of IFRS 16 (4%), underlying profit decreased on prior year by 19% at CER.

Health insurance, our largest line of business, contributed around 85% of underlying profit for reportable segments. Our health insurance business profit in Australia declined by around 25% on 2018, with the annual premium rate increase being at a lower level than claims inflation. Our Spanish insurance business grew by 3% on the prior year driven by the growth in the portfolio, while Bupa Chile declined on last year reflecting higher claims. Profits in UK Insurance were 5% lower than last year as the improvement in the loss ratio has been more than offset by our investment in information technology. International Markets increased insurance profits by 14% on 2018, reflecting the improvement of Bupa Global coupled with good claims performance. Our results also benefit from the additional 5% stake in Bupa Arabia, acquired in August 2018, bringing our holding to 39.25%.

The Parent's Combined Operating Ratio (COR) of 95% represents a slight deterioration on last year (2018: 94%)[8]. The Australian health insurance entity's COR deteriorated two percentage points to 95% (2018: 93%)[8] as a result of the commercial challenges described above. The COR of our Spanish health insurer, Sanitas Seguros, marginally improved to 90% (2018: 91%)[8]. Bupa Insurance Limited, our UK insurance entity, underwrites both domestic and international private medical insurance, covering the business written by both the UK and parts of Bupa Global. The

[7] Details of non-underlying items can be found on the following page.
[8] Combined Operating Ratio is an alternative performance metric for insurance businesses. It is calculated based on incurred claims and operating expenses divided by net earned premiums. Combined operating ratios are calculated based on local reporting requirements:

- Group: S.05.01 Prudential Regulation Authority (SII) form (estimated and unaudited)
- BUPA HI Pty Ltd (Australia): HRF 602 Australian Prudential Regulation Authority quarterly returns (unaudited)
- Sanitas S.A. de Seguros (Spain): Prepared under local GAAP (unaudited)
- Bupa Insurance Limited (UK): Prepared under local GAAP (unaudited)

COR is slightly worse at 95% (2018: 94%)[8] principally due to increased investment in information technology.

Underlying profit in our provision businesses fell by around 30% on last year. On a like-for-like basis, when excluding the impact of IFRS 16, underlying profit declined by around 15% on 2018 mainly driven by Australia and the UK. Our Europe and Latin America Market Unit delivered strong like-for-like growth, and our health services business in Hong Kong achieved good growth mainly from its outpatient business.

In our aged care businesses, underlying profit declined by around £25m compared to 2018. UK Care Services increased profit, while Sanitas Mayores was broadly stable year-on-year. In Australia, our profits fell significantly reflecting the decline in occupancy levels compared to last year. We are addressing a number of compliance and service issues in our Australian care homes and, as a result, operating expenses have increased. In addition, we incurred costs as part of our engagement with the Royal Commission into Aged Care Quality and Safety.

Central expenses and net interest margin were £17m lower than the prior year partly reflecting £18m of investment income generated in Bupa Acıbadem Sigorta.

IFRS profit (AER)

IFRS profit before taxation was £257m (2018: £306m) representing a decline of 16% at AER. This reflects the reduced trading profitability on prior year, with the nature of non-underlying items comparable to, but slightly higher than 2018.

	HY19 AER	HY18 AER
Non-underlying items		
Net (losses)/gains on disposal of businesses and transaction costs on business combinations	(2)	8
Net property revaluation gains/(losses)	8	-
Realised and unrealised foreign exchange (losses)/gains	(9)	5
Other Market Unit non-underlying items	-	(5)
Gains/(losses) on return-seeking assets, net of hedging	24	(4)
Central non-underlying items	(6)	-
Total non-underlying items	**15**	**4**

In 2019, losses on disposals are due to additional costs relating to the sale of a number of UK care homes in 2018. This compares with a gain of £8m in 2018 relating to the disposal of Bupa Global's shareholding in Forsikringens Datacenter A/S.

There were property revaluation gains in 2019 of £8m in our New Zealand aged care business, which were slightly higher than last year (2018: £7m), while 2018 also included property write-downs in the UK of £7m.

In 2018, other Market Unit non-underlying items of £5m relate to the set up of our new Irish insurer in preparation for post-Brexit trading. The return-seeking asset portfolio showed gains in the period of £24m, a change of £28m on the £4m loss in 2018. Central Market Unit non-underlying items includes the provision for expected credit losses on Bupa Acıbadem Sigorta investments.

Taxation

The Group's effective tax rate for the period was 30% (2018: 24%), which is higher than the UK corporation tax rate of 19%. This is mainly due to profits arising in jurisdictions with a higher rate of corporate income tax and one-off items including the release of a deferred tax asset and the recognition of additional provisions in our Latin American markets.

Cashflow

Net cash generated from operating activities grew by £13m (3%) to £506m. On a like-for-like basis, when excluding the change in presentation arising from IFRS 16 (c.£75m)[9], and the payment following the one-off tax settlement with the Australian Tax Office (£86m) as disclosed in our 2018 full year announcement, net cash generated from operating activities was up £24m (5%). This is the result of favourable changes in working capital partly offset by the decrease in pre-tax profit.

Net cash used in investing activities increased by £33m to £306m in the first half of the year (2018: £273m). In January 2019, we completed the acquisition of Acıbadem Sigorta, and invested in growth and development including new build activity in New Zealand, a retirement village development in Australia and expansion of our dental businesses in the UK and Spain. In addition, there have been lower proceeds from sale of property and decreased purchases of financial investments compared to 2018.

Net cashflows generated from financing activities decreased to £74m, a change of £45m from last year. This reflects a draw down on our revolving credit facility to fund the acquisition of Acıbadem Sigorta and a dividend payment to the Group's parent partly offset by the IFRS 16 presentational change.

Funding

We manage our funding prudently to ensure a strong platform for continued growth. A key element of our funding policy is to target an A-/A3 senior credit rating.

Our Bupa Finance plc senior debt ratings are unchanged at A3 (stable) by Moody's and A- (stable) by Fitch.

At 30 June 2019, we had drawn £295m under our £800m revolving credit facility, which is due to mature in August 2022. We focus on managing our leverage in line with our credit rating targets. Leverage excluding operating leases at 30 June 2019 was 25.5% (FY 2018: 24.7%). Leverage would be 33.3% when IFRS 16 lease liabilities are taken into account.

Coverage of financial covenants remains well within the levels required in our bank facilities.

Solvency

The Parent holds capital to cover its Solvency Capital Requirement (SCR), calculated on a Standard Formula Basis, considering all our risks, including those related to non-insurance businesses. The estimated SCR as at 30 June 2019 was £0.3bn higher compared to 31 December 2018 at £2.4bn and Own Funds were £4.0bn, £0.1bn higher than at 31 December 2018.

The Parent's surplus capital was estimated to be £1.6bn, compared to £1.8bn at 31 December 2018, representing a solvency coverage ratio of 165% (FY 2018: 191%).

The decrease in coverage ratio from 31 December 2018 is due to IFRS 16 becoming effective on 1 January 2019 and acquisitions in the period, including Acıbadem Sigorta, offset by capital generation.

While the application of IFRS 16 accounting change does not change our risk profile, it requires all our operating lease assets and liabilities to be capitalised on the IFRS and Solvency II balance sheet. The value of both lease assets and liabilities at 30 June 2019 on the Solvency II balance sheet is £1.0bn. The lease assets attract a property risk charge under the Solvency II Standard Formula. This, together with interest rate risk on the liability, has increased the SCR by £0.2bn.

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[9] IFRS 16 moves c.£75m of cash outflows in relation to lease payments from operating activities to financing activities.

Our business is strongly capital generative due to our profitability. This underlying capital generation has offset the reduction in surplus capital due to IFRS 16 and acquisitions. The Parent's solvency coverage ratio of 165% is comfortably within risk appetite.

We perform an analysis of the relative sensitivity of our estimated solvency coverage ratio to changes in market conditions and underwriting performance. Each sensitivity is an independent stress of a single risk and before any management actions. The selected sensitivities do not represent our expectations for future market and business conditions. A movement in values of properties that we own continues to be the most sensitive item, with a 10% decrease having a 13 percentage point reduction to the solvency coverage ratio.

The Parent's capital position is resilient in the face of the individual risks, illustrating the strength of our balance sheet.

