BUPA FINANCE PLC
(Company No. 2779134)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Bupa Finance plc
Registered number: 2779134

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Bupa Finance plc
Registered number: 2779134

Directors and Officers

Directors
S K Dolan
G M Evans
J Linton
M Potkins (resigned 01/02/2019)
G H Roberts (appointed 01/02/2019)

Company Secretary
C R Campbell

Registered Office
1 Angel Court
London
EC2R 7HJ

Auditors
KPMG LLP

Strategic Report
for the year ended 31 December 2019

Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2019 for Bupa Finance plc (the 'Company') and its subsidiary companies (together, the 'Group'). The immediate and ultimate parent of the Company is The British United Provident Association Limited (the 'Parent' or 'Bupa' and together with its subsidiaries, the 'Bupa Group').

Principal activities
The Company is a part of the Bupa Group, which is a leading international healthcare group. The principal activity of the Company is the provision of financing and treasury management of Bupa's businesses, which are managed in three Market Units; Australia and New Zealand, Europe and Latin America and Bupa Global and UK.

Who we are and what we do

About 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 17.5m customers and contributes 73% of revenue. We operate clinics, dental centres and hospitals in some markets, with 15.8m customers. We care for around 22,000 residents in our aged care businesses in the UK, Australia, New Zealand and Spain.

We directly employ around 83,000 people, principally in the UK, Australia, Spain, Chile, Poland, New Zealand, Hong Kong, Turkey, Brazil, the US, Middle East and Ireland. We also have associate businesses in Saudi Arabia and India.

Bupa's Business Model
We are an international health insurer and provider, with our businesses and operations tailored to local market conditions, healthcare systems, in-market regulations and customer needs.

Everything we do is guided by our Strategic Framework and Five-Year Vision (see Bupa Annual Report 2019 on bupa.com). By executing our strategy and delivering our vision, we will create value for our customers, people, partners and society.

Health insurance:
- We are primarily a health insurer. Health insurance accounts for 73% of our Group total revenue with 17.5m insurance customers worldwide.
- We provide:
    - Our main business is health insurance for corporate customers, small and medium-sized enterprises ('SMEs') and for individual customers.
    - International Private Medical Insurance ('IPMI'), through our Bupa Global businesses, for customers wanting access to quality healthcare, wherever and whenever they need it.
    - Dental insurance and travel insurance in selected countries.
    - Additional health funding products, such as subscriptions and cash plans.
    - We also deliver third party administration services in selected markets.
- We aim to have leading market positions in health insurance and believe our focus on health ensures that we are well positioned to meet our customers' needs. Our IPMI business, Bupa Global, gives customers access to a global network of quality facilities and professionals.

Health provision:
- We are also a health provider. Health provision accounts for 19% of our Group total revenue, operating around 370 health clinics, 20 hospitals and around 1,000 dental centres and serving around 15.8m people globally.
- We provide:
    - Health clinics: Services include health assessments, GP services, fertility services and physiotherapy. We also have outpatient and speciality clinics.
    - Hospitals: We run hospitals in some of the countries we operate in.
- We provide services to complement our insurance businesses to create a seamless experience for our customers.

Dental insurance and provision:
- We offer dental services across our health insurance and provision businesses. Dental is a key area for growth for Bupa, giving us a retail presence to bring us closer to our customers.
- We provide:
    - A wide network of around 1,000 dental centres across a number of countries.
    - Dental insurance and funding products in most of our markets.
- We operate a network of quality practices and professionals in a number of countries. Each practice offers a tailored, personalised service, in line with local needs. We aim to develop global standards and knowledge sharing between our dental businesses around the world.

Aged care provision:

- Residential aged care accounts for 8% of our Group total revenue, caring for around 22,000 residents.
- We provide:
  - Aged care services in Australia, New Zealand, the UK and Spain.
- Our aged care portfolio comprises care homes, retirement villages and day care centres. We also provide homecare in Spain.

The resources we have to create value:

- Status and purpose**:** A private company limited by guarantee without shareholders, with profits reinvested in the business.
- Financial strength: A robust capital base and strong financial position.
- Risk management**:** A culture of strong risk management.
- Brand health**:** Our brand is known and trusted for quality and health expertise.

Who we create value for:

Customers:

- We work to:
  - Deliver exceptional customer service.
  - Harness digitalisation, data and analytics to drive improvements.
  - Innovate to meet and exceed customer expectations.
  - Keep our customers' data safe.

People:

- We work to:
  - Promote a positive, inclusive working environment.
  - Create opportunities for people to grow and develop.
  - Enable people to manage their health and wellbeing.

Partners:

- We work to:
  - Create shared value for our partners including health providers, brokers and distributors.

Society:

- We work to:
  - Make a difference through volunteering, community partnerships and contributions.
  - Take care of the environment and address climate change and its health impacts.
  - See Bupa Annual Report 2019 Corporate Responsibility and Sustainability for more information.

Financial Performance

HIGHLIGHTS

- Revenue[1] £12.3bn, up 4% at AER (2018: £11.9bn); up 5% at constant exchange rates[2] (CER) (2018: £11.7bn).
- Statutory profit before taxation £35m, down £579m at actual exchange rates (AER),with £443m of non-cash items, notably goodwill impairments in UK dental (£226m) and Australian aged care (£177m).
- Underlying profit before taxation[3] £525m, down 27% at AER (2018: £722m); down 26% at CER (2018: £710m).
- Net cash generated from operating activities was £862m, up £52m (6%) on prior year (2018: £810m).
- Solvency II capital coverage ratio[4] of 159% (2018 Proforma[5]: 166%).
- Bupa Finance plc (the 'Company') senior debt ratings unchanged at A3 (stable) by Moody's and A- (stable) by Fitch.

The Group's 2019 results reflect tough market conditions and operational challenges in some of our key markets, especially Australia and UK dental, and our continued significant investment in technology to enable long-term sustainable growth.

At CER, the Group's revenue grew by 5% to £12.3bn and underlying profit declined 26% year-on-year. The statutory profit before taxation of £35m includes non-cash items of £443m, notably goodwill impairments in our UK dental business (£226m) and Australian aged care business (£177m).

1. Revenues from associate businesses are excluded from reported figures. Customer numbers and economic share of post-tax profits from our associate businesses are included.
2. All figures are at constant exchange rates (CER) unless stated. We use CER to compare trading performance in a consistent manner to the prior year. We have restated 2018 results to 2019 average exchange rates.
3. Underlying profit is a non-GAAP financial measure. This means it is not comparable to other companies. Underlying profit reflects our trading performance and excludes a number of items included in statutory profit before taxation, to facilitate year-on-year comparison. These items include 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. A reconciliation to statutory profit before taxation can be found in note 2 (page 50).
4. The 2019 Solvency II capital position, SCR and coverage ratios represent the Parent, The British United Provident Association Limited. 2019 figures are estimates and unaudited.
5. 2018 Solvency coverage position of 191% after taking into consideration the impact of IFRS 16 (18ppts) and the acquisition of Acıbadem Sigorta (7ppts).

The principal drivers of underlying performance were:

- Lower profits in health insurance and losses in aged care in Australia. In health insurance, while revenue was stable, underlying profit decreased due to claims inflation, which was greater than the government-approved rate increase. We are focused on improving and optimising our propositions and reducing costs, as well as advocating for sector reforms. We remain a leading health insurer in Australia with improved customer satisfaction and retention. In aged care, we are investing to address compliance and service issues which, together with lower occupancy and sector funding issues, significantly affected performance. We have a new management team and have made significant improvements.
- Investment in technology capabilities. This is the largest multi-year investment programme in the Group and impacted profits across all Market Units. It is further enhancing security and privacy, as well as digitalising the customer experience, improving the service we provide to customers.
- Trading conditions in our UK dental business. While we grew our market position through acquisitions, underlying profit fell due to issues with the availability of dental staff across the sector. We are confident in the steps we're taking to address these pressures and in the longer-term contribution of this business.
- Trading conditions in Bupa Chile, due to the sector-wide delay in the Government's approval of the premium rate increase as well as the broader impact of social unrest.

Outlook

We anticipate near term trading conditions will continue to be challenging, particularly in Australia and UK dental. However, the strength of our core health insurance businesses and our strong balance sheet and capital position, enables us to continue to invest in technology capabilities. While this will impact profitability in the short term, we are continuing to control costs and are focused on delivering operational resilience and long term sustainable growth.

We will continue to improve our offer for customers, further strengthening our brand and market positions. We will also make a positive contribution to the health of the wider community, particularly mental wellbeing, and we are taking action on climate change.

Like many other companies, we are closely monitoring the COVID-19 outbreak as it evolves. The situation is developing rapidly, and at this stage our efforts are focusing on managing the impact on our customers, people and supply chain.

MARKET UNIT BUSINESS REVIEW

Australia and New Zealand

	Revenue	Underlying profit
2019	£4,652m	£185m
2018 (AER)	£4,656m	£337m
% growth (AER)	0%	45% decline
2018 (CER)	£4,532m	£328m
% growth (CER)	3%	44% decline

	Health insurance customers (m)	Healthcare provision customers (m)	Aged care residents
2019	4.0	1.2	9,500

Market Context

- Slow economic growth in Australia. The economy in New Zealand remained stable.
- Australia's Federal Election returned the Liberal and National Party Coalition to government in May.
- There are increasing pressures on the Australian private health insurance sector, ranging from the growing cost of healthcare, affordability, and increasing regulation.
- The Royal Commission into Aged Care Quality and Safety continues to late 2020. The interim report, released in October, called out for 'fundamental overhaul of the design, objectives, regulation and funding of aged care in Australia'.

Performance

In Australia and New Zealand, difficult market conditions continued from the prior year. Revenue increased 3% to £4,652m and underlying profit was £185m, a decrease of 44% at CER, driven by margin deterioration in our health insurance and aged care businesses in Australia.

Revenue in our Australian health insurance business was stable while underlying profit decreased by around 30%. Claims inflation significantly exceeded the premium increases approved by the Government. These headwinds were partially mitigated by cost efficiency initiatives and investment in our customer transformation programme, which is helping to provide more personalised services and an enhanced customer experience. The full year combined operating ratio[6] ('COR') was 94%[7] (2018: 92%). We maintained our position as a leading health insurer in Australia, with 26%[8] market share, and 4m customers in line with 2018. We delivered improvements in customer Net Promoter Scores ('NPS') and customer retention, as we made process and system changes and enhanced communications. We are committed to delivering value for money for customers, addressing affordability issues and reducing out-of-pocket costs. This includes reducing costs and advocating for reform of the health insurance system.

6. 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.
7. Bupa HI Pty Ltd (Australia): HRF 602 Australia Prudential Regulation Authority quarterly returns (unaudited).
8. Australian Prudential Regulation Authority (APRA), Operations of private health insurers annual report (June 2019).

Our Australian health services business delivered year-on-year revenue growth driven by the new Australian Defence Force contract and increased Bupa Medical Visa Service assessments. We continue to grow customer numbers in dental through acquisitions and greenfield developments.

Revenue in our Australian aged care business was down, with a loss arising from lower occupancy and higher operating expenses. Our closing occupancy rate of 83% was 9ppts lower than last year. We have a new management team in place and are investing significantly in improved care and support for our residents and their families. During 2019, 15 homes operated under regulatory sanction; this reduced to five homes at the year end and improvement continues to be the top priority. We are committed to ensuring all our homes are operating at the same high level of quality. Over the year, we engaged actively with the Royal Commission into Aged Care Quality and Safety.

Our New Zealand aged care business performed in line with expectations. Revenue decreased, reflecting divestments made in 2018, and underlying profit fell due to lower occupancy and higher staffing costs. We continued to invest in new integrated care homes and villages developments. Our year end occupancy rate was 89% (2018: 91%).

In addition, profit before taxation includes an impairment of goodwill in our Australian aged care business of £177m. Further details are provided in the Financial Review.

Europe and Latin America

	Revenue	Underlying profit
2019	£3,853m	£178m
2018 *restated*[9] (AER)	£3,499m	£191m
% growth (AER)	10%	7% decline
2018 *restated* (CER)	£3,435m	£188m
% growth (CER)	12%	5% decline

	Health insurance customers (m)	Healthcare provision customers (m)	Aged care residents
2019	3.8	10.2	6,100

Market Context

- In Spain, the economic growth forecasts lowered amid domestic and global trade and political uncertainty. Strong growth in the health insurance market.
- In Chile, GDP remained stable. The market was impacted by social upheaval, political uncertainty and social reforms.
- Good economic growth in Poland. Increased demand for private medical services.
- In Turkey, GDP is projected to rebound in 2020. High inflation is expected to drive short-term affordability challenges.
- Economic growth in Brazil was stagnant in 2019, with GDP expected to grow moderately in 2020.

Performance

In Europe and Latin America, we achieved strong revenue growth of 12%, while underlying profit fell by 5% at CER, mainly driven by a sector-wide delay in the approval of the triennial premium rate increase in Bupa Chile. This was partially offset by growth in a number of our businesses including Sanitas Dental in Spain, and by the acquisition of Ginemed in our hospitals and new services business.

In Spain, our health insurance business, Sanitas Seguros, delivered solid revenue growth. This was driven by the Néctar Seguros acquisition in 2018 and our bancassurance partnerships. Underlying profit declined, mainly due to our investment in technology capabilities and, as a result, the COR increased to 89%[10] (2018: 88%). In November, we extended our bancassurance agreement with BBVA which will run until the end of 2033. Blua, our digital proposition, continues to grow and now serves over 480,000 customers, a 46% increase since 2018. We are number two in health insurance with a stable market share of over 20%[11].

Our Spanish dental business delivered good results. Revenue and underlying profit grew driven by higher activity in our dental centres and an 8% increase in dental insurance customers to 1.5m. Portfolio expansion continued with further openings planned for 2020.

Our hospitals and new services business in Spain performed in line with expectations. Revenue and underlying profit decreased, reflecting our divestment of our stake in Torrejón, a public-private partnership hospital, in December 2018. This was partially offset by the acquisition of Ginemed, an IVF and fertility service provider. We also opened an extension to La Moraleja Hospital.

Sanitas Mayores, our aged care business in Spain, continues to deliver good revenue and underlying profit growth. The closing occupancy rate remains strong at 96%.

In Poland, LuxMed delivered strong customer and revenue growth, particularly in corporate subscriptions and inpatients. We acquired three hospitals, strengthening our expertise in ophthalmology and ENT (ear, nose, throat) care, and opened five outpatient clinics. We continued to expand our dental business with six new builds and two acquisitions.

9. To reflect the simplification of our organisation structure, full year 2018 revenue and underlying profit have been restated to include Bupa Global Latin America.
10. Sanitas S.A de Seguros (Spain): Prepared under local GAAP (unaudited).
11. ICEA (Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones).

Bupa Acıbadem Sigorta, the business in Turkey which we acquired in January 2019, performed in line with expectations. The integration is progressing as planned and we strengthened our market position, particularly as a corporate health insurance provider, and now have over 600,000 customers.

In Chile, revenue grew mainly driven by the performance of the Clínica Bupa Santiago Hospital and Integramédica, our outpatient business. Underlying profit was down on last year following the delay in the Government's approval of the triennial premium rate increase and was also impacted by social unrest, which resulted in temporary closures at a number of our facilities in November.

Bupa Global Latin America[12] delivered good revenue growth and made improvements to underlying profitability. This was driven by strong results in Care Plus, our insurance business in Brazil, our partnership with Seguros Bolívar in Colombia and improved customer retention in Mexico.

We also incurred £57m of non-underlying costs within profit before taxation, including an impairment of £21m to brands in Bupa Chile and £26m expected losses relating to certain provision assets held for sale. Further details are provided in the Financial Review.

Bupa Global and UK

	Revenue	Underlying profit
2019	£3,323m	£131m
2018 *restated*[13] (AER)	£3,288m	£200m
% growth (AER)	1%	35% decline
2018 *restated* (CER)	£3,302m	£198m
% growth	1%	34% decline

	Health insurance customers (m)	Healthcare provision customers (m)	Aged care residents
2019	2.8	3.3	6,500

Market Context

- Slow economic growth, reflecting the impact of Brexit-related uncertainties and weaker global growth.
- Improved political stability following the December 2019 election, resulting in a clear parliamentary majority. Uncertainty remains, particularly in relation to Brexit.
- Increased pressures in the dental sector due to market-wide shortage of dentists.

Performance

Bupa Global and UK revenue was stable, with underlying profit down 34% at CER mainly due to our strategic investment in technology capabilities.

Our UK health insurance portfolio grew steadily across all segments. Revenue was stable, while written premiums grew reflecting customer growth. Underlying profit was down due to our planned investment in technology capabilities. We remain a leading health insurer with around 37% market share[14]. We further extended our mental health offering, including the launch of our Family Mental HealthLine to support parents and carers with their children's mental health. We also launched Bupa Touch, a digital portal giving customers access to their policy, health assessment reports and other digital services like Virtual GP. Our customers' NPS scores improved, and we are rated as 'Excellent' on the external Trustpilot survey. We were the first health insurer to be assessed by the Care Quality Commission ('CQC'), receiving a 'Good' rating.

In Bupa Global, our IPMI business, revenue was down on 2018 due to pricing discipline. Underlying profit declined due to our investment in technology capabilities. The COR for Bupa Insurance Limited[15], the UK-based insurance entity that underwrites both domestic and international insurance, was 95% (2018: 93%), with the increase reflecting the level of expenditure on technology and operational resilience. In March, in readiness for Brexit, our new authorised insurer in Ireland began operations. This serves IPMI customers living in the EU but outside the UK and Ireland. We launched Global Virtual Care, a digital GP service for employees and their families living abroad.

In our UK dental business, underlying profit reduced, impacted by sector-wide pressures, primarily the availability of dentists exacerbated by Brexit which led to significantly reduced recruitment from the EU. We introduced pay increases for dental nurses and supported career development for our colleagues through management academies and apprenticeships. We grew our market position through acquisitions, with now over 490 centres and 10 laboratories. We are focused on creating excellent customer experiences, and opportunities for generating greater synergies across dental provision and dental funding products, as well as being a great place for our dental clinical staff to work.

12. Bupa Global Latin America was recently restructured into three Business Units. From 2020, we will report in accordance with this new structure.
13. To reflect the simplification of our organisation structure, full year 2018 revenue and underlying profit have been restated to include Bupa Global.
14. LaingBuisson Health Cover, 2018.
15. Bupa Insurance Limited: Prepared under local GAAP. Excludes our Irish insurer, and our associate, Highway to Health (GeoBlue).

We achieved stable performance in our UK care services business in a challenging sector. Ten of our care home services are rated as 'Outstanding' by the CQC. We opened a new Richmond Village in Wood Norton and exited the Powys County Council contract, transferring 12 homes to a new provider. Our closing occupancy rate increased to 87% (2018: 86%).

Performance in Health Services improved steadily. We opened a new health clinic in Manchester and outsourced our occupational health services to Optima Health. Our Bupa Cromwell Hospital partnered with GenesisCare to meet growing demand for oncology services in London.

In 2019, profit before taxation includes impairments of goodwill of £226m in relation to our UK dental business and £16m to the Bupa Cromwell Hospital. Further details are provided in the Financial Review.

FINANCIAL REVIEW

Overview
At the half year, the Bupa Group, announced the simplification of the organisation into three Market Units: Australia and New Zealand; Europe and Latin America; and Bupa Global and UK. For full year 2019, we are reporting in accordance with this new structure and have restated our 2018 results, where applicable.

At CER, Group revenue was £12.3bn, up 5% on prior year (£11.7bn), and underlying profit[16] was £525m, down 26% on prior year (£710m). These results include the impact of IFRS 16[17], an increased charge of £26m. Excluding this impact, along with two significant transactions, the disposal of Torrejón Hospital in Spain and the benefit from the acquisition of Acıbadem Sigorta, our year-on-year decline would have been unchanged at 26%. The Group's underlying trading results reflected the challenges in our Australian health insurance and aged care businesses and our planned investment in technology capabilities.

Our statutory profit before taxation of £35m, compared to £614m (at AER) in 2018, mainly reflected impairments of goodwill and intangible assets arising on business combinations, principally in Australia Aged Care and our dental business in the UK, and lower underlying trading performance.

We generated net cash from operating activities of £862m, up £52m (6%) on the prior year.

The Bupa Group's solvency capital coverage ratio[18] of 159% at 31 December 2019 remained strong.

The Company's senior debt rating remains unchanged since December 2018.

Revenue (CER)
We achieved revenue growth of 5% driven by good performance from Europe and Latin America Market Unit, Australia Health Services and from our business in Bupa Hong Kong. Revenue in Bupa Global and UK Market Unit was stable versus last year.

By business lines, revenue in our health insurance businesses grew by 4% compared to last year, largely driven by Europe and Latin America Market Unit following the acquisition of Acıbadem Sigorta and growth in Bupa Chile.

Our provision businesses delivered strong growth of 11% year-on-year as a result of winning the Australian Defence Force contract, and growth in our corporate subscription business in Poland, together with Bupa Chile.

In our aged care businesses, revenue was marginally down on 2018 due to our Australian business, where revenue fell by around 4% reflecting lower occupancy levels. Our Spanish aged care business, Sanitas Mayores, continued to perform well, while revenue in UK Care Services was stable on last year.

Underlying profit (CER)
Group underlying profit declined by 26% to £525m (2018: £710m at CER). Health insurance, our largest line of business, contributed around 90% of underlying profit for reportable segments, and as expected, decreased year-on-year.

Profit in our Australian health insurance business was down on 2018 by around 30% partly reflecting the annual premium rate increase set by the Government being at a lower level than claims inflation. Profits from our UK health insurance businesses, UK Insurance and Bupa Global, were down overall by around 25%, following our decision to make significant investments in technology capabilities. In Europe and Latin America, profits were down around 15%, mainly due to Bupa Chile as a result of the delay in the Government's approval of the triennial premium rate increase in the ISAPRE business, together with higher claims. As a result of these factors, the Bupa Group's COR increased to 94% (2018: 93%)[19]. Profits from our other insurance businesses, which includes Hong Kong, and our associate businesses, Bupa Arabia and Max Bupa, grew by around 15%. This reflected both underlying performance and our increased shareholding in Bupa Arabia, which increased by 5% to 39.25% from August 2018.

16. Underlying profit is a non-GAAP financial measure. This means it is not comparable to other companies. Underlying profit reflects our trading performance and excludes a number of items included in statutory profit before taxation, to facilitate year-on-year comparison. These items include 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. A reconciliation to statutory profit before taxation can be found in note 2 (page 50).
17. The Group has adopted the modified retrospective approach. As a result, 2019 performance is accounted for under IFRS 16, whereas 2018 performance is accounted for under IAS 17. The impact of £26m reflects this change in basis of preparation.
18. The 2019 Solvency II capital position, SCR and coverage ratios represent the Parent, The British United Provident Association Limited. 2019 figures are estimates and unaudited.
19. 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. The combined operating ratio of our Parent, British United Provident Association Limited, is calculated based on the S.05.01 Prudential Regulation Authority (SII) form (estimated and unaudited).

Underlying profit in our provision businesses fell by around 25% on last year mainly driven by our UK dental business which was impacted by ongoing sector-wide pressures, primarily a shortage of dentists with the uncertainty around Brexit resulting in a significant reduction in the recruitment from the EU. In Australia, our health services business was down on 2018 while Europe and Latin America Market Unit grew on last year, particularly in Sanitas Dental and through the acquisition of Ginemed.

In our aged care businesses, underlying profit declined around £55m compared to 2018. This was mainly driven by a loss in our Australian business, following the fall in occupancy levels and increased costs as we continue to invest to address a number of compliance and service issues.

Central expenses and net interest margin were £28m lower than the prior year, mainly as a result of the acquisition of Acıbadem Sigorta which contributed £29m of investment income in 2019.

Statutory profit (AER)
The Group's statutory profit before taxation was £35m compared to £614m in 2018. This mainly reflected the goodwill impairments in our Australian aged care and UK dental businesses, together with profits from trading being down on prior year.

A charge of £177m was recognised in our aged care business in Australia following the decline in occupancy levels during the year, and an increase in the discount rate, reflecting ongoing sector challenges. In Bupa Global and UK, an impairment of goodwill amounting to £226m was made in relation to our UK dental business. This was largely driven by the availability of dentists across the sector, exacerbated by the uncertainty of Brexit, higher operating expenses, including expected National Living Wage costs, and investment in technology capabilities. In addition, there was a charge of £16m relating to the Bupa Cromwell Hospital which reflects lower forecast operating cashflows. In Europe and Latin America, £21m of customer brands in Bupa Chile was impaired, along with an impairment of £3m in Sanitas Hospitales and New Services, our Spanish provision business.

We recognised a charge of £26m relating to the expected loss on sale of our interest in certain provision assets held for sale in Europe and Latin America Market Unit. In addition, we incurred transaction costs of £3m in relation to the completion of our acquisition of Acıbadem Sigorta and additional costs in Bupa Global and UK relating to the sale of a number of UK care homes in 2018. There were net property revaluation gains of £6m.

There were no other Market Unit underlying items in 2019.

During the year, we impaired the value of an investment following the termination of our commercial relationship. In addition, we incurred restructuring costs following the Group's simplification of the organisation into three Market Units, and the provision for expected credit losses on Bupa Acıbadem Sigorta investments.

The return-seeking asset portfolio showed gains in the period of £28m (2018: £1m loss).

	2019 £m	2018 £m
Australia and New Zealand at CER	185	328
Europe and Latin America at CER	178	188
Bupa Global and UK at CER	131	198
Other businesses at CER	49	42
Underlying profit for reportable segments at CER	**543**	**756**
Central expenses and net interest margin at CER	(18)	(46)
Consolidated underlying profit before taxation at CER	**525**	**710**
FX re-translation on 2018 results (CER/AER)	-	12
Consolidated underlying profit before taxation at AER	**525**	**722**
Impairment of intangible assets and goodwill arising on business combinations	(443)	(36)
Net loss on disposal of businesses and transaction costs on business combinations	(29)	(33)
Net property revaluation gains	6	-
Realised and unrealised foreign exchange losses	(23)	(8)
Other MU and Group non-underlying items	(29)	(30)
Gains/(losses) on return-seeking-assets, net of hedging	28	(1)
Total non-underlying items	**(490)**	**(108)**
Statutory profit before taxation at AER	**35**	**614**

Taxation
The Group's taxation expense for the year was £154m which represents an effective tax rate of 440% (2018: 34%). This was mainly due to the one-off goodwill impairments incurred for which no tax deductions can be claimed. Reversing the impact of these together with prior period adjustments results in an adjusted effective tax rate of 27%, which is higher than the UK corporation tax rate of 19%. This was mainly as a result of profits arising in jurisdictions with a higher rate of corporate income tax.

Cashflow
The Group's net cash generated from operating activities increased by £52m (6%) to £862m (2018: £810m). On a like-for-like basis, when excluding the change in presentation arising from IFRS 16 (c.£170m)[20] and a non-recurring inflow in 2018 related to the disposal of UK care homes, net cash generated from operating activities was down by c.£78m or c.8%.

20. IFRS 16 moves c.£170m of cash outflows in relation to lease payments from operating activities to financing activities.

Net cash used in investing activities increased by £16m to £521m (2018: £505m). In January 2019, we completed the acquisition of Acıbadem Sigorta, and invested in growth and development including integrated care home and village developments in New Zealand, a retirement village development in Australia together with the continued expansion of our dental centre network in Australia, the UK, Spain and Poland. In 2019, there were lower proceeds from sale of property and reduced purchases of financial investments compared to last year. In addition, we increased our stake in Bupa Arabia to 39.25% in August 2018.

Net cash used in financing activities increased to £373m, a change of £129m from last year. This reflects a drawdown on our revolving credit facility to fund the acquisition of Acıbadem Sigorta and an increase in the dividend paid 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 for the Company, the main issuer of Bupa's debt.

The Company's senior debt ratings are unchanged at A3 (stable) by Moody's and A- (stable) by Fitch.

At 31 December 2019, we had drawn £230m 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[21] excluding leases at 31 December 2019 was 26.6% (2018: 24.7%).

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

Solvency[22]

The Group's solvency coverage ratio of 159% remains solid, and above the Group's risk appetite.

The Group 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. As at 31 December 2019, the estimated SCR of £2.4bn was £0.3bn higher and Own Funds remained stable at £3.9bn when compared to 31 December 2018.

The Group surplus capital was estimated to be £1.5bn, compared to £1.8bn at 31 December 2018, representing a solvency coverage ratio of 159% (2018: 191%; 2018 Proforma: 166%). The Group continued to generate capital due to underlying profitability. This capital generation was offset by investment through acquisitions, particularly Acıbadem Sigorta and capital expenditure, and the impact of IFRS 16 which became effective on 1 January 2019.

While the application of IFRS 16 does not change our risk profile, it requires all our lease assets and liabilities to be capitalised on the IFRS and Solvency II balance sheet. The value of both lease assets and liabilities at 31 December 2019 on the Solvency II balance sheet was £1.0bn. The lease assets attract a property risk charge under the Solvency II Standard Formula, which increased the SCR by £0.2bn, and as a result, reduced our coverage ratio.

The Group performs 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 12 percentage point reduction to the solvency coverage ratio.

The Bupa Group'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	159%
Property values -10%	147%
Loss ratio worsening by 2%	152%
Interest rate -100bps	157%
Sterling depreciates by 10%	157%
GSP[23] +0.2%	158%
Credit spreads +100bps (assuming no credit transition)	158%
Pension risk +10%	159%
Equity markets -20%	159%

Forthcoming changes to accounting standards

A final IFRS 17 Insurance Contracts standard has not yet been issued, but it is expected to be effective for annual periods beginning on or after 1 January 2022. A group-wide project is under way to assess the detailed application and implementation of IFRS 17. It is currently expected that the simplified premium allocation approach option will be available for the majority of the Group's insurance contracts, so a significant change in the measurement basis is not anticipated. The presentation and disclosure requirements of IFRS 17 will, however, differ considerably compared to the current approach.

21. Leverage is calculated based on gross debt (including hybrid debt) divided by gross debt plus equity.
22. The Solvency II capital position, SCR and coverage ratio represents the Parent, The British United Provident Association Limited. 2019 figures are estimates and unaudited.
23. Group Specific Parameter ('GSP') is substituted for the insurance premium risk parameter in the standard formula, reflecting the Group's own loss experience.

Section 172(1) statement

Engaging with our stakeholders
The Board has a duty to promote the success of the Company for the benefit of its members as a whole having regard to the interests of our customers, our people, our relationship with our suppliers and the impact of our operations on the communities in which we operate, and to ensure that we maintain a reputation for high standards of business conduct.

Our key stakeholders are our parent company (Bupa), our customers and our people. Our suppliers, bondholders, regulators and the communities we operate in are also important stakeholder groups. All key Board decisions take into account the impact on relevant stakeholders. Increasingly, stakeholders are looking to understand our performance across multiple areas from performance to products and services, innovation, governance, workplace practices and corporate citizenship. The Board endeavours to gain an understanding of the perceptions and attitudes of each stakeholder group and the weight they give to different issues. Where the views of different stakeholder groups do not align, the Board must decide on the best course of action to promote the Company's long-term success.

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

Key issues for customers include:
- affordability of health insurance
- high quality products with broad coverage and high standards of care
- simpler and quicker access to services, such as through digital applications.

People
As a service organisation, our people are key to our business. We want our people to feel engaged and empowered to deliver great outcomes for our customers and be healthier and happier themselves. A twice-yearly people survey (People Pulse) is run across the Group in order to assess engagement across the Group.

Key issues for employees across the Group, based on the People Pulse survey include:
- Company Prospects – being excited about Bupa's future.
- Customer focus – helping to deliver a great customer experience.
- Collaboration – focusing on efficient and effective working practices across teams.
- Empowerment – feeling empowered to make decisions regarding their work.

We operate several lines of business in numerous markets and the issues important to our people vary by market and business.

Our approach is therefore led locally with all teams planning actions in the light of the People Pulse results and local boards and management teams engaging with their people on the issues important to them.

Regulators
The Group operates in highly regulated environments across all its business areas. Regulators ultimately aim to protect customers and ensure that they receive high levels of care and are treated fairly. This clearly aligns with our strategy to put our customers front and centre.

Our regulators expect us to:
- maintain sufficient capital to back our insurance business
- have robust and effective processes and controls in place to mitigate risks to protect our customers
- provide high-quality, clinically robust services
- ensure we operate in a sustainable way.

We have a regular programme of interaction with the Bupa Group's lead insurance regulator and engage with them on key Board decisions.

Suppliers
Suppliers are critical to delivering a high-quality service to our customers and include hospitals, consultants, systems suppliers and suppliers of products to our hospitals, clinics, dental centres and care homes. We aim to treat our suppliers fairly and pay them within agreed timescales, holding ourselves to high standards of business conduct. We work with our suppliers to ensure that they have effective controls in place to protect our customers' health and safety and the security and privacy of their data.

Investors
The Company has listed debt securities in issue and is therefore required to operate in accordance with the relevant UK Listing Rules, Disclosure Guidance and Transparency Rules. Briefing calls are held for bondholders to discuss the Full-Year and Half-Year results. This provides an opportunity for them to question management on the financial performance and strategy of the Group. Our CFO and Group Treasurer hold roadshows for bondholders annually, and other significant developments are communicated via regulatory announcements, press releases and published on our website bupa.com. Investors are interested in the Group's performance and also in our wider Environmental, Social and Governance ('ESG') activities.

Communities and Environment
We play an active role in the communities in which we operate and take care of the environment. We have dedicated Foundations in Australia, Spain and the UK to channel some of our investment. Community and the Environment form two pillars of our CRS strategy and we currently have a global focus on mental wellbeing and resilience. We have recently partnered with Mind in the UK to provide mental health resources for children and young people and for those who support them. We are evaluating the business risks and opportunities associated with climate change, closely managing our environmental impact and actively promoting positive environmental practices. In 2019, we started to define our new set of ambitions to respond to the current environment of climate emergency.

Board decisions and their impact on stakeholders
The table below sets out a number of decisions taken by the Board during the year and how stakeholder views were taken into account.

Decision	How we took stakeholders into account	Long-term implications
Provision of financing to subsidiaries	**Customers and people** The Board approved funding to a number of subsidiaries during the year to fund activities including acquisitions in UK dental care and internal restructurings to provide operational and governance efficiencies, and also to provide working capital and to maintain sufficient regulatory capital in our health insurance businesses. The Board made investment decisions in line with the Bupa Group's objectives in its 3-Year Base Plan which often involves making decisions on the best use of the Company's capital based on a number of factors including the expected rate of return on the investment and the benefit to relevant stakeholders including customers, our people and regulators.	Bupa's Five-Year Vision aims to: - deliver outstanding experiences and outcomes for our customers - ensure our business is sustainable in the long-term - retain our competitive advantage by providing high quality products and services By re-investing, ultimately the Board is ensuring we are investing in the Group's future for the benefit of its customers and people and the shareholder.
Dividends	**Customers and shareholder** The Board approved two interim dividend payments during 2019. The Board considered the expected level of funding required by its subsidiaries to achieve the Bupa Group's strategy, and the financial strength of the Company prior to approving and authorising payment of the interim dividends. Surplus funds which are not distributed to the shareholder are reinvested back into the business to help achieve the Group's purpose and strategy.	Prudent financial management supports the long-term success of the Company and its shareholder, Bupa, and motivates management to deliver strong and sustainable business performance aligned with Bupa's purpose: helping people live longer, healthier, happier lives.
Treasury management	**Customers, people, shareholder and suppliers** The Board took treasury management decisions during the year to ensure the Company and the Bupa Group met their financial obligations. Stable performance and liquidity provides reassurance to suppliers that they will be paid on a timely basis for the products and services they provide, to employees that they will be paid on time and that investment will be made to enhance working practices and systems, and to customers that they are receiving products and services at a reasonable cost and that Bupa will support their needs over the long-term.	Managing the Company's and the Group's liquidity mitigates operational, financial and reputational risk and thereby ensuring the Bupa Group's sustainability.
Modern slavery	**People, suppliers and communities** The Company is required to publish a modern slavery statement each year setting out the steps it has taken to prevent modern slavery and human trafficking in its businesses and supply chains. The Board noted the activities taken by management and the year-on-year improvement to ensure the Group's businesses and supply chains are free from modern slavery and human trafficking and approved the Company's modern slavery statement which is available on bupa.com.	The steps the Bupa Group takes in this area help protect our people, the people employed or contracted by our suppliers and the wider communities in which we operate.

Decision	How we took stakeholders into account	Long-term implications
Financial statements	**Investors and regulator** The Company publishes its Half-Year Results and Annual Report and Accounts each year as required by the Listing Rules, Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority. These ensure that investors have relevant information on the Company's performance which they can use to base investment decisions on. The Bupa Audit Committee, which has been appointed to act as the Company's audit committee for the purposes of the Disclosure Guidance and Transparency Rules, reviews the Half-Year Results and Annual Report and Accounts to ensure that they meet statutory and regulatory requirements and present a fair, balanced and understandable view of the Company's performance during the relevant period. The Board then approves the Half-Year Results and Annual Report and Accounts for publication.	This provides assurance to investors of the Company's ability to maintain its obligations related to its listed debt securities.

Risks
Embedding a strong risk management culture is a strategic priority across Bupa.

This focus on culture is essential in order to respond to changing environments and evolving regulation. This means we can better foresee the potential risks of future changes that could affect our customers and our business, and to mitigate them. Together with our controls, ensuring a strong risk culture helps us to continue to serve our customers well and meet our stakeholders' expectations.

Our comprehensive risk management programme ensures that risk management comes as second nature to everyone at Bupa and they are equipped to manage risk. We have tools in place to achieve this, including the Bupa Code, risk appetite statements, Enterprise Policies and the 'Speak Up' whistleblowing process.

Standards and expectations continue to rise in order to ensure appropriate outcomes for customers, markets and our business.

Our local businesses are exposed to a wide range of political, regulatory, legal and economic risks. Our health insurance, provision - including dental - and aged care activities also carry different risk profiles including clinical risk. We manage these profiles by understanding the factors behind the risk to each individual business and to our balance sheet, and by assessing how these risks interact, making sure we are in the best place to manage and diversify our risks.

Progress in 2019
We strengthened our approach to risk management and how we embed this capability within the business. Our approach is in line with the evolution of our business as a whole and the nature of how risks are evolving globally.

We continued to embed all aspects of our Risk Management Framework into our business by:

- conducting in-depth reviews of specific aspects of risk as they arise in the external environment and focusing on specific areas of risk for our insurance and healthcare provision businesses
- performing an assessment of the physical, transitional and liability risks to Bupa associated with climate change
- monitoring the resolution of regulatory compliance issues and addressing clinical risk in our Australian aged care business and the progress of the Royal Commission into Aged Care Quality and Safety
- improving our regular risk reporting to the Board Risk Committee to assist in its effective oversight
- reviewing the risks to Bupa associated with the UK leaving the EU, particularly in the event of no deal in future trading relationships
- reviewing the risks associated with changing regulatory and political environments across the Bupa Group
- undertaking a stress and scenario testing programme to improve our understanding of severe risks and how they may affect the business plan in both our insurance and healthcare provision businesses, including the impact of climate change
- continuing to improve our information security and privacy controls to respond to the ever-evolving external environment
- continuing to improve our wider information technology and IT operational resilience controls
- reviewing the progress on integration of our most recent acquisition of Acıbadem Sigorta in Turkey.

Our approach to risk management
We have governance processes overseen by non-executive directors at Bupa Group Board level and at subsidiary board level for our main insurance subsidiaries.

The Board Risk Committee receives reports from the Chief Risk Officer, Chief Medical Officer and other Bupa executives as appropriate, and sees reports and minutes from the major insurance subsidiary boards' risk committees and the Bupa Group level executive risk committee, Bupa Enterprise Risk Committee ('BERC'). The BERC is responsible for the leadership and oversight of risk across the Bupa Group and recommends risk appetite to the Board Risk Committee and the Board. The BERC is chaired by the Bupa Group CEO.