Risk Sensitivities	**SII Coverage Ratio**
Solvency Coverage Ratio	165%
Interest rate +100bps	162%
Credit spreads +100bps (assuming no credit transition)	164%
Equity markets -20%	165%
Property values -10%	152%
GBP depreciates by 10%	162%
Pension risk +10%	165%
GSP[10] +0.2%	163%
Loss ratio worsening by 2%	157%

Strengthening and streamlining the Group's structure

We recently announced a simplification of our organisation structure to enable organic growth, strengthen governance and increase efficiency. From the second half of the year onwards, the Group will be structured as three Market Units: Australia & New Zealand; Europe & Latin America; and Bupa Global & UK. For our full year Annual Report and Accounts 2019, we will report in accordance with this new structure and restate our 2018 results, where applicable.

Business risks

We described our main risks in the Risk section of the Annual Report and Accounts 2018. In the period to 30 June 2019, there were no significant changes to the nature of these risks.

As previously reported, we have a well-established process for identifying and managing all business risks.

Our business could be affected by changing economic, political and regulatory conditions in the markets in which we operate. This might include economic volatility and structural shifts, such as price restrictions, political changes, high medical inflation or minimum wage increases. There is also increasing regulatory focus across our sectors.

As set out above, the private health insurance and aged care sectors in Australia are facing significant challenges. In Chile, there is some uncertainty following the delay in the approval of the triennial premium price increase alongside wider developments in the government's reform of the Isapres system. We keep our strategy and processes under review to ensure they are flexible enough to deal with changing external conditions.

[10] Group Specific Parameter (GSP) is substituted for the insurance premium risk parameter in the standard formula, reflecting the Group's own loss experience.

In order to ensure issues in one business or Market Unit do not spread and impact our brand trust in another, contagion risk remains prominent in our operational and reputational risk management agenda with a focus on resolving and learning from issues faced.

We are continuing to prepare for the operational, commercial and legal implications of an exit of the UK from the EU under different scenarios, including a situation where the UK leaves the EU with no transition period or with no trade deal in place. We are examining an extensive list of issues and working through steps to protect the Group's position in these areas.

Internal controls, particularly regarding customer conduct, information security and privacy are key areas of focus.

Monitoring and managing our risks is key to ensuring that we achieve our strategic objectives in the long term, meeting the evolving expectations of our customers, people, bondholders and regulators. We keep our focus on strengthening our risk management approach and capability, responding to growth in our business, ensuring we deliver the high standards expected now and in the future.

We continue to monitor the risks set out above. As we hold significant goodwill, intangibles and financial investments on our balance sheet, the crystallisation of these risks could lead to impairments being recognised in future reporting periods. Our annual assessment of impairment of such assets takes place in the second half of the year.

Bupa Finance plc

(Company No. 2779134)

Condensed consolidated half year financial statements (unaudited)

Six months ended 30 June 2019

Bupa Finance plc
Condensed Consolidated Income Statement (unaudited)
for six months ended 30 June 2019

	Note	For six months ended 30 June 2019 £m	For six months ended 30 June 2018 £m	For year ended 31 December 2018 £m
Revenues				
Gross insurance premiums		**4,483**	4,340	8,791
Premiums ceded to reinsurers		**(38)**	(29)	(63)
Net insurance premiums earned		**4,445**	4,311	8,728
Care, health and other customer contract revenue		**1,566**	1,554	3,117
Other revenue		**14**	14	14
Total revenues	3	**6,025**	5,879	11,859
Claims and expenses				
Insurance claims incurred		**(3,598)**	(3,478)	(6,912)
Reinsurers' share of claims incurred		**24**	22	44
Net insurance claims incurred		**(3,574)**	(3,456)	(6,868)
Share of post-taxation results of equity accounted investments		**17**	9	33
Other operating expenses		**(2,192)**	(2,101)	(4,316)
Other income and charges	4	**(2)**	2	(53)
Total claims and expenses		**(5,751)**	(5,546)	(11,204)
Profit before financial income and expense		**274**	333	655
Financial income and expense				
Financial income	5	**71**	23	70
Financial expense	5	**(79)**	(49)	(103)
Net impairment loss on financial assets		**(9)**	(1)	(8)
Net financial expense		**(17)**	(27)	(41)
Profit before taxation expense		**257**	306	614
Taxation expense	6	**(78)**	(72)	(211)
Profit for the financial period		**179**	234	403
Attributable to:				
Bupa Finance plc		**177**	231	397
Non-controlling interests		**2**	3	6
Profit for the financial period		**179**	234	403

Notes 1-17 form part of these Condensed Consolidated Financial Statements.

Bupa Finance plc
Condensed Consolidated Statement of Comprehensive Income (unaudited) for six months ended 30 June 2019

	Note	**For six months ended 30 June 2019 £m**	For six months ended 30 June 2018 £m	For year ended 31 December 2018 £m
Profit for the financial period		**179**	234	403
Other comprehensive income/(expense)				
Items that will not be reclassified to the Income Statement				
Remeasurement gains on pension schemes		**-**	-	1
Unrealised gains on revaluation of property		**1**	21	23
Taxation charge on income and expenses recognised directly in other comprehensive income		**-**	-	(9)
Items that may be reclassified subsequently to the Income Statement				
Foreign exchange translation differences on goodwill		**6**	(65)	(73)
Other foreign exchange translation differences		**18**	(60)	(10)
Net gain on hedge of net investment in overseas subsidiary companies		**4**	18	1
Change in fair value of financial investments through other comprehensive income		**4**	-	-
Change in fair value of underlying derivative of cash flow hedge		**1**	5	-
Taxation charge on income and expenses recognised directly in other comprehensive income		**-**	-	(10)
Total other comprehensive income		**34**	(81)	(77)
Comprehensive income for the period		**213**	153	326
Attributable to:				
Bupa Finance plc		**211**	151	322
Non-controlling interests		**2**	2	4
Comprehensive income for the period		**213**	153	326

Notes 1-17 form part of these Condensed Consolidated Financial Statements.

Bupa Finance plc
Condensed Consolidated Statement of Financial Position (unaudited)
as at 30 June 2019

	Note	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Goodwill and intangible assets	7	**4,285**	4,197	4,133
Property, plant and equipment	8	**4,224**	3,181	3,147
Investment property		**491**	454	407
Equity accounted investments		**725**	690	562
Post-employment benefit net assets	9	**4**	3	3
Restricted assets	10	**109**	107	88
Financial investments	11	**2,519**	2,350	2,451
Derivatives assets		**27**	28	33
Deferred taxation assets		**42**	52	4
Current taxation asset		**25**	9	-
Assets arising from insurance business	12	**1,994**	1,348	1,853
Inventories		**109**	109	119
Trade and other receivables		**761**	745	862
Cash and cash equivalents	13	**1,679**	1,553	1,585
Assets held for sale		**4**	7	10
Total assets		**16,998**	14,833	15,257
Subordinated liabilities	14	**(1,261)**	(1,255)	(1,306)
Other interest bearing liabilities	14	**(1,180)**	(1,055)	(1,102)
Lease liabilities	1.3	**(1,106)**	-	-
Post-employment benefit net liabilities	9	**(8)**	(10)	(11)
Insurance contract liabilities	15	**(3,663)**	(2,753)	(3,381)
Derivative liabilities		**(49)**	(47)	(32)
Provisions for liabilities and charges		**(182)**	(166)	(126)
Deferred taxation liabilities		**(261)**	(271)	(218)
Trade and other payables		**(1,888)**	(1,942)	(1,873)
Other liabilities under insurance contracts issued		**(198)**	(144)	(201)
Current taxation liabilities		**(89)**	(146)	(81)
Total liabilities		**(9,885)**	(7,789)	(8,331)
Net assets		**7,113**	7,044	6,926
Equity				
Called up share capital		**200**	200	200
Property revaluation reserve		**696**	700	709
Income and expenditure reserves		**5,685**	5,640	5,501
Cash flow hedge reserve		**21**	20	31
Foreign currency translation reserve		**491**	464	455
Equity attributable to Bupa Finance plc		**7,093**	7,024	6,896
Equity attributable to non-controlling interest		**20**	20	30
Total equity		**7,113**	7,044	6,926

Notes 1-17 form part of these Condensed Consolidated Financial Statements.