Each of our main insurance entities is overseen by a local Board and a local Board Risk Committee, consisting mainly of independent Non-Executive Directors ('NEDs') who oversee the Risk Management Framework. The subsidiary boards receive regular reports from local management and Chief Risk Officers.

Approach and implementation
We use a 'three lines of defence' approach to risk management.

We manage risk across our health insurance, provision and aged care businesses in line with our Board-approved Risk Management Framework. This sets out the principles behind a robust and continuous risk management system in our first line of defence.

This ensures that:

- we identify current and emerging risks to the businesses and strategy and understand the potential consequences
- we have clear and established risk appetites within which we operate (these are discussed further below)
- we take appropriate and effective steps to mitigate and manage identified risks
- we use risk management information to help inform risk-based decisions across the business
- there is clear ownership of, and accountability for, risk.

We have a culture in which:

- appropriate risk behaviours are encouraged and rewarded
- inappropriate behaviours are challenged with appropriate consequences
- risk events are communicated quickly without fear of blame.

We have well-established reporting systems in place to make sure that major risks to our businesses are identified, escalated, managed and mitigated. We carry out detailed reviews and in-depth analyses on particular risks where required and have a stress and scenario testing programme for key risks.

Our Enterprise Policies define the way we conduct business. The policies are reviewed annually and cover all key areas of risk for our health insurance, provision and aged care businesses. These are implemented by our Market Units and in Bupa Group Functions and overseen by Bupa Group Functions to ensure compliance with the requirements in each Market and Business Unit. Each policy has a designated owner with defined roles and responsibilities at both enterprise and local levels.

Our annual Internal Control and Risk Management Assessment tests how effectively we put the Risk Management Framework into practice. This is a self-assessment which evaluates our internal control and risk management practices and policy compliance across Bupa.

The assessment is conducted by the first line of defence and reviewed and challenged by the second and third lines, with the results presented to the Board Risk Committee.

The importance of risk management is reinforced by the effectiveness of our risk management processes being a factor in remuneration decisions.

Risk appetite
Our Board risk appetite is a measure of the degree of risk we are prepared to accept in our work to deliver on our strategy. Our core risk appetite statements focus on:

- the treatment of customers and employees
- management of our financial strength
- the sustainability of our business
- operational risk, including information security; privacy and clinical risks.

The risk appetite statements are reviewed annually, with the Risk Committee recommending any changes to the statements to the Board for approval.

Risk profile
We accept risk as part of our business. Some risks are avoidable while others are part and parcel of our business model. We have an effective risk management system and internal controls in place to mitigate these risks.

We maintain significant economic capital as a means of mitigating certain inherent risks. This reflects the nature of our operations and the level of risk associated with them.

Risk	Comment and outlook	Mitigating actions
Property risk The risk of the volatility in values or the devaluation of properties held for own use (including owned care provision properties), or for investment purposes, resulting in adverse impacts. This includes capital associated with leased properties following the introduction of IFRS 16.	We generally own rather than rent property. This could leave us exposed to falls in property values. Care home valuations are based on their trading potential based on discounted cashflow techniques.	By maintaining a geographic spread of businesses across a number of countries, we are able to diversify exposure to national or regional property markets.
Insurance risk Risks relating to our insurance businesses. Risk of inadequate pricing and/or underwriting of insurance policies, and of claims experience being materially adversely different to expectations.	Health insurance is short-tailed with lower outstanding claims as a percentage of revenue than most general insurers. Insurance risk exposure will grow in step with planned growth in premium income of the insurance businesses.	The relatively short-tailed nature of Bupa's products allows us to respond to market changes quickly, although this can be limited by government set pricing controls in some markets. We have extensive control mechanisms in place to ensure reserves are adequate to mitigate against the risk of higher-than-expected claims costs. The geographical diversity of Bupa offers further mitigation against insurance risk.
Currency risk Risk arising from changes in the level or volatility of currency exchange rates impacting on cash flows and assets held in currencies other than sterling, and on the financial statements.	As the net assets of businesses outside the UK grow, there will be a corresponding increase in currency risk in relation to translation into sterling. There is transaction risk relating to policies for which premiums and claims are in different currencies.	Currency translation risk is, where possible, significantly mitigated through a hedging programme. We limit currency risk exposure through asset liability matching in local currencies.
Credit spread and counterparty default risks Risk of a loss in value of bond assets and/or that a counterparty fails to meet its obligations in the face of adverse economic conditions. This also includes the risk of a loss in value of the bond assets held within the pension schemes.	Our health insurance businesses have modest holdings of corporate and other bonds. These are exposed to the risk of widening spreads and defaults. There is banking counterparty default risk in respect of deposits.	Our bond portfolio is small in relation to our other financial assets and the majority is investment grade. Counterparty exposure is managed by dealing with highly-rated counterparties with exposure limits defined by Bupa Group Treasury Policy.
Operational risk (including conduct risk and clinical risk) Risk of loss arising from inadequate or failed internal processes, or from personnel, systems or external events. This risk also includes conduct risk (the risk that our behaviours, actions or controls result in detriment or unfair outcomes for our customers), and clinical risk (the risk of injury, loss or harm to customers in receipt of healthcare).	We are committed to managing operational risks effectively. This includes continued close attention to management of regulatory risk and proactive engagement with regulators. If we expand our provision and aged care businesses, there will be an increase in inherent exposure to clinical risk. This is actively managed through continued refinement of our approach to clinical risk governance.	Maintaining internal control processes and governance frameworks, approving risk policies and assessing compliance help to mitigate this risk. The Bupa Group Clinical Function, led by the Bupa Group Chief Medical Officer, is responsible for ensuring clinical quality and governance within the business.

Some significant risks to Bupa, such as operational risk, cannot be effectively mitigated through holding capital alone, although we do hold significant capital for operational risks. Our Market Unit Executive Risk Committees regularly review these residual risks and the mitigating actions taken to reduce them. They also inform the Risk Committee and BERC about key areas of specific concern. This provides management with a view of the priority areas in which resources should be focused. The table below reflects the themes of the most significant risks currently facing Bupa. This list and the residual risks for each remained relatively stable throughout 2019 with additional focus on climate change risks.

Risk	Comment and outlook	Mitigating actions
Information security including cyber resilience The risk of significant financial and reputational impacts due to a failure to appropriately secure information (including personal information).	Businesses are increasingly being targeted by cyber-attacks.	We have a detailed programme of activities across Bupa to appropriately mitigate this risk. We continue to invest in actions to enhance security and digitize customer experience. Subcommittees of the BERC, specifically focuses on both information security and privacy risks while delivering continual service improvements.
Privacy The risk of adverse impacts due to failure to handle personal information fairly, lawfully and securely.	Regulatory requirements and expectations in relation to privacy are increasing globally. This is also true of customer expectations as people become increasingly more aware of the value and risks associated with personal information.	We continually review and improve our controls over the management and security of personal information. We have appointed Data Protection Officers and other privacy experts as part of our enterprise-wide privacy Risk Management Framework activities to help manage this risk.

Risk	Comment and outlook	Mitigating actions
Changes in government and regulatory policy The risk of failure to anticipate or influence changes in governmental and regulatory environment which may impact our customers and the viability or profitability of our business.	Our health insurance, provision and aged care businesses are subject to government and regulatory policy, including minimum wage requirements, prudential requirements, changes to tax regimes and the interpretation of existing tax practices, pricing controls in some of our health insurance businesses and clinical care requirements for our provision and aged care businesses. In Australia, the government-approved premium increase for our customers was lower than claims inflation in the last couple of years. This is affecting results across the industry.	All our markets have defined key activities to make sure we can continue to monitor and assess the strategic implications on our businesses of any future changes in policy or regulation, and advocate for appropriate change in these areas.
Clinical Risks, particularly in Australia Aged Care The risk that we are not providing the right clinical outcomes for our customers.	The Bupa Group Clinical Function, led by the Bupa Group Chief Medical Officer, is responsible for ensuring clinical quality and governance within the business. We have a Clinical Risk Enterprise Policy in place.	This has been the primary area of focus for local management and a range of activities are underway and have been completed. In Australia, we have been working with the regulator to make improvements in order to enhance care and support for our residents and their families. In addition, we are engaging with the Royal Commission into Aged Care Quality and Safety which is examining the whole aged care system in Australia.
External market conditions The risk of geopolitical volatility, changing customer dynamics and competitor activity having an adverse impact on our business model.	This includes structural market changes (e.g. political change or medical inflation) and economic volatility.	We have refreshed our Strategic Framework this year to continue to address these areas. We have an established process to consider the emerging and strategic risks to the Bupa Group to identify appropriate responses.
UK exit from the EU The UK's decision to leave the EU has led to uncertainty for our business.	Bupa's key financial metrics remain strong, with a Solvency II capital coverage ratio of 159%, from 191%. While uncertainty around the UK-EU future relationship negotiations may impact sterling, as a Bupa Group with significant operations outside of the UK this would lead to higher reported profits in the short-term. Operationally, currency risk is actively managed as described on page 15. Liquidity is robust and the investment portfolio is largely low risk, focused in bonds and cash.	We have established a new entity in Ireland to provide continuity for our Bupa Global customers within the European Economic Area following the loss of EU passporting rights. We have monitoring and risk management plans in place to protect Bupa's position from a customer, people and performance perspective. We recognise that the impacts of the UK leaving the EU are likely to crystallise over time at an operational level and will be dependent on a range of political and economic factors.
Environmental and climate change risks The risk that our activities cause harm to the environment, and the risks that climate change could have for our business.	Climate change is one of the major risks we face as a society. We closely manage our environmental impacts and promote positive environmental practices. We performed an assessment of the physical, transitional and liability risks associated with climate change. We have minimal direct investment and insurance exposures related to physical risks, although, as we saw in early 2020 with the Australian bushfires affecting some of our care homes, climate-change related events can increasingly affect our operations in our provision businesses in particular. We may be impacted by adverse economic outcomes from the transition to a lower-carbon economy that may impact the ability of our customers to afford our products. The direct impacts of climate change on health is becoming more evident.	We have a corporate responsibility and sustainability policy which includes environmental considerations and is reviewed on an annual basis. We have established the CRS Committee to advise the Board and management teams on actions to address environment and climate change risk. The short-tailed nature of our products allows us to respond to these developments, although this can be limited by pricing controls in some markets. We continue to work to ensure our business is equipped to anticipate and mitigate the health impacts of climate change. We stress tested the impact of climate change scenarios on our investment profile. We will continue to explore further potential scenario analysis and stress tests to perform.

There are further risks that capital cannot appropriately mitigate which remain a priority for management. These are detailed in the table below.

Risk	Comment and outlook	Mitigating actions
Liquidity risk The risk that we hold insufficient liquid financial resources to enable us to meet our obligations as they fall due or to take advantage of potential opportunities, or of being able to secure such resources only at excessive cost, resulting in adverse impacts.	Liquidity risk is addressed not through capital but by holding liquid assets and maintaining appropriate controls. Policyholder liabilities are predominantly backed by liquid assets, so our liquidity risk exposure primarily relates to the funding risk associated with borrowings.	This is mitigated by the Treasury function actively managing borrowings, for which the amount and timing of outflows are known, and by maintaining a portion of the bank facility undrawn.
Strategic risks The risk that we are unable to design or implement appropriate business plans and strategies, to make decisions, to allocate resources, or to adapt to changes in the business environment. This includes the risks associated with acquisition and disposal decisions and their implementation.	Global trends and key areas influencing our markets are set out in page 8 in the Parent's Annual Report. The prevalence of social media has increased the contagion risk to our brand and reputation from events in one part of the Bupa Group impacting the whole Bupa Group.	Our purpose – helping people live longer, healthier, happier lives – and our values shape how we act and deliver for our customers and our people. Through the identification and assessment of emerging risks, we can react to issues in a timely and appropriate manner. We are enhancing our capability to ensure our businesses remain operationally resilient to ensure we continue to provide for our customers.
Environmental risks The risk that our activities cause harm to the environment, and the risks that climate change could mean for our business.	Climate change is a health concern as well as an environmental risk. We play an active part in promoting positive environmental practices and we look for opportunities to reduce waste and conserve energy where possible. We are evaluating the business impacts and assessing the materiality of climate risk across the Bupa Group. We will then identify potential responses to manage the risks and opportunities.	We have a corporate responsibility and sustainability policy which includes environmental considerations and is reviewed on an annual basis. Each of our Market Units has developed a plan outlining actions to manage our social and environmental responsibilities. This is reinforced by the Bupa Code principle that 'we take care of the planet'.

By order of the Board.

Joy Linton
Director

4 March 2020

Governance
for the year ended 31 December 2019

Governance
The Company adheres to the policies and procedures adopted by the Bupa Group.

Bupa complies with the UK Corporate Governance Code 2018 and ensures that its governance responsibilities under the Code are enacted effectively with relevant provisions and principles being applied throughout the Bupa Group.

In addition, the Company complies with the Enterprise Policies issued by Bupa. These policies are designed to mitigate risks both internally and externally and to ensure that the Company operates within the risk appetite set by the Bupa Board.

System of Governance
Bupa's governance structure is designed to enable the Board to lead within a governance framework of prudent and effective controls so that risk is effectively assessed and managed. As already stated in the Risks section, our system of governance includes a Risk Management Framework ('RMF') implemented using a 'three lines of defence' approach. The RMF ensures that:

- all parts of the Group apply a consistent and robust approach to risk management
- current and emerging risks are identified and the potential consequences of them are understood
- clear risk appetites are set within which the business operates
- appropriate and effective steps are taken to mitigate and manage identified risks including using risk management information to make risk-based decisions
- there is clear ownership of, and accountability for risk, without fear of blame when communicating risk events
- the culture in all areas of the Group encourages and rewards appropriate risk behaviours and challenges and sanctions inappropriate risk behaviours.

The roles of each line of defence are set out below together with a description of our 'Speak Up' whistleblowing process. The role and activities of the Bupa Board and Bupa Committees in our system of governance are described in the subsequent sections of this report.

Information Flow	**1st line** All our people in Market Units and Functions	**Identify, manage and report** Identifying, assessing, controlling and mitigating risks to Bupa's objectives; compliance with Enterprise Policies, laws and regulations; identifying, escalating and learning from incidents; reporting of risk positions, weaknesses and incidents. **Advise and support** Advise on the application of Enterprise Policies and external regulations; set Standards and provide advice on the design and testing of controls to support compliance. **Monitoring** Monitor and test the effectiveness of controls and compliance with Enterprise Policies and external regulations.
	2nd line Risk, Compliance and Clinical Governance	**Oversight and challenge** Independent oversight and challenge (including testing and monitoring) of risk governance and risk management practices conducted by the first line of defence. Form an independent view on the quality and sufficiency of the business' risk management activities and internal control environment. **Advise and support** Designing the RMF through which the business manages risk; providing guidance and support to the first line of defence on how to embed the RMF. Aggregate risk information for analysis an onward reporting to the Bupa Risk Committee and Board.
	3rd line Group Internal Audit	**Independent assurance** Examine and evaluate the adequacy and effectiveness of Bupa's governance, risk management and internal control processes in relation to Bupa's defined goals and objectives. Evaluate all Bupa processes including governance and risk management processes.

First line accountability
All our people are responsible for managing risk and ensuring compliance with relevant laws, regulation, best practice and Bupa policies and processes within their role. This ranges from care home employees following procedures to keep our residents safe, to senior managers ensuring that they have appropriate and up to date policies and procedures in place in their areas and that their people are following these and reporting any breaches or incidents quickly and fully.

To assist our people to understand their responsibilities we have the Bupa Code which sets out how we expect our people to behave every day, and mandatory training on key issues and role-specific training for frontline people. We also run regular internal communications campaigns on key issues to maintain awareness. Each Business Unit proposes target risk outcomes for the year which are reviewed at Market Unit and Group management risk committees, monitored by local management and the outcomes reported to the Bupa Risk Committee. The Internal Control and Risk Management Assessment ('ICRMA') process assesses compliance with our Enterprise Policies and is carried out by the first line and challenged by the second line. It requires continuous monitoring of risk management controls and real-time escalation of identified issues or gaps against enterprise risk policies. Each Market Unit CEO and Enterprise Policy Sponsor provides an annual confirmation or opinion of compliance with each Policy.

Second line assurance
Risk and Compliance Function
Bupa's Chief Risk Officer ('CRO') leads the Risk and Compliance Function and reports to the Group CEO. He has unfettered access to the Chairman and to the Chair of the Bupa Risk Committee which has responsibility for approving the appointment (and removal) of the CRO. Each Market Unit has a CRO and a Risk and Compliance team.

The Group Risk function is responsible for the consolidation of risks across Bupa, and reporting them to management, through the Bupa Enterprise Risk Committee, and to the Bupa Risk Committee. It has established the principles and framework that support the processes and procedures to identify, assess, manage, monitor and report risks that the Group is, or might be, exposed to.

The Function provides oversight and challenge of risk governance and risk management carried out by the first line and reports on the quality and sufficiency of these first line activities to the Bupa Risk Committee. This includes providing an opinion on the effectiveness of internal controls and the management of risks within appetite. Further information on our approach to risk management and details of the principal and other significant risks to the Group are set out in the Risk section on pages 13 to 17.

Third line assurance
Group Internal Audit ('GIA')
GIA provides independent and objective assurance to the Bupa Audit Committee over the effectiveness of governance, risk and internal controls throughout the Group. It reviews the effectiveness of controls by undertaking an agreed schedule of audits each year.

GIA supports Bupa in accomplishing its purpose by helping the Bupa Board to protect the assets, reputation and sustainability of the Group. It ensures risks to our customers and businesses are appropriately managed in accordance with the risk appetite set by the Bupa Board. GIA reports its findings to the Bupa Audit Committee and assists both the Bupa Board, the Board and management in improving the effectiveness of Bupa's governance and internal control systems.

To maintain the function's independence and objectivity, the primary reporting line for the Chief Audit Officer ('CAO') is to the Chair of the Bupa Audit Committee, which has responsibility for approving the appointment (and removal) of the CAO. For administrative purposes, the CAO liaises with the Group CEO. GIA has no direct operational responsibility or authority over any of the activities audited. Co-source arrangements are in place with external providers in order to access specialist audit capability when that is deemed necessary.

An Internal Audit Charter is in place setting out the function's role, authority and independence. GIA operates in accordance with the Global Institute of Internal Auditors' international standards and the UK Chartered Institute of Internal Auditors Financial Services Code ('FS Code'). Following an annual review, the Internal Audit Charter was approved by the Audit Committee in December 2019 and is available on bupa.com.

Whistleblowing
We foster an open and honest culture which includes encouraging and enabling our people to raise concerns of any malpractice or wrongdoing at Bupa in a secure and anonymous way in cases where reporting directly to a manager is not appropriate or the concern has not been fully addressed. We run regular internal campaigns to raise awareness of 'Speak Up', Bupa's internal whistleblowing process, in addition to mandatory annual training. There are Speak Up officers for each business. The Bupa Audit Committee annually reviews the policy to ensure that it is robust and operating effectively and recommends it to the Bupa Board for approval. The Bupa Board receives regular updates on issues reported through 'Speak Up' during the year and on investigations and actions taken.

External Auditor
External audit provides independent assurance to the Company's shareholder to provide confidence over the audited financial information in this Annual Report and Accounts. KPMG LLP ('KPMG') is our current External Auditor. The Bupa Audit Committee provides clear guidance to KPMG on the Committee's expectations of KPMG as External Auditor. The lead audit partner, Philip Smart, attends all meetings of the Bupa Audit Committee and Bupa Risk Committee and provides regular reports to the Bupa Audit Committee.

Philip Smart has been our audit partner since 2017 and it is intended that he will remain in this role until Bupa rotates audit firms, to ensure a smooth handover. This is in accordance with Financial Reporting Council ('FRC') standards on lead audit partner rotation. As part of the annual evaluation of the External Auditor, the Bupa Board confirmed that they were satisfied that the External Auditor had maintained its independence during the year and to the date of this report.

KPMG has internal procedures and controls, and follows the FRC's Ethical Standard for auditors to ensure that it remains independent. There are no contractual obligations restricting the Group's choice of External Auditor and there is no limitation of liability in relation to statutory audit activities in the terms of KPMG's appointment as External Auditor of the Company. Bupa has an Audit and Non-Audit Services Policy, setting out the circumstances under which the Group's External Auditor can be engaged for non-audit services, recruitment restrictions for candidates with employment experience with the External Auditor and monitoring and reporting requirements for Bupa employees, contractors and temporary staff with close family members who are employed by the External Auditor.

Workforce engagement

Culture and our people
The Bupa Board is responsible for establishing Bupa's purpose, values and strategy and ensuring that our culture is aligned to these at all levels of the organisation. In order to do our best for our customers, we need to take care of our people and this will lead to strong and sustainable performance for the benefit of our purpose of helping people live longer, healthier, happier lives.

Our culture is shaped by our values and the Bupa Code which sets out what we expect from our people to help them live our values and achieve our purpose. As part of our Five-Year Vision, the Bupa Board has also recently agreed a number of leadership imperatives, a set of competencies specific to customer, people, performance and purpose. These will help our senior leaders across the business to deliver performance through putting customers at the heart of everything we do and helping our people be at their best. All employees are required to complete mandatory training on the Bupa Code and other areas including information security and privacy, risk management, conflicts of interest and financial crime.

The Bupa Board monitors behaviours in a number of ways including:

- measuring our people's engagement level through our People Pulse survey tool semi-annually
- considering semi-annually the level of, and themes arising from, reports received through our 'Speak-Up' whistleblowing process and customer complaints
- taking into account how our people have lived our values and followed the Bupa Code in achieving their performance goals.

Engaging our people
The Code requires boards to understand the views of companies' key stakeholders and recommends a number of methods for engaging with our people. We believe that our existing people engagement mechanisms and channels, as enhanced during the year, provide an effective means of engaging with our people. Our existing engagement methods are described in more detail below.

Listening
The Group listens to its people and promotes a positive, flexible working environment and a diverse and inclusive culture so everyone can be their authentic selves at work. Our People Pulse survey tool provides sophisticated insights and benchmarking with other companies, so we can learn and listen to what is of interest or concern to our people and act, where appropriate, on what our people are telling us. The survey is run twice a year, and 70% of our people took part in the survey conducted in November 2019. The Bupa Board receives reports on the results of each survey and challenges management on the level of participation and action taken to address key themes arising from the results. Overall, the Group's engagement score has stayed constant at 78 out of 100.

As part of the detailed quarterly management information which the Bupa Board receives, people and culture issues in each of our Market Units are highlighted during the year. The Bupa Board has considered people issues such as the shortage of dentists in the UK and the turnover of general managers and nurses in our aged care business in Australia. We want our people to see the Bupa Board as accessible and approachable and therefore regularly schedule site visits for the Bupa Board as a whole or for individual Directors. During the year, the Bupa Board has held 'town hall' meetings with employees at our offices in Madrid, Manchester and London, which provided an opportunity for our people to meet the Bupa Board and to ask questions and raise matters of interest. Going forward, these meetings will form an integral part of the Bupa Board's visits. Directors also regularly visit our frontline operations and talk to our people. During the year this has included visits by a number of Directors to call centres and a clinic in the UK and a hospital, dental centre and multi-service clinic in Spain.

These visits are an invaluable opportunity for our people to ask questions directly to the Bupa Board and for the Directors to gain an insight into the issues important to our people in different parts of the business. This helps enhance decision-making and consideration of the longer-term impact of the Bupa Board's decisions on our people. Senior managers also regularly hold 'town hall' meetings across sites or for their own teams, including on the Group's Full-Year and Half-Year results and strategy. There is a very proactive programme of internal communications via email, the intranet, presentations, and internal social media platforms. We also have employee forums for areas such as training and development, IT and security and for local office issues.

Diversity and inclusion
Our approach to diversity and our philosophy is based on inclusion for all. DiverCity, our employee network in the UK raises awareness and understanding of all areas of diversity and inclusion with groups focusing on topics including gender, ethnicity, LGBTQ+, mental wellbeing, ability, faith and working families. We are also working with INvolve to harness LGBTQ+, ethnic minority and female talent and help drive positive cultural change and increase diversity at all levels of our workforce and in the talent pipeline. We are also members of Business Disability International which helps companies and individuals to adapt the workplace and challenge attitudes to disability. The recruitment, training, career development and promotion of all employees is based on the skills, knowledge and experience of the individual and takes no account of age, disability, race, beliefs, gender, sexual orientation or other characteristics. Should employees become disabled during employment, every effort is made to continue their employment and, if necessary, appropriate training is provided.

Having a diverse workforce and an inclusive, accessible working environment, brings fresh views to the table and reflects the customers we serve and communities within which we operate. The People pillar of our corporate responsibility and sustainability ('CRS') strategy aims to promote diversity and inclusion during 2020 by further embedding a culture that gives our people the freedom to be their whole selves at work, empower diverse and high-performing teams and ensure that our people practices and policies support our people.

Mental health and wellbeing
Our approach to mental health focuses on raising awareness, creating supportive workplaces, encouraging open conversations and providing access to support and care. We are raising awareness of mental wellbeing in the workplace, encouraging open conversations and providing access to support and care through regular internal communications, campaigns such as for World Mental Health Day, online information, our Performance Energy resilience programme and training mental health first aiders.

Bupa Board diversity, skills and succession planning
The Bupa Board reviews succession plans for senior executives to ensure that we have a strong pipeline of executive talent within the business. Bupa's Board Diversity Policy is available on **bupa.com.** The Policy requires all board appointments including appointments to the Company's Board to be made on merit, employing objective criteria reflecting the skills, knowledge and experience required to ensure a rounded and effective board. The Bupa Board is focused on increasing diversity and aspires to achieve an appropriate proportion of Directors reflecting different ethnic and social backgrounds who have direct experience of some of Bupa's key markets. At Bupa, the concept of diversity includes race, social, educational and professional background, disability, gender, sexual orientation, religion, belief and age, as well as culture, personality, work style and cognitive and personal strengths. Diversity also includes a diversity of perspectives on what motivates and interests Bupa's existing and potential customers.

Governance (continued)
for the year ended 31 December 2019

The Role of the Board
The Board is responsible for the long-term success and sustainability of the Company for the benefit of its shareholder and stakeholders. It does this by providing clear leadership and overseeing management's implementation of Bupa's strategy within a prudent and effective governance structure and ensuring that Bupa's culture is aligned to our purpose, values and strategy.

Complying with the UK Corporate Governance Code 2018
Bupa aims to operate, where appropriate, to the same governance standards as are required of UK FTSE 100 companies and has therefore chosen to apply the UK Corporate Governance Code for a number of years and currently applies the UK Corporate Governance Code 2018 (the 'Code'). The Company is now required by UK company legislation to disclose its corporate governance arrangements, including which corporate governance code it chooses to apply. As Bupa has a Group-wide System of Governance and Risk Management Framework, the Company has chosen to apply certain Principles of the Code which it believes are appropriate for a large, wholly-owned subsidiary company with (i) a sole corporate shareholder which itself seeks to comply with the Code and (ii) debt investors. The Company does not apply the following Principles of the Code as they are applied at parent company level only by the Bupa Board and its Committees and are not considered relevant to the Company as a subsidiary:

- Section 2 – Division of Responsibilities: Principles F-H
- Section 3 – Composition, Succession and Evaluation: Principles J and L
- Section 5 – Remuneration: Principles P-R

The Code is available at frc.org.uk.

Principle	How we apply the Principle
1. Board leadership and company purpose	
A. The board's role A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	The Board is responsible for the long-term sustainable success of the Company for the benefit of its stakeholders, now and in the future. The Board works to achieve this by making decisions in line with Bupa's strategy within a prudent and effective governance structure using a three lines of defence model. The s172 statement on page 11 provides examples of the types of decisions made by the Board during the year and how they relate to the Company's key stakeholders.
B. Setting purpose, values and strategy The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	The Bupa Board sets the values, strategy and culture for the Bupa Group in line with Bupa's purpose of helping people live longer, healthier, happier lives. The Board assists in the execution of Bupa's strategy through its decision-making. The Directors take decisions in line with Bupa's values and culture and ensure that they make informed decisions on the areas within their remit.
C. Resourcing and risk management The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	The Board retains ultimate responsibility for risk management and internal controls, with detailed oversight carried out by the Bupa Audit Committee (which has been appointed to fulfil the role of the Company's audit committee for the purposes of DTR 7.1) and the Bupa Risk Committee. On the recommendation of the Bupa Risk Committee, the Bupa Board sets the Group's risk appetite and RMF. These set out the principal risks facing Bupa and the nature and extent of risk the Bupa Board is willing for Bupa to take in order to achieve its strategic objectives. Bupa's enterprise risk policies are approved by the Bupa Board or relevant Bupa Board Committee and overseen by the Bupa Risk Committee. They apply to the Company and all of its subsidiaries. During the year, revised risk appetite statements were approved in relation to information technology, information security and investment risk. A revised risk appetite statement for clinical risk was approved in early 2020 with improved risk indicators and reporting.
D. Stakeholder engagement In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	We are a customer-focused business reliant on our people to deliver great service. The Directors consider the impact of decisions on relevant stakeholders. There is an active programme of engagement with our bondholders through briefing calls on the Company's Half-Year Results and Annual Report and Accounts and an annual roadshow for bondholders. Other significant developments are communicated via regulatory announcements, press releases and our website bupa.com.
E. Workforce policies The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	During the year, the Bupa Board approved revised people and CRS strategies for the Group. These include ensuring that the Group's workforce policies and practices are consistent with our values and support our long-term sustainable success. The Bupa Audit Committee annually reviews the Speak Up policy to ensure it is sufficiently robust and operating effectively.

Governance (continued)
for the year ended 31 December 2019

Principle	How we apply the Principle
2. Division of responsibilities	
I. The Company Secretary The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	The Group Company Secretary (who is also the Company's company secretary) and his team advise the Board on company law and corporate governance matters, including compliance with the Code. He works with the Directors to ensure that the right matters are escalated to the Board at the appropriate time and of a high quality. He is responsible for the Group's Subsidiary Governance Enterprise Risk Policy which sets minimum standards of corporate governance across the Bupa Group.
3. Composition, succession and evaluation	
K. Skills, experience and knowledge The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	In accordance with the relevant Bupa policy, an assessment of the required skills, experience and knowledge is carried out in order to identify any new appointment/changes to the composition of the Board. The Bupa Audit Committee acts as the audit committee of the Company and the members of that Committee are recommended by the Bupa Nomination and Governance Committee to the Bupa Board for approval.
4. Audit, risk and internal control	
M. Financial reporting integrity The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	The Board delegates oversight of GIA and the External Auditor to the Bupa Audit Committee, together with oversight of the Group's system of internal controls to ensure the integrity of the Company's Half-Year Results and Annual Report and Accounts. On the recommendation of the Bupa Audit Committee, the Board reviewed and approved the 2019 Half-Year Results and the 2019 Annual Report and Accounts and was satisfied that the Company's system of internal controls had operated effectively during the year.
N. Fair, balanced and understandable The board should present a fair, balanced and understandable assessment of the company's position and prospects.	The Bupa Audit Committee reviewed the 2019 Annual Report and Accounts in early 2020 and was satisfied that it presents a fair, balanced and understandable assessment of the Company's position and prospects. It reported its findings to the Board.
O. Risk management and internal control The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	The Bupa Risk and Bupa Audit Committees monitor the Group's risk management and internal control systems on behalf of the Board on a continuous basis and the Bupa Risk Committee reviews the Group's principal risks and recommends any changes to risk appetite to the Board. An annual assessment of compliance with these enterprise risk policies is undertaken by management, overseen by the Risk function and reported on to the Bupa Audit and Bupa Risk Committees. During the year, the Bupa Risk Committee has carried out a robust assessment of Bupa's principal and emerging risks and recommended appropriate changes to risk appetite statements to the Bupa Board which has approved these. The Company aims to operate within the risk appetite set by Bupa. Emerging risks are continually monitored by the Risk function and regularly reported to the Bupa Risk Committee for consideration.

Bupa Audit Committee report

The Committee's role and governance
The principal function of the Committee is to monitor the integrity of Bupa's and the Company's financial statements, the effectiveness of our internal control systems, and to monitor the effectiveness, performance, objectivity and independence of GIA and the External Auditors. The Committee also reviews regulatory reporting and disclosure requirements.

A full description of the Committee's role is set out in its Terms of Reference on bupa.com. The Group CEO, CFO, Group Financial Controller, CAO, CRO and lead partner of the External Auditor are routinely invited to attend meetings. The Committee meets at least annually with each of the External Auditor, CAO and Chief Actuary in the absence of management. All of the Committee members have recent and relevant financial experience.

Key activities in 2019
During the year, the Committee considered regular reports from management on key issues and judgements impacting the Group's statutory financial results; the External Auditor's audit plan, engagement letter, annual letter to management, audit progress and conclusions; reports from the CAO on the internal control environment; and reports from the Chief Actuary on insurance reserving. Ad hoc matters included an update on the control environment in the Group's Hong Kong business, reviewing changes to the Group's Alternative Performance Measures, and the planning and conduct of the external audit tender.

Weighted Average Cost of Capital
During the year, management refreshed its methodology for calculating the Weighted Average Cost of Capital ('WACC'), which is used for goodwill impairment testing, investment appraisals and to risk adjust the performance of each business. The review included a refresh of the inputs used in the calculation and a review of the peer group comparators. The External Auditor reviewed the proposed methodology and substantively tested it during the audit of the 2019 Full Year results. The Committee was satisfied that the revised methodology was appropriate.

Goodwill impairments
Management proposed recognition of significant goodwill impairments in 2019 in relation to our UK dental care and Australian aged care businesses. The Committee discussed the causes of the proposed impairments in detail and reviewed the underlying calculations and proposed disclosures. The Committee was satisfied that the level of impairments proposed was appropriate given the performance of these businesses during the year and the risks and sensitivities in their plans for 2020 and beyond.

Alternative Performance Measures
In 2018, the Committee had asked management to clarify, simplify and improve the alignment of the Alternative Performance Measures used in internal performance reporting and external reporting. During the year, management presented its revised simpler approach to be used across internal performance reporting and external reporting. The Committee considered how the new methodology had been tested and how it compared to that used by the Group's peers and the External Auditor's view of the appropriateness of the new methodology. The Committee was satisfied that the new methodology was robust and appropriate.

Significant issues and areas of judgement

Key issue		Committee response
Goodwill and intangible asset valuations	Significant levels of goodwill and intangibles are held in respect of prior acquisitions. Impairment reviews are inherently complex and require a high level of judgement to be applied due to the uncertainty involved in forecasting future cash flows, the appropriateness of discount rates used and future growth rates of the respective businesses.	The Committee critically reviewed and discussed management reports outlining the basis of the assumptions used for our most sensitive cash generating units ('CGUs') and challenged the results in the light of business performance and the external environment, particularly in respect of the goodwill impairments in Australian aged care, UK dental care and Bupa Cromwell Hospital in the UK. The Committee challenged management on the elements included in the WACC methodology, the forecast cash flows and the terminal growth rates for the CGUs. The Committee also considered the appropriateness of the proposed disclosures. The Committee also received from KPMG a report of their views on the assessments performed by management. The Committee is satisfied that the assumptions applied were reasonable and the carrying value of goodwill and other intangible assets, following impairments recognised in certain CGUs, is appropriate.
Claims provisioning	Calculation of the outstanding claims provision is based on assumptions including claims development, margin of prudence, claims costs inflation, medical trends and seasonality, which require a high level of judgement and actuarial expertise.	The Committee received a report from the Chief Actuary setting out estimates of the technical provisions, including the margin of prudence held by each insurance entity, as well as the result of the annual review of compliance with Bupa's Claims Reserving and Liability Adequacy Standards. The Committee considered the appropriateness of the overall level of insurance technical provisions, including the level of prudential margin. In reviewing and approving the insurance technical provisions, the Committee also took into consideration the External Auditor's report to the Committee.

Key issue		Committee response
Property valuations	Bupa has a significant portfolio of care homes, villages and hospital properties which are revalued to fair value on a periodic basis, with external valuations undertaken at least triennially. The underlying assumptions involved in the valuations, including earnings, profitability, occupancy levels and future trends are subject to a high level of judgement.	The Committee received the results from the external valuations in UK, Poland, Chile and Brazil undertaken as part of the triennial property review, and Directors' valuations performed in other Market Units. The Committee also reviewed reporting from the External Auditor addressing the valuations to assess their reasonableness and considered the appropriateness of disclosures made. The Committee is satisfied that property values and disclosures for all properties are in compliance with financial reporting requirements and are appropriate.
Pension assets and liabilities	Bupa's principal defined benefit scheme in the UK is The Bupa Pension Scheme. Significant judgement is exercised in determining the actuarial assumptions used in valuing the pension asset/liability.	The Committee considered the appropriateness of the assumptions used in the valuation of the related pension assets and liabilities performed by the independent scheme actuary and is satisfied that the assumptions used in the valuation are appropriate. The Committee received information from KPMG benchmarking the assumptions used in the valuation of pensions liabilities. The Committee concluded that the pension assumptions were appropriate.
Acquisitions and disposals	During 2019, Bupa completed the acquisition of Acıbadem Sigorta in Turkey. Assessing whether the sale of businesses is sufficiently probable to require classification as 'held for sale' can require significant judgement.	The Committee considered the proposed accounting for the acquisition balance sheet in relation to the acquisition of Acıbadem Sigorta, including the valuation of acquired customer relationship, distribution channels and brand intangible assets. The Committee critically reviewed and discussed management's judgements in respect of the held for sale assessments for potential disposal groups. The Committee challenged management and concluded that the approach and assumptions used were appropriate.
Provisions and contingent liabilities	The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, disputes, and interpretation of tax law.	The Committee received reports from management setting out the rationale applied to the consideration of the recognition and disclosure of provisions and contingent liabilities. The Committee concluded that management's assumptions were appropriate regarding the need or otherwise for accounting provisions and that the proposed disclosure in the financial statements was appropriate.
Operating segments	During 2019, the Group announced changes to its organisation structure. This required reassessment of the external reporting structure as required by IFRS 8 Operating Segments.	The Committee considered the proposed changes to the Group's operating segments and concluded that the approach and disclosures were appropriate.
IFRS 16 Leases	As discussed in the 2018 AR&A, the requirements of the standard have been assessed and applied from 1 January 2019. .	The Committee considered the application of key policy recommendations for IFRS 16, including the transitional impacts and disclosures on adoption of the standard and judgements in respect of lease term and discount rates. The Committee concluded that the application of key policy recommendations and proposed disclosures made by management were appropriate.

Financial reporting
The Committee reviewed the Half-Year and Full-Year 2019 financial statements of the Company with both management and the External Auditor. This review considered the following areas:

Fair, balanced and understandable
In assessing whether the 2019 Annual Report was fair, balanced and understandable, the Committee found as follows:

- the narrative reporting in the Strategic Report is consistent with the financial statements, providing challenge and feedback throughout the compilation of the Annual Report and Accounts
- the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee report are consistent with the financial statements
- statutory and adjusted measures, such as underlying profit, have been given equal prominence and are clearly explained
- Key Performance Indicators reflect those used to measure business performance and management is able to explain their relevance in assessing the results
- clear, simple explanations are given of the business model, Bupa's strategy and accounting policies
- key messages are clearly highlighted with consistent wording throughout the Annual Report
- the layout and presentation are clear with appropriate language used throughout.

Group Internal Audit
Details of the role of GIA are set out in Bupa's System of Governance section on page 18.

Annual Plan
The assurance provided by GIA is an important part of the Committee's consideration of Bupa's overall control environment during the year. GIA's annual plan is aligned to an assessment of risk across the Group and to the RMF, and also covers emerging risks.

A significant proportion of the plan covers operational risk, reflecting Bupa's exposure in this area. The 2019 GIA annual plan and budget were approved by the Committee in December 2018. It included two global audits in relation to the Solvency Financial Condition Report and Regular Supervisory Report under Solvency II and the technology capabilities programme, which reflect issues prevalent throughout the Group where a global audit could provide deeper insight. Data governance and the maturity of the three lines of defence risk management model were also agreed as themes for coverage in all audits planned for 2019. The Committee approved a half year refresh of the 2019 plan, based on a renewed risk assessment in line with the GIA methodology, in June 2019.

The 2020 GIA annual plan and budget were approved by the Committee in late 2019 and aim to provide the Committee with assurance over key risks. Global audits will be carried out in a number of areas including clinical governance, financial reporting, whistleblowing and embedding risk management. The themes of risk culture, three lines of defence maturity and data governance will be built into all audits.

The CAO regularly reports to the Committee on GIA's activities as well as management's progress in addressing audit findings and all GIA reports are made available to the Committee members.

Quality assurance
GIA maintains a quality assurance and improvement programme that includes an annual evaluation of the function's adherence to the relevant external standards. The external quality assessment carried out in 2018 highlighted further work to enhance the function's effectiveness and meet the best practices recommended in the FS Code. These have been implemented through a GIA development programme including changes to audit methodology, adopting function-wide objectives and developing the function's people, scale and capability. The Committee has received regular updates on the progress of the programme and is satisfied with the steps taken and that GIA conforms to the FS Code.

In 2019, GIA has assessed the nature, quality and quantity of its work through ongoing quality assurance activity carried out by PwC, stakeholder feedback and the employee engagement survey. The results were considered by the Committee who concluded that GIA operates effectively. Grant Thornton have been appointed to carry out quality assurance work in 2020. A more formal internal assessment of GIA's effectiveness is in progress and will be reported to the Committee during 2020, and the outcome will be disclosed in the next Annual Report.

Chief Audit Officer
The Committee is responsible for the appointment and removal of the CAO, setting the CAO's objectives and reviewing his performance, taking into account the views of the Group CEO. The CAO has access to the Committee Chair and the Bupa Board Chairman as required and is directly accountable to the Committee. The previous Chief Internal Auditor moved to a new role within Bupa in early 2019 and the current CAO joined during the year following appointment by the Committee. A contractor from PwC was engaged as interim CAO to support the Committee Chair and GIA until the current CAO joined. During the year, the Committee held one private meeting with the outgoing Chief Internal Auditor, one private meeting with the Interim CAO and one private meeting with the new CAO. Management did not attend these meetings.

External Auditor
During the year, the Committee assessed the performance of the External Auditor in conducting the audit of the 2018 Annual Report and Accounts. This assessment considered the overall quality of service, timeliness of the resolution of issues, the quality of the audit resource and whether the audit plan was followed and was conducted through surveys sent to Committee members, the Group CEO, CFO, CAO and Group Financial Controller, and senior finance management across the Group. The Committee was satisfied with the External Auditor's performance and the quality of the audit.

The Committee approved a revised Audit and Non-Audit Services Policy to comply with a revised Ethical Standard issued by the FRC for auditors relating to the provision of non-audit services which aims to safeguard the External Auditor's independence. The changes place stronger restrictions on the engagement of the External Auditor for non-audit services and start with the principle that other providers will be used unless there is a clear and exception-based rationale for engaging the External Auditor. The Group has an annual cap on the value of non-audit engagements which aligns to the revised FRC Ethical Standard and EU regulations which come into force on during January 2020. The Committee has regularly reviewed the non-audit services provided by KPMG and other audit firms to assess any potential independence issues and the Committee also agreed KPMG's terms of engagement and remuneration for the 2019 audit. KPMG's remuneration for the year ended 31 December 2019 is shown in note 2.3.3.

The Committee held two meetings with the lead audit partner during the year without management present to ensure that he had the opportunity to raise any concerns and to assist the Committee in ensuring that KPMG remains independent and objective.

The Committee approved the external audit plan for the audit of the 2019 Annual Report and Accounts and remains satisfied with the quality of service that KPMG provide, and accordingly recommends their re-appointment at the 2020 AGM.

External Audit tender
The Audit Committee conducts the process to select the External Auditor and recommends their appointment, re-appointment or removal to the Bupa Board for approval by our Association Members at each AGM. As disclosed in last year's report, the Committee agreed to put the external audit out to tender to comply with EU Audit Regulation (Regulation 537/2014/EU)

transitional arrangements, which require the Group to rotate its audit firm at the time of next appointment on or after 17 June 2020.

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

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

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

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

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

Assessment criteria
Each firm was assessed on the following criteria using a scorecard with an over-arching criterion of audit quality:

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

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

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

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

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

Subsidiary governance
The Committee has maintained its links with the audit committees of Bupa's major insurance subsidiaries. Paul Evans, a Committee member, also chairs the audit committee of the UK major insurance subsidiary and provides regular verbal updates to the Committee. The Committee met with members of the risk committee of the Spanish insurance subsidiary, Sanitas Seguros, during the Bupa Board's annual strategy meeting held in Madrid in 2019. In addition, the Group CEO and audit chair of the Group's business in Hong Kong attended a Committee meeting to discuss management actions and their audit committee's oversight of these in relation to improvements to the control environment.

During the year the Committee Chair attended a meeting of the audit committee of the Bupa ANZ Board and has held calls or meetings with the chairs of the audit committee of each major insurance subsidiary.

A programme of attendance at Committee meetings by the chairs of the audit committees of each major insurance subsidiary in the Group is being arranged for 2020.

Committee effectiveness review
In terms of addressing the actions arising from the Committee's evaluation of its performance in 2018, the Group Company Secretary's team has provided training for regular authors of Board and Committee papers to improve the quality of papers to help the Board and Committees make informed decisions. To aid the Bupa Remuneration Committee's consideration of discretionary remuneration in the annual reward cycle, the Committee looked at the quality of the Group's underlying performance and the Committee Chair provided feedback to the Chair of the Remuneration Committee.

Focus for 2020
During 2020, the Committee will focus on the transition to PwC as the Group's External Auditor, the project to implement accounting for IFRS17 Insurance Contracts, further improvement to the Group's control environment and greater engagement with the audit committees of the Group's major insurance subsidiaries.

Clare Thompson
Audit Committee Chair

Bupa Risk Committee report

The Committee's role and governance
The principal role of the Committee is to assist the Bupa Board in articulating and developing its risk management strategy and providing oversight of risk across Bupa. This includes understanding current and future risk exposures, recommending overall risk appetite and tolerance to the Bupa Board, reviewing the consistency of corporate strategy with Bupa's risk appetite, reviewing the RMF, considering the risk aspects of major transactions, and promoting a risk awareness culture throughout Bupa. A full description of the Committee's role is set out in its Terms of Reference on **bupa.com** and a detailed description of the principal risks to Bupa's business are set out on pages 13 to 17.

The Committee comprises solely independent Non-Executive Directors ('NEDs'). The Group CEO, CFO, CRO, Chief Medical Officer, CAO and the lead partner of the External Auditor are invited to attend all meetings. The CRO has unrestricted access to all members of the Committee and has regular private meetings with the Committee, in the absence of management to ensure that there is an opportunity for the CRO to raise any concerns he may have. The Committee Chair is also a member of the Remuneration Committee, to assist with ensuring that risk management and culture are taken into account in remuneration decisions. Each year, the Committee considers whether to make any recommendations to the Remuneration Committee on making risk adjustments to variable remuneration outcomes for that year. For 2019, having regard to the executive performance evaluation process in place, the Committee did not recommend any further individual or Group-wide adjustments to remunerations.

Matías Rodriguez Incíarte, Michael Hawker and Professor Melvin Samsom joined the Committee during the year. Melvin ensures continued medical expertise on the Committee. Matias and Michael are NEDs of our Spanish insurance and Australian businesses respectively, and bring to the Committee direct insight into our key markets.

2019 activities
Information security and technology risk and privacy risk have been a continued focus for the Committee during 2019.

We have increased focus on clinical governance during the year, and the ongoing compliance and service issues in our Australian aged care business remain a priority.

During the year, the Committee received regular updates on our preparedness for a 'No-deal' Brexit. Climate change is a risk that the Committee has increased focus on and will continue to develop its thinking on, and approach to, during 2020.

Information technology and security
During the year, the Bupa Board approved a multi-year strategic investment programme in the Group's technology capabilities. The Committee has placed significant emphasis on information technology, security and privacy risks during the year to ensure that we protect the data of our customers, partners, employees and suppliers and that our systems are resilient. The Committee received regular updates from the Chief Information Officer during the year on the progress of the technology investment programme. Second line assurance was provided by the Information Security and Technology Chief Risk Officer and the Bupa Board's independent cyber adviser also attended the majority of Committee meetings. The Committee held a series of private meetings with the Bupa Board's independent cyber adviser, without management being present.

The Committee challenged management to ensure continuous improvement and uplift in controls by addressing risk culture, resourcing and the target outcomes of the programme during the year. The Committee is satisfied that the programme is progressing to plan, and that there is now evidence of risk reduction. The Committee remains focused on ensuring that the benefits are sustainable, with documented policies, controls and reporting in place.

First line accountability for risk management
Management continues to embed risk management in the first line of defence. The CRO provides updates at each meeting of the Committee which include his view of management's progress in this area, and the Committee asked members of management to present on key risk issues during the year. In addition, each business sets annual risk objectives to focus on which are validated and monitored by the Risk function and reported to the Committee. The Committee is satisfied that senior managers across the Group understand the need to manage risk well and acknowledge that there is further work to do to fully embed this at all levels of the Group.

The Committee has also considered the capability and capacity of the Risk function during the year to ensure that it has the right quality and quantity of resource to effectively carry out its assurance role. The Committee was pleased to see activity moving to the first line of defence. Increasing the capacity and capability of the Risk function will continue to be important in the coming year.

Aged care in Australia
Our Australian aged care business continues to operate in a challenging market. During 2019, 15 homes operated under regulatory sanction from the Australian Aged Care Quality and Safety Commission and this has now decreased to 5. The Committee received regular reports on the progress of the improvement programme during the year, including through an update from the chair of the risk committee in Australia.

The Royal Commission into Aged Care Quality and Safety, an industry-wide review, continued during the year and issued its interim report in October 2019.

Clinical governance risk
The Group's approach to overseeing clinical governance risk was refreshed by the new Chief Medical Officer in late 2019. This was based on our recent experience of issues in this area such as in our Australian care homes and informed by our previous experiences in the UK aged care business. The Group's Clinical Governance Enterprise Risk Policy and clinical risk appetite statement have recently been revised and improved clinical risk indicators and reporting agreed. The Committee is satisfied that clinical governance is appropriately positioned within the Group's overall RMF.

Political risk
Political risk is increasing and the Committee held a deep dive on political risk during the year focusing on the risks associated with changes of government in Bupa's key markets and the activities in place to mitigate these risks. This links to regulatory risk with governments introducing stricter regulatory regimes and regulators being given more powers to hold businesses to account.

Emerging and strategic risks
The Committee regularly considers emerging and strategic risks, both internal and external, in the context of the current, and expected future, business and market environments in which we are operating. These risks inform strategy discussions and they can present strategic opportunities as well as threats to be mitigated. The risks considered include the impact of significant governmental or regulatory changes, changes in customer behaviours and expectations, significant changes in medical treatment or the way care is provided, digital disruption and climate change. There is significant linkage between these risks and it is unlikely that any one risk would emerge in isolation.

We have assessed the potential impact of climate change in a number of risk categories. Liability risk is the impact on health, which we see as a medium-term risk, which we are well placed to consider given our healthcare expertise. Exposure to physical risk is mainly in our provision businesses, and we have recently seen the impact of this with the bushfires in Australia. There is also risk associated with the transition to lower-carbon economies and different ways of working which will have associated cost and will therefore put pressure on affordability. This could impact short-term economic growth but is an area all businesses must focus on.

Stress and scenario testing
Management carries out stress and scenario tests annually to test the impact of various scenarios on the Group's capital strength, liquidity and profitability. The Committee agreed the scenarios to be tested during the year and reviewed the results of the tests. The scenarios are designed to test the strength of our three-year base operating plan and also form part of the Group's Own Risk and Solvency Assessment ('ORSA'). The Committee noted that the Group operates in a more volatile external environment than was previously the case due to increasing political and regulatory risk and the public's changing expectations of our products and services, as well as increasing expectations of the standards of corporate behaviour. The Committee was satisfied that, whilst these scenarios would have a significant impact on the Group, Bupa could withstand them, with recovery within a reasonable timescale and with appropriate management actions being taken.

Subsidiary governance
The Committee has strengthened links with subsidiaries with a rolling programme of attendance by subsidiary risk committee chairs now in place to provide an update on the areas of focus of their respective committees, as well as details of any specific concerns they wished to raise with the Committee. In addition, the Committee met with members of the Spanish insurance subsidiary's audit and risk committee during the Board's annual strategy meeting held in Madrid in 2019. There is cross-membership between the Committee and the risk committees of our major insurance subsidiaries in Australia, the UK and Spain. The Committee Chair has regular calls with her local counterparts and the Committee receives summaries and minutes of the meetings of the risk committees of the major insurance subsidiaries. She also attended a meeting of the risk committee of the UK major insurance subsidiary during the year.

Other
In addition, the Committee has carried out other business as required under its Terms of Reference including: recommending the Group's ORSA to the Bupa Board for approval; reviewing the annual insurance compliance plan; reviewing the results of reverse stress testing of Bupa's business model; reviewing the modelling of economic capital as part of our annual ORSA process; and approving, or recommending to the Bupa Board, refreshed enterprise risk policies and risk appetite statements.

Committee effectiveness review
In terms of addressing the actions arising from the Committee's evaluation of its own performance in 2018, the Committee has continually challenged management to further embed risk management in the first line of defence and is satisfied with management's progress during the year.

Focus for 2020
In 2020, the Committee will continue to focus on:

- maturing risk management accountability in the first line of defence
- overseeing the Group's continued investment in technology capabilities
- affordability of our products and services
- risk to achieving Bupa's strategy.

Other Statutory Information

The Directors present their report and the audited financial statements for the year ended 31 December 2019. The Governance report on pages 18 to 31 comprise the Directors' Report.

Insurance and indemnities
Bupa has a directors' and officers' insurance policy in place, together with indemnities for the Directors and certain senior managers, to the extent permitted by English law and the Company's Articles of Association. These cover all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company or of any of its subsidiaries. There are no other third-party qualifying indemnity provisions or pension indemnity provisions in place.

Assessment of emerging and principal risks
The principal and significant risks to the Group and how they are being mitigated, are set out in the Risks section on page 13. The Risks section also describes the RMF which sets out Bupa's process for the ongoing identification and management of these risks and emerging risks. These are reported to the Bupa Risk Committee on a regular basis through reports from the CRO, and any proposed changes in risk appetite are reviewed by the Bupa Risk Committee and approved by the Bupa Board. The Bupa Risk Committee's report on page 28 explains its activities in relation to emerging risks during the year.

Effectiveness of risk management and internal control systems
The Bupa Risk and Bupa Audit Committees monitor the Group's risk management and internal control systems on behalf of the Board on a continuous basis through regular reports from the CRO and CAO. This includes material financial, operational and compliance controls. An annual assessment of the Group's risk management and internal control systems is undertaken by management through the ICRMA process which is reviewed by the Risk function. Management's assessment during 2019 was that Bupa generally has a sound system of risk management and internal control, with some weaknesses in internal controls which are being addressed by management and monitored by the Bupa Risk and Bupa Audit Committees. This view was broadly supported by the Risk function. The CAO also provides an annual opinion to the Bupa Audit Committee and the Bupa Board on the level of assurance that the Bupa Audit Committee can place on the Group's systems of internal control. In relation to 2019, the CAO's opinion noted that there is generally a sound system of internal control, with improvements during the year on risk culture and awareness.

Going concern
The Directors confirm that they are satisfied that the Company has adequate resources to continue in operation for the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing of the financial statements. The going concern assessment in the Basis of Preparation on page 46 includes information on the Directors' detailed assessment of the Company's status as a going concern based on its current position and forecast results.

Future developments
Likely future developments in the business of the Company are discussed in the strategic report.

Political donations
Our policy is not to make political donations and we confirm that no political donations were made, nor any political expenditure incurred within the definition contained in Section 364 of the Companies Act 2006 (as amended).

Charitable donations
During the year, the Group donated a total of £7.3m to charitable causes with £1.9m being donated to charitable causes in the UK. Of the UK donations, £1.7m was donated to the Bupa UK Foundation, £38,000 to match fundraising by our employees, £20,000 related to community grants, £27,000 in relation to volunteering activities and £186,000 to various charities.

Disclosure compliance
The following disclosures required to be contained in the Directors' Report are set out on the pages referred to below and incorporated by reference into this Directors' Report:

• Financial instruments	Note 10 page 75
• Risk management objectives and policies	Note 25 page 89
• Likely future business developments	Strategic Report page 3
• Acquisitions and disposals	Note 23 page 87
• Financial results	Financial performance page 4
• Relationships with suppliers, customers and others	Page 11

Dividends
The Company paid interim dividends totalling £154m during the year. No final dividend is proposed.

Statement of Directors' responsibilities in respect of the Annual Report and Accounts
The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

The Directors have also decided to prepare, voluntarily a Corporate Governance Statement as if the Company was required to comply with the UK Listing Rules, Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to the External Auditor
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditor is unaware; and each Director has taken all the steps which they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that the Company's External Auditor is aware of that information.

External Auditor re-appointment
A resolution to re-appoint KPMG LLP as external auditor will be put to the forthcoming Annual General Meeting of the Company.

By order of the Board.

Joy Linton
Director

4 March 2020
Company number: 2779134

Independent Auditor's Report
for the year ended 31 December 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BUPA FINANCE PLC

1 Our opinion is unmodified

We have audited the financial statements of Bupa Finance Plc ('the Company') for the year ended 31 December 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, and the related notes, including the accounting policies in note.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs' as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the directors on 8 April 1993. The period of total uninterrupted engagement is for the 27 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£25.3m (2018: £25.6m) 3.5% normalised profit before tax (2018: 4.2%, profit before tax)	
Coverage	83% (2018: 78%) of Group profit before tax	
Key audit matters	**vs 2018**	
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
Recurring risks	Valuation of goodwill and intangible assets	▲
	Valuation of freehold and investment properties	◀▶
	Valuation of insurance contract liabilities	◀▶
	Parent Company risk: Valuation of investment in subsidiaries	◀▶

2 Key audit matters: our assessment of risks of material misstatement

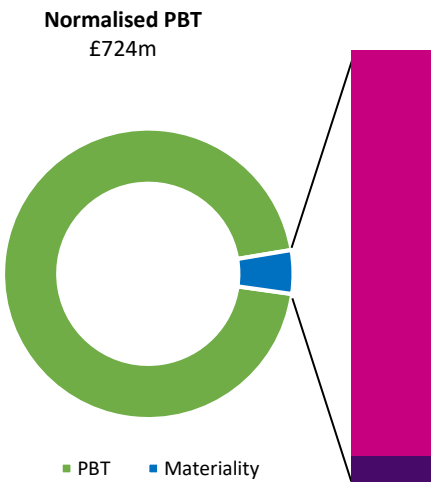
Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit ('Brexit') *Refer to page 13 (Risks), page 28 (Risk Committee report), and page 23 (Audit Committee report).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the: valuation of goodwill and indefinite life intangible assets and valuation of investment properties below, 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 Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; — **Sensitivity analysis:** When addressing: valuation of goodwill and indefinite life intangible assets and valuation of investment properties below and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the: valuation of goodwill and indefinite life intangible assets and valuation of investment properties below we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under: valuation of goodwill and indefinite life intangible assets and valuation of investment properties below we found the resulting estimates and related disclosures of these matters and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Valuation of goodwill and indefinite life intangible assets (£3,759 million; 2018: £4,197 million) *Refer to page 23 (Audit Committee report) and Note 3 (for accounting policy and financial disclosures where combined balances for definite and indefinite life intangibles being disclosed).*	**Forecast based valuation:** As described in note 3, impairment is assessed based on discounted cash flow projections. Estimating and discounting the cash flows requires significant judgement. The assumptions requiring the most significant judgement vary by asset or cash generating unit ('CGU'), as a result of the differences in Bupa's operations and market environments globally. Considering goodwill, the key assumptions are generally the forecast terminal growth rates and discount rates. For the Bupa Dental Care UK CGU they also include short-term revenue growth. For indefinite life intangible assets, the most significant judgements relate to the benefits that are expected to derive from the asset, and the period over which they are realised.	Our procedures included: — **Control design:** evaluating the management review control performed by Bupa Group over the impairment assessments performed locally by management within each relevant business unit, which is designed to provide independent review and challenge of the assumptions used to estimate cash flow forecast. — **Our valuation expertise:** using valuation specialists to evaluate and challenge the methodology applied by the Group to determine the discount rates against standard industry practices. — **Historical comparisons:** comparing cash flow forecasts used in the review to historical performance, and challenging where forecasts indicated performance that deviated significantly from historical performance, in the absence of significant changes in the business or market environment. — **Benchmarking assumptions:** comparing the key assumptions of the terminal growth rates and discount rates to externally derived data and our knowledge of sector performance, to evaluate the reasonableness of the Group's assessments. — **Sensitivity analysis:** performing sensitivity analyses on the key assumptions such as forecast period, terminal growth rate and discount rate, to

	Estimation uncertainty The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the recoverable amount of goodwill and indefinite life intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3) disclose the sensitivity estimated by the Group.	identify assumptions that the goodwill or indefinite life intangible asset valuation was highly sensitive to. — **Assessing transparency:** assessing whether the disclosures in relation to the valuation of goodwill and intangible assets are compliant with the relevant financial reporting requirements. **Our results** — We found the resulting estimate of the recoverable amount of goodwill and indefinite life intangible assets to be acceptable.
Valuation of freehold and investment properties (freehold property £2,401 million (2018: £2,418 million); and investment property £522 million; (2018: £454 million)) *Refer to page 23 (Audit Committee report) and Notes 4 and 5 (for accounting policy and financial disclosures).*	**Subjective valuation:** The Group revalues its freehold and investment properties, including care homes, dental practices and hospitals, to fair value on a cyclical basis, with external valuations being performed on at least a triennial basis and retirement villages in New Zealand being subject to an external valuation annually. A full external valuation of freehold and investment properties in the UK, Chile, Brazil and Poland was performed by chartered surveyors during 2019. Directors' valuations were performed for other properties where there was an indication that the fair value may have significantly differed from the prior valuation. The principal assumptions underpinning the valuation of properties – including operating cash flows, future profitability and competitor activity – require significant judgement, whether developed by external valuation specialists or Bupa Directors. A small change in the assumptions and estimates used to value the property could have a significant impact on the overall valuation. *Estimation uncertainty* The effect of these matters is that, as part of our risk assessment, we determined that the valuation freehold and investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (notes 4 and 5) disclose the sensitivity estimated by the Group.	Our procedures included: — **Assessing valuer's credentials:** for properties that were valued externally, principally in the UK, Chile, Brazil and Poland, critically assessing the qualifications and experience of the external valuers to determine whether they have the knowledge required to perform the valuations. — **Historical accuracy:** challenging the valuation models by comparing past cash flow forecasts to actual performance, and using this in the evaluation of the expected accuracy of current cash flow forecasts. — **Assessing key assumptions:** challenging the key assumptions relating to operating cash flows such as occupancy rates and discount rates, as well as reviewing costs capitalised during the year, carrying values and useful lives of existing facilities. In critically assessing assumptions we have utilised our own valuation specialists, considered external benchmarks and forecasts, and reports from external chartered surveyors. — **Assessing transparency:** assessing whether the disclosures in relation to the valuation of freehold and investment properties are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions. **Our results** — We found the resulting estimate of the valuation of freehold and investment properties to be acceptable.
Valuation of insurance contract liabilities (Provisions for claims £865 million; 2018: £875 million) *Refer to page 23 (Audit Committee report), and Note 19.1 (for accounting policy and financial disclosures).*	**Subjective valuation:** The Group's operations include a number of general insurance entities writing health insurance policies primarily in Australia, the UK, Spain, Chile, Turkey and Hong Kong. The valuation of insurance contract liabilities requires significant judgement and actuarial expertise. In the context of our audit, this is also an area of significant audit effort. Calculation of the actuarial best estimate and the margin over best estimate uses historical data, which is sensitive to external inputs including claims cost inflation and medical trends, and requires assumptions to be made in respect of current and future experience. Small changes in the assumptions and estimates used to value the insurance contract liabilities can have a significant impact on the overall liability valuation.	Our procedures included: — **Control design and implementation:** testing the design and implementation of key controls over the reserving process, including controls over the completeness and accuracy of data supporting key calculations, such as the data in respect of current and historical claims. Reviewing the effectiveness of group level oversight. — **Assessing key assumptions:** evaluating the assumptions used in the valuation of insurance contract liabilities for reasonableness, considering our understanding of the business, past history of claims settlements, wider market trends and changing legislation. — **Our actuarial expertise:** working closely with our actuarial specialists, sampling the premiums, claims and other data used in the actuarial models, and reconciling it to the data audited through our testing of these account balances; working with our IT specialists to test the data extraction processes used in the actuarial modelling process in order to obtain evidence over the entire population of input data; reviewing the mechanics of the statistical models and claims triangles, including the mathematical accuracy of formula and functioning of automated calculations.

	Estimation uncertainty The effect of these matters is that, as part of our risk assessment, we determined that the valuation insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 19.1) disclose the sensitivity estimated by the Group.	— **Sensitivity analysis:** performing sensitivity analyses to assess the adequacy of liabilities in the event of severe but possible adverse deviations in key assumptions. — **Independent re-performance:** for a sample of portfolios, selected on the basis of assessed risk of material misstatement, calculating our own estimate of the liability using the Group's data, and comparing to the liability calculated by the Group, and considering the impact of any significant differences. — **Assessing transparency:** assessing whether the disclosures in relation to the valuation of insurance contract liabilities are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions. **Our results** — We found the resulting estimate of the valuation of insurance contract liabilities to be acceptable.
Parent company risk: Recovery of parent company's investment in subsidiaries (£6,055 million; 2018: £6,061 million) *Refer to page 23 (Audit Committee report), and Note D (for accounting policy and financial disclosures).*	**Low risk, high value:** The carrying amount of the parent company's investments in subsidiaries represents 92% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: — **Independent re-performance:** Comparing the carrying amount of a sample of the highest value investments, with the relevant subsidiaries' financial information to identify where their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. — **Comparing valuations:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' profit. **Our results** — We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable.

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



Group Materiality

£25.3m

Whole financial statements materiality

£19.0m

Range of materiality at 37 components (£7.2m - £11.5m)

£1.3m

Misstatements reported to the audit committee

Materiality for the group financial statements as a whole was set at £25.3 million (2018: £25.6 million), determined with reference to a benchmark of group profit before tax, normalised to exclude this year's impairment, disposal losses and one off costs of £613 million of which it represents 3.5% (2018: profit before tax, 4.2%).

Materiality for the parent company financial statements as a whole was set at £7.2 million (2018: £17.3 million), determined with reference to a benchmark of parent Company total assets, of which it represents 0.1% (2018: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.3 million (2018: £1.3 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's reporting components, we subjected 33 (2018: 36) to full scope audits for group purposes and 4 (2018: 2) to specified risk-focussed audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

We subjected 2 (2018: none) components to specified risk-focused audit procedures over insurance contract liabilities, gross earned premiums and financial investments; 1 (2018: 1) component to specified risk-focused audit procedures over goodwill and intangibles; and 1 (2018: 1) component to specified risk-focused audit procedures over properties.

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

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

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materialities, which ranged from £7.2 million to £11.5 million (2018: £11.5 million to £17.3 million), having regard to the mix of size and risk profile of the Group across the components.

The work on 36 of the 37 components (2018: 31 of 36) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

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

4 We have nothing to report on going concern

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

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

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

- Significant adverse deviation in insurance claims experience; and
- a deterioration in the valuation of the Group's investments arising from a significant change in the economic environment.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

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

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

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

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 30, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going

concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

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

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

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

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

Philip Smart (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL
4 March 2020

Consolidated Income Statement
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Revenues			
Gross insurance premiums	2.1	**9,077**	8,791
Premiums ceded to reinsurers	2.1	**(79)**	(63)
Net insurance premiums earned		**8,998**	8,728
Care, health and other customer contract revenue	2.1	**3,287**	3,117
Other revenue	2.1	**31**	14
Total revenues		**12,316**	11,859
Claims and Expenses			
Insurance claims incurred	2.2	**(7,239)**	(6,912)
Reinsurers' share of claims incurred	2.2	**56**	44
Net insurance claims incurred		**(7,183)**	(6,868)
Share of post-taxation results of equity accounted investments		**48**	33
Impairment of goodwill and intangible assets	3	**(449)**	(39)
Other operating expenses	2.3	**(4,592)**	(4,277)
Other income and charges	2.4	**(42)**	(53)
Total claims and expenses		**(12,218)**	(11,204)
Profit before financial income and expense		**98**	655
Financial income and expense			
Financial income	2.5	**110**	70
Financial expense	2.5	**(162)**	(103)
Net impairment loss on financial assets		**(11)**	(8)
Net financial expense		**(63)**	(41)
Profit before taxation expense		**35**	614
Taxation expense	2.6	**(154)**	(211)
(Loss)/profit for the financial year		**(119)**	403
Attributable to:			
Bupa Finance plc		**(121)**	397
Non-controlling interests		**2**	6
(Loss)/profit for the financial year		**(119)**	403

Notes 1-28 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
(Loss)/profit for the financial year		**(119)**	403
Other comprehensive (expense)/income			
Items that will not be reclassified to the Income Statement			
Remeasurement (losses)/gains on pension schemes	7	**(2)**	1
Unrealised gains on revaluation of property	4	**18**	23
Taxation charge on income and expenses recognised directly in other comprehensive income	2.6	**(2)**	(9)
Items that may be reclassified subsequently to the Income Statement			
Foreign exchange translation differences on goodwill	3	**(107)**	(73)
Other foreign exchange translation differences		**(188)**	(10)
Net gain on hedge of net investment in overseas subsidiary companies		**51**	1
Change in fair value of financial investments through other comprehensive income		**5**	-
Change in fair value of underlying derivative of cash flow hedge		**1**	-
Taxation charge on income and expenses recognised directly in other comprehensive income	2.6	**(1)**	(10)
Total other comprehensive expense		**(225)**	(77)
Comprehensive (expense)/income for the year		**(344)**	326
Attributable to:			
Bupa Finance plc		**(344)**	322
Non-controlling interests		**-**	4
Comprehensive (expense)/income for the year		**(344)**	326

Notes 1-28 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2019

	Note	2019 £m	2018 £m
Goodwill and intangible assets	3	**3,759**	4,197
Property, plant and equipment	4	**4,170**	3,181
Investment property	5	**522**	454
Equity accounted investments	6	**716**	690
Post-employment benefit net assets	7	**2**	3
Restricted assets	8	**117**	107
Financial investments	9	**2,331**	2,350
Derivative assets	10	**59**	28
Deferred taxation assets	11	**44**	52
Current taxation assets		**8**	9
Assets arising from insurance business	12	**1,416**	1,348
Inventories	13	**98**	109
Trade and other receivables	14	**739**	745
Cash and cash equivalents	15	**1,234**	1,553
Assets held for sale	16	**278**	7
Total assets		**15,493**	14,833
Subordinated liabilities	17	**(1,245)**	(1,255)
Other interest bearing liabilities	17	**(1,105)**	(1,055)
Lease liabilities	18	**(1,062)**	-
Post-employment benefit net liabilities	7	**(7)**	(10)
Provisions arising from insurance contracts	19.1	**(2,836)**	(2,753)
Derivative liabilities	10	**(34)**	(47)
Provisions for liabilities and charges	20	**(176)**	(166)
Deferred taxation liabilities	11	**(250)**	(271)
Current taxation liabilities		**(64)**	(146)
Other liabilities arising from insurance business	19.2	**(146)**	(144)
Trade and other payables	21	**(1,898)**	(1,942)
Liabilities associated with assets held for sale	16	**(193)**	-
Total liabilities		**(9,016)**	(7,789)
Net assets		**6,477**	7,044
Equity			
Share capital	22	**200**	200
Property revaluation reserve		**692**	700
Income and expenditure reserve		**5,310**	5,640
Cash flow hedge reserve		**21**	20
Foreign exchange translation reserve		**237**	464
Equity attributable to Bupa Finance plc		**6,460**	7,024
Equity attributable to non-controlling interests		**17**	20
Total equity		**6,477**	7,044

Approved by the Board of Directors and signed on its behalf on 4 March 2020 by

Joy Linton

Director

Notes 1-28 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Operating activities			
Profit before taxation expense		**35**	614
Adjustments for:			
Net financial expense		**63**	41
Depreciation, amortisation and impairment		**921**	352
Other non-cash items		**(34)**	19
Changes in working capital and provisions:			
Increase in provisions and other liabilities arising from insurance contracts		**17**	165
Increase in assets arising from insurance business		**(25)**	(104)
Funded pension scheme employer contributions		**(1)**	(1)
Increase in trade and other receivables, and other assets		**(129)**	(35)
Increase/(decrease) in trade and other payables, and other liabilities		**267**	(37)
Cash generated from operations		**1,114**	1,014
Income taxation paid		**(242)**	(173)
Increase in cash held in restricted assets	8	**(10)**	(31)
Net cash generated from operating activities		**862**	810
Cash flow from investing activities			
Acquisition of subsidiary companies, net of cash acquired		**(215)**	(146)
Investment in equity accounted investments	6	**(8)**	(81)
Dividends received from associates		**13**	12
Disposal of subsidiary companies, net of cash disposed of		**-**	57
Divestment in equity accounted investments		**4**	7
Purchase of intangible assets	3	**(130)**	(60)
Purchase of property, plant and equipment	4	**(291)**	(256)
Proceeds from sale of property, plant and equipment		**12**	73
Purchase of investment property	5	**(58)**	(27)
Disposal of investment property		**4**	19
Net proceeds from sale, maturities and (purchases) of financial investments, excluding deposits with credit institutions		**157**	(232)
Net (withdrawal)/investment from deposits with credit institutions		**(92)**	61
Interest received		**83**	68
Net cash used in investing activities		**(521)**	(505)
Cash flow from financing activities			
Proceeds from issue of interest bearing liabilities and drawdowns on other borrowings		**113**	103
Repayment of interest bearing liabilities and other borrowings		**(30)**	(190)
Principal repayment of lease liabilities		**(114)**	-
Repayment of interest on lease liabilities		**(57)**	-
Interest paid[1]	17	**(91)**	(87)
(Payments)/receipts on settlement of hedging instruments		**(35)**	18
Dividends paid		**(154)**	(79)
Acquisition of non-controlling interests in subsidiary company	23	**(2)**	(8)
Dividends paid to non-controlling interests		**(3)**	(1)
Net cash used in financing activities		**(373)**	(244)
Net (decrease)/increase in cash and cash equivalents		**(32)**	61
Cash and cash equivalents at beginning of year		**1,552**	1,504
Effect of exchange rate changes		**(69)**	(13)
Cash and cash equivalents at end of year[2]	15	**1,451**	1,552

1. Includes other bank fees and charges of £4m (2018: £3m).
2. Includes cash balances classified as held for sale of £218m (2018: £nil) and bank overdrafts of £1m (2018: £1m) which are not considered as a component of cash and cash equivalents within note 15.

Notes 1-28 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

	Note	Property revaluation reserve £m	Income and expenditure reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa Finance plc £m	Equity attributable to non-controlling interests £m	Total equity £m
2019								
Balance as at 1 January 2019, as previously reported		**700**	**5,640**	**20**	**464**	**6,824**	**20**	**6,844**
Opening balance adjustments	1.5.1	**(3)**	**(61)**	**-**	**-**	**(64)**	**-**	**(64)**
Balance as at 1 January 2019, as restated		**697**	**5,579**	**20**	**464**	**6,760**	**20**	**6,780**
(Loss)/profit for the financial year		**-**	**(121)**	**-**	**-**	**(121)**	**2**	**(119)**
Other comprehensive (expense)/income								
Unrealised gain on revaluation of property	4	**18**	**-**	**-**	**-**	**18**	**-**	**18**
Realised revaluation profit on disposal of property		**(2)**	**2**	**-**	**-**	**-**	**-**	**-**
Remeasurement loss on pension schemes	7	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Foreign exchange translation differences on goodwill	3	**-**	**-**	**-**	**(107)**	**(107)**	**-**	**(107)**
Other foreign exchange translation differences		**(18)**	**3**	**-**	**(171)**	**(186)**	**(2)**	**(188)**
Net gain on hedge of net investment in overseas subsidiary companies		**-**	**-**	**-**	**51**	**51**	**-**	**51**
Change in fair value of financial investments through other comprehensive income		**-**	**5**	**-**	**-**	**5**	**-**	**5**
Change in fair value of underlying derivative of cash flow hedge		**-**	**-**	**1**	**-**	**1**	**-**	**1**
Taxation charge on income and expense recognised directly in other comprehensive income	2.6	**(3)**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Other comprehensive (expense)/income for the year, net of taxation		**(5)**	**8**	**1**	**(227)**	**(223)**	**(2)**	**(225)**
Total comprehensive (expense)/income for the year		**(5)**	**(113)**	**1**	**(227)**	**(344)**	**-**	**(344)**
Dividends to equity holders of the company		**-**	**(154)**	**-**	**-**	**(154)**	**-**	**(154)**
Acquisition of subsidiary companies attributable to non-controlling interests	23	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Dividends paid to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**(3)**	**(3)**
Balance as at 31 December 2019		**692**	**5,310**	**21**	**237**	**6,260**	**17**	**6,277**
Share capital at the beginning and end of the year								**200**
Balance as at 31 December 2019								**6,477**

Notes 1-28 form part of these financial statements.

Consolidated Statement of Changes in Equity (continued)
for the year ended 31 December 2019

	Note	Property revaluation reserve	Income and expenditure reserve	Cash flow hedge reserve	Foreign exchange translation reserve	Total attributable to Bupa Finance plc	Equity attributable to non-controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£m
2018								
Balance as at 1 January, as previously reported		796	5,221	22	557	6,596	30	6,626
Opening balance adjustments	1.5.4	-	(8)	-	-	(8)	-	(8)
Balance as at 1 January 2018, as restated		796	5,213	22	557	6,588	30	6,618
Profit for the financial year		-	397	-	-	397	6	403
Other comprehensive income/(expense)								
Unrealised gain on revaluation of property	4	23	-	-	-	23	-	23
Realised revaluation profit on disposal of property		(101)	101	-	-	-	-	-
Remeasurement gain on pension schemes	7	-	1	-	-	1	-	1
Foreign exchange translation differences on goodwill	3	-	-	-	(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 income	2.6	(9)	-	-	(10)	(19)	-	(19)
Other comprehensive income/(expense) for the year, net of taxation		(96)	116	(2)	(93)	(75)	(2)	(77)
Total comprehensive income/(expense) for the year		(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 as at 31 December 2018		700	5,640	20	464	6,824	20	6,844
Share capital at the beginning and end of the year								200
Balance as at 31 December 2018								7,044

Notes 1-28 form part of these financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019

1 Basis of preparation

This section describes the significant accounting policies and accounting estimates and judgements that relate to the financial statements and notes as a whole. Where accounting policies relate to a specific note, the applicable accounting policies and estimates are contained within the note.

1.1 Basis of preparation

Bupa Finance plc (the 'Company'), a company incorporated in England and Wales, together with its subsidiaries (collectively the 'Group') is an international healthcare business, providing health insurance, treatment in clinics, dental centres and hospitals, and operating care homes. The immediate and ultimate parent of the Company is The British United Provident Association Limited (the 'Parent' or 'Bupa' and together with its subsidiaries, the 'Bupa Group').