Bupa Finance plc
Condensed Consolidated Statement of Cash Flows (unaudited)
for six months ended 30 June 2019

	Note	**For six months ended 30 June 2019 £m**	For six months ended 30 June 2018 £m	For year ended 31 December 2018 £m
Cash flow from operating activities				
Profit before taxation expense		**257**	306	614
Adjustments for:				
Net financial expense		**17**	27	41
Depreciation, amortisation and impairment		**234**	155	352
Other non-cash items		**(3)**	(10)	19
Changes in working capital and provisions:				
Increase in provisions and other liabilities under insurance contracts issued		**777**	880	165
Increase in assets under insurance business		**(554)**	(636)	(104)
Funded pension scheme employer contributions		**-**	-	(1)
Increase in trade and other receivables, and other assets		**(76)**	(43)	(35)
Decrease in trade and other payables, and other liabilities		**(2)**	(103)	(37)
Cash generated from operations		**650**	576	1,014
Income taxation paid		**(142)**	(71)	(173)
Increase in cash held in restricted assets	10	**(2)**	(12)	(31)
Net cash generated from operating activities		**506**	493	810
Cash flow from investing activities				
Acquisition of subsidiary companies and other businesses, net of cash acquired	16	**(140)**	(23)	(146)
Increase of equity accounted investments		**(4)**	-	(81)
Dividends received from associates		**-**	12	12
Disposal of subsidiary companies and other businesses, net of cash disposed		**(3)**	2	57
Decrease in equity accounted investments		**-**	7	7
Purchase of intangible assets	7	**(31)**	(16)	(60)
Purchase of property, plant and equipment		**(91)**	(106)	(256)
Proceeds from sale of property, plant and equipment		**9**	75	73
Purchase of investment property		**(24)**	(12)	(27)
Disposal of investment property		**-**	13	19
Net proceeds from sale/(purchases) of financial investments, excluding deposits with credit institutions		**56**	(229)	(232)
Net (investment into)/withdrawal from deposits with credit institutions		**(111)**	(18)	61
Interest received		**33**	22	68
Net cash used in investing activities		**(306)**	(273)	(505)
Cash flow from financing activities				
Proceeds from interest bearing liabilities and drawdowns on other borrowings		**162**	25	103
Repayment of interest bearing liabilities and other borrowings		**(48)**	(86)	(190)
Principal repayment of lease liabilities		**(74)**	-	-
Repayment of interest on lease liabilities		**(1)**	-	-
Interest paid		**(42)**	(39)	(87)
Acquisition of non-controlling interests in subsidiary company	16	**(2)**	-	(8)
Dividends paid		**(76)**	(43)	(79)
Dividends paid to non-controlling interests		**(2)**	(2)	(1)
Receipts from hedging instruments		**9**	26	18
Net cash used in financing activities		**(74)**	(119)	(244)
Net increase in cash and cash equivalents		**126**	101	61
Cash and cash equivalents at the beginning of period		**1,552**	1,504	1,504
Effect of exchange rate changes		**(1)**	(21)	(13)
Cash and cash equivalents at end of period	13	**1,677**	1,584	1,552

Notes 1-17 form part of these Condensed Consolidated Financial Statements.

Bupa Finance plc
Condensed Consolidated Statement of Changes in Equity (unaudited)
for six months ended 30 June 2019

For six months ended 30 June 2019	Note	Property revaluation reserve £m	Income and expenditure reserves £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	**Total attributable to Bupa Finance plc £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2019, as previously reported		**700**	**5,640**	**20**	**464**	**6,824**	**20**	**6,844**
Opening balance adjustments	1.3	**(3)**	**(61)**	**-**	**-**	**(64)**	**-**	**(64)**
Balance at 1 January 2019, as restated		**697**	**5,579**	**20**	**464**	**6,760**	**20**	**6,780**
Profit for the financial period		**-**	**177**	**-**	**-**	**177**	**2**	**179**
Other comprehensive income/(expense)								
Unrealised gain on revaluation of property		**1**	**-**	**-**	**-**	**1**	**-**	**1**
Realised revaluation profit on disposal of property		**(2)**	**2**	**-**	**-**	**-**	**-**	**-**
Change in fair value of financial investments through other comprehensive income		**-**	**4**	**-**	**-**	**4**	**-**	**4**
Foreign exchange translation differences on goodwill		**-**	**-**	**-**	**6**	**6**	**-**	**6**
Other foreign exchange translation differences		**-**	**1**	**-**	**17**	**18**	**-**	**18**
Net gain on hedge of net investment in overseas subsidiary companies		**-**	**-**	**-**	**4**	**4**	**-**	**4**
Change in fair value of underlying derivative of cash flow hedge		**-**	**-**	**1**	**-**	**1**	**-**	**1**
Other comprehensive income/(expense) for the period, net of taxation		**(1)**	**7**	**1**	**27**	**34**	**-**	**34**
Total comprehensive income/(expense) for the period		**(1)**	**184**	**1**	**27**	**211**	**2**	**213**
Dividends to equity holders of the company		**-**	**(76)**	**-**	**-**	**(76)**	**-**	**(76)**
Acquisition of subsidiary companies attributable to non-controlling interests		**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Dividends paid to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Balance at 30 June 2019		**696**	**5,685**	**21**	**491**	**6,893**	**20**	**6,913**
Share capital at beginning and end of period								**200**
Total equity								**7,113**

Notes 1-17 form part of these Condensed Consolidated Financial Statements.

Bupa Finance plc
Condensed Consolidated Statement of Changes in Equity (unaudited)
for six months ended 30 June 2019

For year ended 31 December 2018	Note	Property revaluation reserve £m	Income and expenditure reserves £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa Finance plc £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2018, as previously reported		796	5,221	22	557	6,596	30	6,626
Opening balance adjustments	1.3	-	(8)	-	-	(8)	-	(8)
Balance at 1 January 2018, as restated		796	5,213	22	557	6,588	30	6,618
Profit for the financial period		-	397	-	-	397	6	403
Other comprehensive income/(expense)								
Unrealised gain on revaluation of property		23	-	-	-	23	-	23
Realised revaluation profit on disposal of property		(101)	101	-	-	-	-	-
Remeasurement gain on pension schemes		-	1	-	-	1	-	1
Foreign exchange translation differences on goodwill		-	-	-	(73)	(73)	-	(73)
Other foreign exchange translation differences		(9)	14	(2)	(11)	(8)	(2)	(10)
Net gain on hedge of net investment in overseas subsidiary companies		-	-	-	1	1	-	1
Taxation charge on income and expense recognised directly in other comprehensive		(9)	-	-	(10)	(19)	-	(19)
Other comprehensive income/(expense) for the period, net of taxation		(96)	116	(2)	(93)	(75)	(2)	(77)
Total comprehensive income/(expense) for the period		(96)	513	(2)	(93)	322	4	326
Dividends to equity holders of the company		-	(79)	-	-	(79)	-	(79)
Acquisition of subsidiary companies attributable to non-controlling interests		-	(7)	-	-	(7)	(4)	(11)
Elimination of non-controlling interest on disposal of subsidiary		-	-	-	-	-	(9)	(9)
Dividends paid to non-controlling interests		-	-	-	-	-	(1)	(1)
Balance at 31 December 2018		700	5,640	20	464	6,824	20	6,844
Share capital at beginning and end of period								200
Total equity								7,044

Notes 1-17 form part of these Condensed Consolidated Financial Statements.

Bupa Finance plc
Condensed Consolidated Statement of Changes in Equity (unaudited)
for six months ended 30 June 2019

For six months ended 30 June 2018	Note	Property revaluation reserve £m	Income and expenditure reserves £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa Finance plc £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2018, as previously reported		796	5,221	22	557	6,596	30	6,626
Opening balance adjustments	1.3	-	(8)	-	-	(8)	-	(8)
Balance at 1 January 2018, as restated		796	5,213	22	557	6,588	30	6,618
Profit for the financial period		-	231	-	-	231	3	234
Other comprehensive income/(expense)								
Unrealised gain on revaluation of property		21	-	-	-	21	-	21
Realised revaluation profit on disposal of property		(100)	100	-	-	-	-	-
Foreign exchange translation differences on		-	-	-	(65)	(65)	-	(65)
Other foreign exchange translation differences		(8)	-	4	(55)	(59)	(1)	(60)
Net gain on hedge of net investment in overseas subsidiary companies		-	-	-	18	18	-	18
Change in fair value of underlying derivative of cash flow hedge		-	-	5	-	5	-	5
Other comprehensive income/(expense) for the period, net of taxation		(87)	100	9	(102)	(80)	(1)	(81)
Total comprehensive income/(expense) for the period		(87)	331	9	(102)	151	2	153
Dividends to equity holders of the company		-	(43)	-	-	(43)	-	(43)
Dividends paid to non-controlling interests		-	-	-	-	-	(2)	(2)
Balance at 30 June 2018		709	5,501	31	455	6,696	30	6,726
Share capital at beginning and end of period								200
Total equity								6,926

Notes 1-17 form part of these Condensed Consolidated Financial Statements.