The Group's Consolidated Financial Statements have been prepared under International Financial Reporting Standards ('IFRS') as adopted by the EU. The appropriate provisions of the Companies Act 2006 applicable to companies reporting under IFRS have also been complied with. A summary of IFRS that are relevant for the Group is included on page 126.

The financial statements were approved by the Board of Directors on 4 March 2020. The Directors have reviewed and approved the Group's accounting policies which have been applied consistently to all the years presented, unless otherwise stated. For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the Company.

The financial statements are prepared on a going concern basis and under the historical cost convention, modified by the revaluation of property, investment property, and financial investments at fair value.

The presentation of line items within the Consolidated Statement of Financial Position are broadly in order of liquidity.

Current assets and liabilities disclosed in the notes to the accounts are those expected to be settled in less than one year.

1.2 Basis of consolidation

The Consolidated Financial Statements for the year ended 31 December 2019 comprise those of the Company and its subsidiary companies and the share of results of equity accounted investments.

The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences to the date that control ceases. Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original acquisition and the non-controlling shareholder's share of changes in equity since this date. Intra-group related party transactions and outstanding balances are eliminated in the preparation of the Consolidated Financial Statements of the Group.

The Consolidated Financial Statements are presented in sterling, which is the Group's presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m). The functional currency is identified at statutory entity level. These vary across the Group and include sterling, Australian dollar, euro and US dollar. Each Group entity then translates its results and financial position into the Group's presentational currency, sterling, for presentation in the Consolidated Financial Statements.

1.3 Accounting estimates and judgements

The preparation of financial statements requires the use of certain accounting estimates and assumptions that affect the reported assets, liabilities, income and expenses. It also requires management to exercise judgement in applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or where assumptions are significant to the Consolidated Financial Statements, are set out below and in more detail in the related notes. Claims, provisions, property valuations, goodwill and intangibles and pension assets and liabilities are the areas where there is more risk of a material adjustment to the carrying amounts within the next financial year.

Area	Estimates	Note
Claims provisioning	Expected claims payments and expenses required to settle existing insurance contract obligations. The key assumptions used in the calculation of the outstanding claims provision include claims development, margin of prudence, claims costs inflation, medical trends and seasonality.	19
Property valuations	The Group has a significant portfolio of care home, hospital and office properties. Significant assumptions for freehold properties include average occupancy and capitalisation rates, whereas for investment property key assumptions include discount and capital growth rates.	4,5
Goodwill and intangible assets	Goodwill and intangible assets are recognised on business combinations with the latter valued at the date of acquisition at fair value. Goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis; other intangible assets are tested if a trigger of impairment is identified. The key assumptions within this process include the discount rate, terminal growth rate and the forecast cash flows.	3
Pension assets and liabilities	The Group's principal defined benefit scheme is in the UK, The Bupa Pension Scheme. The key assumptions used in the valuation of the related pension liabilities include discount rate, rates of inflation, salary increases and mortality.	7
	Judgements	
Right-of-use assets and lease liabilities	Key assumptions used in the calculation of right-of-use assets and lease liabilities include determining the lease term and the interest rate used for discounting future cash flows.	18
'Held for sale' classification of potential disposal groups	Assessing whether the sale of businesses is sufficiently probable to require classification as 'held for sale' can require significant judgement.	16

1.4 Going concern

Management has conducted a detailed assessment of the Group's going concern status based on its current position and forecast results and has concluded that the Group has adequate resources to operate for at least the next 12 months from the approval of these financial statements. In making this assessment, management has considered the discussions with the relationship banks as well as forecasts which take account of reasonably possible changes in trading performance, solvency capital and recently announced acquisitions, if applicable.

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 Strategic Report on pages 3 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 8 to 10.

The Group has an £800m revolving credit facility ('RCF') maturing in August 2022, of which £230m was drawn at 31 December 2019 (2018: £170m).

1.5 Changes in accounting policies

Except for the changes below, the Group has consistently applied its accounting policies to all periods presented in these Consolidated Financial Statements.

1.5.1 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.

For lessees, 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 rate implicit in the lease, or if this cannot be readily determined, 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 right-of-use asset is also recognised and depreciated over the life of the lease.

On transition to IFRS 16, a lessee can select the measurement approach to apply for right-of-use assets on a lease-by-lease basis. 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 modified retrospective approach for 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.

On transition to IFRS 16 on 1 January 2019, leases previously classified as finance leases under IAS 17 have been recognised as a right-of-use asset and lease liability based on the carrying amount of the finance lease asset and liability as at 31 December 2018. These leases are subsequently measured under IFRS 16 principles. Other reclassifications relate to previously recognised lease intangible assets/liabilities arising on business combinations due to favourable/unfavourable lease terms, prepayments and accruals, which are all reclassified to the right-of-use asset on transition.

IFRS 16 has had no significant impact on arrangements 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 reserve 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%.

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 year and £18m adjusted to the right-of-use asset.

1.5.2 IFRIC 23 Uncertainty over Income Tax Treatments

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

1.5.3 Other amendments

Amendments to IFRS 9 Financial instruments on prepayment features with the negative compensation, IAS 19 Employee benefits plan amendment, curtailment or settlement and IAS 28 Investments in Associates on long-term interest in Associates and Joint Ventures were effective from 1 January 2019 but had no impact on the Group.

1.5.4 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:

	Income and expenditure reserve £m
IFRS 9	
Impact of reclassification of financial investments	(1)
Impact of expected credit losses ('ECL') assessment	(6)
IFRS 15	
Change in the timing of revenue	(1)
Total impact on opening equity	**(8)**

1.6 Forthcoming financial reporting requirements

The following financial reporting standards, amendments and interpretations have been issued but are not effective for the year ended 31 December 2019 and have not been early adopted by the Group.

(a) IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts was issued in May 2017 as a replacement for IFRS 4 Insurance Contracts, with an exposure draft of subsequent amendments issued in June 2019. The IASB has started considering feedback on the proposed amendments and aims to issue final amendments in mid-2020, with the final standard expected to be effective for annual periods beginning on or after 1 January 2022.

IFRS 17 requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin ('CSM') representing the unearned profit of the contract which is recognised as revenue over the coverage period. However, an optional, simplified premium allocation approach, similar in nature to the Group's existing measurement basis, is permitted for short-duration contracts.

The detailed application of IFRS 17 is currently being evaluated by the Group. It is expected that the simplified premium allocation approach option will be available for the majority of the Group's insurance contracts, so a significant change in the measurement basis is not anticipated. The presentation and disclosure requirements of IFRS 17 will, however, differ considerably compared to the current approach.

(b) IFRS 3 Business Combination amendment

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' to clarify whether an entity has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. This has not been endorsed by the EU. The amendment is not expected to have a significant impact on the Group's accounting for future acquisitions.

(c) IAS 1 and IAS 8 amendment

The IASB has issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to align the definition of 'material' with the IFRS Conceptual Framework. The amendment, which has been endorsed by the EU, is effective from 1 January 2020. The amendments will have no impact on the Group on transition.

(d) IFRS 9, IAS 39 and IFRS 7 Interest rate benchmark reform amendment

The IASB has issued amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform, whereby an entity can assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform. This has the effect that IBOR reform should not generally cause hedge accounting to terminate in circumstances where a hedge is directly impacted. The amendments, which have been endorsed by the EU, are effective from 1 January 2020 and has no immediate impact on the Group.

2 Operating segments

During 2019, the Group announced a simplification of the organisational structure, to manage the Group through three Market Units based on geographic locations and customers: Australia and New Zealand; Europe and Latin America; and Bupa Global and UK. Management monitors the operating results of the Market Units separately to assess performance and make decisions about the allocation of resources. The segmental disclosures below are reported consistently with the way the business is managed and reported internally.

Businesses previously part of International Markets have been reallocated. Bupa Global Business Unit is now part of Bupa Global and UK. Bupa Global Latin America and Bupa Acıbadem Sigorta are now part of Europe and Latin America. All remaining International Markets business units, including Bupa Hong Kong, Bupa China and the associates, Bupa Arabia and Max Bupa, are reported within Other businesses. Comparative information has been restated accordingly.

Reportable segments	Services 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: Nursing, residential and respite care.
	Bupa Villages and Aged Care - New Zealand: Nursing, residential, respite care and residential villages.
Europe and Latin America	Sanitas Seguros: Health insurance and related products in Spain.
	Sanitas Dental: Insurance and 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.
	LuxMed: Medical subscriptions, health insurance, and the management and operation of diagnostics, health clinics and hospitals in Poland.
	Bupa Acıbadem Sigorta: Domestic health insurance in Turkey.
	Bupa Chile: Health insurance and the management and operation of health clinics and hospitals in Chile.
	Bupa Global Latin America: Health insurance, mainly Brazil and Mexico.
Bupa Global and UK	Bupa UK Insurance: Health insurance, and administration services for Bupa health trusts.
	Bupa Dental Care: Dental services and related products.
	Bupa Care Services: Nursing, residential, respite care and care villages.
	Bupa Health Services: Clinical services, health assessment related products and management and operation of a private hospital.
	Bupa Global: International health insurance to individuals, small businesses and corporate customers.
Other businesses	Bupa Hong Kong: Domestic health insurance, primary healthcare and day care clinics including diagnostics.
	Bupa China: Clinical services.
	Associates: Bupa Arabia (Kingdom of Saudi Arabia) 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 taxation not directly related to the trading performance of the business.

Underlying profit

The following items are excluded from underlying profit:

- 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 in-year 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 are not considered part of the continuing business. Transaction costs that relate to material acquisitions or disposals are not related to the 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/Group 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.

The total underlying profit of the reportable segments is reconciled below to profit before taxation expense in the Consolidated Income Statement.

(i) Revenues

	Australia and New Zealand		Europe and Latin America		Bupa Global and UK		Other businesses		Total	
	2019 £m	2018 £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 £m
Gross insurance premiums	**3,731**	3,829	**2,685**	2,367	**2,295**	2,275	**366**	320	**9,077**	8,791
Premiums ceded to reinsurers	**-**	-	**(21)**	(16)	**(57)**	(47)	**(1)**	-	**(79)**	(63)
Internal reinsurance	**-**	-	**1**	-	**49**	54	**(50)**	(54)	**-**	-
Net insurance premiums earned	**3,731**	3,829	**2,665**	2,351	**2,287**	2,282	**315**	266	**8,998**	8,728
Care, health and other customer contract revenue	**906**	824	**1,184**	1,144	**1,028**	1,004	**169**	151	**3,287**	3,123
Other revenue	**15**	3	**4**	4	**8**	7	**4**	-	**31**	14
Intersegment revenue	**-**	-	**-**	-	**-**	(5)	**-**	-	**-**	(5)
Total revenues for reportable segments	**4,652**	4,656	**3,853**	3,499	**3,323**	3,288	**488**	417	**12,316**	11,860
Net reclassifications to other expenses or financial income and expense									**-**	(1)
Consolidated total revenues									**12,316**	11,859

(ii) Segmental result

	Australia and New Zealand		Europe and Latin America		Bupa Global and UK		Other businesses		Total	
	2019 £m	2018 £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 (restated) £m
Underlying profit for reportable segments[1]	**185**	337	**178**	191	**131**	200	**49**	40	**543**	768
Central expenses and net interest margin									**(18)**	(46)
Consolidated underlying profit before taxation expense									**525**	722
Non-underlying items:										
Impairments of intangible assets and goodwill arising on business combinations	**(177)**	(36)	**(24)**	-	**(242)**	-	**-**	-	**(443)**	(36)
Net loss on disposal of businesses and transaction costs on business combinations[2]	**-**	-	**(26)**	(23)	**(3)**	(10)	**-**	-	**(29)**	(33)
Net property revaluation gain/(loss)	**9**	17	**(1)**	(4)	**(2)**	(13)	**-**	-	**6**	-
Realised and unrealised foreign exchange (loss)/gain[3]	**-**	-	**(6)**	(6)	**(17)**	(3)	**-**	1	**(23)**	(8)
Other Market Unit non-underlying items[4]	**-**	(21)	**-**	-	**-**	(9)	**-**	-	**-**	(30)
Group non-underlying items[5]									**(29)**	-
Gains/(losses) on return-seeking assets, net of hedging									**28**	(1)
Total non-underlying items									**(490)**	(108)
Consolidated profit before taxation expense									**35**	614

1. Underlying profit for reportable segments includes share of post-taxation results of equity accounted investments. Other businesses includes Bupa Arabia and Max Bupa. Bupa Global and UK includes Highway to Health. For further information please refer to note 6.
2. Net loss on disposal of businesses and transaction costs on business combinations include £26m loss recognised upon classification of a provision business in the Europe and Latin America segment to held for sale. 2018 includes £22m loss on disposal of interest in Torrejón Salud and £18m mainly relating to completion costs in respect of the disposal of a number of UK care homes in December 2017 and February 2018.
3. Includes the FX impact of treating unearned premiums and deferred acquisition costs as a monetary item.
4. 2018 includes penalties and associated consultancy costs relating to a settlement with the Australian Taxation Office (£21m) and costs associated with the establishment of the Irish insurance entity as part of our Brexit strategy (£9m).
5. 2019 includes a £20m impairment of an investment following the termination of the Group's commercial relationship with that company.

(iii) Other information

The Market Unit segmental results set out in table (ii) above include of the following material non-cash items:

	Australia and New Zealand		Europe and Latin America		Bupa Global and UK		Other businesses		Total	
	2019 £m	2018 £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 (restated) £m	**2019 £m**	2018 £m
Amortisation and depreciation costs for reportable segments	**(121)**	(85)	**(175)**	(113)	**(131)**	(96)	**(39)**	(20)	**(466)**	(314)
Unrealised gain on investment property	**25**	21	**-**	-	**-**	-	**-**	-	**25**	21
Deficit on revaluation of property	**(16)**	(4)	**(1)**	(4)	**(2)**	(13)	**-**	-	**(19)**	(21)
Share of profits from associates	**-**	-	**-**	-	**6**	3	**42**	30	**48**	33

(iv) Geographical information

The following information has been provided based on the geographical location of the business.

	Australasia		United Kingdom		Spain		Rest of the world		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Total revenues	**4,652**	4,656	**3,099**	3,073	**1,687**	1,682	**2,878**	2,448	**12,316**	11,859
Consolidated non-current assets (by geography)[1]	**3,365**	3,401	**3,241**	3,031	**835**	606	**1,764**	1,545	**9,205**	8,583

1. Consolidated non-current assets excludes financial investments, restricted assets, assets arising from insurance business, deferred taxation assets and post-employment benefit net assets.

2.1 Revenues

The Group generates revenues from its underwriting activities (Insurance premiums), trading activities through the provision of healthcare and insurance management services (Care, health and other customer contract revenue) and rental income and other fees (Other).

Revenue stream	Recognition policy
Insurance premiums	**Gross insurance premiums** Gross insurance premiums represent the premiums earned relating to risk exposure for the reported financial year. They comprise gross premiums written, adjusted for the change in provision for unearned premiums that relates to periods of risk in subsequent financial years. Premiums are shown gross of commission payable and net of insurance premium taxes that may apply in certain jurisdictions. **Premiums ceded to reinsurers** Premiums ceded to reinsurers represent reinsurance premiums payable for contracts entered into that relate to risk mitigation for the reported financial year. These comprise of written premiums ceded to reinsurers, adjusted for the reinsurers' share of the movement in the gross provision for unearned premiums. Premiums, losses and other amounts relating to reinsurance treaties are recognised over the period from inception of a treaty to expiration of the related business.
Care, health and other customer contract revenue	The Group generates income from fees receivable from the operation of its care homes, hospitals, dental centres and other healthcare and wellbeing centres. In instances where Bupa is acting as an agent and another party is primarily responsible for fulfilling the contract, revenue is recognised on a net basis. When considering whether the Group is acting as an agent or as a principal, factors such as which party is primarily responsible for fulfilling the obligation, bears the inventory and credit risk and has discretion in establishing prices are considered. In the majority of cases, significant judgement is not required. The revenue streams typically relate to short-term services that have fixed, rather than variable, transaction prices and there is generally no significant judgement required when considering the time pattern of revenue recognition. Payment terms vary from completion of the service, to payments made monthly in advance. Bupa has the right to bill and receive payment for services rendered to date. The Sanitas Hospitales and New Services revenue stream includes one public hospital in Spain that is operated under a separate service concession arrangement granted by the local government (the grantor). Revenue is recognised from the construction of infrastructure and from the operation of the hospital. Construction revenues are recognised in line with the stage of completion of the work performed. Operational revenues are recognised in the period in which the services are provided, based on the average operating margin for the life of the contract. As revenue is based on an expected margin, with some potential variability, revenue is only recognised to the extent that it is highly probable a significant reversal will not occur when the uncertainty is resolved. Other customer contract revenue includes contracts entered into by the Group's insurance entities that do not result in the transfer of significant insurance risk to the Group and are accounted for as service contracts. These contracts mainly relate to the administration of claims funds on behalf of corporate customers. Revenues from service contracts are recognised as the services are provided. Some of these contracts contain financial liabilities representing deposits repayable to the customer. These are measured at amortised cost.
Other	Other revenue is earned mainly from rental income and amenities fees from Occupation Right Agreements. Revenue is recognised on a straight-line basis over the term of the arrangement.

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

	Care, health and other customer contract revenue 2019 £m	Net insurance premiums earned 2019 £m	Other revenue 2019 £m	Total revenues 2019 £m
Bupa Health Insurance	8	3,731	2	3,741
Bupa Health Services	428	-	-	428
Bupa Villages and Aged Care - Australia	330	-	-	330
Bupa Villages and Aged Care - New Zealand	140	-	13	153
Australia and New Zealand	906	3,731	15	4,652
Sanitas Seguros	8	1,149	1	1,158
Sanitas Dental	83	62	1	146
Sanitas Hospitales and New Services	230	-	1	231
Sanitas Mayores	148	-	-	148
LuxMed	383	10	-	393
Bupa Acıbadem Sigorta	-	185	-	185
Bupa Chile	330	744	1	1,075
Bupa Global Latin America	2	515	-	517
Europe and Latin America	1,184	2,665	4	3,853
Bupa UK Insurance	15	1,537	3	1,555
Bupa Dental Care	454	-	1	455
Bupa Care Services	408	-	-	408
Bupa Health Services	150	-	1	151
Bupa Global	1	750	3	754
Bupa Global and UK	1,028	2,287	8	3,323
Hong Kong	169	315	-	484
Other	-	-	4	4
Other businesses	169	315	4	488
Consolidated total revenues	3,287	8,998	31	12,316

	Care, health and other customer contract revenue 2018 (restated) £m	Net insurance premiums earned 2018 (restated) £m	Other revenue 2018 (restated) £m	Total revenues 2018 (restated) £m
Bupa Health Insurance	8	3,829	1	3,838
Bupa Health Services	306	-	1	307
Bupa Villages and Aged Care - Australia	353	-	-	353
Bupa Villages and Aged Care - New Zealand	157	-	1	158
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
LuxMed	338	10	-	348
Bupa Chile	293	721	1	1,015
Bupa Global Latin America	3	455	-	458
Europe and Latin America	1,144	2,351	4	3,499
Bupa UK Insurance	19	1,534	2	1,555
Bupa Dental Care	436	-	2	438
Bupa Care Services	407	-	-	407
Bupa Health Services	137	-	-	137
Bupa Global	-	748	3	751
Bupa Global and UK	999	2,282	7	3,288
Hong Kong	147	266	-	413
Other	4	-	-	4
Other businesses	151	266	-	417
Net reclassifications to other expenses or financial income and expense	(1)	-	-	(1)
Consolidated total revenues	3,117	8,728	14	11,859

Analysis of net insurance premiums earned

	2019 £m	2018 £m
Gross premiums written	**9,097**	8,913
Change in gross provisions for unearned premiums	**(20)**	(122)
Gross insurance premiums	**9,077**	8,791
Gross premiums written ceded to reinsurers	**(78)**	(66)
Reinsurers' share of change in gross provisions for unearned premiums	**(1)**	3
Premiums ceded to reinsurers	**(79)**	(63)
Net insurance premiums earned	**8,998**	8,728

2.2 Insurance claims

Insurance claims relate to the Group's insurance underwriting activities. Insurance claims incurred are amounts payable under insurance contracts arising from the occurrence of an insured event.

Insurance claims incurred comprise insurance claims paid during the year together with related handling costs, the movement in the gross provision for claims in the period and the Risk Equalisation Special Account levy for the Australian health insurance business. See note 19 for details of the claims provision.

Private health insurers in Australia provide private health insurance cover through a community rated scheme. To avoid adverse selection and ensure the Australian private health insurance scheme is sustainable, a risk equalisation mechanism operates to subsidise insurers with higher risk policy holders.

Reinsurers' share of claims incurred

Reinsurers' share of claims incurred represents recoveries from reinsurers on claims paid, adjusted for the reinsurers' share of the change in the gross provision for claims.

See note 12 for the related balance sheet item.

	2019 £m	2018 £m
Insurance claims paid	**7,316**	6,985
Change in gross provisions for claims	**3**	10
Risk Equalisation Special Account levy (net of recoveries)	**(80)**	(83)
Insurance claims incurred	**7,239**	6,912
Recoveries from reinsurers on claims incurred	**(56)**	(44)
Reinsurers' share of claims incurred	**(56)**	(44)
Net insurance claims incurred	**7,183**	6,868

2.3 Other operating expenses

Other operating expenses include staff costs, medical supplies, overheads, depreciation, amortisation of intangible assets, and gains or losses on foreign exchange transactions incurred as a consequence of operating our business. Costs in relation to handling claims are included within insurance claims.

Other operating expenses

	Note	**2019 £m**	2018 £m
Staff costs	2.3.1	**2,002**	1,905
Acquisition costs	2.3.2	**396**	299
Medical supplies and fees		**985**	908
Property costs		**217**	205
Lease rentals and other expenses[1]		**20**	177
Marketing costs		**100**	86
Catering and housekeeping costs		**58**	55
Consultancy fees		**106**	94
Net loss on foreign exchange transactions		**2**	2
Amortisation of intangible assets	3	**148**	132
Depreciation expense	4	**324**	180
Other operating expenses (including auditor's remuneration)	2.3.3	**234**	234
Total other operating expenses		**4,592**	4,277

1. In 2019 this includes short-term and low value lease rentals, and other lease expenses recognised under IFRS 16. 2018 includes all operating lease rentals recognised under IAS 17.

2.3.1 Staff costs

The below table represents the total employee benefit expenses incurred by the Group during the year.

	2019 £m	2018 £m
Wages and salaries	**2,012**	1,870
Social security costs	**118**	117
Contributions to defined contribution schemes	**35**	30
Other pension costs	**5**	8
Total staff costs	**2,170**	2,025
Staff costs relating to claims handling reported in claims	**(168)**	(120)
Staff costs in operating expenses	**2,002**	1,905

Employee numbers

The average number of employees, including Executive Directors, employed by the Group during the year was:

	2019	2018 (restated)[1]
Australia and New Zealand	**18,781**	18,389
Europe and Latin America	**37,358**	34,579
Bupa Global and UK	**22,268**	23,189
Other businesses	**1,579**	1,549
Total average employee numbers	**79,986**	77,706

1. Employee numbers have been restated to reflect the new operating segments.

Directors' remuneration

	2019 £'000	2018 £'000
Emoluments	**1,973**	2,142
Company contributions to defined contribution pension schemes	**53**	46
Amounts receivable under long-term incentive schemes	**2,083**	154
Total	**4,109**	2,342

The remuneration of the highest paid Director was:		
Emoluments	**887**	1,134
Company contributions to defined contribution pension schemes	**-**	-
Amounts receivable under long-term incentive schemes	**1,382**	68
Total	**2,269**	1,202

There are no Directors who are members of a Bupa defined benefit pension scheme (2018: one).

2.3.2 Acquisition costs

	2019 £m	2018 £m
Commission for direct insurance	**349**	297
Other acquisition costs paid	**73**	23
Changes in deferred acquisition costs	**(26)**	(21)
Total acquisition costs	**396**	299

The movement in the deferred acquisition cost asset is detailed in note 12.

2.3.3 Auditor's remuneration

	2019 £m	2018 £m
Audit fees for audit of Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for:		
Audit fees for audit of Company's subsidiaries required by legislation	**6.2**	5.3
Audit fees for audit-related assurance services	**0.7**	0.9
Audit fees to the Company's auditors	**7.0**	6.3
Fees payable to the Company's auditor and its associates for other services:		
Corporate finance services and related services	**3.5**	-
All other non-audit services	**0.4**	0.6
Total non-audit fees	**3.9**	0.6
Total auditor's remuneration	**10.9**	6.9

During the year KPMG were engaged to provide a range of corporate finance services across the Group's operations. The services were all in compliance with the Group's non-audit services policy and approved by the Audit Committee.

2.4 Other income and charges

Other income and charges comprise income or expenses that are related to the investing and divesting activities of the Group.

	Note	2019 £m	2018 £m
Net loss on disposal and restructuring of businesses[1]		**(24)**	(31)
Deficit on revaluation of property	4	**(19)**	(21)
Net gain on disposal of property, plant and equipment		**1**	-
Movement in provision for equity accounted investments		**-**	(1)
Total other income and charges		**(42)**	(53)

1. Net loss on disposal and restructuring of businesses include £26m loss recognised on classification of a provision business in the Europe and Latin America segment to held for sale. Also includes a net £2m profit on other business disposals and restructuring.

   The 2018 loss on disposal of business includes a £22m loss on disposal of Torrejón Salud on 28 December 2018 and £18m of losses relating to ongoing completion costs in respect of the disposal of UK care homes. This is partially offset by profits of £8m on disposal of a 33.33% share of Forsikringens Datacentre A/S and a net profit of £1m on other disposals.

2.5 Financial income and expense

Financial income and expenses are earned/(incurred) from the Group's financial assets and liabilities, and non-financial assets such as investment property.

Financial income
Interest income is recognised in the Consolidated Income Statement, using the effective interest method.

Changes in the value of financial assets at fair value through profit or loss are recognised within financial income as an unrealised gain or loss while the asset is held. Upon derecognition of these assets, the cumulative unrealised gains are reversed and a realised gain is recognised.

Changes in the value of debt instruments at fair value through other comprehensive income are recognised in other comprehensive income as an unrealised gain or loss. The cumulative gain or loss recognised in the fair value through other comprehensive income reserve is reclassified to realised gains or loss in the Consolidated Income Statement when the financial asset is derecognised.

	Note	2019 £m	2018 £m
Interest income:			
Investments at fair value through profit or loss		**28**	5
Investments at fair value through other comprehensive income		**1**	-
Investments at amortised cost		**51**	47
Net realised gains:			
Net realised gains on investments at fair value through profit or loss		**9**	8
Net increase/(decrease) in fair value:			
Investments at fair value through profit or loss		**13**	(8)
Investment property	5	**25**	21
Net foreign exchange translation losses		**(17)**	(3)
Total financial income		**110**	70

Included within financial income is a net gain, after hedging, on the Group's return-seeking asset portfolio of £28m (2018: net loss of £1m).

Financial expense

Interest payable on borrowings is calculated using the effective interest method.

	2019 £m	2018 £m
Interest expense on financial liabilities at amortised cost	**100**	100
Finance charges in respect of leases and restoration provisions[1]	**58**	-
Other financial expenses	**4**	3
Total financial expenses	**162**	103

1. For the year ended 31 December 2019, finance charges in respect of leases relate to leases recognised on the Consolidated Statement of Financial Position in accordance with IFRS 16.

2.6 Taxation expense

Taxation expense on the profit for the year comprises current and deferred taxation and considers foreign taxation, double taxation relief and absorbs adjustments in respect of prior periods.

Income taxation is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in the Consolidated Statement of Comprehensive Income.

(i) Recognised in the Consolidated Income Statement

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

The Group is subject to taxation audits in the territories in which it operates and considers each issue on its merits when deciding whether to hold a provision against the potential tax liability that may arise. However, the amount that is ultimately paid could differ from the amount initially recorded and this difference is recognised in the period in which such a determination is made.

	2019 £m	2018 £m
Current taxation expense		
UK taxation on income for the year	**20**	41
UK taxation adjustments in respect of prior periods	**19**	(19)
Total UK current taxation expense	**39**	22
Double taxation relief	**(9)**	(9)
Foreign taxation on income for the year	**127**	162
Foreign taxation adjustments in respect of prior years	**4**	63
Total foreign current taxation expense	**131**	225
Total current taxation	**161**	238
Deferred taxation income		
Origination and reversal of temporary differences	**(8)**	(37)
Adjustments in respect of prior periods	**2**	11
Changes in taxation rates	**(1)**	(1)
Total deferred taxation	**(7)**	(27)
Taxation expense	**154**	211

(ii) Reconciliation of effective taxation rate

	2019 £m	2018 £m
Profit before taxation expense	**35**	614
UK corporation taxation rate	**19%**	19%
Tax at the UK corporation taxation rate	**7**	116
Effects of recurring taxation reconciliation items:		
Different taxation rates in foreign jurisdictions	**7**	33
Deductions not allowable for taxation purposes	**35**	36
Income not taxable or taxable at concessionary rates	**(14)**	(29)
Property revaluation	**(4)**	(4)
Results of associates	**(10)**	(7)
Changes in taxation rates	**(1)**	(1)
Deferred taxation assets not recognised	**(2)**	1
	11	29
Effects of non-recurring taxation reconciliation items:		
Taxation adjustments in respect of prior periods	**25**	55
Profit on disposal of business	**3**	2
Profit on disposal of property, plant and equipment	**-**	1
Goodwill and other impairments	**110**	-
Other	**(2)**	8
	136	66
Taxation expense at the effective rate of 440% (2018: 34%)	**154**	211

(iii) Current and deferred taxation recognised directly in other comprehensive income

	2019 £m	2018 £m
Deferred taxation charge in respect of:		
Unrealised gain on revaluation of property	**(3)**	(9)
Remeasurement deficit on pension schemes	**1**	-
Other items including foreign exchange translation differences	**(1)**	(10)
Taxation charge on income and expenses recognised directly in other comprehensive income	**(3)**	(19)

3 Goodwill and intangible assets

Intangible assets and goodwill are non-physical assets used by the Group to generate revenues.

Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary company at the date of business combination. The carrying value of goodwill may be adjusted up to 12 months from the accounting date of acquisition, as the allocation of the purchase price to identifiable intangible assets is finalised within that period. Goodwill arising on business combinations is capitalised and presented with intangible assets in the Consolidated Statement of Financial Position. Where the fair value of net assets acquired is greater than the consideration paid, the excess is recognised immediately in the Consolidated Income Statement.

Goodwill is stated at cost less accumulated impairment losses. Impairment reviews are performed annually or more frequently if there is an indication that the carrying value may be impaired. Impairment reviews are performed at the level of the relevant cash generating unit ('CGU'). In identifying CGUs, the Group considers the smallest identifiable group of assets that generate independent cash inflows, how managers monitor operations and the level at which strategic decisions are made.

Other intangible assets

Intangible assets, other than goodwill, that are acquired as part of a business combination are capitalised at fair value which represents cost at acquisition and are subsequently held at cost less accumulated amortisation and impairment. Intangible assets acquired separately are stated at cost less accumulated amortisation and impairment.

Costs relating to the development of intangible assets, including computer software, are capitalised once all the development phase recognition criteria are met.

Amortisation is charged to the Consolidated Income Statement on a straight-line basis as follows, excluding any intangible assets which have been attributed an indefinite useful life:

- Computer software 2-7 years
- Brand and trademarks 3 years-indefinite
- Customer relationships 3-20 years
- Technology and databases 10 years
- Distribution networks 10 years
- Present value of acquired in-force business 20 years
- Customer contracts 4-6 years
- Licences to operate care homes term of licence

Intangible assets that are subject to amortisation are reviewed for impairment if circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Consolidated Income Statement to reduce the carrying amount to the recoverable amount.

Bed licences, with a carrying value of £108m (2018: £114m), held within the Bupa Villages and Aged Care - Australia CGU have been attributed an indefinite useful life since these licences, which are issued by the Australian government, have no expiry date. Intangible assets with an indefinite useful life, or not yet available for use, are subject to annual impairment reviews.

	Note	Goodwill £m	Computer software £m	Brands/ Trademarks £m	Customer relationships £m	Other £m	Total £m
2019							
Cost							
At beginning of year		**3,328**	**744**	**354**	**894**	**308**	**5,628**
Adoption of IFRS 16 Leases	1.5.1	**-**	**-**	**-**	**-**	**(23)**	**(23)**
Assets arising on business combinations		**118**	**4**	**6**	**45**	**33**	**206**
Additions		**-**	**101**	**-**	**-**	**29**	**130**
Disposals		**(6)**	**(10)**	**-**	**-**	**(4)**	**(20)**
Other		**-**	**(2)**	**-**	**-**	**-**	**(2)**
Foreign exchange		**(115)**	**(22)**	**(27)**	**(24)**	**(14)**	**(202)**
At end of year		**3,325**	**815**	**333**	**915**	**329**	**5,717**
Amortisation and impairment loss							
At beginning of year		**372**	**502**	**130**	**295**	**132**	**1,431**
Adoption of IFRS 16 Leases	1.5.1	**-**	**-**	**-**	**-**	**(5)**	**(5)**
Amortisation for year		**-**	**69**	**11**	**59**	**9**	**148**
Impairment loss		**422**	**6**	**21**	**-**	-	**449**
Disposals		**(5)**	**(9)**	**-**	**-**	**(2)**	**(16)**
Foreign exchange		**(8)**	**(12)**	**(10)**	**(14)**	**(5)**	**(49)**
At end of year		**781**	**556**	**152**	**340**	**129**	**1,958**
Net book value at end of year		**2,544**	**259**	**181**	**575**	**200**	**3,759**
Net book value at beginning of year		2,956	242	224	599	176	4,197
2018							
Cost							
At beginning of year		3,299	777	361	880	333	5,650
Assets arising on business combinations		104	-	12	43	-	159
Additions		-	60	-	-	-	60
Disposal of subsidiary companies		(1)	-	-	-	-	(1)
Other disposals		(2)	(92)	(8)	(21)	(21)	(144)
Other		-	4	-	-	-	4
Foreign exchange		(72)	(5)	(11)	(8)	(4)	(100)
At end of year		3,328	744	354	894	308	5,628
Amortisation and impairment loss							
At beginning of year		336	532	128	264	146	1,406
Amortisation for year		-	59	9	56	8	132
Impairment loss		35	2	5	-	(3)	39
Other disposals		-	(90)	(8)	(21)	(19)	(138)
Other		-	1	-	-	-	1
Foreign exchange		1	(2)	(4)	(4)	-	(9)
At end of year		372	502	130	295	132	1,431
Net book value at end of year		**2,956**	**242**	**224**	**599**	**176**	**4,197**
Net book value at beginning of year		2,963	245	233	616	187	4,244

Intangible assets of £3,759m (2018: £4,197m) include £956m (2018: £999m) which is attributable to other intangible assets arising on business combinations (included within customer relationships, brand and trademarks and other) as follows:

	2019 £m	2018 £m
Customer relationships	**575**	599
Bed licences (within Bupa Villages and Aged Care - Australia)	**108**	114
Brands and trademarks	**181**	224
Licences to operate care homes	**18**	22
Leases	**3**	23
Distribution networks	**69**	15
Present valuation of acquired in-force business	**1**	1
Non-compete agreement	**1**	1
Total	**956**	999

Impairment testing of goodwill and indefinite life intangible assets
Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment by comparing the net carrying value with the recoverable amount, using value in use calculations.

In arriving at the value in use for each CGU, key assumptions have been made regarding future projected cash flows, discount rates and terminal growth rates. The main assumptions upon which the cash flow projections are based include premiums and claims costs for our health insurance businesses, fee rate, cost of care and occupancy for our care services businesses and revenue growth and gross margins for hospitals and clinics.

Aside from those mentioned below, cash flow projections have been based on management operating profit projections for a three-year period which have been approved by the Board. Cash flow projections for Bupa Chile, LuxMed, Care Plus, Bupa Care Services UK, Bupa Dental Care UK and Hong Kong are based on a five-year period. Bupa Cromwell Hospital is based on a period of ten years as the business model requires investment over a longer term to ensure a steady state of operation.

Taxation has been applied to the pre-taxation management operating profits based on the statutory taxation rates in the country of operation.

Forecast future post-taxation cash flows have been discounted at post-taxation discount rates. Discount rates have been derived using a weighted average cost of capital ('WACC') methodology, representing the minimum return a business must earn on its asset base to satisfy providers of capital. Discount rates used for the value in use calculations for each of the Group's CGUs are based on considerations of the systemic risks associated with each CGU, as well as external factors. These include the market assessment of the time value of money and the risks inherent in the relevant country where the cash flows are generated.

Cash flow projections beyond the forecast periods have been extrapolated by applying a terminal growth rate between 2.0% and 5.5% (2018: 2.0% and 5.5%) for all CGUs. The terminal growth rates represent an estimate of the long-term growth rate for each of the CGUs, taking into account the future and past growth rates and external sources of data, such as forecasted GDP growth rates, inflation and long-term consumer price index rates.

The values assigned to the key assumptions are based on past experience of the CGUs and assessment of future trends in the relevant industry.

The following table summarises the pre-taxation discount rates used for impairment testing for the main CGUs:

	2019 %	2018 %
Bupa Australia Health Insurance	**10.2**	9.8
Bupa Health Services Australia	**10.4**	10.0
Bupa Villages and Aged Care - Australia	**10.0**	9.4
Bupa Chile	**12.8**	14.0
LuxMed	**10.4**	9.9
Sanitas Seguros	**9.5**	11.2
Sanitas Mayores	**8.4**	8.2
Bupa Acıbadem Sigorta	**22.1**	-
Care Plus	**17.6**	17.9
Bupa Care Services UK	**7.1**	7.0
Bupa Dental Care UK	**7.2**	7.1
Bupa Global	**11.1**	11.3
Bupa Cromwell Hospital	**8.6**	9.0
Hong Kong[1]	**10.5**	10.2

1. From 2019, the Hong Kong Quality HealthCare and Insurance businesses are being managed as a single business and are now treated as a single Hong Kong CGU reflecting the operating structure of the business.

As at 31 December 2019, the carrying values of the following CGUs are determined to be higher than their recoverable amounts, resulting in impairments to goodwill arising on business combinations totaling £422m.

Bupa Dental Care UK
Bupa Dental Care has over 490 dental centres across the UK and provides service to around 2.3m customers. The business has recently been affected by sector-wide pressures, in particular a shortage of dentists. In addition to this, ongoing investment in information security as well as recently announced increases in the National Living Wage have impacted forecast future cash flows. As a result, the recoverable amount for Bupa Dental Care on a value in use basis has reduced to £796m, resulting in an impairment of goodwill of £226m. There remains a goodwill balance of £463m in respect of this business. A decrease of 0.5% to the current terminal growth rate of 2.6% would result in a further impairment of c.£85m; an increase of 0.5% to the current discount rate of 7.2% would result in a further impairment of c.£96m; and a decrease in cashflows of 10%, which are sensitive to dentist numbers, dentist hours, rates and costs, would result in a further impairment of c.£78m.

Bupa Villages and Aged Care – Australia
Bupa Villages and Aged Care is an approved provider of aged care in Australia and operates 72 care homes throughout the country which provide residential and respite care to residents. The business has been impacted by lower forecasted operating cash flows as the business recovers from regulatory sanctions and lower occupancy rates. There has been an increase in the discount rate, reflecting increased market risk in the Australian aged care sector, which has been partially driven by the ongoing Royal Commission into Aged Care Quality and Safety. This has led to a reduction in the recoverable amount for the business on a value in use basis to £431m, resulting in an impairment of goodwill of £177m. There remains a goodwill balance of £80m in respect of the business. A decrease of 0.5% to the current terminal growth rate of 3.0% would result in a further impairment of c.£30m; an increase of 0.5% to the current discount rate of 10.0% would result in a further impairment of c.£30m; and a decrease in cashflows of 10%, which are sensitive to occupancy and operating cash flows, would result in a further impairment of c.£43m.