1 Financial information and basis of preparation

1.1 Basis of preparation

Bupa Finance plc (the Company) is a company incorporated in England and Wales.

The condensed consolidated half year financial statements of the Company as at and for the six months ended 30 June 2019 comprise those of the Company and its subsidiary companies (together referred to as the “Group”).

The interim financial statements have been prepared in accordance with Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (“IAS”) 34 Interim Financial Reporting, as adopted by the European Union (“EU”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the EU.

The interim financial statements were approved by the Board of Directors of Bupa Finance plc on 31 July 2019.

The financial information contained in these interim results does not constitute statutory accounts of Bupa Finance plc within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2018 are not the Company’s statutory accounts for the financial year. Those accounts have been reported on by the Company’s auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

1.2 Going concern

Management has conducted a detailed assessment of the Group’s going concern status based on its current position and forecast results. They have concluded that the Group has adequate resources to operate for the next twelve months. In making this assessment, management have considered the discussions with the relationship banks as well as forecasts which take account of reasonably possible changes in trading performance, solvency capital and recent acquisitions.

Details of the Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Half Year 2019 Results Announcement. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review of the Half Year 2019 Results Announcement

The Group’s £800m committed bank facility, which matures in August 2022, was drawn down by £295m at 30 June 2019 (30 June 2018: £210m, 31 December 2018: £170m).

1.3 Changes in accounting policies

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

1.3.1 Leases – adjustments recognised on adoption of IFRS 16

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

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

For the majority of leases, the Group has applied IFRS 16 using the modified retrospective approach, where the right-of-use assets equal the lease liabilities on transition, adjusted by the amount of any prepayments, intangible assets and onerous lease provisions. For a small proportion of leases, the right-of-use asset has been determined as if IFRS 16 had been applied since the lease commencement date but discounted using the lessee’s incremental borrowing rate at the date of initial application. There is no restatement of comparative information and the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to the opening balance of retained earnings.

In applying IFRS 16 on transition, the Group has used the following practical expedients permitted by the standard:

- The Group has elected not to reassess whether a contract is or contains a lease as defined in IFRS 16 at the date of initial application. For contracts entered into before the transition date, the Group relied on its assessment made when applying IAS 17 and IFRIC 4.
- For the majority of leases, reliance has been placed on previous assessments of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. For leases where the right-of-use asset has been determined as if IFRS 16 had been applied since the lease commencement date, this expedient has not been taken.
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at transition date.

For leases previously classified as finance leases, the Group has recognised the carrying amount of the finance lease asset and liability under IAS 17 as at 31 December 2018 as the carrying amount of the right-of-use asset and the lease liability under IFRS 16 at 1 January 2019. These leases are subsequently measured under IFRS 16 principles.

IFRS 16 has had no significant impact in cases where Group acts as a lessor.

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

	Measurement adjustments £m	Reclassifications £m	Total £m
Goodwill and intangible assets	-	(18)	(18)
Property, plant and equipment (right-of-use assets)	1,017	28	1,045
Property, plant and equipment (leasehold property/equipment)	-	(11)	(11)
Investment property (right-of-use asset)	-	2	2
Deferred taxation assets	13	-	13
Trade and other receivables	-	(23)	(23)
Other interest bearing liabilities	-	4	4
Lease liabilities	(1,094)	(1)	(1,095)
Trade and other payables	-	19	19
Total impact on net assets	(64)	-	(64)

In addition, £3m has been reclassified from the property revaluation reserve to the income and expenditure reserves as a result of reclassifying finance leased property assets to right-of-use assets on implementation of IFRS 16.

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

	£m
Operating lease commitments at 31 December 2018 under IAS 17 as disclosed in the Group's consolidated financial statements	1,294
Less: Recognition exemption under IFRS 16 for:	
Short term leases recognised on a straight-line basis as expense	(6)
Leases of low value assets recognised on a straight line basis as expense	(1)
Add: adjustments as a result of the different treatment of expected lease payments[1]	249
Total undiscounted operating lease commitments	1,536
Effect of discounting using the incremental borrowing rate at 1 January 2019	(442)
Reclassifications in the opening balance sheet:	
Add: IAS 17 financial lease liabilities recognised as at 31 December 2018	2
Less: lease incentives receivable	(1)
Lease liabilities recognised under IFRS 16 at 1 January 2019	1,095

[1]Primarily related to extension options that are reasonably certain to be exercised

The weighted average lessee's incremental borrowing rate applicable to the lease liabilities on 1 January 2019 was 5.3%.

1.3.3 The Group's leasing activities and ongoing accounting treatment

The Group's leases primarily relate to properties. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Property leases will often include extension and termination options, open market rent reviews, indexation uplifts or fixed uplifts.

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 individual lessee company's incremental borrowing rate taking into account the duration of the lease.

Lease payments include fixed payments, variable lease payments that depend on an index or a rate, payments related to optional extension and termination periods if the Group is reasonably certain to exercise or not to exercise the option, respectively.

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

Following the adoption of IFRS 16, the Group has reviewed its estimates of restoration provisions. Consequently, the provision has been increased by £30m, of which £12m has been expensed in the current period and £18m adjusted to the right-of-use asset.

The Group 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.

1.3.2 2018 Transitional impacts

In 2018, the Group adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Both standards were implemented retrospectively, with the cumulative effect of initially applying the standards recognised as an adjustment to the opening balance of retained earnings at the date of initial application of 1 January 2018. The impacts of this are set out below:

	Property revaluation reserve £m	Income and expenditure reserves £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa Finance plc £m	Non-controlling interests £m	Total equity £m
IFRS 9							
Impact of reclassification of financial investments	-	(1)	-	-	(1)	-	(1)
Impact of expected credit losses (ECL) assessment	-	(6)	-	-	(6)	-	(6)
IFRS 15							
Change in the timing of revenue	-	(1)	-	-	(1)	-	(1)
Total impact on opening equity	-	(8)	-	-	(8)	-	(8)

1.4 Foreign exchange

The following significant exchange rates applied during the period:

	Average rate			Closing rate		
	At 30 June 2019	At 31 December 2018	At 30 June 2018	**At 30 June 2019**	At 31 December 2018	At 30 June 2018
Australian dollar	**1.8320**	1.7860	1.7838	**1.8109**	1.8097	1.7843
Brazilian real	**4.9679**	4.8674	4.7103	**4.8661**	4.9461	5.0979
Chilean peso	**873.8384**	855.7769	841.7955	**861.3008**	884.3577	861.7499
Danish krone	**8.5499**	8.4245	8.4655	**8.3416**	8.3107	8.4175
Euro	**1.1453**	1.1303	1.1366	**1.1176**	1.1131	1.1298
Hong Kong dollar	**10.1482**	10.4642	10.7870	**9.9158**	9.9831	10.3524
Mexican peso	**24.7924**	25.6624	26.2290	**24.3472**	25.0650	26.1221
New Zealand dollar	**1.9252**	1.9289	1.9223	**1.8922**	1.8990	1.9488
Polish zloty	**4.9157**	4.8162	4.7968	**4.7440**	4.7743	4.9441
Turkish lira	**7.2662**	6.4365	-	**7.3494**	6.7417	-
US dollar	**1. 2939**	1.3351	1.3763	**1.2695**	1.2746	1.3194

1.5 Events occurring after the reporting period

The Group recently announced a simplification of the organisation structure. From the second half of the year onwards, the Group will be structured as three Market Units: Australia and New Zealand; Europe and Latin America; and Bupa Global and UK. The 2019 financial statements will be reported in line with this new structure and 2018 balances will be restated, where applicable.

2 Operating segments

The Group is managed through four Market Units based on geographic locations and customers. Management monitors the operating results of the Market Units separately to assess performance and make decisions about the allocation of resources. The segmental disclosures are reported consistently with the way the business is managed and reported internally.

The Group recently announced a simplification of the organisation structure. From the second half of the year onwards, the Group will be structured as three Market Units: Australia and New Zealand; Europe and Latin America; and Bupa Global and UK. The 2019 financial statements will be reported in line with this new structure and 2018 balances will be restated, where applicable.

Reportable Segments	Service and Products
Australia and New Zealand	Bupa Health Insurance: Health insurance, international health cover in Australia.
	Bupa Health Services: Health provision services relating to dental, optical, audiology and medical assessments and therapy.
	Bupa Villages and Aged Care Australia and New Zealand: Nursing, residential and respite care in Australia and New Zealand. Retirement villages in New Zealand.
Europe and Latin America	Sanitas Seguros (Sanitas PMI): Health insurance and related products in Spain.
	Sanitas Dental: Dental services through clinics and third-party networks in Spain.
	Sanitas Hospitales and New Services: Management and operation of hospitals and health clinics in Spain.
	Sanitas Mayores: Nursing, residential and respite care in care homes and day centres in Spain.
	LUX MED: Medical subscriptions, health insurance, and the management and operation of diagnostics, health clinics and hospitals in Poland.
	Bupa Chile: Health insurance and the management and operation of health clinics and hospitals in Chile.
UK	Bupa UK Insurance: Health insurance, and administration services for Bupa health trusts.
	Bupa Dental Care: Dental services and related products.
	Bupa Health Services: Clinical services, health assessment related products and management and operation of a private hospital.
	Bupa Care Services: Nursing, residential, respite care and care villages.
International Markets	Bupa Global: International health insurance to individuals, small businesses and corporate customers and health insurance in Latin America, mainly Brazil and Mexico.
	Bupa Hong Kong: Domestic health insurance, primary healthcare and day care clinics including diagnostics.
	Bupa Acıbadem Sigorta: Domestic health insurance in Turkey
	Associates: Bupa Arabia (Kingdom of Saudi Arabia), Highway to Health (USA) and Max Bupa (India): Health insurance.

A key performance measure of operating segments utilised by the Group is underlying profit. This measurement basis distinguishes underlying profit from other constituents of the IFRS reported profit before tax not directly related to the underlying trading performance of the business.

As reported in our 2018 financial statements, in response to the FRC guidance on Alternative Performance Measures, the definition of underlying profit has been refined with the objective of providing better transparency around the trading performance of the Group. The total underlying profit of the reportable segments for June 2018 has been restated. The key restatement item is the inclusion of amortisation of intangible assets arising on business combinations as part of underlying profit (June 2018: £34m). Other refinements have been made to the definition but are not material to the reportable segment or Group

The adjustments made to reported profit before tax are to exclude the following:

- Impairment of intangible assets and goodwill arising on business combinations – impairment reviews are performed at least annually. Goodwill impairments are considered to be one-off and not reflective of the ongoing trading performance of the business.

- Net gains/losses on disposal of businesses and transaction costs on business combinations – gains/losses on disposal of businesses that are material and one-off in nature to the reportable segment or Group are not considered part of the continuing business; transaction costs incurred that relate to material acquisitions or disposals are not considered as part of ongoing trading performance of the business.

- Net property revaluation gains/losses – short-term fluctuations which would distort underlying trading performance. Includes unrealised gains or losses on investment properties, deficit on revaluations and property impairment losses.

- Realised and unrealised foreign exchange gains/losses – short-term fluctuations outside of management control, which would distort underlying trading performance.

- Other Market Unit/Central non-underlying items – includes items that are considered material to the reportable segment or Group and are not reflective of ongoing trading performance.

- Gains/losses on return-seeking assets, net of hedging – fluctuations on investments that are not considered to be directly related to underlying trading performance.

For six months ended 30 June 2019	Australia and New Zealand £m	Europe and Latin America £m	United Kingdom £m	International Markets £m	Total £m
(i) Revenues					
Gross insurance premiums	1,851	985	774	873	4,483
Premiums ceded to reinsurers	-	(6)	(14)	(18)	(38)
Internal reinsurance	-	(2)	-	2	-
Net insurance premiums earned	1,851	977	760	857	4,445
Care, health and other customer contract revenues	395	579	511	84	1,569
Other revenues	8	2	1	4	15
Intersegment revenues	-	-	(3)	-	(3)
Total revenues for reportable segments	2,254	1,558	1,269	945	6,026
Net reclassifications to other expenses or financial income and expense					(1)
Consolidated total revenues					6,025
(ii) Segmental result					
Underlying profit for reportable segments	92	86	42	32	252
Central expenses and net interest margin					(10)
Underlying profit for reportable segments					242
Non-underlying items:					
Net loss on disposal of businesses and transaction costs on business combinations	-	-	(2)	-	(2)
Net property revaluation gains	8	-	-	-	8
Realised and unrealised FX losses	-	(1)	-	(8)	(9)
Gains on return-seeking assets, net of hedging					24
Central non-underlying items					(6)
Total non-underlying items					15
Consolidated profit before taxation expense					257

For six months ended 30 June 2018	Australia and New Zealand £m	Europe and Latin America £m	United Kingdom £m	International Markets £m	Total £m
(i) Revenues					
Gross insurance premiums	1,900	944	770	726	4,340
Premiums ceded to reinsurers	-	(3)	(11)	(15)	(29)
Internal reinsurance	-	(3)	-	3	-
Net insurance premiums earned	1,900	938	759	714	4,311
Care, health and other customer contract revenues	419	574	492	69	1,554
Other revenues	6	5	1	2	14
Total revenue for reportable segments	2,325	1,517	1,252	785	5,879
Net reclassifications to other expenses or financial income and expense					-
Consolidated total revenues					5,879
(ii) Segmental result					
Underlying profit for reportable segments	161	87	58	25	331
Central expenses and net interest margin					(29)
Underlying profit for reportable segments					302
Non-underlying items:					
Net gain on disposal of businesses and transaction costs on business combinations	-	-	-	8	8
Net property revaluation gains/losses	7	-	(7)	-	-
Realised and unrealised FX (losses)/gains	-	(5)	-	10	5
Other Market Unit non-underlying items	-	-	-	(5)	(5)
Losses on return-seeking assets, net of hedging					(4)
Total non-underlying items					4
Consolidated profit before taxation expense					306

For year ended 31 December 2018	Australia and New Zealand £m	Europe and Latin America £m	United Kingdom £m	International Markets £m	Total £m
(i) Revenues					
Gross insurance premiums	3,829	1,908	1,556	1,498	8,791
Premiums ceded to reinsurers	-	(9)	(22)	(32)	(63)
Internal reinsurance	-	(3)	-	3	-
Net insurance premiums earned	3,829	1,896	1,534	1,469	8,728
Care, health and other customer contract revenues	824	1,141	1,004	154	3,123
Other revenues	3	4	4	3	14
Intersegment revenues	-	-	(5)	-	(5)
Total revenue for reportable segments	4,656	3,041	2,537	1,626	11,860
Net reclassifications to other expenses or financial income and expense					(1)
Consolidated total revenues					11,859
(ii) Segmental result					
Underlying profit for reportable segments	337	198	165	68	768
Central expenses and net interest margin					(46)
Underlying profit for reportable segments					722
Non-underlying items:					
Impairments of intangible assets and goodwill arising on business combinations	(36)	-	-	-	(36)
Net gain/(loss) on disposal of businesses and transaction costs on business combinations	-	(23)	(18)	8	(33)
Net property revaluation gains/(losses)	17	(4)	(13)	-	-
Realised and unrealised FX losses	-	(6)	-	(2)	(8)
Other Market Unit non-underlying items	(21)	-	-	(9)	(30)
Losses on return-seeking assets, net of hedging					(1)
Total non-underlying items					(108)
Consolidated profit before taxation expense					614

3 Revenue

Revenue has been analysed at Business Unit level reflecting the nature of services provided by geography that is reported internally to management.