Bupa Cromwell Hospital
A £16m impairment has been recognised in respect of Bupa Cromwell Hospital at 31 December 2019, driven by lower forecast operating cash flows. This reduces the goodwill balance of Bupa Cromwell Hospital to £nil.

In addition to these impairments, a £3m impairment was recognised in Sanitas Seguros immediately prior to the transfer of an element of that business to held for sale.

An impairment of £35m was recognised in 2018 in respect of Bupa Villages and Aged Care - New Zealand.

The testing undertaken determined the recoverable amount of all other CGUs to be higher than their respective carrying value, resulting in no further impairments to goodwill.

The following table summarises goodwill by CGU as at 31 December:

	2019 £m	2018 £m
Australia and New Zealand		
Bupa Australia Health Insurance	**840**	876
Bupa Health Services Australia	**292**	295
Bupa Villages and Aged Care - Australia	**80**	268
Europe and Latin America		
Bupa Chile	**150**	168
LuxMed	**250**	252
Sanitas Seguros	**95**	103
Sanitas Mayores	**21**	22
Bupa Acıbadem Sigorta	**53**	**-**
Care Plus	**24**	26
Bupa Global and UK		
Bupa Care Services UK	**90**	90
Bupa Dental Care UK	**463**	650
Bupa Global	**68**	68
Bupa Cromwell Hospital	**-**	16
Other	**3**	3
Other businesses		
Hong Kong[1]	**115**	119
Total	**2,544**	2,956

1. From 2019, the Hong Kong Quality HealthCare and Insurance businesses are being managed as a single Hong Kong CGU reflecting the ongoing structure of the business.

Sensitivity to changes in key assumptions
A sensitivity analysis has been performed on the key assumptions used to determine the value in use for each CGU as at 31 December 2019.

Other than as disclosed below, management believes that no reasonably probable change in any of the key assumptions would cause the carrying value of any goodwill or intangible asset with an indefinite useful life to exceed its recoverable amount.

The sensitivity analysis for Bupa Dental Care UK and Bupa Villages and Aged Care – Australia has been set out earlier. It is possible that a change in key assumptions could cause the impairment of goodwill for Bupa Chile, LuxMed and Bupa Care Services UK. The table below shows the decrease required in the terminal growth rate or increase required in discount rate for the recoverable amount of the CGU to equal the carrying amount.

	Headroom £m	Terminal growth rate %	Decrease in terminal growth rate %	Increase in discount rate %
Bupa Chile	22	3.0	0.3	0.3
LuxMed	25	3.6	0.3	0.3
Bupa Care Services UK	19	2.6	0.1	0.1

Impairment of other intangible assets
At 31 December 2019, other intangible assets with indefinite useful lives were tested for impairment, resulting in an impairment of £21m (2018: £5m) in relation to brands in Bupa Chile.

A review of intangible assets that are subject to amortisation resulted in an impairment of £6m (2018: £1m net impairment reversal) relating to computer software.

4 Property, plant and equipment

Property, plant and equipment are the physical assets or rights to use the leased assets which are 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 and equipment, and office buildings.

Freehold properties
Freehold properties comprise care homes, care villages, clinics, hospitals and offices and are initially measured at cost and subsequently at revalued amount less accumulated depreciation and impairment losses. These properties are subject to periodic and at least triennial valuations performed by external independent valuers. Borrowing costs relating to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset.

Equipment
Equipment (including leasehold improvements) is stated at historical cost less subsequent depreciation and impairment losses.

Depreciation
Freehold land and assets under construction, included within freehold properties, are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amount less residual value over estimated useful lives, as follows:

- Freehold property — 50 years
- Right-of-use property — lease term
- Leasehold improvements — shorter of useful life or lease term
- Owned equipment — 3-10 years
- Right-of-use equipment — lease term

Impairment
Impairment reviews are undertaken where there are indications that the carrying value of an asset may not be recoverable. An impairment loss on assets carried at cost is recognised in other income and charges to reduce the carrying value to the recoverable amount. An impairment loss on assets carried at the revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the loss on historical cost is recognised in the Consolidated Income Statement within other income and charges.

For information regarding leased (right-of-use) assets, see note 18.

	Note	Freehold property £m	Right-of-use-asset - property £m	Leasehold property and improvements[1] £m	Owned equipment £m	Right-of-use-asset - equipment £m	Total £m
2019							
Cost or valuation							
At beginning of year		**2,451**	**-**	**297**	**1,165**	**-**	**3,913**
Adoption of IFRS 16 Leases	1.5.1	**-**	**1,037**	**(8)**	**(5)**	**8**	**1,032**
Assets arising on business combinations		**9**	**-**	**1**	**5**	**-**	**15**
Additions		**70**	**135**	**39**	**182**	**5**	**431**
Transfer to assets held for sale		**(1)**	**(2)**	**-**	**(2)**	**-**	**(5)**
Disposals		**(4)**	**(3)**	**(10)**	**(19)**	**-**	**(36)**
Revaluations		**(23)**	**-**	**-**	**-**	**-**	**(23)**
Other		**34**	**1**	**(36)**	**-**	**-**	**(1)**
Foreign exchange		**(86)**	**(45)**	**(11)**	**(51)**	**-**	**(193)**
At end of year		**2,450**	**1,123**	**272**	**1,275**	**13**	**5,133**
Depreciation and impairment loss							
At beginning of year		**33**	**-**	**93**	**606**	**-**	**732**
Adoption of IFRS 16 Leases	1.5.1	**-**	**-**	**(1)**	**(1)**	**-**	**(2)**
Depreciation charge for year		**41**	**139**	**23**	**117**	**4**	**324**
Transfer to assets held for sale		**-**	**(1)**	**-**	**(1)**	**-**	**(2)**
Disposals		**-**	**(3)**	**(6)**	**(16)**	**-**	**(25)**
Revaluations		**(22)**	**-**	**-**	**-**	**-**	**(22)**
Other		**-**	**-**	**(5)**	**-**	**-**	**(5)**
Foreign exchange		**(3)**	**(2)**	**(4)**	**(28)**	**-**	**(37)**
At end of year		**49**	**133**	**100**	**677**	**4**	**963**
Net book value at end of year		**2,401**	**990**	**172**	**598**	**9**	**4,170**
Net book value at beginning of year		2,418	-	204	559	-	3,181
2018							
Cost or valuation							
At beginning of year		2,510	-	285	1,052	-	3,847
Assets arising on business combinations		9	-	1	4	-	14
Additions		68	-	24	156	-	248
Transfer to assets held for sale		(17)	-	-	-	-	(17)
Disposals		(2)	-	(5)	(48)	-	(55)
Revaluations		(53)	-	(8)	-	-	(61)
Other		(12)	-	4	8	-	-
Foreign exchange		(52)	-	(4)	(7)	-	(63)
At end of year		2,451	-	297	1,165	-	3,913
Depreciation and impairment loss							
At beginning of year		57	-	73	533	-	663
Depreciation charge for year		39	-	24	116	-	179
Transfer to assets held for sale		-	-	-	(1)	-	(1)
Disposals		(3)	-	(4)	(37)	-	(44)
Revaluations		(59)	-	(4)	-	-	(63)
Impairment loss		-	-	-	2	-	2
Other		-	-	5	(5)	-	-
Foreign exchange		(1)	-	(1)	(2)	-	(4)
At end of year		33	-	93	606	-	732
Net book value at end of year		**2,418**	**-**	**204**	**559**	**-**	**3,181**
Net book value at beginning of year		2,453	-	212	519	-	3,184

1. 2019 closing balance represents leasehold improvements only.

Revaluation of properties

External valuations are performed every three years. To ensure that the carrying value does not differ significantly from fair value at the balance sheet date, in years where a full external valuation is not scheduled to be completed, a director's valuation is conducted, based on updated cash flows and other market variables. Consideration is also given to whether there are any factors which indicate an out of cycle external revaluation is required. The external revaluation of properties in 2019 were performed independently by Knight Frank in the UK and Poland, Phi Partner Consultores and TINSA Chile in Chile and Elo Engenharia in Brazil.

The valuations of care homes in the Group and hospitals in Spain, Chile and Poland are determined based on a capitalisation of earnings approach. Each facility's normalised earnings are divided by an appropriate capitalisation rate to determine a value in use. The capitalisation rate is the average rate of return for each facility and is based on qualitative and quantitative indicators of the facility's current and future performance and assumes normal prudent management of the facility. Unobservable inputs include the capitalisation rate and, for all properties except those in Poland and Chile, the average occupancy.

All other properties are valued by external valuers based on observable market values of similar properties. Due to the level of judgement and adjustments required to the observable inputs used in the valuation methodologies, a level three classification is deemed appropriate for all properties in the Group.

At each revaluation date, accumulated depreciation is eliminated against the gross carrying amount of the asset.

Sensitivity analysis

The significant assumptions used in the calculation of the fair values of the material level three freehold properties in the Group are:

Freehold properties	Australia	New Zealand	UK	Spain	Chile	Poland
Valuation assumptions: average occupancy rate	94.3%	91.7%	87.1%	94.1%	N/A	N/A
Valuation assumptions: average capitalisation rate	15.0%	14.0%	13.3%	14.6%	36.3%	9.8%
Valuation assumptions: average price per square metre	N/A	N/A	£3,977	£3,012	N/A	N/A
Valuation assumptions: average yield	N/A	N/A	5.5%	4.7%	N/A	N/A

The valuations are most sensitive to changes in capitalisation rate assumptions and a reasonably possible increase/decrease of 0.5% in capitalisation rates would decrease/increase the total carrying value of freehold properties by (£74m)/£76m.

The table below shows the date at which freehold properties held as at 31 December 2019 were last subject to external valuation.

	2019 £m
Valuation - December 2019	**1,012**
Valuation - December 2018	**153**
Valuation - December 2017	**1,197**
Assets held at cost[1]	**88**
Cost or valuation	**2,450**

1. Primarily relates to assets under construction and initial fair value of additions.

Gains and losses on revaluation are recognised in the property revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the Consolidated Income Statement. Where a revaluation reverses the losses taken to the Consolidated Income Statement in prior years, the credit is recognised in the Consolidated Income Statement.

A £18m net revaluation gain (2018: £23m) has been recognised in the property revaluation reserve. In the current year, a revaluation deficit of £19m (2018 deficit: £21m) was charged to the Consolidated Income Statement within other income and charges (see note 2.4).

Recognised in the carrying amount of freehold property is £80m (2018: £70m) in relation to freehold property in the course of construction.

Historical cost of the Group's revalued freehold property assets

	2019 £m	2018 £m
Historical cost of revalued assets	**2,544**	2,483
Accumulated depreciation based on historical cost	**(327)**	(276)
Historical cost net book value	**2,217**	2,207
Depreciation charge for the year on historical cost	**51**	50

5 Investment property

Investment properties are physical assets that are not occupied by the Group and are leased to third parties to generate rental income. Most investment properties held by the Group relate to a portfolio of retirement villages in New Zealand.

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

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

In New Zealand, the retirement village market is fragmented as each village is unique due to building configuration and location. Growth in new developments is also restricted due to a lack of suitable sites and transactions are not frequent given the relatively high value of each village. As a result, no active market exists for the retirement villages from which values can be derived. These properties are valued using discounted cash flow projections based on reliable estimates of future cash flows.

Any gain or loss arising from a change in the fair value is recognised in the Consolidated Income Statement within financial income and expense.

	Note	**2019 £m**	2018 £m
At beginning of year		**454**	399
Adoption of IFRS 16 Leases	1.5.1	**2**	-
Additions		**58**	27
Disposals		**-**	(2)
Increase in fair value	2.5	**25**	21
Transfer from assets held for sale		**-**	1
Reclassification from property, plant and equipment		**-**	6
Foreign exchange		**(17)**	2
At end of year		**522**	454

In the current year, a revaluation surplus of £25m (2018: £21m) was credited to the Consolidated Income Statement.

The carrying value of investment properties primarily consists of the Group's portfolio of retirement villages in New Zealand of £483m (2018: £437m). These were valued by management using internally prepared discounted cash flow projections, supported by the terms of any existing lease and other contracts. Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows. The discounted cash flow projections are reviewed by an independent valuer, Deloitte.

The historical cost of investment properties is £264m (2018: £222m). The properties are categorised as level three within the fair value hierarchy.

Significant assumptions used in the valuation include:

Australia and New Zealand	
Discount rate	9.5%
Capital growth rate	2.6%
Provision for capital replacement	0.4%
Vacancy period	3 months
Turnover in apartments and villas	4-6 years

The sensitivity analysis below considers the impact on the year end valuation of level three investment properties and is based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in assumptions may be correlated.

Australia and New Zealand	0.5% absolute increase	0.5% absolute decrease
Discount rate	£11m decrease	£13m increase
Capital growth rate	£31m increase	£27m decrease

Retirement villages

During the year ended 31 December 2019, the Group's retirement village portfolio in New Zealand generated £18m (2018: £19m) of income which was recognised as revenue in the Consolidated Income Statement. Total direct operating expenses of these retirement villages amounted to £11m (2018: £10m).

6 Equity accounted investments

Equity accounted investments comprise associated companies in which the Group has significant influence, but not control.

Associated companies include those entities in which the Group has significant influence, but no right to direct the activities which determine the variable returns it receives from the entity.

Associated companies are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs. The carrying value of the investment is adjusted for the Group's share of any post acquisition profits or losses of the associated entity.

If the Group's share of losses exceeds its interest in an equity accounted investment, the carrying amount of that interest (including any long-term interests that, in substance, form part of the Group's net investment), is reduced to nil. In addition, the recognition of further losses is discontinued except to the extent that the Group has an obligation to make payments on behalf of the equity accounted investment.

Associates

The consolidated financial statements include the Group's share of income and expenses, and other comprehensive income, after adjustments to align the accounting policies with those of the Group where materially different, from the date that significant influence or control commences until the date that significant influence or control ceases.

The carrying amount of equity accounted investments is £716m (2018: £690m). All equity accounted investments are included on a coterminous basis.

The Group's principal equity accounted investments are:

		Business activity	Share of issued capital	Principally operates in	Country of incorporation
Bupa Arabia for Cooperative Insurance Company	Associate	Insurance	39.25%	Saudi Arabia	Saudi Arabia
Highway to Health, Inc.	Associate	Insurance	49.00%	USA	USA
Max Bupa Health Insurance Company Limited	Associate	Insurance	44.42%	India	India

During the year the Group received dividends of £13m (2018: £10m) from Bupa Arabia.

During the year, capital injections of £8m (2018: £2m) were made in Max Bupa Health Insurance Company Limited ('Max Bupa'), the Group's associate in India. Distributions to shareholders are currently restricted by local regulatory requirements which are re-assessed on a regular basis.

On 16 December 2019, the Group decreased its shareholding in the associate Max Bupa from 49% to 44.42% as a result of the disposal of a portion of the stake for £4m as part of the arrangements for the introduction of a new strategic partner.

(i) Summarised financial information for material associates

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates, and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	Bupa Arabia		Highway to Health		Max Bupa	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Revenue	**1,956**	1,626	**157**	177	**11**	71
Cash and cash equivalents	**73**	61	**109**	97	**2**	1
Other current assets	**806**	611	**66**	63	**10**	12
Current assets	**879**	672	**175**	160	**12**	13
Non-current assets	**1,175**	1,058	**10**	12	**111**	87
Current liabilities	**(1,436)**	(1,191)	**(97)**	(92)	**(40)**	(34)
Non-current liabilities	**-**	-	**(3)**	(3)	**(50)**	(39)
Net assets	**618**	539	**85**	77	**33**	27

Reconciliation to carrying amounts

	Bupa Arabia		Highway to Health		Max Bupa	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Opening net assets	**539**	458	**77**	64	**27**	26
Profit/(loss) for the year	**126**	105	**10**	5	**(10)**	(2)
Other comprehensive expenses	**(1)**	(6)	**-**	-	**-**	-
Dividends paid	**(38)**	(32)	**-**	-	**-**	-
Other reserve movements	**(8)**	14	**(2)**	8	**16**	3
Closing net assets	**618**	539	**85**	77	**33**	27
% Ownership	**39.25%**	39.25%	**49.00%**	49.00%	**44.42%**	49.00%
Reporting entity's share	**243**	212	**42**	38	**15**	13
Fair value and local accounting differences	**207**	217	**177**	181	**16**	20
Carrying amount	**450**	429	**219**	219	**31**	33
Reporting entity's share of profit/(loss)[2]	**47**	31	**6**	3	**(5)**	(2)

1. Primarily relates to goodwill and implicit intangible assets on acquisition.
2. 2019 share of profits in Max Bupa are based on a share in ownership of 49.00% up to 15 December 2019.

(ii) Individually immaterial associates

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method. The aggregate carrying amount of these associates is £16m (2018: £9m). The reporting entity's share of profit recognised during the year for these associates was £nil (2018: share of profit of £1m).

7 Post-employment benefits

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

The principal defined contribution pension scheme is The Bupa Retirement Savings Plan.

The National Employment Savings Test ('NEST') has been used to meet the Group's automatic enrolment duties for UK employees.

Defined contribution pension schemes
The defined contribution pension schemes provide employees with a retirement fund accumulated through investment of contributions made by Bupa and the employees. Members of the scheme use their funds to secure benefits at retirement. Benefits are not known in advance and the investment and longevity risks are assumed solely by the members of the scheme. Contributions payable by the relevant sponsoring employers are defined in the scheme rules or plan specifications and these contributions are recognised as an expense in the Consolidated Income Statement as incurred.

Defined benefit post-employment schemes
The defined benefit pension schemes provide benefits based on final pensionable salary. The Group's net obligation in respect of defined benefit pensions is calculated separately for each scheme and represents the present value of the defined benefit obligation less 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.

The charge to the Consolidated Income Statement for defined benefit schemes represents the following: current service cost calculated on the projected unit credit method, net interest cost, past service costs and administrative expenses.

All remeasurements are recognised in full in the Consolidated Statement of Comprehensive Income in the period in which they occur.

(i) Amount recognised in the Consolidated Income Statement
The amounts (credited)/charged to other operating expenses for the year are:

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

The charge to other operating expenses in respect of cash contributions to defined contribution schemes is £35m (2018: £30m).

(ii) Amount recognised directly in other comprehensive income
The amounts charged/(credited) directly to equity:

	2019 £m	2018 £m
Actual return less expected return on assets	**(6)**	4
Loss/(gain) arising from changes to financial assumptions	**8**	(5)
Loss arising from changes to experience assumptions	**1**	-
Gain arising from changes to demographic assumptions	**(1)**	-
Total remeasurement losses/(gains) charged/(credited) directly to equity	**2**	(1)

The cumulative amount of remeasurement losses recognised directly in equity is £40m (2018: £38m).

7.1 Group post-employment benefit schemes

Defined contribution pension schemes
The principal defined contribution pension scheme in the UK is The Bupa Retirement Savings Plan. This scheme has been in effect since 1 October 2002 and is available to permanent employees of The British United Provident Association Limited and Bupa Insurance Services Limited to join on a voluntary basis. There are several other contract-based defined contribution arrangements available to employees of other employers within the Group to join on a voluntary basis. The Group automatically enrols any eligible non-pensioned employees into the National Employment Savings Trust ('NEST').

Defined benefit post-employment schemes
The principal defined benefit scheme in the UK is The Bupa Pension Scheme. The British United Provident Association Limited is the principal sponsoring employer for The Bupa Pension Scheme. The Company (which is not an employer in respect of the scheme) had entered into a legally binding and irrevocable guarantee for the benefit of the trustee in respect of the payments due from Bupa. Please see the 2019 Bupa Annual Report and Accounts for full details.

There are several other smaller defined benefit pension schemes operated by UK and overseas subsidiaries. The defined benefit pension schemes are assessed by independent scheme actuaries in accordance with UK or local practice and under IAS 19 as at 31 December 2019 for the purposes of inclusion in the Group's Consolidated Financial Statements.

Complete disclosure of these other defined benefit pension schemes is not practicable within this report but they are disclosed within the financial statements of the relevant sponsoring employer of each scheme.

(a) Assets and liabilities of schemes

		Defined benefit funded pension schemes	
	Section	2019 £m	2018 £m
Present value of funded obligations	(b)	**(78)**	(92)
Fair value of scheme assets	(c)	**73**	85
Net recognised liabilities		**(5)**	(7)
Represented on the Consolidated Statement of Financial Position:			
Net liabilities		**(7)**	(10)
Net assets		**2**	3
Net recognised liabilities		**(5)**	(7)

(b) Present value of funded schemes' obligations

The movements in the present value of the schemes' obligations are:

	Defined benefit funded pension schemes	
	2019 £m	2018 £m
At beginning of year	**92**	101
Current service costs	**1**	1
Interest on obligations	**2**	3
Losses/(gains) from changes to financial assumptions	**8**	(5)
Losses from changes to experience assumptions	**1**	-
Gains from changes to demographic assumptions	**(1)**	-
Benefits paid	**(6)**	(6)
Settlement	**(8)**	-
Group transfer[1]	**(10)**	-
Foreign exchange	**(1)**	(2)
At end of year	**78**	92

1. The Care First Bedfordshire Limited Scheme merged with the Bupa Pension Scheme during January 2019.

(c) Fair value of funded schemes' assets

The movements in the fair value of the funded schemes' assets are:

	2019 £m	2018 £m
At beginning of year	**85**	93
Interest income	**2**	2
Return on assets excluding interest income	**6**	(4)
Contributions by employer	**1**	1
Benefits paid	**(6)**	(6)
Settlement	**(7)**	-
Group transfer[1]	**(8)**	-
Foreign exchange	**-**	(1)
At end of year	**73**	85

1. The Care First Bedfordshire Limited Scheme merged with the Bupa Pension Scheme during January 2019.

The market values of the assets of the funded schemes are as follows:

	2019 £m	**2019 %**	2018 £m	2018 %
Government bonds	**24**	**33**	24	28
Equities	**17**	**23**	17	20
Cash/other assets	**15**	**21**	29	34
Pooled investment funds	**11**	**15**	11	13
Loans	**4**	**5**	3	3
Corporate bonds	**2**	**3**	1	2
Total market value of the assets of the funded schemes	**73**	**100**	85	100

No assets have a quoted market price.

7.2 Actuarial assumptions

The responsibility for setting the assumptions underlying the IAS 19 valuations rests with Bupa's Directors, having first taken advice from the Group's independent actuary.

The key weighted average financial assumptions used when valuing the obligations of the post-employment benefit schemes under IAS 19 for the schemes within the Group are as follows:

	Defined benefit funded pension schemes	
	2019 %	2018 %
Inflation rate	**2.3**	2.7
Rate of increase in salaries	**3.2**	3.5
Rate of increase to pensions in payment	**2.3**	2.3
Rate of increase to pensions in deferment	**2.3**	2.2
Discount rate for scheme assets and obligations	**2.0**	2.9

(a) Actuarial assumptions underlying the valuation of obligations
The inflation assumption is set by reference to the difference between the yield on long-term fixed interest gilts and the real yield on index-linked gilts, with a deduction of 0.4% to reflect an inflation risk premium.

The rate of increase in salaries is equal to the long-term expected annual average salary pay increase for the employees who are members of the respective schemes. This assumption is set relative to the inflation rate assumption.

The rate of increase to pensions in payment is the same as the inflation rate, with the exception of benefits which receive fixed increases in payment as defined under the respective scheme rules.

The discount rate used to value scheme liabilities is the yield at the balance sheet date on high-quality corporate bonds of appropriate term.

(b) Mortality assumptions
The trustees of The Bupa Pension Scheme undertook a scheme-specific mortality investigation as part of the 1 July 2017 triennial valuation.

The trustees shared the conclusion drawn from this analysis with the Directors of the Company, who have adopted assumptions in line with this analysis for the purposes of IAS 19 valuation as at 31 December 2019.

The mortality tables adopted at 31 December 2019 are the S2PA year of birth mortality tables using the CMI 2018 projection model, with a long-term rate of improvement of 1.5% p.a. adjusted by 97% (male non-pensioners); 96% (female non-pensioners); 92% (male pensioners) and 94% (female pensioners). The average life expectancies at age 60 based on these tables for a male currently aged 60 is 27.3 years and for a female currently aged 60 is 29.2 years. The average life expectancies at age 60 based on these tables for a male currently aged 45 is 28.2 years and for a female currently aged 45 is 30.5 years.

(c) Assumptions over duration of liabilities
The weighted average duration of the defined benefit obligation is approximately 16 years.

8 Restricted assets

Restricted assets are amounts held in respect of specific obligations and potential liabilities and may be used only to discharge those obligations and potential liabilities if and when they crystallise.

	2019 £m	2018 £m
Non-current restricted assets	**44**	42
Current restricted assets	**73**	65
Total restricted assets	**117**	107

The non-current restricted assets balance of £44m (2018: £42m) consists of cash deposits held to secure a charge over the non-registered pension arrangement (held in the Parent company). Included in current restricted assets is £72m (2018: £63m) in respect of claims funds held on behalf of corporate customers.

9 Financial investments

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

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

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

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

Classification	Criteria and treatment under IFRS 9
Fair value through profit or loss	Debt and Equity instruments where performance is managed and evaluated on a fair value basis and the objective is to realise cash flows through the sale of the assets. The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the Consolidated Income Statement in the period in which they arise.
Amortised cost	Non-derivative debt instruments where the contractual characteristics of the financial assets represent solely payments of principal and interest and the objective is to hold the instrument to collect cash flows over its life. Any disposals are expected to be infrequent or insignificant. The investments are measured at amortised cost using the effective interest method, less any impairment losses. Any discount or premium on purchase is amortised over the life of the investment through the Consolidated Income Statement.
Fair value through other comprehensive income	Non-derivative debt instruments where the contractual characteristics of the financial assets represent solely payments of principal and interest and the objective is to hold the instrument to collect cash flows and sell, with a greater frequency and value of sales than instruments at amortised cost. The investments are carried at fair value and fair value changes are recognised through the Consolidated Statement of Comprehensive Income, except for interest and foreign exchange gains or losses and impairment gains and losses that are derived using the same methodology that is applied to financial assets measured at amortised cost, which go through the Consolidated Income Statement. The cumulative gain or loss that was recognised in other comprehensive income is recognised in the Consolidated Income Statement when a financial asset at fair value through other comprehensive income is derecognised.

Under IFRS 9, impairment provisions for expected credit losses ('ECL') are recognised for financial investments measured at amortised cost and FVOCI. An allowance for either 12-month or lifetime ECL is required, depending on whether there has been a significant increase in credit risk since initial recognition. However, an assumption can be made that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (e.g. it is investment grade). The Group applies a 12-month ECL allowance, as all relevant financial investments are either investment grade or short-term.

The measurement of ECL should reflect a probability-weighted outcome, the time value of money and the best available forward-looking information. An option pricing probability model is used as the basis for assessing ECL. An analysis of ECL provisions is provided in note 25.3.

Financial investments are analysed as follows:

	Carrying value 2019 £m	**Fair value 2019 £m**	Carrying value 2018 £m	Fair value 2018 £m
Fair value through profit or loss				
Corporate debt securities and secured loans	**335**	**335**	310	310
Government debt securities	**52**	**52**	44	44
Pooled investment funds	**220**	**220**	195	195
Deposits with credit institutions	**1**	**1**	4	4
Other loans	**5**	**5**	9	9
Equities	**13**	**13**	20	20
Fair value through other comprehensive income				
Corporate debt securities and secured loans	**31**	**31**	-	-
Government debt securities	**52**	**52**	-	-
Amortised cost				
Corporate debt securities and secured loans	**627**	**631**	779	778
Government debt securities	**129**	**130**	183	185
Deposits with credit institutions	**865**	**867**	805	807
Other loans	**1**	**1**	1	1
Total financial investments	**2,331**	**2,338**	2,350	2,353
Non-current	**767**	**770**	1,029	1,029
Current	**1,564**	**1,568**	1,321	1,324

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.

The fair value of financial investments are determined 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 investments by hierarchy level is as follows:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2019				
Fair value through profit or loss				
Corporate debt securities and secured loans	**18**	**317**	**-**	**335**
Government debt securities	**52**	**-**	**-**	**52**
Pooled investment funds	**48**	**168**	**4**	**220**
Deposits with credit institutions	**1**	**-**	**-**	**1**
Other loans	**-**	**-**	**5**	**5**
Equities	**-**	**-**	**13**	**13**
Fair value through other comprehensive income				
Corporate debt securities and secured loans	**31**	**-**	**-**	**31**
Government debt securities	**52**	**-**	**-**	**52**
Amortised cost				
Corporate debt securities and secured loans	**629**	**2**	**-**	**631**
Government debt securities	**129**	**1**	**-**	**130**
Deposits with credit institutions	**-**	**867**	**-**	**867**
Other loans	**-**	**1**	**-**	**1**
Total financial investments	**960**	**1,356**	**22**	**2,338**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2018				
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

During the year certain pooled investment funds in Brazil have been reclassified from level one to level two in the fair value hierarchy in the absence of an active market locally.

The Group currently holds level three investments totaling £22m. The majority of investments are unlisted equities and convertible notes valued at the recent subscription value and conversion price, which are deemed to be unobservable inputs. Reasonably possible changes to the valuation assumptions applied could result in a change in fair value of plus or minus £1m.

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

Level 3	**2019 £m**	2018 £m
Opening balance	**32**	20
Additions	**17**	11
Net decrease in fair value	**(17)**	-
Disposals	**(9)**	-
Foreign exchange	**(1)**	1
At end of year[1]	**22**	32

1. All gains and losses are recognised in the Consolidated Income Statement in net financial expense.

The Group uses a market interest curve as at the balance sheet date to discount financial instruments, borrowings and derivatives, where the fair value cannot otherwise be found from quoted market values. The range of interest rates used is as follows:

	2019 %	2018 %
Sterling assets and liabilities	**0.8-1.1**	1.1-1.3
Australian dollar assets and liabilities	**0.9-1.0**	1.9-2.0
Euro assets and liabilities	**(0.6)-(0.5)**	(0.6)-(0.4)
US dollar assets and liabilities	**1.6-2.4**	2.6-2.8

10 Derivatives

A derivative is a financial instrument whose value is based on one or more underlying variables. The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. Derivatives are not held for speculative reasons.

Derivatives that have been purchased or issued as part of a hedge that subsequently do not qualify for hedge accounting are accounted for at fair value through profit or loss. See note 25.2.1 for details on how the Group accounts for derivatives that qualify for hedge accounting.

Derivative financial instruments are initially recognised and subsequently measured at fair value.

Fair values are obtained from market observable pricing information including interest rate yield curves. The value of foreign exchange forward contracts is established using listed market prices.

Fair values have been calculated for each type of derivative as follows:

- The fair value of currency forward contracts, swaps and options is determined using forward exchange rates derived from market sourced data at the balance sheet date, with the resulting value discounted back to present value.
- The fair value of interest rate swaps is determined as the present value of the estimated future cash flows based on observable yield curves.

Valuation inputs are classified as level two in the fair value hierarchy.

	2019 £m	2018 £m
Derivative assets		
Non-current	**5**	21
Current	**54**	7
Total derivative assets	**59**	28
Derivative liabilities		
Non-current	**-**	(19)
Current	**(34)**	(28)
Total derivative liabilities	**(34)**	(47)

11 Deferred taxation assets and liabilities

Deferred taxation is an amount which recognises the differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes.

An example is the variance between the carrying value of equipment due to depreciation being charged for financial reporting purposes and written down allowances being applied for the relevant tax authorities.

Deferred taxation is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not recognised: goodwill not deductible for taxation purposes and the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The amount of deferred taxation recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted or substantively enacted at the balance sheet date.

Deferred taxation is recognised on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred taxation assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group can settle its current taxation assets and liabilities on a net basis.

Recognised deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Accelerated capital allowances	**24**	12	**(45)**	(60)	**(21)**	(48)
Post employment benefit liability	**1**	1	**-**	-	**1**	1
Revaluation of properties to fair value	**3**	-	**(89)**	(94)	**(86)**	(94)
Employee benefits (other than post employment)	**24**	27	**-**	-	**24**	27
Provisions	**52**	49	**-**	-	**52**	49
Taxation value of losses carried forward	**38**	47	**-**	-	**38**	47
Goodwill and intangible assets	**6**	4	**(173)**	(182)	**(167)**	(178)
Other	**9**	51	**(56)**	(74)	**(47)**	(23)
Deferred taxation (before allowable netting)	**157**	191	**(363)**	(410)	**(206)**	(219)
Allowable netting of deferred taxation	**(113)**	(139)	**113**	139	**-**	-
Deferred taxation - net	**44**	52	**(250)**	(271)	**(206)**	(219)

Unrecognised deferred taxation assets

As at 31 December 2019, the Group had deductible temporary differences relating to intangible assets of £nil (2018: £5m), trading losses of £88m (2018: £109m) and capital losses of £71m (2018: £74m) for which no deferred taxation asset was recognised due to uncertainty of utilisation of those temporary differences.

Movement in net deferred taxation (liabilities)/assets

	At beginning of year	Adoption of IFRS 16	Recognised in Consolidated Income Statement	Recognised in other comprehensive income	Acquisitions through business combinations	Disposal of subsidiary undertaking	Transfer to / from assets held for sale	Foreign exchange	At end of year
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
2019									
Accelerated capital allowances	**(48)**	**13**	**16**	**-**	**(1)**	**-**	**-**	**(1)**	**(21)**
Post-employment benefit liability	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**(1)**	**1**
Revaluation of properties to fair value	**(94)**	**-**	**4**	**(3)**	**-**	**-**	**-**	**7**	**(86)**
Employee benefits (other than post-employment)	**27**	**-**	**-**	**(1)**	**(2)**	**-**	**-**	**-**	**24**
Provisions	**49**	**-**	**13**	**-**	**(5)**	**-**	**-**	**(5)**	**52**
Taxation value of losses carried forward	**47**	**-**	**(8)**	**-**	**1**	**-**	**-**	**(2)**	**38**
Goodwill and intangible assets	**(178)**	**-**	**10**	**-**	**(8)**	**-**	**-**	**9**	**(167)**
Other	**(23)**	**-**	**(28)**	**-**	**1**	**-**	**2**	**1**	**(47)**
Total	**(219)**	**13**	**7**	**(3)**	**(14)**	**-**	**2**	**8**	**(206)**
2018									
Accelerated capital allowances	(82)	-	33	-	-	-	-	1	(48)
Post-employment benefit liability	3	-	(2)	-	-	-	-	-	1
Revaluation of properties to fair value	(92)	-	6	(9)	(1)	-	-	2	(94)
Employee benefits (other than post-employment)	30	-	(2)	-	-	-	-	(1)	27
Provisions	24	-	26	-	-	-	-	(1)	49
Taxation value of losses carried forward	41	-	4	-	4	(1)	-	(1)	47
Goodwill and intangible assets	(142)	-	(26)	-	(12)	-	-	2	(178)
Other	(7)	-	(12)	(10)	-	5	-	1	(23)
Total	(225)	-	27	(19)	(9)	4	-	3	(219)

12 Assets arising from insurance business

Financial assets arising from insurance business, excluding reinsurers' share of insurance provisions, are held at amortised cost. The valuation of reinsurances' share of insurance provisions is discussed in note 19.

	Note	2019 £m	2018 £m
Insurance debtors	(a)	**1,143**	1,092
Ceded insurance provisions	(b)	**24**	23
Deferred acquisition costs	(c)	**160**	139
Medicare rebate	(d)	**73**	71
Risk Equalisation Special Account Recoveries		**16**	23
Total assets arising from insurance business		**1,416**	1,348
Non-current		**27**	24
Current		**1,389**	1,324

The above balance is stated net of provision for impairment losses. Information regarding the ageing of insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries is shown in note 25.3.

(a) Insurance debtors

In certain jurisdictions, such as the UK and Spain, where the amount payable under an insurance contract is payable in instalments over the term, a debtor and corresponding unearned premium provision is established at inception for the total premiums receivable over the whole period of cover.

(b) Reinsurers' share of insurance provisions

The recoverables due from reinsurers are shown within assets arising from insurance business and are assessed for impairment at each balance sheet date. Reinsurers' share of insurance provisions are further analysed in note 19.

(c) Deferred acquisition costs

Acquisition costs represent commissions payable and other expenses related to the acquisition of insurance contract revenues written during the financial year. Acquisition costs that have been paid that relate to subsequent periods are deferred and recognised in the Consolidated Income Statement in the relevant period on a straight-line basis.

The movement in deferred acquisition costs is as follows:

	2019 £m	2018 £m
At the beginning of the year	**139**	117
Acquisition costs deferred	**374**	241
Acquisition costs released to Consolidated Income Statement	**(348)**	(220)
Foreign exchange	**(5)**	1
At end of year	**160**	139

(d) Medicare rebate

In Australia, the government provides an income tested rebate to help people meet the cost of private health insurance. Where customers have elected to receive the rebate as a premium reduction through the private health insurer, the amounts are recovered from the government. Rebates due from the government but not received at the balance sheet date are recognised in assets arising from insurance business.

13 Inventories

Inventories comprise drugs, prostheses, consumables and housing stock utilised in the course of our care, health and dental operations.

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out method, or methods that approximate this and includes costs incurred in acquiring the inventories and in bringing them to their current location and condition.

Inventories relating to drugs, prostheses, consumables and housing stock were £98m (2018: £109m). There were £nil inventory write-downs made during the year (2018: £nil). The Group consumed £178m (2018: £151m) of inventories, which are recognised within other operating expenses in the Consolidated Income Statement.

14 Trade and other receivables

Trade and other receivables arise in the ordinary course of business.

	Note	2019 £m	2018 £m
Trade receivables	(a)	**279**	249
Amounts owed by Ultimate Parent Company		**170**	186
Other receivables	(a)	**140**	143
Service concession receivables	(b)	**-**	69
Prepayments	(c)	**81**	78
Accrued income		**62**	13
Investment receivables and accrued investment income		**7**	7
Total trade and other receivables		**739**	745
Non-current		**33**	35
Current		**706**	710

Trade and other receivables are carried at amortised cost net of provisions for ECLs. Trade receivables relate to consideration due from customer contracts. Other receivables relate to consideration due from contracts that are outside of the scope of IFRS 15 e.g. rental receivables. Information regarding the ageing of trade and other receivables is shown in note 25.3. All trade receivables and service concession receivables are classified as receivables under IFRS 15, as a receivable is an entity's right to consideration that is unconditional i.e. only the passage of time is required before payment is due.

The carrying value of trade and other receivables is a reasonable approximation of fair value.

(a) Impairment of financial assets
Financial assets comprise trade and other receivables and financial investments. Refer to note 9 for financial investments.

All receivables are measured net of lifetime ECL. Where appropriate, a provision matrix is used to estimate ECL.

Under a provision matrix, receivables are grouped into customer segments and further divided into categories by age. Historical credit loss experience and any relevant forward-looking information is then used to establish the ECL provision for each category. An analysis of ECL provisions for trade and other receivables is disclosed in note 25.3. All impairment losses are recognised in the Consolidated Income Statement within net impairment loss on financial assets. Impairment losses on trade receivables under IFRS 9 of £8m have been recognised in the period (2018: £7m).

(b) Service concession receivables
Previously recognised service concession receivables have been reclassified as held for sale (see note 16).

(c) Prepayments
Included within prepayments are set up costs incurred to fulfil contracts with customers. These are amortised on a straight-line basis over the contract period.

15 Cash and cash equivalents

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.

	2019 £m	2018 £m
Cash at bank and in hand	**807**	1,092
Short-term deposits	**427**	461
Total cash and cash equivalents	**1,234**	1,553

Bank overdrafts of £1m (2018: £1m) that are repayable on demand are reported within other interest bearing liabilities on the Consolidated Statement of Financial Position, although are considered as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

16 Assets and liabilities held for sale

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than continuing use and a sale within twelve months is considered to be highly probable.

Classification as held for sale
Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Subsequent to initial classification as held for sale, any impairment losses and gains or losses on remeasurement are recognised in profit or loss.

On classification as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Assets and liabilities classified as held for sale

	2019 £m	2018 £m
Assets held for sale		
Property, plant and equipment	**7**	3
Investment property	**-**	4
Financial investments	**6**	-
Deferred taxation assets	**1**	-
Inventories	**4**	-
Trade and other receivables	**42**	-
Cash and cash equivalents	**218**	-
Total assets classified as held for sale	**278**	7
Liabilities associated with assets held for sale		
Other interest bearing liabilities	**(18)**	-
Lease liabilities	**(2)**	-
Deferred taxation liabilities	**(3)**	-
Trade and other payables	**(170)**	-
Total liabilities classified as held for sale	**(193)**	-
Net assets classified as held for sale	**85**	7

Within the Europe and Latin America segment, certain provision businesses have been classified as held for sale. Both sales are expected to be completed in 2020 following the completion of due diligence and receipt of regulatory approval.

Expected sales proceeds are lower than the carrying amount of the net assets classified as held for sale and consequently a write down of £26m has been recognised in other income and charges prior to classification as held for sale (see note 2.4).

Additionally, £4m in respect of a retirement village is classified as held for sale in Bupa Villages and Aged Care - New Zealand.

17 Borrowings

The Group has various sources of funding including subordinated bonds, senior unsecured bonds and loans.

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost, with any difference between the initial recognition value and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis. The Group uses interest rate swaps to manage its interest rate risk on certain borrowings. These meet the criteria for hedge accounting as the derivative acts as a hedge against future fair value movements in the debt. Both the hedged risk and the associated derivative are recognised at fair value, with the carrying value of borrowings being adjusted for the gain or loss on the effective element of the hedged risk. Changes in the fair value of these derivatives are recognised in financial expenses and will offset to the extent the hedging relationship is effective.

	Note	**2019 £m**	2018 £m
Subordinated liabilities			
Callable subordinated perpetual guaranteed bonds		**336**	336
Fair value adjustment in respect of hedged interest rate risk		**9**	21
Callable subordinated perpetual guaranteed bonds	(a)	**345**	357
5.0% subordinated unguaranteed bonds due 2023 and 2026	(b)	**900**	898
Total subordinated liabilities		**1,245**	1,255
Other interest bearing liabilities			
Senior unsecured bonds	(c)	**695**	698
Fair value adjustment in respect of hedged interest rate risk		**3**	(4)
Bank loans and overdrafts	(d)	**407**	357
Finance lease liabilities[1]		**-**	4
Total interest bearing liabilities		**1,105**	1,055
Total borrowings		**2,350**	2,310
Non-current		**1,679**	2,073
Current		**671**	237

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

	Subordinated liabilities		**Other interest bearing liabilities**		**Total**	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
At beginning of year	**1,255**	1,303	**1,055**	1,170	**2,310**	2,473
Adoption of IFRS 16 Leases (note 1.5.1)	**-**	-	**(4)**	-	**(4)**	-
Business combinations	**-**	(36)	**2**	(21)	**2**	(57)
Net proceeds/(repayments)	**-**	-	**83**	(87)	**83**	(87)
Interest payments	**(65)**	(65)	**(22)**	(25)	**(87)**	(90)
Accrued interest and amortisation	**67**	67	**23**	26	**90**	93
Fair value adjustment in respect of hedged risk	**(12)**	(14)	**7**	(2)	**(5)**	(16)
Transfer to liabilities associated with assets held for sale	**-**	-	**(18)**	-	**(18)**	-
Foreign exchange	**-**	-	**(21)**	(6)	**(21)**	(6)
At end of year	**1,245**	1,255	**1,105**	1,055	**2,350**	2,310

(a) Callable subordinated perpetual guaranteed bonds

In December 2004, the Company issued £330m of callable subordinated perpetual guaranteed bonds, which are guaranteed by Bupa Insurance Limited. Interest is payable on the bonds at 6.125% per annum. The bonds have no fixed maturity date, but a call option is exercisable by the Company to redeem the bonds on 16 September 2020. In the event of the winding up of the Company or Bupa Insurance Limited, the claims of the bondholders are subordinated to the claims of other creditors of these companies.

The total hedged fair value of the callable subordinated perpetual guaranteed bonds, net of accrued interest, is £345m (2018: £357m). The valuation adjustment is the change in value arising from interest rate risk which is matched by the fair value of swap contracts in place to hedge this risk.

(b) 5.0% subordinated unguaranteed bonds due 2023 and 2026

On 25 April 2013, the Company issued £500m of unguaranteed subordinated bonds which mature on 25 April 2023. Interest is payable on the bonds at 5.0% per annum. In the event of the winding up of the Company the claims of the bondholders are subordinated to the claims of other creditors of the Company.

On 8 December 2016, the Company issued £400m of unguaranteed subordinated bonds which mature on 8 December 2026. Interest is payable on the bonds at 5.0% per annum. In the event of winding up of the Company the claims of the bondholders are subordinated to the claims of other creditors of the Company.

(c) Senior unsecured bonds

On 30 June 2012, Cruz Blanca Salud S.A., now Bupa Chile, issued UF1.6m (£46m) (Unidad de Fomento - an inflation-linked currency commonly used in Chile) of inflation-linked senior unsecured bonds which mature on 30 June 2033.

On 17 June 2014, the Company issued £350m of senior unsecured bonds, guaranteed by the Parent, which mature on 17 June 2021. Interest is payable on the bonds at 3.375% per annum.

On 5 April 2017, the Company issued £300m of senior unsecured bonds, guaranteed by the Parent, which mature on 5 April 2024. Interest is payable on the bonds at 2.0% per annum. The total hedged fair value of the £300m senior unsecured bonds, including accrued interest, is £302m (2018: £295m). The valuation adjustment is the change in value arising from interest rate risk which is matched by the fair value of swap contracts in place to hedge this risk.

(d) Bank loans and bank overdrafts

Bank loans are £407m (2018: £357m), which includes a portfolio of loans held in Bupa Chile totalling £137m (2018: £135m). The tri syndicated loan held by a provision business in the Europe and Latin America segment of £18m (2018: £22m) is now classified under liabilities held for sale (note 16).

The Group maintains an £800m revolving credit facility which matures in August 2022. The facility was drawn down by £230m at 31 December 2019 (2018: £170m).

Drawings under the £800m facility are guaranteed by the Parent. The overdraft facilities are subject to cross guarantees within the Group. The bank loans and overdrafts bear interest at commercial rates linked to LIBOR, or EURIBOR, or at a commercial fixed rate.

The £30m bilateral loan facility matured in November 2019 and was refinanced with a two year £40m bilateral loan facility, which was fully drawn down at the year end (2018: £30m).

Fair value of financial liabilities

The fair value of a financial liability is defined as the amount for which a financial liability could be exchanged in an arm's-length transaction between informed and willing parties. Fair values disclosed in the table below have been calculated as follows:

- Subordinated liabilities – quoted price if available or discounted expected future principal and interest cash flows
- Senior unsecured bonds – quoted price
- Secured loans – quoted price.

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

Financial liabilities are categorised into a three-level hierarchy. A description of the different levels is detailed in note 9 along with the market interest rates used to discount financial liabilities, where the fair value cannot otherwise be found from quoted market values.

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

	2019			2018		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
	£m	**£m**	**£m**	£m	£m	£m
Subordinated liabilities	**1,279**	**-**	**1,279**	1,294	-	1,294
Senior unsecured bonds	**661**	**46**	**707**	659	51	710
Bank loans	**-**	**407**	**407**	-	357	357
Finance lease liabilities	**-**	**-**	**-**	-	4	4
Total	**1,940**	**453**	**2,393**	1,953	412	2,365

The Group does not have any level three financial liabilities.

18 Lease liabilities

Leases are contracts that convey the right to use an asset for a period of time in exchange for consideration. The majority of the Group's leases relate to properties.

As a lessee

The Group's leases primarily relate to hospitals, care homes, clinics and office buildings. 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. 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. The movement of the right-of-use asset is disclosed in note 4.

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.

Lease liabilities

	Note	2019 £m
At the beginning of the year		-
Adoption of IFRS 16 Leases	1.5.1	**1,095**
Additions		**126**
Remeasurement		**(3)**
Interest on lease liabilities		**57**
Repayments		**(171)**
Transfer to liabilities associated with assets held for sale		**(2)**
Foreign exchange		**(40)**
At end of year		**1,062**
Non-current		**945**
Current		**117**

See note 25.4 for maturity analysis of lease liabilities.

Expenses
The Consolidated Income Statement includes £nil expenses relating to short-term leases and expenses relating to leases of low value assets of £1m for 2019. Depreciation of right-of-use assets are reported in note 4. Interest on lease liabilities are reported as financial expenses (see note 2.5).

Extension options
Some property leases in the Group contain extension options exercisable by the lessee before the end of the non-cancellable contract period. The period covered by extension options are only included in the lease term if the lessee is reasonably certain to exercise the option. At lease commencement an assessment is performed of whether it is reasonably certain to exercise the extension options, taking into account factors like future timing of options, economic incentives for the lessee to exercise the option or lessee's past practice. The Group reassesses whether it is reasonably certain to exercise the extension option if there is a significant event or change in circumstances within its control.

As at 31 December 2019, potential discounted future cash outflows of £280m have not been included in the lease liability because it is not reasonably certain that the option to extend will be taken.

Termination options
A number of lease contracts in the Group contain termination options. The period covered by termination options are only included in the lease term if the lessee is reasonably certain not to exercise the option.

As at 31 December 2019, potential discounted future cash outflows of £34m have not been included in the lease liability because it is not reasonably certain that the option to terminate will not be taken.

Future lease commitments
The Group is committed to leases that have not yet commenced to the value of £33m at 31 December 2019.

Variable lease payments
Some leases, predominantly of care home properties in Spain, contain variable lease payments that are based on earnings. The future potential cash flows arising from variable lease payments not included in the lease liability is estimated at £9m.

19 Provisions arising from insurance contracts and other liabilities arising from insurance business

The provisions arising from insurance contracts and other liabilities arising from insurance business arise from the Group's underwriting activities. The provisions mainly relate to unearned premiums, which are deferred revenues that relate to future periods; and claims, where an estimate is made of the expense required to settle existing insurance contract obligations. The other liabilities primarily consist of obligations to repay deposits and commissions payable.

19.1 Provisions arising from insurance contracts

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

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

The gross provision for claims is estimated based on current information and the ultimate liability may vary as a result of subsequent information and events.

Adjustments to the amount of claims provision for prior years are included in the Consolidated Income Statement in the financial year in which the change is made. In setting the provisions for claims outstanding, a best estimate is determined on an undiscounted basis and then a margin of prudence is added such that there is confidence that future claims will be met from the provisions. The level of prudence set is either one required by regulation or one that provides an appropriate degree of confidence.

Provision is made for unexpired risks when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and administrative expenses. The expected claims are calculated having regard only to contracts commencing prior to the balance sheet date. The methods used and estimates made for claims provisions are reviewed regularly.

	2019			2018		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£m	**£m**	**£m**	£m	£m	£m
General insurance business						
Provisions for unearned premiums	**1,937**	**(15)**	**1,922**	1,845	(14)	1,831
Provisions for claims	**865**	**(9)**	**856**	875	(8)	867
Long-term business						
Life insurance contract liabilities	**34**	**-**	**34**	33	(1)	32
Total insurance provisions	**2,836**	**(24)**	**2,812**	2,753	(23)	2,730
Non-current	**57**	**-**	**57**	33	(1)	32
Current	**2,779**	**(24)**	**2,755**	2,720	(22)	2,698

(i) Analysis of movements in provisions for unearned premiums

	2019			2018		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£m	**£m**	**£m**	£m	£m	£m
At beginning of year	**1,845**	**(14)**	**1,831**	1,728	(10)	1,718
Additions through business combinations	**114**	**-**	**114**	-	-	-
Premiums deferred	**9,097**	**(78)**	**9,019**	8,913	(66)	8,847
Deferred premiums released to income	**(9,077)**	**79**	**(8,998)**	(8,791)	62	(8,729)
Foreign exchange	**(42)**	**(2)**	**(44)**	(5)	-	(5)
At end of year	**1,937**	**(15)**	**1,922**	1,845	(14)	1,831

(ii) Analysis of movements in provisions for claims

	2019			2018		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£m	**£m**	**£m**	£m	£m	£m
At beginning of year	**875**	**(8)**	**867**	877	(7)	870
Additions through business combinations	**35**	**(1)**	**34**	2	-	2
Increase for current year claims	**7,381**	**(54)**	**7,327**	7,020	(45)	6,975
Cash paid to settle claims	**(7,316)**	**56**	**(7,260)**	(6,985)	44	(6,941)
Decrease for prior year claims	**(62)**	**(2)**	**(64)**	(25)	-	(25)
Transfers	**-**	**-**	**-**	(1)	-	(1)
Foreign exchange	**(48)**	**-**	**(48)**	(13)	-	(13)
At end of year	**865**	**(9)**	**856**	875	(8)	867

Assumptions for general insurance business

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

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

While there is some diversity in the development profile of health insurance claims across the Group, such claims are generally highly predictable in both frequency and average amount, and claims are settled quickly following the medical event for which benefit is claimed. Medical expense claims are, typically, substantially fully-settled within just a few months.

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

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

	Increase in claims	**Increase in expenses**
2019		
Change in variable	**5%**	**10%**
Reduction in profit net of reinsurance before taxation	**£26m**	**£2m**
2018 (restated)		
Change in variable	5%	10%
Reduction in profit net of reinsurance before taxation	£20m	£2m

Improvements to the sensitivity methodology have been made for 2019, to reflect that variances from expectations can firstly be absorbed by profit and prudence margins in the insurance contract liabilities, prior to the total carrying value of insurance contract liabilities being affected. Comparative information has been restated accordingly.

These variances would reduce the amount of profit that would otherwise emerge in subsequent periods.

The Group's long-term insurance business does not form a core part of its operations.

Liability adequacy tests

Liability adequacy tests are performed for the Group's insurance entities. For short-duration contracts, a premium deficiency is recognised if the sum of expected costs of future claims and claim adjustment expenses, capitalised deferred acquisition costs, and maintenance expenses exceeds the corresponding unearned premiums while considering anticipated investment income. Such a deficiency would be immediately recognised in the Consolidated Income Statement.

19.2 Other liabilities arising from insurance business

Other liabilities arising from insurance business consist of payables to insurance creditors other than policyholders.

	2019 £m	2018 £m
Reinsurers' deposits	**6**	6
Reinsurance creditors	**77**	77
Commissions payable	**26**	23
Other insurance payables	**37**	38
Total other liabilities arising from insurance business	**146**	144

20 Provisions for liabilities and charges

A provision is recognised when the Group is expected to make future payments as a result of a past event.

These payments can result from a legal obligation or a constructive obligation, where an expectation has been set by the Group. A provision is made where an outflow of resources is probable and where the payments can be reliably estimated. If the effect is material, provisions are determined by discounting the estimated future payments at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Although provisions are made where payments can be reliably estimated, the amounts provided are based on a number of assumptions which are inherently uncertain and therefore the amount that is ultimately paid could differ from the amount recorded.

	Long service and annual leave	Deferred and contingent consideration	Customer remediation and legal provisions	Unoccupied property	Property restoration provision	Regulatory provisions	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of year	67	25	13	1	-	-	60	**166**
Acquisition through business combinations	4	12	3	-	-	-	-	**19**
Interest on obligations	-	-	-	-	1	-	-	**1**
Charge for year	44	10	4	-	23	5	9	**95**
Released in year	-	(5)	(5)	(1)	(1)	-	(4)	**(16)**
Utilised in year - cash	(35)	(9)	(1)	-	-	(5)	(34)	**(84)**
Foreign exchange	(3)	(1)	(1)	-	-	-	-	**(5)**
Total provisions for liabilities and charges	**77**	**32**	**13**	**-**	**23**	**-**	**31**	**176**
Non-current	21	18	5	-	23	-	6	**73**
Current	56	14	8	-	-	-	25	**103**

Long service and annual leave
The long service leave provision relates to territories where employees are legally entitled to substantial paid leave after completing a certain length of qualifying service. Uncertainty around both the amount and timing of future outflows arises as a result of variations in employee retention rates, which may vary based on historical experience. The annual leave provision relates to territories where the annual entitlement of leave is not required to be taken within a predetermined time nor does it expire. Therefore, uncertainty exists around the timing of future outflows as well as around the amount of future outflows due to wage inflation.

Provisions for contingent consideration
Contingent consideration is a financial liability largely related to earn-out payable on acquisitions of dental practices in the UK, Poland and Australia, as well as business combinations in Chile. This balance is reviewed at each reporting period and any fair value adjustments are recorded in the Consolidated Income Statement.

Customer remediation and legal provisions
Customer remediation provisions relate to the costs of compensating customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Legal provisions relate to potential and ongoing legal claims and represent the discounted fair value of total estimated liabilities. Due to the nature of these provisions, the timing and potential cost is uncertain.

Property restoration provisions
Property restoration provisions relate to the estimate of costs to be incurred by the Group in its capacity as a lessee, when dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Due to potential future renewals of leases, the timing and potential cost is uncertain.

Regulatory provisions
Regulatory provisions relate to levies payable to customer protection bodies by the Group's various regulated entities. Such levies are generally determined on a 'capped percentage of revenues' basis. Payments are normally made annually, although the frequency may be increased or decreased at the discretion of the customer protection bodies.

Other
Other provisions primarily include a provision for clawbacks on NHS contracts within Bupa Dental Care UK.

21 Trade and other payables

Trade and other payables arise in the ordinary course of business.

	Note	**2019 £m**	2018 £m
Accruals		**466**	561
Accommodation bond liabilities	(a)	**555**	596
Amounts owed to Ultimate Parent Company		**142**	97
Trade payables		**184**	172
Other payables		**215**	197
Occupational right agreement liabilities	(b)	**194**	189
Deferred income and deferred revenue	(c)	**93**	83
Social security and other taxes		**49**	47
Total trade and other payables		**1,898**	1,942
Non-current		**20**	50
Current		**1,878**	1,892

Trade and other payables (excluding deferred revenue) are carried at amortised cost.

The carrying value of the trade and other payables is a reasonable approximation of the fair value. Information regarding the maturity of trade payables, other payables, accommodation bond liabilities and accruals is shown in note 25.4.

(a) Accommodation bond liabilities
Accommodation bonds are non-interest bearing deposits paid by some residents of care homes held in Bupa Aged Care Australia as payment for a place in the care home facility. These deposits are repayable at anytime when the resident leaves the facility and are therefore not discounted. The bonds are recorded as the proceeds received, net of retention and any other amounts deducted at the election of the bondholder.

(b) Occupational right agreement liabilities
Occupational right agreement liabilities represent the amount payable to a resident on termination of the resident's occupation rights to an independent living unit in a retirement village in New Zealand. The liability varies according to the agreement with the resident. Changes in the value of the liability are recorded as an expense in the profit or loss. Residents have the right to cancel their residency agreement with the Group at any time. As such, the liability is not discounted (based on the expected date of settlement) but is recognised as a current liability in the Consolidated Statement of Financial Position. Occupational right agreement liabilities are stated net of deferred management fees and amenities fees receivable.

(c) Deferred income and deferred revenue
The total balance of £93m includes £64m of deferred revenue under IFRS 15, related primarily to care home government funding received in advance. The liability is released and recognised as revenue as the services are provided and the performance obligations are satisfied.

Significant changes in the contract liabilities balances during the period are as follows:

	Deferred revenue from care, health and other customer contract revenue 2019 £m
At beginning of year	**52**
Revenue recognised in the period	**(159)**
Deferred revenue in the period	**173**
Foreign exchange	**(2)**
At end of year	**64**

Revenue recognised in the period includes £52m of revenue that was deferred at the beginning of the year. £54m of revenue deferred at 31 December 2019 will be recognised during 2020 as the performance obligations are satisfied. £10m of revenue deferred at 31 December 2019 will be recognised over the remaining contract period.

22 Equity

	Called up share capital	
	2019 £m	2018 £m
Allocated, called up and fully paid		
200,050,000 ordinary shares of £1 each	**200**	200

23 Business combinations and disposals

A business combination refers to the acquisition of a controlling interest in a business, which is further defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing economic benefits to the owners. A disposal refers to the sale of a subsidiary.

Business combinations are accounted for using the acquisition method. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any non-controlling interests are recognised as a proportionate share of the acquiree's net identifiable assets.

The identification and valuation of intangible assets arising on business combinations is subject to a degree of estimation and judgement. We engage independent third parties to assist with the identification and valuation process. In valuing these intangible assets, market accepted methodologies have been applied. Customer relationships are valued using methodologies such as the Multi-period Excess Earnings Method (where the value of an intangible asset is equal to the present value of the after-tax cash flows attributable only to that intangible asset). Brands and trademarks are valued using methodologies such as the Relief from Royalty method (applying an estimated royalty rate to the projected sales relating to each asset over the economic life).

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets acquired is recorded as goodwill.

Acquisition accounting must be completed within 12 months of the transaction date.

Costs related to the acquisition are expensed as incurred.

(a) 2019 acquisitions

A number of acquisitions were made in the year ended 31 December 2019, the most significant being:

	Date of acquisition	Percentage of holdings
Australia and New Zealand		
Dental Corporation – dental centres	Various	100%
Europe and Latin America		
LuxMed – hospitals, clinics and dental centres	Various	100%
Acıbadem Sağlık ve Hayat Sigorta A.S. and its subsidiary Acıbadem Grubu Sigorta Aracılık Hizmetleri AŞ	17 January 2019	100%
Bupa Global and UK		
Bupa Dental Care – dental centres	Various	100%

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 UK (formerly Oasis Dental Care) has continued to expand through the acquisition of 23 further dental centres for a total consideration of £83m, of which £9m is deferred and contingent. Identified intangible assets include customer relationships of £45m and goodwill of £40m 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 across the Group include the acquisitions of hospitals, clinics and dental centres in Poland which generated further goodwill of £11m and the continued expansion in dental centres in Australia generating goodwill of £10m.

Acquisition transaction costs expensed in the year ended 31 December 2019, within other operating expenses, total £4m.

Included in the Group Consolidated Statement of Comprehensive Income is revenue of £604m and a profit before taxation of £55m in relation to those businesses acquired in the year. If the acquisition date of the businesses acquired during the year had been 1 January 2019, revenue of £12,385m and a profit before taxation of £47m would have been recorded by the Group for the year ended 31 December 2019.

	Fair value		
	Acıbadem £m	**Other £m**	**Total £m**
Intangible assets	42	46	88
Property, plant and equipment	1	14	15
Financial investments	91	-	91
Current taxation	1	-	1
Inventories	-	1	1
Trade and other receivables	84	4	88
Cash and cash equivalents	29	3	32
Other interest bearing liabilities	-	(2)	(2)
Provisions arising from insurance contracts	(149)	-	(149)
Provisions for liabilities and charges	(6)	(1)	(7)
Deferred taxation liabilities	(5)	(9)	(14)
Trade and other payables	(3)	(7)	(10)
Other liabilities arising from insurance business	(4)	-	(4)
Net assets acquired	**81**	**49**	**130**
Net assets acquired	81	49	130
Goodwill	57	61	118
Consideration	**138**	**110**	**248**
Consideration satisfied by:			
Cash	138	98	236
Deferred and contingent consideration	-	12	12
Total consideration paid	**138**	**110**	**248**
Purchase consideration settled in cash	138	98	236
Acquisition of non-controlling interest in subsidiary	-	2	2
Cash acquired on acquisition	(29)	(3)	(32)
Net cash outflow on acquisition	**109**	**97**	**206**
Settlement of deferred and contingent consideration	-	9	9
Net cash outflow associated with acquisitions	**109**	**106**	**215**

(b) 2019 disposals

There were no material disposals during the year ended 31 December 2019.

(c) 2018 acquisitions

Significant acquisitions during 2018 included the 70% acquisition of Ginemed, a gynaecological and reproductive medical services provider in Spain for £51m as well as the continued acquisition of dental centres in the UK for £61m and the purchase of Nectar Seguros de Salud, a Spanish health insurance company, for consideration of £36m. Full details of all acquisitions during 2018 are included in the financial statements for the year ended 31 December 2018.

(d) 2018 disposals

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.

24 Capital management

The Parent is a company limited by guarantee, has no shareholders and is funded through retained earnings and borrowings. Bupa's capital management objective is to maintain sufficient capital to protect the interests of its customers, investors, regulators and trading partners while deploying capital efficiently and managing risk to enable Bupa to continue to deliver its purpose in a sustainable manner. All profits are therefore reinvested to develop the Bupa's business for the benefit of current and future customers.

Bupa is subject to the requirements of the Solvency II Directive and must hold sufficient capital to cover its Group Solvency Capital Requirement ('SCR'), which takes account of all the risks in Bupa, including those related to non-insurance businesses.

Bupa's SCR is calculated in accordance with the Standard Formula specified in the Solvency II legislation. Bupa has obtained approval from the Prudential Regulation Authority ('PRA') to substitute the insurance premium risk parameter in the Standard Formula with a Group Specific Parameter ('GSP') which reflects Bupa's own loss experience.

The capital position of Bupa and its main regulated insurance entities are kept under constant review and are reported quarterly to the Bupa Board.

Bupa's capital resources are managed in line with Bupa's Capital Management Policy. While Bupa is subject to the Solvency II requirements at a consolidated level, all regulated entities within the Group maintain sufficient capital resources to meet any minimum capital requirement required by respective local regulators. In addition, Bupa and individual regulated entities maintain a buffer over the regulatory minimum requirements in line with their capital risk appetites. During the year, Bupa and its subsidiaries complied with all externally imposed capital requirements to which they were subject. The ability of the Group's insurance subsidiaries to transfer funds to Group is subject to local solvency requirements.

Bupa has target ranges for solvency, leverage and interest cover ratios with a view to maintaining an A-/A3 long-term senior credit rating for the Company. Bupa as a whole is not rated by any rating agency. Individual debt issues and certain subsidiaries within the Group have public ratings.

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

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

Bupa's eligible Own Funds include the Group IFRS net assets (£6,460m) and standalone net assets of the Parent valued on a Solvency II basis, together with eligible subordinated liabilities, subject to adjustments for non-available assets and non-controlling interests.

At 31 December 2019, Bupa's eligible Own Funds, determined in accordance with the Solvency II valuation rules, were £3,9bn[1] (2018: £3.9bn), which was in excess of the Group estimated SCR of £2.4bn[1] (2018: £2.1bn). This represented a solvency coverage ratio of 159%[1] (2018: 191%).

1. The Solvency II Capital Position (eligible Own Funds, SCR and coverage ratio) is estimated and unaudited.

25 Risk management

The Bupa Risk Committee has responsibility to the Board for the oversight of risk. It recommends to the Board a risk appetite that reflects Bupa's purpose and expresses the degree of risk Bupa should accept in delivering on its strategy.

The Group operates a 'three lines of defence' approach to the governance of risk management.

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

The operations of the risk management framework and current principal risks of the Group and how they are mitigated are described on pages 13 to 17.

The Group has adopted a risk management strategy that endeavours to mitigate these risks, which is approved by the Board. In managing these exposures, the Corporate Finance Executive Committee reviews and recommends changes to the management of insurance and investment risks.

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

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk

25.1 Insurance risk

Insurance risk only affects the insurance entities in the Group. It consists of underwriting and pricing risks which relate to the potential inadequacy of insurance premiums, as well as reserving risk which relates to the potential inadequacy of claims provisions.

(i) Underwriting risk

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

(ii) Pricing risk

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

In every general insurer in the Group, the dominant product or policy category is an annually renewable health insurance contract. This permits insurance premium rate revisions to respond quickly to changes in customer risk profiles, claims experience and market considerations.

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

(iii) Claims risk

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

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

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

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

(iv) Reserving risk

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

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

(v) Other risks related to underwriting health insurance business

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

None of the Group's general insurance contracts contain embedded derivatives so the contracts do not give rise to interest rate risk.

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

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

- broad geographical diversity across several markets – across the UK, Spain, Australia, Latin America, Turkey, the Middle East and Hong Kong
- product diversity between domestic and expatriate, and individual and corporate health insurance
- a variety of claims type exposures across diverse medical providers: consultants, clinics, individual hospitals and hospital groups.

The Group as a whole, and its principal general insurance entities, are well diversified in respect of insurance risk. Only in selected circumstances does the Group use reinsurance. The reinsurance used does not give rise to a material counterparty default credit risk exposure for the Group. Restrictions are in place on the credit quality and amount of reinsurance ceded to individual counterparties.

(vi) Catastrophe risk

A natural disaster or a manmade disaster could potentially lead to a larger than expected number of claims being received over a short period of time, resulting in higher than expected claims costs. In the majority of jurisdictions Bupa is not contractually liable for such claims. Risks are further reduced by excess of loss insurance provided by third party insurers. Bupa's Group Actuarial function oversees and implements strategic improvements to ensure overall adequacy of these arrangements.

25.2 Market risk

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

In order to reduce the risk of assets being insufficient to meet future policyholder obligations, the Group actively manages assets using an approach that balances duration, quality, diversification, liquidity and investment return.

The Group invests in a limited portfolio of return-seeking assets (principally bonds and loans) via our regulated entities in the UK and Australia. These assets totaled £490m as at 31 December 2019 (2018: £452m). These entities use value at risk analysis ('VaR') to quantify risk, taking account of asset volatility and correlation between asset classes.

In addition to local VaR analysis, the Group's overall cash and investment portfolio is managed by limiting the contribution of the combined investment risk charge to a maximum percentage of the Group's solvency capital requirement ('SCR').

25.2.1 Foreign exchange risk

The Group is exposed to foreign exchange risks arising from commercial transactions and from recognising assets, liabilities and investments in overseas operations. The Group is exposed to both transaction and translation risk. The former is the risk that a company's cash flows and realised profits may be impacted by movements in foreign exchange rates. The latter arises from translating the financial statements of a foreign operation into the Group's functional currency.

The results and financial position of the Group's foreign entities that do not have a functional currency of sterling are translated into sterling as follows:

- assets and liabilities at the exchange rate at the balance sheet date
- income and expenses at average rates for the period.

All foreign exchange differences arising on translation are recognised initially in the Consolidated Statement of Comprehensive Income, and are only subsequently reclassified to the Consolidated Income Statement in the period in which the entity is eventually disposed.

Foreign currency transactions in the Group's subsidiary companies are measured using the functional currency of the subsidiary company, which is based on the primary economic environment in which the subsidiary operates. The transactions are translated into the functional currency at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the balance sheet date; the resulting foreign exchange gain or loss is recognised in operating expenses, except where the gain or loss arises on financial assets or liabilities, when it is presented in financial income or financial expense as appropriate.

Non-monetary assets and liabilities denominated in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction; therefore, no exchange differences arise.

Non-monetary assets and liabilities denominated in a foreign currency at fair value are translated using the exchange rate ruling at the date that the fair value was determined. Transactional foreign exchange differences are recognised in operating expenses.

Transactional exposures arise as a result of differences between the currency of local revenues and claims. The currency exposures are deemed to be acceptable but are kept under review by management.

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2019	2018	**2019**	2018
Australian dollar	**1.8366**	1.7860	**1.8865**	1.8097
Brazilian real	**5.0339**	4.8674	**5.3216**	4.9461
Chilean peso	**898.4664**	855.7769	**995.5442**	884.3577
Danish krone	**8.5154**	8.4245	**8.8196**	8.3107
Euro	**1.1399**	1.1303	**1.1803**	1.1131
Hong Kong dollar	**10.0032**	10.4642	**10.3124**	9.9831
Mexican peso	**24.5752**	25.6624	**25.0303**	25.0650
New Zealand dollar	**1.9379**	1.9289	**1.9664**	1.8990
Polish zloty	**4.9004**	4.8162	**5.0221**	4.7743
Turkish lira	**7.2492**	6.4365	**7.8782**	6.7417
US dollar	**1.2767**	1.3351	**1.3240**	1.2746

Foreign exchange hedging activities

The Group manages its exposure to foreign exchange risk by entering into hedging transactions using derivative financial instruments. The Group applies fair value, cash flow and net investment hedge accounting.

The hedging relationship between a hedging instrument and a hedged item is formally documented. Documentation includes the risk management objectives and the strategy in undertaking the hedge transaction.

(a) Fair value hedges

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability or an unrecognised firm commitment, any gain or loss on remeasurement of the hedging instrument at fair value is recognised in the Consolidated Income Statement. The hedged item is fair valued for the hedged risk with any adjustment being recognised in the Consolidated Income Statement.

(b) Cash flow hedges

Where a derivative financial instrument hedges the change in cash flows related to a recognised asset or liability, a firm commitment or a highly probable forecast transaction, it is accounted for as a cash flow hedge.

The effectiveness of a cash flow hedge is the degree to which the cash flows attributable to a hedged risk are offset by changes in the cash flows of the hedging instrument. The effective portion of any gain or loss on the hedging instrument is recognised directly in other comprehensive income until the forecast transaction occurs e.g. when a hedged interest payment is recognised in the Income Statement, the related hedging gain or loss is also recycled to the Consolidated Income Statement, and when a hedged business combination is recognised, the hedging gain or loss is also recycled to goodwill in the Consolidated Statement of Financial Position. The ineffective portion of the gain or loss is always recognised in the Consolidated Income Statement.

If the hedged cash flow is no longer expected to take place, all deferred gains and losses are released to the Consolidated Income Statement immediately. If the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs.

The impact of cash flow hedging activity is set out below.

	2019 £m	2018 £m
Notional amounts	-	(95)
Carrying amount - Assets	-	-
Carrying amount - Liabilities	-	(1)
Financial statement line item	**Derivatives**	Derivatives
Change in value used for calculating hedge ineffectiveness	-	(1)
Hedging loss recognised in other comprehensive income	-	(1)
Hedge effectiveness recognised in profit or loss	-	-
Income statement line item (for ineffectiveness)	**Financial expense**	Financial expense
Amount reclassified from cash flow hedge reserve	1	-
Financial statement line item (for reclassifications)	**Goodwill**	Financial expense

	2019 £m	2018 £m
Change in value used for calculating hedge ineffectiveness	1	(1)
Amounts in reserves for continuing hedges	-	(1)

In 2018, foreign currency swap contracts of USD120m (£95m) were entered into to hedge the cash outflows in relation to the acquisition of Bupa Acıbadem Sigorta, completed in 2019.

At 31 December 2019, the cash flow hedge reserve amounts to £21m (2018: £20m).

(c) Net investment hedging

The Group applies hedge accounting to its foreign currency exposure on a net investment basis. By designating opposing instruments in the same currency, the net exposure to currency fluctuations is reported. The Group uses foreign currency forward and swap contracts, and foreign currency borrowings to hedge its net investment foreign exchange risk.

These hedging relationships are documented and tested as required by IFRS 9. All foreign currency forward contracts and collar options are accounted for on a fair value basis.

The Group hedges significant exposures in order to manage translation risk and reduce the Solvency II foreign currency risk charge.

Effect of foreign exchange hedging transactions

The impact of net investment currency hedging activity is set out below.

	2019 £m	2018 £m
Notional amounts	**1,202**	1,488
Carrying amount - Assets	**28**	7
Carrying amount - Liabilities	**(6)**	(20)
Financial statement line item	**Derivatives**	Derivatives
Change in value used for calculating hedge ineffectiveness	**51**	1
Hedging gains recognised in other comprehensive income	**51**	1
Hedge effectiveness recognised in profit or loss	**-**	-
Income statement line item (for ineffectiveness)	**Finance expense**	Financial expense
Amount reclassified from foreign currency translation reserve to the Consolidated Income Statement	**-**	-
Income statement line item (for reclassifications)	**Finance expense**	Financial expense

	2019 £m	2018 £m
Change in value used for calculating hedge ineffectiveness	**51**	1
Amounts in reserves for continuing hedges	**22**	1
Amounts in reserves for discontinued hedges	**29**	-

In the consolidated financial statements, where a loan between Group entities results in an exchange gain or loss, then it is recognised in the Consolidated Statement of Comprehensive Income to the extent that it relates to the Group's net investment in overseas operations.

Bupa has exposure to foreign exchange risk arising from its overseas operations. Currency exposures as at 31 December are as follows:

	Net currency exposure £m	**Currency contracts £m**	**Net currency exposure including hedges £m**
2019			
Australian dollar	**2,319**	**(426)**	**1,893**
Euro	**857**	**(629)**	**228**
New Zealand dollar	**504**	**(240)**	**264**
Polish zloty	**490**	**-**	**490**
Chilean peso	**395**	**-**	**395**
Hong Kong dollar	**310**	**38**	**348**
US dollar	**303**	**(482)**	**(179)**
Brazilian real	**110**	**(4)**	**106**
Singapore dollar	**35**	**33**	**68**
Turkish lira	**30**	**120**	**150**
Other	**(26)**	**100**	**74**
Total foreign denominated net assets	**5,327**	**(1,490)**	**3,837**
Percentage of Group net assets	**82%**		**59%**

	Net currency exposure £m	Currency contracts £m	Net currency exposure including hedges £m
2018			
Australian dollar	2,607	(610)	1,997
Euro	875	(644)	231
New Zealand dollar	504	(252)	252
Polish zloty	493	-	493
Chilean peso	467	-	467
Hong Kong dollar	347	39	386
US dollar	204	(216)	(12)
Brazilian real	105	3	108
Singapore dollar	33	35	68
Bahraini dinar	12	-	12
Other	6	121	127
Total foreign denominated net assets	5,653	(1,524)	4,129
Percentage of Group net assets	80%		59%

The impact of a hypothetical strengthening/weakening of sterling against the currencies below, with all other variables constant, would have increased/(decreased) equity and profit by the amounts shown below. These tables consider both translation and transaction risk.

	Strengthening 10%		**Weakening 10%**	
	Gains/(losses) included in Consolidated Income Statement £m	**Gains/(losses) included in Equity £m**	**Gains/(losses) included in Consolidated Income Statement £m**	**Gains/(losses) included in Equity £m**
2019				
Australian dollar	**(2)**	**(172)**	**2**	**210**
Euro	**10**	**(21)**	**(12)**	**25**
New Zealand dollar	**1**	**(24)**	**(1)**	**29**
Polish zloty	**2**	**(45)**	**(2)**	**54**
Chilean peso	**(4)**	**(36)**	**5**	**44**
Hong Kong dollar	**1**	**(32)**	**(2)**	**39**
US dollar	**(1)**	**16**	**1**	**(20)**
Brazilian real	**2**	**(10)**	**(2)**	**12**
Singapore dollar	**-**	**(6)**	**1**	**8**
Turkish lira	**3**	**(14)**	**(4)**	**17**
Other	**1**	**(5)**	**(2)**	**8**
Total sensitivity	**13**	**(349)**	**(16)**	**426**

	Strengthening 10%		Weakening 10%	
	Gains/(losses) included in Consolidated Income Statement £m	Gains/(losses) included in Equity £m	Gains/(losses) included in Consolidated Income Statement £m	Gains/(losses) included in Equity £m
2018				
Australian dollar	(22)	(181)	27	222
Euro	(12)	(21)	14	26
New Zealand dollar	1	(23)	(1)	28
Polish zloty	(1)	(45)	2	55
Chilean peso	2	(43)	(2)	52
Hong Kong dollar	(2)	(35)	2	43
US dollar	3	1	(4)	(1)
Brazilian real	(1)	(10)	1	12
Singapore dollar	-	(6)	-	7
Bahraini dinar	-	(1)	-	1
Other	(1)	(11)	1	14
Total sensitivity	(33)	(375)	40	459

25.2.2 Interest rate risk

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

The Group is exposed to interest rate risk arising from fluctuations in market rates. This affects the return on variable rate assets, the cost of variable rate liabilities and the balance sheet value of its investment in fixed rate bonds. Variable rate assets represent a natural hedge for variable rate liabilities.