For six months ended 30 June 2019	Care, health and other customer contract revenue £m	Net insurance premiums earned £m	Other revenue £m	Total revenues £m
Bupa Health Insurance	4	1,851	1	1,856
Bupa Health Services	151	-	1	152
Bupa Villages and Aged Care Australia and New Zealand	240	-	6	246
Australia and New Zealand	**395**	**1,851**	**8**	**2,254**
Sanitas Seguros	4	570	-	574
Sanitas Dental	42	30	1	73
Sanitas Hospitales and New Services	112	-	-	112
Sanitas Mayores	72	-	-	72
LUX MED	183	5	-	188
Bupa Chile	166	372	1	539
Europe and Latin America	**579**	**977**	**2**	**1,558**
Bupa UK Insurance	8	760	1	769
Bupa Dental Care	224	-	-	224
Bupa Health Services	72	-	-	72
Bupa Care Services	204	-	-	204
United Kingdom	**508**	**760**	**1**	**1,269**
Bupa Global	2	624	2	628
Bupa Hong Kong	82	151	-	233
Bupa Acıbadem Sigorta	-	82	-	82
Other	-	-	2	2
International Markets	**84**	**857**	**4**	**945**
Net reclassifications to other expenses or financial income and expense	-	-	(1)	(1)
Consolidated total revenues	**1,566**	**4,445**	**14**	**6,025**

For six months ended 30 June 2018	Care, health and other customer contract revenue £m	Net insurance premiums earned £m	Other revenue £m	Total revenues £m
Bupa Health Insurance	7	1,900	-	1,907
Bupa Health Services	156	-	-	156
Bupa Villages and Aged Care Australia and New Zealand	256	-	6	262
Australia and New Zealand	419	1,900	6	2,325
Sanitas Seguros	12	575	4	591
Sanitas Dental	38	-	-	38
Sanitas Hospitales and New Services	142	-	-	142
Sanitas Mayores	69	-	-	69
LUX MED	165	5	-	170
Bupa Chile	148	358	1	507
Europe and Latin America	574	938	5	1,517
Bupa UK Insurance	-	759	-	759
Bupa Dental Care	212	-	1	213
Bupa Health Services	81	-	-	81
Bupa Care Services	199	-	-	199
United Kingdom	492	759	1	1,252
Bupa Global	1	588	-	589
Bupa Hong Kong[1]	68	126	-	194
Other	-	-	2	2
International Markets	69	714	2	785
Net reclassifications to other expenses or financial income and expense	-	-	-	-
Consolidated total revenues	1,554	4,311	14	5,879

[1]Previously disclosed comparatives have been corrected for a £25m reclassification of revenue between “Other revenue” and “Care, health and other customer contract revenue”.

For year ended 31 December 2018	Care, health and other customer contract revenue £m	Net insurance premiums earned £m	Other revenue £m	Total revenues £m
Bupa Health Insurance	8	3,829	1	3,838
Bupa Health Services	306	-	1	307
Bupa Villages and Aged Care Australia and New Zealand	510	-	1	511
Australia and New Zealand	824	3,829	3	4,656
Sanitas Seguros	7	1,106	3	1,116
Sanitas Dental	74	59	-	133
Sanitas Hospitales and New Services	289	-	-	289
Sanitas Mayores	140	-	-	140
LUX MED	338	10	-	348
Bupa Chile	293	721	1	1,015
Europe and Latin America	1,141	1,896	4	3,041
Bupa UK Insurance	19	1,534	2	1,555
Bupa Dental Care	436	-	2	438
Bupa Health Services	137	-	-	137
Bupa Care Services	407	-	-	407
United Kingdom	999	1,534	4	2,537
Bupa Global	3	1,203	3	1,209
Bupa Hong Kong	147	266	-	413
Other	4	-	-	4
International Markets	154	1,469	3	1,626
Net reclassifications to other expenses or financial income and expense	(1)	-	-	(1)
Consolidated total revenues	3,117	8,728	14	11,859

4 Other income and charges

	For six months ended 30 June 2019 £m	For six months ended 30 June 2018 £m	For year ended 31 December 2018 £m
Net (loss)/gain on disposal of business[1]	**(3)**	8	(31)
Deficit on revaluation of property	**-**	(6)	(21)
Net gain on disposal of property, plant and equipment	**1**	1	-
Movement in provision for equity accounted investments	**-**	(1)	(1)
Total other income and charges	**(2)**	2	(53)

[1]2019 loss on disposal of business includes £2m additional costs relating to the sale of a number of UK care homes in 2018.
2018 loss on disposal of business includes a £22m loss on disposal of Torrejón Salud on 28 December 2018, £20m of losses relating to ongoing completion costs with respect of the disposal of UK care homes, profits of £8m on disposal of a 33.33% share of Forsikringens Datacenter A/S on 3 January 2018 and a net £3m profit on other disposals.

5 Financial income and expense

5.1 Financial income

	For six months ended 30 June 2019 £m	For six months ended 30 June 2018 £m	For year ended 31 December 2018 £m
Interest income:			
Investments at fair value through profit or loss	**13**	-	5
Investments at fair value through other comprehensive income	**3**	-	-
Amortised cost	**28**	25	47
Net realised gains on financial investments at fair value through profit or loss	**1**	7	8
Net increase/(decrease) in fair value:			
Investments at fair value through profit or loss	**27**	(9)	(8)
Investment property	**8**	7	21
Net foreign exchange translation losses	**(9)**	(7)	(3)
Total financial income	**71**	23	70

Included within financial income is a net gain, after hedging, on the Group's return-seeking asset portfolio of £24m (HY 2018: net loss of £4m, FY 2018: net loss of £1m).

5.2 Financial expense

	For six months ended 30 June 2019 £m	For six months ended 30 June 2018 £m	For year ended 31 December 2018 £m
Interest expense on financial liabilities at amortised cost	**48**	48	100
Finance charges in respect of leases[1]	**29**	-	-
Other financial expenses	**2**	1	3
Total financial expenses	**79**	49	103

[1]For the six months ended 30 June 2019, finance charges in respect of leases relate to leases recognised on the balance sheet in accordance with IFRS 16, whereas finance charges in 2018 only relate to finance leases under IAS 17 (see Note 1.3.1).

6 Taxation expense

The Group's effective tax rate for the period was 30% (HY 2018: 24%, FY 2018: 34%), which is higher than the UK corporation tax rate of 19%. This is mainly due to profits arising in jurisdictions with a higher rate of corporate income tax and one-off items including the release of a deferred tax asset and the recognition of additional provisions in our Latin American markets.

7 Goodwill and intangible assets

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Net book value at beginning of period	**4,197**	4,244	4,244
Adoption of IFRS 16 Leases (Note 1.3)	**(18)**	-	-
Assets arising on business combinations	**130**	159	24
Additions	**31**	60	16
Disposals of subsidiary companies	**-**	(1)	-
Disposals	**(1)**	(6)	-
Amortisation for the period	**(71)**	(132)	(63)
Impairment loss	**(1)**	(39)	(2)
Other	**6**	3	4
Foreign exchange	**12**	(91)	(90)
Net book value at end of period	**4,285**	4,197	4,133

The net book value of intangible assets comprises:

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Goodwill	**3,049**	2,956	2,922
Computer software	**247**	242	228
Brands/trademarks	**228**	224	221
Customer relationships	**576**	599	582
Other	**185**	176	180
Net book value at end of period	**4,285**	4,197	4,133

Intangible assets of £4,285m (HY 2018: £4,133m; FY 2018: £4,197m) includes £989m (HY 2018: £983m; FY 2018: £999m) which is attributable to other intangible assets arising on business combinations (included within brands/trademarks, customer relationships and other) as follows:

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Customer relationships	**576**	599	582
Bed licences (within Bupa Villages and Aged Care Australia)	**114**	114	118
Brands and trademarks	**228**	224	221
Licences to operate care homes	**19**	22	18
Customer contracts	**-**	-	1
Leases	**3**	23	26
Distribution networks	**47**	15	15
Present valuation of acquired in-force business	**1**	1	1
Non-compete agreement	**1**	1	1
Total	**989**	999	983

Impairment testing of goodwill

Goodwill is tested at least annually for impairment in accordance with IAS 36 Impairment of Assets and IAS 38 Intangible Assets. A review of goodwill was carried out as at 30 June 2019, which resulted in no impairments.