The net balance on which the Group is exposed as at 31 December 2019 was £2,318m (2018: £2,654m). The rate at which maturing deposits are reinvested represents a significant potential risk to the Group, in currencies such as sterling and Australian dollar where the Group has a significant variable rate net asset exposure.

The Group has also used interest rate swaps to manage interest rate exposure whereby the requirement to settle interest at fixed rates has been swapped for variable rates. This increases the ability to match variable rate assets with variable rate liabilities.

The anticipated repayment profile of interest bearing financial liabilities is as follows:

	Variable £m	**Fixed £m**	**Total £m**
2019			
2020	**(622)**	**(49)**	**(671)**
2021	**(2)**	**(350)**	**(352)**
2022	**(3)**	**(1)**	**(4)**
2023	**(4)**	**(504)**	**(508)**
2024	**(306)**	**(6)**	**(312)**
2025- 2029	**(32)**	**(421)**	**(453)**
After 2029	**(28)**	**(22)**	**(50)**
Total	**(997)**	**(1,353)**	**(2,350)**

	Variable £m	Fixed £m	Total £m
2018			
2019	(228)	(25)	(253)
2020	(358)	(4)	(362)
2021	(8)	(350)	(358)
2022	(10)	(2)	(12)
2023	(7)	(504)	(511)
2024-2028	(327)	(424)	(751)
After 2028	(37)	(26)	(63)
Total	(975)	(1,335)	(2,310)

Variable loans are repriced at intervals of between one and six months. Interest is settled on all loans in line with agreements and is settled at least annually.

The impact of a hypothetical rise of 100 bps in interest rates at the reporting date, on an annualised basis, would have increased equity and profit by £2m (2018: £8m). The impact of a fall of 100 bps in interest rates, on an annualised basis, would have the inverse effect. This calculation is based on the assumption that all other variables, in particular foreign exchange rates, remain constant.

Interest rate hedging activities
The Group applies fair value hedges and cash flow hedges to hedge its exposure to interest rate risk.

Interest rate swaps totalling £630m have been entered into to swap the fixed rate coupon on the £330m callable subordinated perpetual guaranteed bonds and the £300m senior unsecured bonds to a variable rate. These interest rate swaps are designated as fair value hedges of the underlying interest rate risk on the debt. In the year ended 31 December 2019, the fair value movement in the bonds attributable to the hedged risk amounted to £5m gain (2018: £17m gain). The fair value movement on the interest rate swaps amount to £5m loss (2018: £17m loss).

The impact of fair value hedging of interest rate risk is detailed below:

(i) Fair value hedges

	2019 £m	2018 £m
Notional amounts	**630**	630
Carrying amount - Assets	**12**	21
Carrying amount - Liabilities	**-**	(7)
Financial statement line item	**Derivatives**	Derivatives
Change in value used for calculating hedge ineffectiveness	**(5)**	(17)

	2019 £m	2018 £m
Carrying amount - Liabilities	**(630)**	(630)
Accumulated hedge adjustments included in the carrying amount of the hedged item	**(12)**	-
Financial statement line item	**Borrowings**	Borrowings
Change in value used for calculating hedge ineffectiveness	**5**	17

25.3 Credit risk

Credit risk is the risk that those that are in debt to the Group default on their obligation. Examples of credit risk would be non-payment of a trade receivable or a corporate bond failing to repay the capital sum and related interest.

Investment exposure with external counterparties is managed by ensuring that there is a sufficient spread of investments and that all cash and investment counterparties are rated at least A by two of the three key rating agencies used by the Group (unless specifically approved by the Corporate Finance Executive Committee, for example as a result of local regulatory requirements).

The investment profile (including financial investments, restricted assets and cash and cash equivalents) at 31 December is as follows:

	2019 £m	2018 £m
Investment grade counterparties	**3,286**	3,691
Non-investment grade counterparties	**396**	319
Total	**3,682**	4,010

Investment grade counterparties include restricted assets of £117m (2018: £107m). Non-investment grade counterparties are those rated below BBB- / Baa3, and mainly comprise corporate bonds, government bonds and pooled investment funds of £290m (2018: £210m), and cash and cash equivalents of £69m (2018: £92m).

Assets pledged as security include £117m (2018: £107m) of cash held in restricted access deposits.

Information regarding the credit risk exposure for financial assets held at amortised cost is provided below:

	Government debt securities £m	Corporate debt securities and secured loans £m	Deposits with credit institutions £m	Other loans £m	Restricted assets £m	Cash and cash equivalents £m
2019						
AAA	**72**	**178**	**-**	**-**	**-**	**3**
AA- to AA+	**-**	**269**	**311**	**-**	**117**	**643**
A- to A+	**20**	**152**	**540**	**-**	**-**	**467**
BBB to BBB+	**-**	**15**	**6**	**-**	**-**	**52**
BBB- and below (below investment grade)	**38**	**14**	**9**	**1**	**-**	**69**
Total	**130**	**628**	**866**	**1**	**117**	**1,234**
Loss allowance	**(1)**	**(1)**	**(1)**	-	-	-
Carrying amount	**129**	**627**	**865**	**1**	**117**	**1,234**

	Government debt securities £m	Corporate debt securities and secured loans £m	Deposits with credit institutions £m	Other loans £m	Restricted assets £m	Cash and cash equivalents £m
2018						
AAA	58	164	-	-	-	13
AA- to AA+	27	317	341	-	107	816
A- to A+	64	275	436	-	-	582
BBB to BBB+	-	12	5	-	-	108
BBB- and below (below investment grade)	35	11	24	1	-	35
Total	184	779	806	1	107	1,554
Loss allowance	(1)	-	(1)	-	-	(1)
Carrying amount	183	779	805	1	107	1,553

Information regarding the ageing and impairment of financial and insurance assets is shown below.

	Not past due £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Total carrying value £m
2019						
Insurance debtors gross value	**1,075**	**107**	**32**	**19**	**17**	**1,250**
Bad debt provision	**-**	**(6)**	**(1)**	**(5)**	**(6)**	**(18)**
Insurance debtors net value[1]	**1,075**	**101**	**31**	**14**	**11**	**1,232**
Trade and other receivables gross value	**262**	**121**	**30**	**52**	**62**	**527**
ECL	**(2)**	**(2)**	**(1)**	**(3)**	**(38)**	**(46)**
Trade and other receivables net value[2]	**260**	**119**	**29**	**49**	**24**	**481**

1. Comprises insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries detailed in note 12.
2. Comprises trade receivables, other receivables, service concession receivables and accrued income detailed in note 14.

	Not past due £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Total carrying value £m
2018						
Insurance debtors gross value	995	156	23	20	9	1,203
Bad debt provision	-	(7)	(2)	(4)	(4)	(17)
Insurance debtors net value[1]	995	149	21	16	5	1,186
Trade and other receivables gross value	182	156	65	39	73	515
ECL	(6)	(3)	(1)	(3)	(28)	(41)
Trade and other receivables net value[2]	176	153	64	36	45	474

1. Comprises insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries detailed in note 12.
2. Comprises trade receivables, other receivables and service concession receivables detailed in note 14.

Information regarding the Expected Credit Loss allowance by class of financial investments at amortised cost is shown below:

	Government debt securities		Corporate debt securities and secured loans		Deposits with credit institutions		Other loans		Trade and other receivables[1]		Other insurance debtors[2]		Restricted assets		Cash and cash equivalents	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	Bad debt provision	Gross	ECL	Gross	ECL
2019	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At beginning of year	**184**	**(1)**	**779**	**-**	**806**	**(1)**	**1**	**-**	**515**	**(41)**	**1,203**	**(17)**	**107**	**-**	**1,554**	**(1)**
Recognition and settlement	**(49)**	**-**	**(134)**	**(1)**	**88**	**-**	**-**	**-**	**115**	**(9)**	**80**	**(2)**	**10**	**-**	**(31)**	**1**
Write offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(32)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to assets held for sale	**-**	**-**	**-**	**-**	**(6)**	**-**	**-**	**-**	**(42)**	**-**	**-**	**-**	**-**	**-**	**(218)**	**-**
Foreign exchange and other	**(5)**	**-**	**(17)**	**-**	**(22)**	**-**	**-**	**-**	**(29)**	**4**	**(33)**	**1**	**-**	**-**	**(71)**	**-**
At end of year	**130**	**(1)**	**628**	**(1)**	**866**	**(1)**	**1**	**-**	**527**	**(46)**	**1,250**	**(18)**	**117**	**-**	**1,234**	**-**

1. Comprises trade receivables, other receivables, service concession receivables and accrued income detailed in note 14.
2. Comprises insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries detailed in note 12.

	Government debt securities		Corporate debt securities and secured loans		Deposits with credit institutions		Other loans		Trade and other receivables[1]		Other insurance debtors[2]		Restricted assets		Cash and cash equivalents	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	Bad debt provision	Gross	ECL	Gross	ECL
2018	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of year	99	(1)	284	-	887	(1)	1	-	658	(37)	1,110	(15)	76	-	1,505	-
Recognition and settlement	82	-	488	-	(65)	-	-	-	(134)	(5)	82	(2)	31	-	51	(1)
Write offs	-	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-
Foreign exchange and other	3	-	7	-	(16)	-	-	-	(7)	1	11	-	-	-	(2)	-
At end of year	184	(1)	779	-	806	(1)	1	-	515	(41)	1,203	(17)	107	-	1,554	(1)

1. Comprises trade receivables, other receivables, service concession receivables and accrued income detailed in note 14.
2. Comprises insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries detailed in note 12.

The Group additionally recognised a provision for expected credit losses on its financial investments at FVOCI to the amount of £3m in 2019.

Offsetting financial assets and financial liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

				Related amounts not set off in the balance sheet		
2019	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities set off in the balance sheet £m**	**Net amounts of financial assets/ liabilities presented in the balance sheet £m**	**Financial instruments £m**	**Cash collateral received £m**	**Net amount £m**
Derivative financial assets	**59**	**-**	**59**	**(15)**	**(1)**	**43**
Derivative financial liabilities	**(34)**	**-**	**(34)**	**15**	**10**	**(9)**
Cash and cash equivalents	**1,474**	**(240)**	**1,234**	**-**	**-**	**1,234**
Trade and other receivables	**739**	**-**	**739**	**-**	**(10)**	**729**
Trade and other payables	**(1,898)**	**-**	**(1,898)**	**-**	**1**	**(1,897)**
Total	**340**	**(240)**	**100**	-	-	**100**

				Related amounts not set off in the balance sheet		
2018	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the balance sheet £m	Net amounts of financial assets/liabilities presented in the balance sheet £m	Financial instruments £m	Cash collateral received £m	Net amount £m
Derivative financial assets	28	-	28	(17)	-	11
Derivative financial liabilities	(47)	-	(47)	17	17	(13)
Cash and cash equivalents	2,120	(567)	1,553	-	-	1,553
Trade and other receivables	745	-	745	-	(17)	728
Trade and other payables	(1,942)	-	(1,942)	-	-	(1,942)
Total	904	(567)	337	-	-	337

The Group also mitigates credit risk in derivative contracts by entering into collateral agreements where appropriate. The amount of collateral received or posted is shown in the table above.

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

25.4 Liquidity risk

Liquidity risk is the risk that the Group will not have available funds to meet its liabilities when they fall due.

The Group's main source of short-term funding is via an £800m revolving credit facility which was drawn down by £230m (2018: £170m) at 31 December 2019. This facility matures in 2022.

The Group monitors funding risk as well as compliance with existing financial covenants within the banking arrangements. There were no concerns regarding bank covenant coverage in 2019 and that position is not expected to change in the foreseeable future.

The Group holds a strong liquidity position and adheres to strict liquidity management policies as set by the Bupa Risk Committee as well as adhering to liquidity parameters for the Group's regulated entities. Regular stress testing is conducted to assess liquidity risk.

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

	Subordinated liabilities £m	Other interest bearing liabilities £m	Lease liabilities £m	Provisions arising from insurance contracts £m	Other liabilities arising from insurance business £m	Trade and other payables[1] £m	Derivative liabilities £m	Total £m
2019								
2020	**(395)**	**(339)**	**(142)**	**(2,779)**	**(146)**	**(1,603)**	**(34)**	**(5,438)**
2021	**(45)**	**(364)**	**(140)**	**(57)**	**-**	**(4)**	**-**	**(610)**
2022	**(45)**	**(11)**	**(134)**	**-**	**-**	**(3)**	**-**	**(193)**
2023	**(533)**	**(16)**	**(126)**	**-**	**-**	**(1)**	**-**	**(676)**
2024	**(20)**	**(314)**	**(112)**	**-**	**-**	**(1)**	**-**	**(447)**
2025-2029	**(440)**	**(57)**	**(420)**	**-**	**-**	**(2)**	**-**	**(919)**
After 2029	**-**	**(48)**	**(334)**	**-**	**-**	**-**	**-**	**(382)**
Total	**(1,478)**	**(1,149)**	**(1,408)**	**(2,836)**	**(146)**	**(1,614)**	**(34)**	**(8,665)**
Carrying value in the Consolidated Statement of Financial Position	**(1,245)**	**(1,105)**	**(1,062)**	**(2,836)**	**(146)**	**(1,614)**	**(34)**	**(8,042)**

1. Comprises trade payables, other payables, occupational rights agreement liabilities, accommodation bond liabilities and accruals detailed in note 21.

	Subordinated liabilities £m	Other interest bearing liabilities £m	Lease liabilities £m	Provisions arising from insurance contracts £m	Other liabilities arising from insurance business £m	Trade and other payables[1] £m	Derivative liabilities £m	Total £m
2018								
2019	(65)	(260)	-	(2,720)	(144)	(1,189)	(28)	(4,406)
2020	(395)	(29)	-	(33)	-	(173)	(4)	(634)
2021	(45)	(377)	-	-	-	(157)	-	(579)
2022	(45)	(18)	-	-	-	(137)	-	(200)
2023	(545)	(19)	-	-	-	(12)	(15)	(591)
2024-2028	(460)	(363)	-	-	-	(40)	-	(863)
After 2028	-	(63)	-	-	-	(7)	-	(70)
Total	(1,555)	(1,129)	-	(2,753)	(144)	(1,715)	(47)	(7,343)
Carrying value in the Consolidated Statement of Financial Position	(1,255)	(1,055)	-	(2,753)	(144)	(1,715)	(47)	(6,969)

1. Comprises trade payables, other payables, occupational rights agreement liabilities, accommodation bond liabilities and accruals detailed in note 21.

Interest payments are included in the cash flows for subordinated liabilities and other interest bearing liabilities.

Maturity profile of financial assets

The maturity profile of financial assets (excluding ECLs) as at 31 December, which are available to fund the repayment of liabilities as they crystallise, is as follows:

	Cash and cash equivalents £m	Deposits with credit institutions £m	Government debt securities £m	Corporate debt securities and other loans £m	Pooled investment funds £m	Total £m
2019						
2020	**1,234**	**781**	**180**	**386**	**220**	**2,801**
2021	**-**	**86**	**21**	**182**	**-**	**289**
2022	**-**	**-**	**3**	**158**	**-**	**161**
2023	**-**	**-**	**2**	**117**	**-**	**119**
2024	**-**	**-**	**6**	**52**	**-**	**58**
2025-2029	**-**	**-**	**10**	**92**	**-**	**102**
After 2029	**-**	**-**	**12**	**26**	**-**	**38**
Total	**1,234**	**867**	**234**	**1,013**	**220**	**3,568**

	Cash and cash equivalents £m	Deposits with credit institutions £m	Government debt securities £m	Corporate debt securities and other loans £m	Pooled investment funds £m[1]	Total £m
2018						
2019	1,554	683	156	432	195	3,020
2020	-	123	8	134	-	265
2021	-	-	1	288	-	289
2022	-	-	1	57	-	58
2023	-	-	-	147	-	147
2024-2028	-	4	62	41	-	107
After 2028	-	-	-	20	-	20
Total	1,554	810	228	1,119	195	3,906

1. Pooled investment funds maturity has been restated to reflect that it is payable on demand.

26 Related party transactions

These are transactions between the Group and related individuals or entities by nature of influence or control. The Group has such relationships with its key management personnel, equity accounted investments and associated pension arrangements. The disclosure of transactions with these parties in this note enables readers to form a view of the impact of related party relationships on the Group.

All transactions with related parties are conducted on an arm's-length basis.

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

There were no material transactions during the year with any related parties, as defined by IAS 24 Related Party Disclosures, other than those disclosed in this note.

Transactions with key management personnel
The key management personnel are the Group's Directors and the Chief Executive Officers of the Group's Market Units. No Director had any material interest in any contracts with Group companies at 31 December 2019 (2018: £nil) or at any time during the year. The remuneration of the Group's Directors is disclosed in note 2.3.

The total remuneration of the Market Unit Chief Executive Officers is as follows:

	2019 £'000	2018 £'000
Short-term employee benefits	**5,028**	4,277
Long Term Incentive Plan awards	**2,658**	383
Post-employment benefits	**91**	-
Total	**7,777**	4,660

The total remuneration of key management personnel is included in staff costs (see note 2.3).

27 Commitments and contingencies

A commitment is future expenditure that is committed to as at 31 December 2019. These relate to contracted capital expenditure. Contingent liabilities are those that are considered possible at year end, whose existence will be determined by an uncertain future event or, a present obligation that is not sufficiently probable or cannot currently be measured with sufficient reliability to give rise to a provision.

i) Capital commitments
Capital expenditure for the Group contracted at 31 December 2019 but for which no provision has been made in the financial statements, amounted to £268m (2018: £175m), related to aged care facility and retirement village project commitments in Australia and New Zealand and care homes in the UK. £96m (2018: £66m) related to property, plant and equipment and £172m (2018: £109m) related to investment property.

ii) Contingent assets and liabilities
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.

In April 2019 the European Commission published its state aid decision on the Group Financing Exemption in the UKs controlled foreign company tax legislation. Between 2013 and 2016 Bupa had arrangements that may be impacted by this decision, like many other multinational groups who acted in accordance with the UK law in force at the time. The UK government has appealed against the decision to the European Union's General Court. The final outcome remains uncertain and the Group has assessed that no provision is required. The maximum potential tax liability is £17m.

iii) Defined benefit post-employment schemes

The Company has entered into a legally binding and irrevocable guarantee for the benefit of the trustee of the principal defined benefit scheme in the UK, The Bupa Pension Scheme, in respect of the payments due from the Parent.

28 Non-controlling interests

(i) Consolidation of entities in which the Group holds less than 50% equity interest

Eurocredit Investment Fund 1 plc

Eurocredit Investment Fund is a structured entity set up for the purpose of investing in primary and secondary secured loans. Bupa is the only investor in the issued debt of the entity and is exposed to the risks and rewards of the fund.

(ii) Non-controlling interests ('NCI')

The Group has no subsidiaries whose non-controlling interest is material on the basis of their share of equity or profit or loss.

(iii) Equity accounted investments

Details of equity accounted investments, where the Group has significant influence are included in note 6.

Company Primary Statements and Associated Notes
for the year ended 31 December 2019

Balance Sheet
as at 31 December 2019

	Note	2019 £m	2018 £m
Intangible assets	B	**1**	1
Property, plant and equipment	C	**38**	10
Investment in subsidiaries	D	**6,055**	6,061
Restricted assets	E	**44**	42
Derivative assets	F	**38**	26
Deferred taxation asset	G	**3**	3
Trade and other debtors	H	**385**	355
Cash and cash equivalents	I	**15**	6
Total assets		**6,579**	6,504
Borrowings	J	**(2,167)**	(2,097)
Lease liabilities	K	**(35)**	-
Derivative liabilities	F	**(7)**	(25)
Trade and other creditors	L	**(3,435)**	(3,011)
Total liabilities		**(5,644)**	(5,133)
Net assets		**935**	1,371
Equity			
Called up share capital	M	**200**	200
Profit and loss account		**735**	1,171
Total equity		**935**	1,371

Approved by the Board of Directors and signed on its behalf on 4 March 2020 by

Joy Linton

Director

Registered number 2779134

Notes A-P form the associated notes to the Company financial statements.

The adoption of IFRS 16 Leases on 1 January 2019 resulted in the recognition of £31m right-of-use assets and corresponding £38m of lease liabilities. For further information see note K.

Statement of Changes in Equity
for the year ended 31 December 2019

	Called up share capital	Profit and loss account	Total equity
	£m	£m	£m
Balance as at 1 January 2019	**200**	**1,171**	**1,371**
Comprehensive loss for the year			
Loss for the financial year	**-**	**(282)**	**(282)**
Total comprehensive loss for the year	**-**	**(282)**	**(282)**
Transactions with owners, recorded directly in equity			
Dividends	**-**	**(154)**	**(154)**
Total distributions to owners	**-**	**(154)**	**(154)**
Balance as at 31 December 2019	**200**	**735**	**935**
Balance as at 1 January 2018	200	1,274	1,474
Comprehensive loss for the year			
Loss for the financial year	-	(24)	(24)
Total comprehensive loss for the year	-	(24)	(24)
Transactions with owners, recorded directly in equity			
Dividends	-	(79)	(79)
Total distributions to owners	-	(79)	(79)
Balance as at 31 December 2018	200	1,171	1,371

Notes A-P form the associated notes to the Company financial statements.

Company Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

Bupa Finance plc (the 'Company'), is a company incorporated in England and Wales. The immediate and ultimate parent of the Company is The British United Provident Association Limited (the 'Parent' or 'Bupa').

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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

The Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual profit and loss account.

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of compensation of key management personnel;
- Certain disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not held as either part of a trading portfolio or derivatives;
- IAS 24 - Exemption for related party transactions entered into between two or more members of a group, provided that any subsidiary party to the transaction is wholly owned by such a member.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(a) Changes in accounting policies

IFRS 16

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

The IAS 17 distinction between operating and finance leases is removed 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 further information see note K.

(b) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months from the approval of these financial statements. They continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Foreign currency

The financial statements are presented in sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting).

(d) Financial income and expense

Financial income comprises interest receivable, realised gains and losses on investments, foreign exchange gains and losses, dividend income on equity investments and changes in the fair value of items recognised at fair value through profit or loss.

Interest income, except in relation to assets classified as at fair value through profit or loss, is recognised in the profit and loss account as it accrues, using the effective interest method.

Changes in the value of financial investments at fair value through the profit and loss account are recognised within financial income as an unrealised gain or loss while the asset is held. Upon realisation of these assets, the change in fair value since the last valuation is recognised within financial income as a realised gain or loss.

Financial expense includes interest payable on borrowings, calculated using the amortised cost method, and other financial expense.

(e) Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
(b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components these components are separated and accounted for individually under the above policy.

(f) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

(g) Property, plant and equipment

Property. plant and equipment are stated at historical cost less accumulated depreciation and recognised impairment losses. Depreciation is charged to the profit and loss on a straight-line basis over its expected useful life, as follows:

Right-of-use property	Lease term
Equipment	3 to 10 years

Useful lives, depreciation method and residual values are reviewed at each balance sheet date.

No depreciation is charged on assets in the course of construction. Assets classified as work in progress are reviewed for impairment at each balance sheet date or when an indication of impairment arises.

Impairment reviews are undertaken where there are indicators that the carrying value may not be recoverable. An impairment loss is recognised in the Profit and Loss account to reduce the carrying value to the recoverable amount.

(h) Leases of property

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

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

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

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

(i) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment.

Dividends received from subsidiaries are recognised in profit or loss when the right to receive is established.

All loans and receivables to and from subsidiary undertakings are shown at cost less amounts written off where deemed irrecoverable.

(j) Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Derivative fair value

Fair values of derivative instruments are obtained from market observable pricing information including interest yield curves. The value of foreign exchange forward contracts and swaps is established using listed market prices.

Hedge accounting

The Company applies fair value hedge accounting. The Company formally documents the hedging relationship between a hedging instrument and a hedged item. Documentation includes the risk management objectives and the strategy in undertaking the hedge transaction.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in profit or loss (even if those gains would normally be recognised directly in reserves).

(k) Trade and other debtors

Trade and other debtors are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest method, less any expected credit impairment losses.

Provision for expected credit losses for debtors are measured at lifetime ECL. Where appropriate, a provision matrix is used to estimate ECL. Under a provision matrix, receivables are grouped into customer segments and further divided into categories by age. Historical credit loss experience and any relevant forward looking information is then used to establish the ECL provision for each category.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(m) Trade and other creditors

Trade and other creditors are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest method.

(n) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

(o) Callable subordinated perpetual guaranteed bonds

The Company has issued callable subordinated perpetual guaranteed bonds. The terms of the bonds are such that the Company cannot defer payments of interest in certain limited circumstances. The bonds are therefore classified as financial liabilities. The liability is stated at amortised cost using the effective interest method. The carrying value is adjusted for the gain or loss on hedged risk; changes in the fair value of the derivatives that mitigate interest rate risk resulting from the fixed interest rate of the bonds are recognised in the profit and loss account as an effective fair value hedge of the exposure. The coupon payable on the bonds is recognised as a financial expense.

The bonds have no set maturity date but are subject to an increase in the interest payments from 2020 and the Company is therefore likely to refinance the bonds as a result of economic compulsion.

(p) Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(q) Taxation including deferred taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised directly in equity to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current taxation is the expected taxation payable or receivable on the taxable income or loss for the year, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

Deferred taxation is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted or substantively enacted at the balance sheet date.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

(r) Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Loss attributable to the Company

The loss within the accounts of the Company is £282m (2018: loss of £24m). In accordance with the exemption granted under Section 408 of the Companies Act 2006, a separate profit and loss account for the Company has not been presented.

Notes to the Financial Statements

A. Directors and employees

The Company employed no employees during 2019 (2018: one) and had one Director (2018: one).

Director's remuneration
Remuneration paid to the Director is borne by the Company or other Group companies and is disclosed in note 2.3.1.

B. Intangible assets

Intangible assets of £1m (2018: £1m) are held by the Company.

C. Property, plant and equipment

	2019				2018		
	Right-of-use asset property	**Leasehold improvements**	**Equipment**	**Total**	Leasehold improvements	Equipment	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m
Cost or valuation							
At beginning of year	**-**	**8**	**3**	**11**	9	2	11
Adoption of IFRS 16 Leases (note K)	**31**	**-**	**-**	**31**	-	-	-
Additions	**1**	**1**	**-**	**2**	-	1	1
Other	**-**	**-**	**(1)**	**(1)**	(1)	-	(1)
At end of year	**32**	**9**	**2**	**43**	8	3	11
Depreciation and impairment loss							
At beginning of year	**-**	**1**	**-**	**1**	-	-	-
Depreciation charge for year	**2**	**1**	**1**	**4**	1	-	1
At end of year	**2**	**2**	**1**	**5**	1	-	1
Net book value at end of year	**30**	**7**	**1**	**38**	7	3	10
Net book value at beginning of year	**-**	**7**	**3**	**10**	9	2	11

D. Investment in subsidiaries

2019	**At beginning of year** £m	**Provision** £m	**Additions** £m	**Disposals** £m	**Foreign exchange revaluation** £m	**At end of year** £m
Group undertakings:						
Shares in subsidiary undertakings	**5,342**	**-**	**377**	**(2)**	**(205)**	**5,512**
Loans to Group companies	**1,017**	**-**	**40**	**-**	**-**	**1,057**
	6,359	**-**	**417**	**(2)**	**(205)**	**6,569**
Provision for impairment	**(298)**	**(216)**	**-**	**-**	**-**	**(514)**
Net book value	**6,061**	**(216)**	**417**	**(2)**	**(205)**	**6,055**

2018	At beginning of year £m	Provision £m	Additions £m	Disposals £m	Foreign exchange revaluation £m	At end of year £m
Group undertakings:						
Shares in subsidiary undertakings	4,828	-	517	-	(3)	5,342
Loans to Group companies	1,548	-	-	(531)	-	1,017
	6,376	-	517	(531)	(3)	6,359
Provision for impairment	(280)	(35)	-	17	-	(298)
Net book value	6,096	(35)	517	(514)	(3)	6,061

Additions in the year relate primarily to capital injections to existing subsidiaries. Loans to Group companies comprise loan facilities of a fixed amount and a long-term maturity date.

During the year a provision was booked in relation to the Company's shareholding in The Oasis Healthcare Group Limited and Bupa Care Homes Investments (Holdings) Limited.

The subsidiary undertakings of the Company as at 31 December 2019 are listed in note P.

E. Restricted assets

	2019 £m	2018 £m
Restricted assets	**44**	42

The restricted assets balance of £44m (2018: £42m) consists of cash deposits held to secure a charge over a non-registered pension arrangement held in the Parent company.

F. Derivative assets and liabilities

The fair value of non-current derivative assets relate to interest rate swaps which are recognised at fair value. The interest rate swaps are held to hedge the £330m subordinated bond and £300m unsecured bonds held by the Company.

All financial instruments are held at fair value through profit or loss, and therefore the carrying value is equal to the fair value.

	2019 £m	2018 £m
Derivative assets		
Non-current	**5**	21
Current	**33**	5
Total derivative assets	**38**	26
Derivative liabilities		
Non-current	**-**	(4)
Current	**(7)**	(21)
Total derivative liabilities	**(7)**	(25)

Valuation techniques and assumptions applied for the purposes of measuring fair value
A derivative is a financial instrument whose value is based on one or more underlying variables. The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. Derivatives are not held for speculative reasons.

Derivatives that have been purchased or issued as part of a hedge that subsequently do not qualify for hedge accounting are accounted for at fair value through profit or loss.

Derivative financial instruments are initially recognised and subsequently measured at fair value.

Fair values are obtained from market observable pricing information including interest rate yield curves.

G. Deferred taxation asset

	2019 £m	2018 £m
Taxation value of losses carried forward	**3**	3

H. Trade and other debtors

	2019 £m	2018 £m
Amounts owed by subsidiary companies	**361**	325
Trade and other debtors	**24**	30
Total current trade and other debtors	**385**	355

I. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	**1**	-
Short-term deposits	**14**	6
Cash and cash equivalents	**15**	6

J. Borrowings

	Note	2019 £m	2018 £m
Subordinated liabilities			
Callable subordinated perpetual guaranteed bonds		**336**	336
Fair value adjustment in respect of hedged interest rate risk		**9**	21
Callable subordinated perpetual guaranteed bonds at carrying value	(a)	**345**	357
Other subordinated debt	(b)	**900**	898
Total subordinated liabilities		**1,245**	1,255
Other interest bearing liabilities			
Senior secured bonds	(c)	**652**	644
Bank loans	(d)	**270**	198
Total other interest bearing liabilities		**922**	842
Total borrowings		**2,167**	2,097
Current		**622**	210
Non-current		**1,545**	1,887

a) Callable subordinated perpetual guaranteed bonds

In December 2004, the Company issued £330m of callable subordinated perpetual guaranteed bonds, which are guaranteed by Bupa Insurance Limited. Interest is payable on the bonds at 6.125% per annum. The bonds have no fixed maturity date but a call option is exercisable by the Company to redeem the bonds on 16 September 2020. In the event of the winding up of the Company or Bupa Insurance Limited the claims of the bondholders are subordinated to the claims of other creditors of these companies.

The total hedged fair value of the callable subordinated perpetual guaranteed bonds, including accrued interest, is £345m (2018: £357m). The valuation adjustment is the change in value arising from interest rate risk, which is matched by the fair value of swap contracts in place to hedge this risk.

b) Other subordinated debt

5% subordinated unguaranteed bonds due 2023 and 2026
On 25 April 2013, the Company issued £500m of unguaranteed subordinated bonds which mature on 25 April 2023. Interest is payable on the bonds at 5.0% per annum. In the event of the winding up of the Company the claims of the bondholders are subordinated to the claims of other creditors of the Company.

On 8 December 2016, the Company issued £400m of unguaranteed subordinated bonds which mature on 8 December 2026. Interest is payable on the bonds at 5.0% per annum. In the event of the winding up of the Company the claims of the bondholders are subordinated to the claims of other creditors of the Company.

The Company has not had any defaults of principal, interest or other breaches with respect to subordinated liabilities during 2019 or 2018.

c) Senior unsecured bonds

On 17 June 2014, the Company issued £350m of 3.375% senior unsecured bonds. The bonds mature on 17 June 2021. They are guaranteed by the Parent.

On 5 April 2017, the Company issued £300m of senior unsecured bonds, which mature on 5 April 2024. Interest is payable on the bonds at 2.0% per annum. The total hedged fair value of the £300m senior unsecured bonds, including accrued interest, is £302m (2018: £295m). The valuation adjustment is the change in value arising from interest rate risk which is matched by the fair value of swap contracts in place to hedge this risk.

The total senior unsecured bonds balance of £652m (2018: £644m) is net of initial issue costs, discount on issue and accrued interest.

d) Bank loans

Bank loans of £270m (2018: £198m) include drawings of £230m under a £800m revolving credit facility, maturing 5 August 2022 and a £40m bilateral loan facility which was fully drawn down at the end of the year.

The drawings under the £800m facility are guaranteed by the Parent. The overdraft facilities are subject to cross guarantees.

The bank loans and overdrafts bear interest at commercial rates linked to LIBOR, or EURIBOR or commercial fixed rate.

K. Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate taking into account the duration of the lease. The weighted average lessee's incremental borrowing rate applicable to the lease liabilities on 1 January 2019 was 2.65%.

	2019 £m
At beginning of the year	-
Adoption of IFRS 16 Leases	38
Interest on lease liability	1
Repayments	(4)
At end of year	**35**
Current	**3**
Non-current	**32**

L. Trade and other creditors

	2019 £m	2018 £m
Amounts owed to subsidiary undertakings	**3,432**	3,000
Other creditors	**3**	11
Total current trade and other creditors	**3,435**	3,011

M. Called up share capital

	2019 £m	2018 £m
Allocated, called up and fully paid		
200,050,000 ordinary shares of £1 each	**200**	200

N. Commitments and contingencies

Pension contributions
The Company has given a legally binding and irrevocable guarantee for the benefit of the trustees of The Bupa Pension Scheme, in respect of payments that the Parent is obliged to make between 31 December 2019 and 31 December 2020 to The Bupa Pension Scheme. The expected contributions payable in 2020 by the Parent with regards to the accumulation of future benefits, are £9m in respect of The Bupa Pension Scheme.

Contingent liabilities
Under a Group registration the Company is jointly and severally liable for Value Added Tax due by certain other companies in the Group.

Guarantees
At 31 December 2019, the Company was party to a £800m multi-currency revolving credit facility. The Company has joint and several liability for all obligations under the agreement. The revolving credit facility was drawn down by £230m at 31 December 2019 (2018: £170m including £5m standalone letters of credit).

The Company has provided guarantees to certain other Group undertakings. These are either as part of the Group banking arrangements in respect of the overdrafts, or, if called on to do so, to provide or procure necessary support to enable certain other Group undertakings to meet their liabilities as they fall due.

O. Ultimate Parent

The Company's Ultimate Parent undertaking is The British United Provident Association Limited which includes the Company in its consolidated financial statements. The consolidated financial statements of The British United Provident Association Limited are prepared in accordance with International Financial Reporting Standards and are available to the public. Copies of the accounts of both companies can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ.

P. Related Undertakings

In compliance with Section 409 of the Companies Act 2006, disclosed below is a list of related undertakings of the Company as at 31 December 2019, comprising subsidiaries, joint ventures, associated undertakings and other significant holdings, together with the country of incorporation, registered office address, each share class held by the Company and the Group and the proportion of the nominal value of the shares of that class represented by those shares.

Wholly Owned Related Undertakings
Unless otherwise stated, the related undertakings listed below are wholly owned by the Company with 100% of the nominal value of each share class held by Group subsidiaries.