Goodwill by cash generating unit (CGU) is as follows:

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Australia and New Zealand			
Bupa Australia Health Insurance	**875**	876	890
Bupa Health Services Australia	**297**	295	299
Bupa Villages and Aged Care - Australia	**268**	268	271
Bupa Villages and Aged Care - New Zealand	**-**	-	34
Europe and Latin America			
Bupa Chile	**173**	168	173
LUX MED	**255**	252	241
Sanitas Seguros	**102**	103	41
Sanitas Mayores	**22**	22	22
Other	**-**	-	1
UK			
Bupa Care Services UK	**90**	90	90
UK Dental	**677**	650	634
Bupa Cromwell Hospital	**16**	16	16
Other	**3**	3	2
International Markets			
Quality HealthCare	**119**	119	114
Bupa Global	**68**	68	68
Care Plus	**27**	26	26
Acıbadem Sigorta	**57**	-	-
Total	**3,049**	2,956	2,922

8 Property, plant and equipment

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Net book value at beginning of period	**3,181**	3,184	3,184
Adoption of IFRS 16 Leases (Note 1.3)	**1,034**	-	-
Additions through business combinations	**2**	14	2
Additions	**140**	248	94
Transfer to assets held for sale	**(1)**	(16)	(2)
Disposals	**(3)**	(11)	(3)
Revaluations	**1**	2	14
Remeasurement	**25**	-	-
Depreciation charge for the period	**(162)**	(179)	(89)
Impairments	**-**	(2)	(1)
Other	**(3)**	-	2
Foreign exchange	**10**	(59)	(54)
Net book value at end of period	**4,224**	3,181	3,147

Property, plant and equipment are the physical assets utilised by the Group to carry out business activities and generate revenues and profits. Most of the assets held relate to care homes, hospital properties, office buildings and equipment. Lease right-of-use assets, recognised on transition to IFRS 16 Leases, relate primarily to property leases.

9 Post-employment benefits

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

Amount recognised in the Condensed Consolidated Income Statement

The amounts (credited)/charged to other operating expenses for the period are:

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Current service cost	**-**	1	1
Gain on settlement	**(1)**	-	-
Net interest on defined benefit liability/asset	**-**	1	-
Total amount (credited)/charged to the Condensed Consolidated Income Statement	**(1)**	2	1

Assets and liabilities of schemes

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

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Present value of funded obligations	(74)	(92)	(99)
Fair value of scheme assets	70	85	91
Net recognised liabilities	**(4)**	(7)	(8)
Represented on the Condensed Consolidated Statement of Financial Position:			
Net liabilities	(8)	(10)	(11)
Net assets	4	3	3
Net recognised liabilities	**(4)**	(7)	(8)

10 Restricted assets

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Non-current restricted assets	**42**	42	43
Current restricted assets	**67**	65	45
Total restricted assets	**109**	107	88

Restricted assets are amounts held in respect of specific obligations and potential liabilities and may be used only to discharge those obligations and potential liabilities should they crystallise. The non-current restricted assets balance of £42m (HY 2018: £43m, FY 2018: £42m) consists of cash deposits held to secure a charge over the non-registered pension arrangement maturing after 2022. Included in current restricted assets is £65m (HY 2018: £45m, FY 2018: £63m) in respect of claims funds held on behalf of corporate customers.

11 Financial investments

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

Classification

All financial investments are initially recognised at fair value, which includes transaction costs for financial investments not classified at fair value through profit or loss.

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

Financial investments at initial recognition are recorded using trade date accounting.

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

Impairment

Entities are required to recognise an allowance for either 12-month or lifetime expected credit losses (ECL), depending on whether there has been a significant increase in credit risk since initial recognition. The measurement of ECL reflects a probability-weighted outcome, the time value of money and the best available forward-looking information. The ECL should be based on reasonable and supportable information that is available without undue cost or effort. An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (e.g. it is investment grade).

As the Group's financial investments at amortised cost or FVOCI are all either investment grade or short term, 12-month ECL is applied. For financial investments, an option pricing probability model is used as the basis for assessing ECL. ECL for trade and other receivables is measured at lifetime ECL using a provision matrix.

	At 30 June 2019		At 31 December 2018		At 30 June 2018	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Fair value through profit or loss						
Corporate debt securities and secured loans	**349**	**349**	310	310	272	272
Government debt securities	**47**	**47**	44	44	57	57
Pooled investment funds	**220**	**220**	195	195	230	230
Deposits with credit institutions	**2**	**2**	4	4	8	8
Other loans	**9**	**9**	9	9	1	1
Equities	**21**	**21**	20	20	19	19
Fair value through other comprehensive income						
Corporate debt securities and secured loans	**30**	**30**	-	-	-	-
Government debt securities	**66**	**66**	-	-	-	-
Amortised cost						
Corporate debt securities and secured loans	**702**	**705**	779	778	782	782
Government debt securities	**155**	**159**	183	185	193	193
Deposits with credit institutions	**917**	**921**	805	807	888	890
Other loans	**1**	**1**	1	1	1	1
Total financial investments	**2,519**	**2,530**	2,350	2,353	2,451	2,453
Non-current	**837**	**840**	1,029	1,029	1,000	999
Current	**1,682**	**1,690**	1,321	1,324	1,451	1,454

Fair value of financial investments

Fair value is a market-based measurement for assets for observable market transactions where market information might be available. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the asset would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset).

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

Financial investments carried at fair value are measured using different valuation inputs categorised into a three-level hierarchy. The different levels have been defined by reference to the lowest level input that is significant to the fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

An analysis of financial investment by valuation method is as follows:

At 30 June 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value through profit or loss				
Corporate debt securities and secured loans	**26**	**323**	**-**	**349**
Government debt securities	**47**	**-**	**-**	**47**
Pooled investment funds	**46**	**171**	**3**	**220**
Deposits with credit institutions	**2**	**-**	**-**	**2**
Other loans	**-**	**-**	**9**	**9**
Equities	**-**	**-**	**21**	**21**
Fair value through other comprehensive income				
Corporate debt securities and secured loans	**30**	**-**	**-**	**30**
Government debt securities	**66**	**-**	**-**	**66**
Amortised cost				
Corporate debt securities and secured loans	**703**	**2**	**-**	**705**
Government debt securities	**158**	**1**	**-**	**159**
Deposits with credit institutions	**-**	**921**	**-**	**921**
Other loans	**-**	**1**	**-**	**1**
Total financial investments	**1,078**	**1,419**	**33**	**2,530**

At 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value through profit or loss				
Corporate debt securities and secured loans	26	284	-	310
Government debt securities	44	-	-	44
Pooled investment funds	98	94	3	195
Deposits with credit institutions	4	-	-	4
Other loans	-	-	9	9
Equities	-	-	20	20
Amortised cost				
Corporate debt securities and secured loans	777	1	-	778
Government debt securities	184	1	-	185
Deposits with credit institutions	1	806	-	807
Other loans	-	1	-	1
Total financial investments	1,134	1,187	32	2,353

At 30 June 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value through profit or loss				
Corporate debt securities and secured loans	195	78	-	273
Government debt securities	29	28	-	57
Pooled investment funds	134	94	2	230
Deposits with credit institutions	8	-	-	8
Other loans	-	1	-	1
Equities	-	-	19	19
Amortised cost				
Corporate debt securities and secured loans	780	1	-	781
Government debt securities	192	1	-	193
Deposits with credit institutions	-	890	-	890
Other loans	-	1	-	1
Total financial investments	1,338	1,094	21	2,453

The Group currently holds level 3 investments totalling £33m (HY 2018: £21m, FY 2018: £32m). The majority of investments are valued using an earnings multiple of comparable companies, which are deemed to be unobservable inputs. The average multiple applied is 3.9 (HY 2018: 4.3, FY 2018: 4.6). Changing these multiples to a reasonable alternative would result in a change in fair value of plus or minus £6m (HY 2018: £5m, FY 2018: £6m).

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

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Opening balance	**32**	20	20
Additions	**-**	11	-
Foreign exchange	**1**	1	1
Total level 3 assets measured at fair value	**33**	32	21

There have been no transfers in or out of level 3 during the period.

12 Assets arising from insurance business

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Insurance debtors	**1,684**	1,092	1,589
Ceded insurance provisions (see Note 15)	**45**	23	26
Deferred acquisition costs	**173**	139	150
Medicare Rebate	**68**	71	70
Risk equalisation special account recoveries	**24**	23	18
Total assets arising from insurance business	**1,994**	1,348	1,853
Non-current	**15**	24	3
Current	**1,979**	1,324	1,850

Due to the nature of insurance business and timing of renewals, half year balances are higher than year end. The increase year on year is due to business growth.

13 Cash and cash equivalents

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Cash at bank and in hand	**1,098**	1,092	1,130
Short-term deposits	**581**	461	455
Total cash and cash equivalents	**1,679**	1,553	1,585

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

The Group additionally has bank overdrafts of £2m (HY 2018: £1m; FY 2018: £1m) that are repayable on demand. These are reported within other interest bearing liabilities (Note 14) on the Condensed Consolidated Statement of Financial Position, although are considered as a component of cash and cash equivalents for the purpose of the Condensed Consolidated Statement of Cash Flows.

14 Borrowings

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Subordinated liabilities			
Callable subordinated perpetual guaranteed bonds	**346**	336	346
Fair value adjustment in respect of hedged interest rate risk	**16**	21	28
Callable subordinated perpetual guaranteed bonds at carrying value	**362**	357	374
5.0% subordinated unguaranteed bonds due 2023 and 2026	**899**	898	897
Other subordinated debt	**-**	-	35
Total subordinated liabilities	**1,261**	1,255	1,306
Other interest bearing liabilities			
Senior unsecured bonds	**700**	698	694
Fair value adjustment in respect of hedged interest rate risk	**2**	(4)	-
Bank loans and overdrafts	**478**	357	403
Finance lease liabilities[1]	**-**	4	5
Total other interest bearing liabilities	**1,180**	1,055	1,102
Total borrowings	**2,441**	2,310	2,408
Non-current	**2,095**	2,073	2,102
Current	**346**	237	306

[1] On transition to IFRS 16, finance lease liabilities have been reclassified from other interest bearing liabilities to lease liabilities.

Bank loans

Bupa maintains a £800m revolving credit facility which matures in August 2022. At 30 June 2019 £295m (HY 2018: £210m; FY 2018: £170m) was drawn under the facility. In November 2018, the Group signed a new 1-year £30m bilateral loan. The amount was fully drawn at 30 June 2019, maturing in November 2019.

Fair value of financial liabilities

	At 30 June 2019 £m	At 31 December 2018 £m	At 30 June 2018 £m
Subordinated liabilities	**1,346**	1,294	1,385
Senior unsecured bonds	**721**	710	726
Bank loans and overdrafts	**478**	357	403
Finance lease liabilities[1]	**-**	4	5
Total fair value of financial liabilities	**2,545**	2,365	2,519

[1] On transition to IFRS 16, finance lease liabilities have been reclassified from other interest bearing liabilities to lease liabilities.

15 Provisions under insurance contracts issued

	At 30 June 2019			At 31 December 2018			At 30 June 2018		
	Gross £m	**Re-insurance £m**	**Net £m**	Gross £m	Re-insurance £m	Net £m	Gross £m	Re-insurance £m	Net £m
General insurance business									
Provisions for unearned premiums	**2,636**	**(37)**	**2,599**	1,845	(14)	1,831	2,433	(19)	2,414
Provisions for claims	**991**	**(8)**	**983**	875	(8)	867	916	(6)	910
Long-term business									
Life insurance contract liabilities	**36**	**-**	**36**	33	(1)	32	32	(1)	31
Total insurance provisions	**3,663**	**(45)**	**3,618**	2,753	(23)	2,730	3,381	(26)	3,355

Due to the nature of insurance business and timing of renewals, half year provisions for unearned premiums are higher than at year end. The increase in provisions for unearned premiums year on year is due to business growth.

16 Acquisitions and disposals

a) 2019 acquisitions

A number of acquisitions were made in the period ended 30 June 2019, the most significant being:

	Date of acquisition	Percentage of holdings
UK		
Bupa Dental Care – dental centres	Various	100%
Europe and Latin America		
LUX MED – dental centre	20 May 2019	100%
International Markets		
Acıbadem Sağlık ve Hayat Sigorta A.S. and its subsidiary Acıbadem Grubu Sigorta Aracılık Hizmetleri AŞ	17 January 2019	100%

	Fair value £m
Intangible assets	42
Property, plant and equipment	2
Financial investments	91
Trade and other receivables	85
Cash and cash equivalents	29
Provisions for liabilities and charges	(6)
Deferred taxation liabilities	(4)
Trade and other payables	(3)
Provisions under insurance contracts issued	(150)
Other liabilities under insurance contracts issued	(4)
	82
Net assets acquired	82
Goodwill	88
Consideration	**170**
Consideration satisfied by:	
Cash	165
Deferred consideration	5
Total consideration paid	**170**
Purchase consideration settled in cash	165
Acquisition of non-controlling interest in subsidiary	2
Cash acquired on acquisition	(29)
Cash outflow on acquisition	**138**
Settlement of deferred consideration	4
Net cash outflow associated with acquisitions	**142**

On 17 January 2019, Bupa acquired 100% of the ordinary share capital of Turkish company, Acıbadem Sağlık ve Hayat Sigorta A.S., the holding company of Acıbadem Grubu Sigorta Aracılık Hizmetleri AŞ (together “Acıbadem”), for cash consideration of £138m. Acquired intangible assets of £42m comprise key direct customer relationships and distribution channels (relationships with agents and brokers) of £34m, brand of £5m and software of £3m. The associated goodwill of £57m reflects expected future synergies from the integration of Acıbadem into the Bupa Group.

During the period, Bupa Dental Care (formerly Oasis Dental Care) has continued to expand, through the acquisition of 13 further dental centres for a total consideration of £28m, of which £5m is deferred. Goodwill of £27m has been recognised which represents the continued future growth expected to be achieved through the development of Bupa’s dental insurance business.

Further minor acquisitions during the period generated goodwill of £4m.

The acquisition balance sheets of all acquisitions are provisional and will be finalised during 2019.

b) 2018 acquisitions

Refer to the Financial Statements for the year ended 31 December 2018 for details of the acquisitions made during 2018.

During 2018, Bupa Dental Care acquired 24 further dental centres for a total consideration of £61m, of which £16m was deferred. Identified intangible assets included customer relationships of £35m and goodwill of £31m was been recognised which represents the continued future growth expected to be achieved through the development of the Group’s dental insurance business.

On 13 December 2018, the Group acquired 70% of Ginemed Clinicas S.L., a gynaecological and reproductive medical services provider in Spain for £51m. As it is considered virtually certain that a put/call option for the remaining 30% holding, currently valued at £15m will be exercised, the Group has recognised 100% ownership under IFRS. On this basis, total consideration is £66m. As part of the acquisition, brand intangible assets of £12m and goodwill of £52m have been recognised.

On 1 October 2018 the Group acquired Sahna-E, Servicios Integrales de Saud S.A. de Seguros y Reaseguos, trading as Néctar Seguros de Salud, a Spanish health insurance company, for consideration of £36m. Customer relationships of £7m and goodwill of £6m have been recognised. Goodwill represents synergies expected to arise following integration with the Group’s existing Spanish PMI business.

During 2018, other minor acquisitions occurred in Poland, where the Group acquired four ambulatory clinics, one image diagnostic centre, and three dental clinics, which together generated goodwill of £9m. These acquisitions expand the geographic reach of the Group’s activity in Poland and the resulting goodwill represents expected synergies.

Other minor acquisitions during 2018 across the Group generated goodwill of £6m.

In 2018 additional shares were purchased in Bupa Middle East Holdings Two W.L.L. for £8m, bringing the Group shareholding to 75%.

Acquisition transaction costs expensed in the period ended 31 December 2018, within other operating expenses, totalled £4m.

c) 2019 disposals

There have been no material disposals in the six month period ended 30 June 2019.

d) 2018 disposal

In December 2018, the Group completed the sale of Torrejón Salud S.A. for cash proceeds received of £54m (€61m), realising a net loss on disposal of £22m (€25m). There were no other material disposals during the year ended 31 December 2018.

17 Commitments and contingencies

Capital commitments

Capital expenditure for the Group contracted at 30 June 2019 but for which no provision has been made in the financial statements amounted to £273m (HY 2018: £209m; FY 2018: £175m), primarily due to aged care facilities and retirement village project commitments in the Australia and New Zealand Market Unit and the UK Market Unit.

Contingent assets and contingent liabilities

The Group currently has no contingent assets.

The Group 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 Group.

Bupa Finance plc
Statement of Directors' responsibilities
for the six months ended 30 June 2019

We confirm that to the best of our knowledge:

- The condensed set of financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

- The interim management report includes a fair review of the information provided in accordance with the requirements of:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Bupa Finance plc are listed in the Directors' Report for the year ended 31 December 2018. There have been no changes in Directors since the publication of the Company's Annual Report and Accounts for the year ended 31 December 2018.

By order of the Board

Gareth Roberts Director	Joy Linton Director

31 July 2019

Independent review report to the members of Bupa Finance plc (“the company”) for the six months ended 30 June 2019

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Cash Flows, the Condensed Consolidated Statement of Changes in Equity and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the financial statements. All reviews assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company’s future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company’s future prospects and performance. However, no review should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Independent review report to the members of Bupa Finance plc (“the company”) for the six months ended 30 June 2019

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Philip Smart

For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London, E14 5GL
31 July 2019