Name of Undertaking	Share Class
Australia	
Level 16, 33 Exhibition Street, Melbourne VIC 3000	
Australia Fair Dental Care Pty Ltd	AUD Ordinary
Bupa Aged Care Australasia Pty Limited	AUD Ordinary, AUD Preference
Bupa Aged Care Australia Holdings Pty Ltd	AUD Ordinary
Bupa Aged Care Australia Pty Ltd	AUD Ordinary
Bupa Aged Care Holdings Pty Ltd	AUD Ordinary
Bupa Aged Care Property No.2 Trust	Trust Interest
Bupa Aged Care Property No.3 Trust	Trust Interest
Bupa Aged Care Property No.3A Trust	Trust Interest
Bupa Aged Care Property Trust	Trust Interest
Bupa ANZ Finance Pty Ltd	AUD Ordinary
Bupa ANZ Group Pty Ltd	AUD Ordinary
Bupa ANZ Healthcare Holdings Pty Ltd	AUD Ordinary
Bupa ANZ Insurance Pty Ltd	AUD A Preference, AUD Ordinary
Bupa ANZ Property 1 and 2 Limited	AUD Ordinary
Bupa ANZ Property 3 and 3A Pty Ltd	AUD Ordinary
Bupa Care Villages Australia Pty Ltd	AUD Ordinary
Bupa Dental Corporation Limited	AUD Ordinary
Bupa Disability Services Pty Ltd	AUD Ordinary
Bupa Foundation (Australia) Limited	Guarantee Membership Interest
Bupa Health Services Pty Ltd	AUD Ordinary
Bupa HI Holdings Pty Ltd	AUD Ordinary
Bupa HI Pty Ltd	AUD Ordinary
Bupa Innovations (ANZ) Pty Ltd	AUD Ordinary
Bupa Medical (GP) Pty Ltd	AUD Ordinary
Bupa Medical Services Pty Limited	AUD Ordinary
Bupa Optical Pty Ltd	AUD Ordinary
Bupa Telehealth Pty Ltd	AUD Ordinary
Bupa Wellness Pty Limited	AUD Ordinary
DC Holdings WA Pty Ltd	AUD Ordinary
Dental Care Network Pty Ltd	AUD Ordinary
Dental Corporation Australia Fair Pty Ltd	AUD Ordinary
Dental Corporation Cox Pty Ltd	AUD Ordinary
Dental Corporation Gerber Pty Ltd	AUD Ordinary
Dental Corporation Holdings Limited	AUD Ordinary
Dental Corporation Levas Pty.Ltd.	AUD Ordinary
Dental Corporation Petrie Pty.Ltd.	AUD Ordinary
Dental Corporation Pty Ltd	AUD Ordinary
Dr Chris Hardwicke Pty.Ltd.	AUD Ordinary
Gerber Dental Group Pty Ltd	AUD Ordinary
Larry Benge Pty Limited	AUD Ordinary

Name of Undertaking	Share Class
Scott Petrie (Dental) Pty Ltd	AUD Class E, AUD Class F, AUD Ordinary
Bermuda	
Crawford House, 4th Floor, 50 Cedar Avenue, Hamilton, HM11, Bermuda	
Amedex Insurance Company (Bermuda) Limited	BMD1.00 Ordinary
Bolivia	
Guapomo Street 2005, Spazio Building, 1st Floor, Offices 201-202-2013, Santa Cruz de la Sierra, Bolivia	
Bupa Insurance (Bolivia) S.A.	BOB100.00 Ordinary
Brazil	
Av. das Nações Unidas, 12,901, Unidade 901, Torre Oeste, Bloco C, Centro Empresarial Nações Unidas, Brooklin Paulista, São Paulo, SP, Brazil	
Personal System Serviços Médicos e Odontológicos Ltda	BRL1.00 Quotas
Av. Sagitário, 138, 19º andar –, (conjuntos 1905, 1906, 1907, 1908, 1913, 1914) e 20º andar, Condomínio Alpha Square Torre 2, The City, Alphaville, Barueri, SP, Brazil	
Care Plus Medicina Assistencial Ltda	BRL1.00 Quotas
Care Plus Negócios Em Saúde Ltda	BRL1.00 Quotas
Chile	
Av. Departamental N° 01455, Comuna La Florida, Region Metropolitana, Chile	
Inmobiliaria Y Constructora CBS S.A.	CLP Ordinary
Avenida Departamental 1455, comuna La Florida, Chile	
Bupa Servicios Clínicos S.A.	CLP Ordinary
Servicios De Personal Clinico CBS Dos S.A.	CLP Ordinary
Cerro Colorado 5240, torre II Piso 11, Las Condes, Chile	
Bupa Inversiones Latam S.A.	CLP Ordinary
Cerro Colorado N° 5420, Piso 11, Comuna Las Condes, Region Metropolitana, Chile	
Bupa Chile S.A.	CLP Ordinary
Grupo Bupa Sanitas Chile Uno, SpA	CLP Ordinary
Inversiones Clinicas CBS S.A.	CLP Ordinary
Denmark	
Palaegade 8, 1261 Copenhagen K, Denmark	
Bupa Denmark Services A/S[1]	DKK 100.00 Ordinary
Dominican Republic	
Av. Gustavo Melia Ricart, No. 81, Terre Profesional Biltmore II, Suite 1007, Piantini, Santo Domingo, Dominican Republic	
Amedex Medical Group, S.R.L.(in Liquidation)[2]	DOP 1,000.00 Ordinary
Av. Winston Churchill, corner with Rafael Augusto Sanchez, Plaza Acropolis, Apt. P2-D, Santo Domingo, Dominican Republic	
Bupa Dominicana, S.A.	DOP 1,000.00 Ordinary
Ecuador	
Av. Republica de El Salvador N34-229, 4th Floor, Quito, Ecuador	
Bupa Ecuador S.A. Compania de Seguros[3]	USD1.00 Capital Stock
Egypt	
Building 55, Street 18, Maadi, Cairo, Egypt	
Bupa Egypt Insurance S.A.E.[4]	EGP 10.00 Ordinary
Bupa Egypt Services LLC	EGP 100.00 Ordinary

[1]Held directly by the Company
[2]In Liquidation
[3]0.000025% held by nominee
[4]0.016667% held directly by the Company

Name of Undertaking	Share Class
Gibraltar	
5-9 Main Street, Gibraltar	
Bupa Malta Investments No. 1 Limited[1]	£1.00 Ordinary
Bupa Malta Investments No. 2 Limited[1]	£1.00 Ordinary
Guatemala	
Quinta avenida número cinco guión cincuenta y cinco, Zona catorce de esta ciudad, Edificio Europlaza World Business Center, Torre III, undécimo nivel, área corporativa número un mil, Guatemala	
Bupa Guatemala, Compania de Seguros, S.A.[2]	GTQ1.00 Ordinary
Guernsey	
PO Box 34, St Martin's House, Le Bordage, St Peter Port, Guernsey, GY1 4AU, Channel Islands	
Bupa Holdings (Guernsey) Limited	£1.00 Ordinary
Bupa LeaseCo Holdings Limited	£1.00 Ordinary
Bupa LeaseCo. (Guernsey) Limited	£1.00 Ordinary
UK Care No. 1 Limited	£1.00 Ordinary
Mexico	
Montes Urales, No. 745, Piso 1, Colonia Lomas de Chapultepec I Seccion, C.P. 11000, Mexico City	
Bupa Mexico, Compania de Seguros, S.A. de C.V.	MXN1,000.00 Capital Stock Series E (fixed), MXN1,000.00 Capital Stock Series M (variable)
Bupa Servicios Administrativos de Salud, S. de R.L. de C.V.[3, 4] (in liquidation)	US$1.00 Ordinary
Bupa Servicios de Evaluacion Medica, S. de R.L. de C.V.[3]	US$1.00 Ordinary
Bupa Servicios Ejecutivos de Salud, S. de R.L. de C.V. [3, 4] (in liquidation)	US$1.00 Ordinary
New Zealand	
Bupa House, Level 2, 109 Carlton Gore Road, Newmarket, Auckland, 1023, New Zealand	
Bupa Care Services NZ Limited	NZD Ordinary
Bupa Retirement Villages Limited	NZD Ordinary
Level 4, 1 Walton Leigh Avenue, Porirua, 5022, New Zealand	
Dental Corporation (NZ) Limited	NZD Ordinary
Panama	
Prime Time Tower, Floor 25, Office 25 b La Rotonda Ave, Costa del Este, Panama	
Bupa Panama S.A.	US$1,000.00 Ordinary
Peru	
Av. Guardia Civil N° 664, Comuna San Isidro, Region Lima, Peru	
Integramedica Peru S.A.C.	PEN Ordinary
Poland	
28 Czerwca 1956 R, 135/147 Street, 61-545, Poznan, Poland	
Diagnostic - Med. Centrum Diagnostyki Radiologicznej Sp. z.o.o.	PLN500.00 Ordinary
Brzeska 12 Street, 03-737, Warsaw, Poland	
Centrum Edukacji Medycznej Sp. z.o.o.	PLN100.00 Ordinary
Czapliniecka 93/95, 97-400, Belchatow, Poland	
Megamed Sp. z.o.o.	PLN1,000.00Ordinary
Kuznicka 1 Street, 72-010, Police, Poland	
Medika Uslugi Medyczne Sp. z.o.o.	PLN50.00 Ordinary
Partyzantow 76, 80-254, Gdansk, Poland	
Projekt Usmiech Bis Sp. z.o.o.	PLN500.00 Ordinary
Podleśna 61, 01-673, Warszawa, Poland	
Centrum Medyczne Mavit Sp. z.o.o.	PLN100.00 Ordinary

[1] In voluntary strike off
[2] 0.99954% held directly by the Company
[3] 0.03333% held directly by the Company
[4] In Liquidation

Name of Undertaking	Share Class
Pory 78 Street, 02-757 Warsaw, Poland	
Pory 78 Sp. z.o.o.	PLN100.00 Ordinary
Sport Medica S.A.	PLN1.00 Ordinary-A, PLN1.00 Ordinary-B, PLN1.00 Ordinary-C, PLN1.00 Ordinary-D, PLN1.00 Ordinary-E, PLN1.00 Ordinary-F, PLN1.00 Ordinary-G, PLN1.00 Ordinary-I, PLN1.00 Ordinary-J
Pulawska 48, 05-500 Piaseczno, Poland	
Silver Dental Clinic Sp. z.o.o.	PLN100.00 Ordinary
ul. Elblaska 135, 80-718, Gdansk, Poland	
Centrum Opieki Medycznej Comed Sp. z.o.o.	PLN500.00 Ordinary
ul. Gen. Augusta Emila Fieldorfa 'Nila' 40, Warszawa, 04-125, Poland	
Magodent Sp. z.o.o.	PLN50.00 Ordinary
ul. Postepu 21 C Street, 02-676, Warsaw, Poland	
Elba 1 Sp. z.o.o.[1]	PLN50.00 Ordinary
Elblaska Sp. z.o.o.	PLN50.00 Ordinary
Lux Med Lodz Sp. z.o.o.[1] (In liquidation)	PLN50.00 Ordinary
LUX MED Sp. z.o.o.	PLN500.00 Ordinary
LUX-MED Investment S.A.	PLN50.00 Series A, PLN50.00 Series B, PLN50.00 Series C
ul. Stefana Batorego 17/19, 87-100 Torun, Poland	
Tomograf Sp. z.o.o.	PLN500.00 Ordinary
Wladyslawa Broniewsiego 48, 43-300, Bielsko – Biala, Poland	
Nzoz Ultramedic Centrum Medyczne Sp. z.o.o.	PLN1,000.00 Ordinary
Wladyslawa Broniewsiego 3, 01-785, Warszawa, Poland	
Klinika Optimum Sp. z.o.o.	PLN Ordinary
Republic of Ireland	
10 Anglesea Street, Temple Bar, Dublin 2, Ireland	
GK Medical and Dental Services Limited	€1.00 Ordinary
1st Floor, 9 Exchange Place, I.F.C.S, Dublin 1, Ireland	
Hugh Bradley Limited	€1.00 Ordinary
Oasis Healthcare Holdings Ireland Limited	€1.00 Ordinary
Woodquay Dental Limited	€1.00 Ordinary
Xeon Dental Services Limited	€0.01 Ordinary
Second Floor, 1 Pembroke Place, Ballsbridge, Dublin 4, Ireland	
Bupa Global Designated Activity Company	€1.00 Ordinary
Saint Kitts and Nevis	
Amory Building, Victoria Road, Basseterre, St. Kitts, Saint Kitts and Nevis	
Amedex Services Ltd. (St Kitts)	US$1.00 Capital Stock
Singapore	
600, North Bridge Road, #05-01 Parkview Square, 188778, Singapore	
Bupa Singapore Holdings Pte Ltd	SGD Ordinary
Spain	
Avda Marcelo Celayeta, 144 - Pamplona (31014), Spain	
Sanitas Mayores Navarra S.L.	€60.10 Ordinary

[1] In liquidation

Name of Undertaking	Share Class
Avenida Generalitat Valenciana no 50, Valencia, Spain	
Especializada y Primaria L'Horta-Manises, S.A.U.	€1.00 Ordinary
c/ Eguskiaguirre no.8, 48902, Baracaldo, Bilbao, Spain	
Sanitas Mayores Pais Vasco S.A.	€120.00 Ordinary
Calle Ribera Del Loira, 52, 28042, Madrid, Spain	
Clinica Londres, S.L.	€10.00 Ordinary
Elegimosalud S.L.U.	€1.00 Ordinary
Grupo Bupa Sanitas S.L.U.	€100.00 Ordinary
Sanitas Emision S.L.U.	€1.00 Ordinary
Sanitas Holding, S.L.U.	€1.00 Ordinary
Sanitas Mayores S.L.	€651.28 Ordinary
Sanitas Nuevos Negocios S.L.U.	€1.00 Ordinary
Sanitas S.L. de Diversificacion S.U.	€6.02 Ordinary
Sanitas, S.A. de Hospitales S.U.	€6.01 Ordinary
Sweden	
Box 27093, 102 51, Stockholm, Sweden	
LMG Forsakrings AB	€1,000.00 Ordinary
Turkey	
Küçükbakkalköy Mah. Basar Sok, No: 20 Atasehir, Istanbul, Turkey	
Acıbadem Grubu Sigorta Aracilik Hizmetleri A.S.	TRY1.00 Ordinary
Bupa Acıbadem Sigorta A.S.	TRY1.00 Ordinary
United Arab Emirates	
Unit C1204, Level 12, Burj Daman, DIFC, PO Box 507019, Dubai, United Arab Emirates	
Bupa Global Middle East (DIFC) Limited	US$1.00 Ordinary
United Kingdom	
1 Angel Court, London, EC2R 7HJ, United Kingdom	
ANS 2003 Limited	£0.01 Ordinary
ANS Limited[1]	£0.10 Ordinary
Bede Village Management Limited	£1.00 Ordinary
Belmont Care Limited[1]	£0.50 Ordinary
Bridge Health Investments Limited[1]	£1.00 Ordinary
Bupa Care Homes (AKW) Limited	£1.00 Ordinary
Bupa Care Homes (ANS) Limited	£1.00 Ordinary, £1.00 Special Share
Bupa Care Homes (Bedfordshire) Limited	£1.00 Ordinary
Bupa Care Homes (BNH) Limited	£1.00 Ordinary
Bupa Care Homes (BNHP) Limited	£1.00 Ordinary
Bupa Care Homes (CFCHomes) Limited	£1.00 Ordinary
Bupa Care Homes (CFG) plc[1]	£0.25 Ordinary
Bupa Care Homes (CFHCare) Limited	€0.000001 Redeemable Preference,£1.00 Ordinary
Bupa Care Homes (Developments) Limited	£1.00 Ordinary
Bupa Care Homes (GL) Limited	£1.00 Ordinary
Bupa Care Homes (HH Bradford) Limited	£1.00 Ordinary
Bupa Care Homes (HH Hull) Limited	£1.00 Ordinary
Bupa Care Homes (HH Leeds) Limited	£1.00 Ordinary
Bupa Care Homes (HH Northumberland) Limited	£1.00 Ordinary
Bupa Care Homes (HH Scunthorpe) Limited	£1.00 Ordinary
Bupa Care Homes (HH) Limited	£1.00 Ordinary
Bupa Care Homes (Holdings) Limited[1]	£1.00 Ordinary
Bupa Care Homes (Partnerships) Limited	£1.00 Ordinary
Bupa Care Homes (PT Lindsay Prop) Limited	£1.00 Ordinary
Bupa Care Homes (PT Lindsay) Limited	£1.00 Ordinary
Bupa Care Homes (PT Links Prop) Limited	£1.00 Ordinary
Bupa Care Homes (PT Links) Limited	£1.00 Ordinary
Bupa Care Homes (PT) Limited	£1.00 Ordinary
Bupa Care Homes Investments (Holdings) Limited[1]	£1.00 Ordinary
Bupa Care Services Limited[1]	£0.20 Ordinary

[1]Held directly by the Company

Name of Undertaking	Share Class
Bupa Europe Limited	£1.00 Ordinary
Bupa Global Holdings Limited	€1.00 Ordinary, €0.01 Ordinary £1.00 Ordinary
Bupa Health at Work Limited	£1.00 Ordinary
Bupa Healthcare Services Limited[1]	£1.00 Ordinary
Bupa Insurance Limited[1]	£1.00 Ordinary
Bupa Insurance Services Limited[1]	£1.00 Ordinary
Bupa International Markets Limited	£1.00 Ordinary
Bupa Investments Limited[1]	£1.00 Ordinary
Bupa Investments Overseas Limited[1]	AUD1.00 Redeemable Preference, CLP1.00 Redeemable Preference, €1.00 Redeemable Preference, £1.00 Ordinary, PLN1.00 Redeemable Preference, US$1.00 Redeemable Preference
Bupa Limited	£1.00 Ordinary
Bupa Occupational Health Limited	£1.00 Ordinary
Bupa Pension Scheme Trustees Limited[1]	£1.00 Ordinary
Bupa Secretaries Limited	£1.00 Ordinary
Bupa Trustees Limited	£1.00 Ordinary
Bupa UK Foundation	Guarantee Membership Interest
Bupa Wellness Group Limited[1]	£0.01 Ordinary
Calverguild Limited	£1.00 Ordinary
Ebbgate Nursing Homes (London) Limited	£1.00 Ordinary-A
Ebbgate Nursing Homes Limited	£1.00 Ordinary
Health Dialog UK Limited	£1.00 Ordinary
Occupational Health Care Limited	£1.00 Ordinary, £1.00 Redeemable Preference
Personal Effectiveness Centre Limited	£1.00 Ordinary
Richmond Care Villages (Property) Limited	£1.00 Ordinary
Richmond Care Villages Holdings Limited[1]	£1.00 Ordinary
Richmond Coventry Limited	£1.00 Ordinary
Richmond Letcombe Limited	£1.00 Ordinary
Richmond Nantwich Developments Limited	£1.00 Ordinary
Richmond Nantwich Limited	£1.00 Ordinary
Richmond Nantwich Properties Limited	£1.00 Ordinary
Richmond Northampton Limited	£1.00 Ordinary
Richmond Northampton Management Limited	£1.00 Ordinary
Richmond Painswick Management Company Limited	£1.00 Ordinary
Richmond Villages Operations Limited	£1.00 Ordinary
Watertight Investments Limited	£1.00 Ordinary
13 Queens Road, Aberdeen, Aberdeenshire, AB15 4YL, United Kingdom	
Christopher F. Stafford Holdings Limited	£1.00 Ordinary
Hillington Park Dental Practice Limited	£1.00 Ordinary
Martin and Martin Dental Care Limited	£1.00 Ordinary
MFM Community Limited	£1.00 Ordinary
Partick Dental Ltd.	£0.01 Ordinary
39 Victoria Road, Glasgow, G78 1NQ	
Bupa Care Homes (Carrick) Limited	£1.00 Ordinary
Bupa Dental Care, Vantage Office Park, Old Gloucester Road, Hambrook, Bristol, BS16 1GW, United Kingdom	
A4 Health Group Limited	£1.00 Ordinary
Aesthetic Dental Laboratory Limited	£1.00 Ordinary
Andrew Greenwood Ltd	£1.00 Ordinary
Archway Dental Practice Limited	£1.00 Ordinary
Apex Dental Care Limited	£1.00 Ordinary
Apex Holding Limited	£1.00 Ordinary
Aqua Dental Spa Limited	£1.00 Ordinary
Arnica Dental Care Limited	£1.00 Ordinary
Avsan Cove Limited	£1.00 Ordinary
Avsan Dental Edinburgh Limited	£1.00 Ordinary
Avsan Ferryburn Limited	£1.00 Ordinary
Avsan Fife Limited	£1.00 Ordinary
Avsan Fleet Limited	£1.00 Ordinary
Avsan Gloucester Limited	£1.00 Ordinary
Avsan Halstead Limited	£1.00 Ordinary
Avsan Holdings Limited	£1.00 Ordinary
Avsan Knebworth Limited	£1.00 Ordinary
Avsan Kseat Limited	£1.00 Ordinary

[1]Held directly by the Company

Company Primary Statements and Associated Notes (continued)
for the year ended 31 December 2019

Name of Undertaking	Share Class
Avsan Queenscross Limited	£1.00 Ordinary
Avsan Queensroad Limited	£1.00 Ordinary
Avsan Visage Limited	£1.00 Ordinary
B Dental Limited	£1.00 Ordinary
BASDAC (2011) LLP	Partnership Interest
BE White Ltd	£1.00 Ordinary
Bupa Dental Services Limited	£1.00 Ordinary
Caring Dentistry Ltd	£1.00 Ordinary
Cheshire Cat Orthodontics Limited	£1.00 Ordinary
Clock Tower Dental Care Limited	£1.00 Ordinary
Colchester Dental Referral Centre Limited	£1.00 Ordinary
Cranbrook Dental Practice Limited	£1.00 Ordinary
Creative Designs Dental Laboratory Limited	£1.00 Ordinary
Croft Dental Care Limited	£1.00 Ordinary
David Row Limited	£1.00 Ordinary
Den Dental Group Practice LLP	Partnership Interest
Dencraft (Leicester) Ltd	£1.00 Ordinary
Dencraft (South Yorkshire) Limited	£1.00 Ordinary
Dental Confidence Limited	£1.00 Ordinary
Dental Excellence - Harewood Practice LLP	Partnership Interest
Dentalign Colwyn Bay Ltd	£1.00 Ordinary
Dentalign Eastbourne Ltd	£1.00 Ordinary
Dentalign Orthodontics Limited	£1.00 Ordinary
Dentalign Orthodontics LLP	Partnership Interest
Dentalign Wrexham Ltd	£1.00 Ordinary
Derwent House Orthodontics Limited	£1.00 A Ordinary
Devon Smiles Limited	£1.00 Ordinary
Deysbrook Dental Surgery Limited	£1.00 Ordinary
Diamond House Dental Practice Limited	£1.00 Ordinary
Duke Street Capital Oasis Acquisitions Limited	£0.01 Ordinary
Duke Street Capital Oasis Midco Limited	£0.01 Ordinary
Duke Street Capital Oasis Orthodontics Holdings Limited	£0.01 Ordinary
Duke Street Capital Oasis Orthodontics Limited	£0.01 Ordinary
Eckington Dental Practice Limited	£1.00 Ordinary
Eurodontic Limited	£1.00 Ordinary
Fairfield Dental Surgery Limited	£1.00 Ordinary
Freshdental Practice Limited	£1.00 Ordinary
Future Drilling Limited	£1.00 Ordinary
G & M Moynes Ltd	£1.00 Ordinary
Goodteeth Dental Surgeries Limited	£1.00 Ordinary
Grosvenor Orthodontic Clinic (Beckenham) Limited	£1.00 Ordinary
Harbour Way Surgery Limited	£1.00 A Ordinary
Haven Green Clinic Limited	£1.00 Ordinary
Highland Dental Care Limited	£1.00 Ordinary
Highwoods and St Johns Limited	£1.00 Ordinary
Highworth Dental Care Limited	£1.00 Ordinary
Hope Dental Practice Limited	£1.00 Ordinary, £1.00 Ordinary B
Hospital Lane Dental Clinic Limited	£1.00 Ordinary
In Store Dental Limited	£1.00 Ordinary
Iosis Clinic Limited	£1.00 Ordinary
J & M Dental Care Ltd	£1.00 Ordinary
J A Jordan & Associates Limited	£1.00 Ordinary
J.J. Thompson (Orthodontic Appliances) Limited	£1.00 Ordinary
James Taylor and Partners Limited	£1.00 Ordinary
JDH Holdings Limited	£0.10 Ordinary
Kidson Orthodontics Limited	£1.00 Ordinary
King Lane Dental Care Limited	£1.00 Ordinary
KN Wellness Ltd	£1.00 Ordinary
Lab 53 Limited	£1.00 Ordinary
Lawrence Street Dental Practice Limited	£1.00 Ordinary
Linden Dental Centre Limited	£1.00 Ordinary
Luke Barnett Clinic Limited	£1.00 Ordinary
Luke Barnett Limited	£1.00 Ordinary
Mainestream Dental Care Limited	£1.00 C Ordinary, £1.00 Ordinary A
Mark Fazakerley (VHO) Limited	£1.00 Ordinary
MCM (Dental Services) Limited	£1.00 Ordinary
MDANZ Holdings Limited	£1.00 Ordinary
MDANZ Limited	£1.00 Ordinary
Metrodental Limited	£1.00 Ordinary

Company Primary Statements and Associated Notes (continued)
for the year ended 31 December 2019

Name of Undertaking	Share Class
Milehouse Dental Care Limited	£1.00 Ordinary
Mojo-D Limited	£1.00 Ordinary
Morrison Shenfine Holdings Ltd	£1.00 Ordinary
MZINC Limited	£0.01 Ordinary
Nigel Reynolds Limited	£1.00 Ordinary
NM Jones Ltd	£1.00 Ordinary
North Devon Orthodontic Centre Limited	£1.00 Ordinary
North Lakeland Ltd	£1.00 Ordinary
Oasis Dental Care (Central) Holdings Limited	£1.00 Ordinary
Oasis Dental Care (Central) Limited	£1.00 Ordinary
Oasis Dental Care (Southern) Holdings Limited	£0.10 B Ordinary, £1.00 Ordinary A, £1.00 Ordinary B, £0.10 Ordinary C, £0.10 Ordinary D, £0.10 Ordinary E
Oasis Dental Care (Southern) Limited	£1.00 Ordinary
Oasis Dental Care Limited	£1.00 Ordinary
Oasis Healthcare Bidco Limited	£1.00 Ordinary
Oasis Healthcare International Limited	£0.01 A Ordinary, £0.01 B Ordinary
Oasis Healthcare Limited	£0.01 Ordinary
Oasis Healthcare Midco 1 Limited	£1.00 Ordinary
Oasis Healthcare Midco 2 Limited	£1.00 Ordinary
Oral Implantology Limited	£1.00 Ordinary
Ortho 2008 Limited	£1.00 Ordinary
Orthoscene Limited	£1.00 Ordinary
Oswestry Dental Laboratory Limited	£1.00 Ordinary
Paul Coulthard Ltd	£1.00 Ordinary
Pembury TM Limited	£1.00 Ordinary
Perlan Limited	£1.00 Ordinary
Peter Baldwin (VHO) Limited	£1.00 Ordinary
Priors Croft Dental Practice Limited	£1.00 Ordinary
Private Dental Services Ltd	£1.00 Ordinary
Quantum Ortho Limited	£1.00 Ordinary
Quest Dental Care LLP	Partnership Interest
Raglan Suite Limited	£1.00 Ordinary
Ratcliffe Dental Limited	£1.00 Ordinary
Richley Dental Ceramics Limited	£1.00 Ordinary
Rise Park Dental Practice Limited	£0.10 Ordinary A, £0.10 Ordinary B
Roberts-Harry Clinic Ltd	£1.00 Ordinary
Shaw & Associates Dental Surgeons Ltd	£1.00 Ordinary
Silverwell Surgery Ltd	£1.00 Ordinary
Siobhan Owen Limited	£1.00 Ordinary
Smile Dental Care Ltd	£1.00 Ordinary
Smile Lincs Limited	£1.00 Ordinary
Steeple Grange Smiles Limited	£1.00 Ordinary
Stephen E B Jones Ltd	£1.00 Ordinary
Stob Dearg Limited	£1.00 Ordinary
Stop the Clock Dental Care Limited	£1.00 Ordinary
Store Dental Care Limited	£1.00 Ordinary
Synergy Ceramics Ltd	£1.00 Ordinary
TDK Dental Limited	£0.50 Ordinary A
The Adams and Lee Dental Practice Ltd	£1.00 Ordinary
The Bramhope Dental Clinic Limited	£1.00 Ordinary
The Dental Solutions Centre Ltd	£0.02 Ordinary
The Exeter Dental Centre Limited	£1.00 Ordinary
The Facial Aesthetics & Dental Centre Ltd	£1.00 Ordinary
The Oasis Healthcare Group Limited[1]	£1.00 Ordinary
The Smile Centres Limited	£1.00 Ordinary
The Spire Halifax Limited	£1.00 Ordinary
The Tutbury Dental Practice Limited	£1.00 Ordinary
Tidge and Lou Limited	£1.00 Ordinary
Tooth Fixer Limited	£1.00 Ordinary
Total Orthodontics Limited	£1.00 Ordinary
Ultimate Smile Spa Ltd	£1.00 Ordinary
Victoria Oral Clinic Limited	£1.00 Ordinary
Wessington Way Limited	£0.10 Ordinary
Whole Tooth Limited	£1.00 Ordinary
Wimborne Total Dental Care Limited	£1.00 Ordinary

[1]Held directly by the Company

Name of Undertaking	Share Class
Windmill Dental Surgery Limited	£1.00 Ordinary
Windslade Limited	£1.00 Ordinary
Winning Smiles (Gillingham) Limited	£1.00 Ordinary
Wylde Green Orthodontics LLP	Partnership Interest
Wylye Valley Dentistry Limited	£1.00 Ordinary
Xeon Smiles UK Limited	£1.00 Ordinary
Cromwell Hospital, Cromwell Road, London, SW5 0TU	
Cromwell Health Group Limited[1]	£1.00 A Ordinary
Medical Services International Limited	£1.00 Ordinary
Mind Your Business (Ni) Ltd, 1 Elmfield Avenue, Warrenpoint, Newry, County Down, BT34 3HQ, Northern Ireland	
Belfast Orthodontic Clinic Ltd	£1.00 Ordinary
Blueapple Dental and Implant Team Limited	£1.00 Ordinary
Cranmore Excellence in Dentistry Limited	£1.00 Ordinary
DE (Belmont Road) Ltd	£1.00 Ordinary
Fortwilliam and Ballymena Specialist Dental Clinics Limited	£1.00 Ordinary
Smiles Dental Practices North Limited	£1.00 Ordinary
United States	
17901 Old Cutler Road, Suite 400, Palmetto Bay FL 33157, United States	
Bupa Insurance Company	USD$1.25 Capital Stock
Bupa Investment Corporation, Inc.	USD$1.00 Capital Stock
Bupa U.S. Holdings, Inc.	USD$0.01 Common Stock
Bupa Worldwide Corporation	USD$5.00 Capital Stock
U.S.A. Medical Services Corporation	USD$5.00 Capital Stock

Other Related Undertakings

The related undertakings listed below are not wholly owned by the Company. The proportion of the nominal value of each share class held indirectly by the Company is shown below, unless otherwise stated.

Name of Undertaking	Share Class	Actual % held
Australia		
Level 16, 33 Exhibition Street, Melbourne VIC 3000, Australia		
Mobile Dental Pty Ltd	AUD Ordinary	100.00
Level 3, 60-62 Clarence Street, Sydney NSW 2000, Australia		
Whitecoat Holdings Pty Ltd	AUD Ordinary	23.48
Whitecoat Operating Pty Ltd	AUD Ordinary	100.00
Bahrain		
Flat 207, Building 743, Road 831, Block 408, Sanabis, Bahrain		
Bupa Middle East Holdings Two W.L.L.	BHD50.00 Ordinary	75.00
British Virgin Islands		
Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British		
Altai Investments Limited	HKD1.00 Ordinary, USD1.00 Ordinary	100.00
Berkshire Group Limited	USD1.00 Ordinary	100.00
Dynamic People Group Limited	USD1.00 Ordinary	100.00
Chile		
Anabaena N° 336, Comuna Viña del Mar, Region Valparaiso, Chile		
Clinica Renaca S.A.	CLP Ordinary	100.00
Desarrollo E Inversiones Medicas S.A.	CLP Ordinary	96.97
Promotora De Salud S.A.	CLP Ordinary	67.03
Sociedad Medica Imageneologia Clinica Renaca Limitada	CLP Social Rights	80.00
Augusto D'halmar N° 1369, Comuna Arica, Region Arica y Parinacota, Chile		
Centro De Diagostico Avanzado San Jose S.A.	CLP Ordinary	100.00

Name of Undertaking	Share Class	Actual % held
Av Libertador Bernardo O'Higgins N° 654, Comuna Santiago, Region Metropolitana, Chile		
Examenes De Laboratorio S.A.	CLP Ordinary	100.00
Integramedica S.A.	CLP Ordinary	99.99
Av. Vicuña Mackenna N° 7255, Comuna La Florida, Region Metropolitana, Chile		
Sonorad II S.A.	CLP Ordinary	100.00
Baquedano N° 298, Comuna Antofagasta, Region Antofagasta, Chile		
Sociedad Medico Quirurgica De Antofagasta S.A.	CLP Ordinary	100.00
Bernarda Morin N° 495, Comuna Providencia, Region Metropolitana, Chile		
Recaumed S.A.	CLP Ordinary	58.40
Cerro Colorado N° 5420, Piso 12, Comuna Las Condes, Region Metropolitana, Chile		
Bupa Compania de Seguros de Vida S.A.	CLP Ordinary	76.14
Cerro Colorado N° 5420, Piso 4,5,7, Comuna Las Condes, Region Metropolitana, Chile		
Isapre Cruz Blanca S.A.	CLP Ordinary	99.73
Coyancura N° 2270, Oficina 910, Comuna Providencia, Region Metropolitana, Chile		
Bupa Servicios de Salud SpA	CLP Ordinary	100.00
Dr. Juan Noe N° 1370, Comuna Arica, Region Arica y Parinacota, Chile		
Corporacion Medica de Arica S.A.	CLP Ordinary	68.97
Sociedad De Inversiones Pacasbra S.A.	CLP Ordinary	100.00
Las Bellotas N° 200, Comuna Providencia, Region Metropolitana, Chile		
Sonorad I S.A.	CLP Ordinary	100.00
Manuel Antonio Matta N° 1868, Comuna Antofagasta, Region Antofagasta, Chile		
Inmobiliaria Centro Medico Antofagasta S.A.	CLP Ordinary	99.99
Inmobiliaria Somequi S.A.	CLP Ordinary	100.00
Manuel Antonio Matta N° 1945, Comuna Antofagasta, Region Antofagasta, Chile		
Centro Medico Antofagasta S.A.	CLP Ordinary	100.00
Inversiones Clinicas Pukara S.A.	CLP Ordinary	85.88
Servicios Y Abastecimiento A Clinicas S.A.	CLP Ordinary	100.00
Sociedad De Resonancia Magnetica Del Norte S.A.	CLP Ordinary	100.00
Sociedad Instituto De Cardiologia Del Norte Limitada	CLP Social Rights	50.00
Pedro Aguirre Cerda N° 843, Comuna Arica, Region Arica y Parinacota, Chile		
Centro De Imagenes Medicas Avanzadas San Jose S.A.	CLP Ordinary	70.00
China		
Room 07-08, 3rd floor, Building 1, 21st Century Plaza, 40A Liangmaqiao Road, Chaoyang District, Beijing, 100125, China		
Bupa Consulting (Beijing) Co. Ltd.	HKD1.00 Ordinary	100.00
Unit 03, 13/F, No.604 RenMin North Road, Yuexiu District, Guangzhou, China		
Guangzhou Bupa Hospital Management Company Limited	CNY1.00 Ordinary	100.00
Unit 305A -305, 3/F, GT Land Autumn Plaza, No.11, 13 ZhuJiang East Road, ZhuJiang New Town, Tianhe District, Guangdong Province, China		
Guangzhou Bupa Quality HealthCare General Outpatient Department Company Limited	CNY1.00 Ordinary	100.00
Hong Kong		
18/F Berkshire House, 25 Westlands Road, Quarry Bay, Hong Kong		
Bupa (Asia) Limited	HKD10.00 Ordinary	100.00
Bupa International Limited	HKD1.00 Ordinary	99.99
Bupa Limited	HKD1.00 Ordinary	100.00
3rd Floor, Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong		
Allied Medical Practices Guild Limited	HKD1.00 Ordinary	100.00
Alpha Medical MRI (TST) Limited	HKD10.000.00 Ordinary	65.00

Name of Undertaking	Share Class	Actual % held
Central Medical Diagnostic Centre Limited	HKD1.00 Ordinary	74.49
Central MRI Centre Limited	HKD1.00 Ordinary	100.00
Central PET/CT Scan Centre Limited	HKD1.00 Ordinary	100.00
DB Health Services Limited	HKD1.00 Ordinary	100.00
Eplushealth Limited	HKD1.00 Ordinary	100.00
Great Option Limited	HKD1.00 Ordinary	100.00
Jadeast Limited	HKD1.00 Ordinary	100.00
Jadefairs International Limited	HKD1.00 Ordinary	100.00
Jadison Investment Limited	HKD1.00 Ordinary	100.00
Jadway International Limited	HKD1.00 Ordinary	100.00
Marvellous Way Limited	HKD1.00 Ordinary	100.00
Megafaith International Limited	HKD1.00 Ordinary	100.00
Quality HealthCare Dental Services Limited	HKD1.00 Ordinary	100.00
Quality HealthCare Medical Centre Limited	HKD100.00 Ordinary	100.00
Quality HealthCare Medical Services Limited	HKD1.00 Ordinary	100.00
Quality HealthCare Nursing Agency Limited	HKD10.00 Ordinary	100.00
Quality HealthCare Physiotherapy Services Limited	HKD1.00 Ordinary	100.00
Quality HealthCare Professional Services Limited	HKD1.00 Ordinary	100.00
Quality HealthCare Psychological Services Limited	HKD1.00 Ordinary	100.00
Room 901B-03A, 9th Floor, Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong		
Quality Healthcare TPA Services Limited	HKD1.00 Ordinary	100.00
India		
Max House, 1, Dr Jha Marg, Okhla, New Delhi, 110020, India		
Max Bupa Health Insurance Company Limited[1]	INR10.00 Ordinary	44.42
Macau		
Rua De Xangai No. 175 Edif., Associacao Comercial De Macau, 11 Andar, K, Macau		
Quality EAP (Macau) Limited	MOP1.00 Ordinary	100.00
Quality Healthcare Medical Services (Macau) Limited	MOP1.00 Ordinary	100.00
Peru		
Av. Guardia Civil N° 664, Comuna San Isidro, Region Lima, Peru		
Anglolab S.A.	PEN Ordinary-A	100.00
	PEN Ordinary-B	50.00
MediPeru S.A.C	PEN Ordinary	99.97
Poland		
Al. Niepodleglosci 18, 02-653, Warsaw, Poland		
Endoterapia PFG Sp. z.o.o.	PLN50.00 Ordinary	40.00
Marszalkowska 99 A lok. 5B Street, 00-693, Warsaw, Poland		
Centrum Edukacyjne Medycyny Sportowej Sp. z.o.o.	PLN50.00 Ordinary	50.00
Porebskiego 9 Street, 81-185, Gdynia, Poland		
Niepubliczny Zaklad Opieki Zdrowotnej Przychodnia Lekarska 'POGORZE' Sp. z.o.o.	PLN200.00 Ordinary	88.15
ul. Dluga 43, 05-510 Konstancin Jeziorna, Poland		
Lux Med Tabita Sp. z.o.o.	PLN100.00 Ordinary	88.00
Saudi Arabia		
Al-Khalidiyah-Nour Al Ehsan 3538, Unit 1 Jeddah 7505-23423, P.O. Box 23807, Jeddah, 21436, Saudi Arabia		
Bupa Arabia For Cooperative Insurance Company	SAR10.00 Ordinary	39.25
Prince Sultan St, Al Mohammediyah Dist., PO Box 260, Jeddah, 21411, Saudi Arabia		
Nazer Bupa Medical Equipment Company Limited	SAR1,000.00 Ordinary	50.00

[1]Part held by nominees

Name of Undertaking	Share Class	Actual % held
Spain		
Avenida República Argentina, Número 6, Entreplanta, Seville, Spain		
Clinicas Ginemed S.L.	€6.02 Ordinary	70.00
Calle Arenal Numero 22, 3 Derecha, Madrid, Spain		
Foren Project S.L.	€1.00 Ordinary	20.00
Calle Ribera Del Loira, 52, 28042, Madrid, Spain		
Fundacion Sanitas[1]	€1.00 Contribution	100.00
Sanitas S.A. de Seguros	€0.68 Ordinary	99.91
United Kingdom		
1 Angel Court, London, EC2R 7HJ, United Kingdom		
Fulford Grange Medical Centre Limited	£1.00 'A' Ordinary	100.00
Ground Floor, Bury House, 31 Bury Street, London, EC3A 5AR, United Kingdom		
Healthbox Europe 1 LP	Partnership Interest	37.00
Swan Court, Waterman's Business Park, Kingsbury Crescent, Staines, Surrey, England, TW18 3BA, United Kingdom		
Healthcode Limited	£1.00 A Ordinary £1.00 E Ordinary	100.00 20.00
Wilson House Waterberry Drive, Waterlooville, Hampshire, PO7 7XX, United Kingdom		
London Oncology and Wellbeing Centre Limited	£1.00 B Shares £1.00 Ordinary	100.00 42.15
United States		
933 First Avenue, King of Prussia PA 19406, United States		
Highway to Health, Inc	US$0.01 Ordinary	49.00
HTH Re, Ltd	US$1.00 Ordinary	100.00
HTH Worldwide, LLC	US$1.00 Ordinary	100.00
Worldwide Insurance Services, LLC	US$1.00 Ordinary	100.00

[1]The Sanitas Foundation

Five-year financial summary

Five-year financial summary

The five-year financial summary provides a five-year time summary in order to better understand trends. Prior periods have been restated to reflect the new operating segments.

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Revenue - segmental analysis					
Australia and New Zealand	**4,652**	4,656	4,927	4,360	3,648
Europe and Latin America	**3,853**	3,499	3,346	2,754	2,307
Bupa Global and UK	**3,323**	3,288	3,537	3,502	3,521
Other businesses	**488**	417	440	433	353
Net reclassifications to other expenses or financial income and expenses	**-**	(1)	(1)	(1)	(1)
Consolidated total revenues	**12,316**	11,859	12,249	11,048	9,828
Claims and expenses					
Operating expenses (including claims)	**(11,733)**	(11,112)	(11,399)	(10,329)	(9,162)
Impairment of goodwill	**(422)**	(35)	(1)	-	(114)
Impairment of other intangible assets arising on business combinations	**(21)**	(4)	(16)	(21)	-
Other income and charges	**(42)**	(53)	(99)	(39)	(41)
Total claims and expenses	**(12,218)**	(11,204)	(11,515)	(10,389)	(9,317)
Profit before financial income and expense	**98**	655	734	659	511
Net financial expense	**(63)**	(41)	(8)	(29)	(49)
Profit before tax expense	**35**	614	726	630	462
Taxation expense	**(154)**	(211)	(155)	(154)	(113)
(Loss)/profit for the financial year	**(119)**	403	571	476	349
Attributable to:					
Bupa Finance plc	**(121)**	397	567	471	349
Non-controlling interests	**2**	6	4	5	-
(Loss)/profit for the financial year	**(119)**	403	571	476	349
Equity					
Share capital	**200**	200	200	200	200
Property revaluation reserve	**692**	700	796	706	632
Income and expense reserve	**5,310**	5,640	5,221	4,644	4,270
Cash flow hedge reserve	**21**	20	22	15	21
Foreign exchange translation reserve	**237**	464	558	595	(98)
Equity attributable to Bupa Finance plc	**6,460**	7,024	6,797	6,160	5,025
Equity attributable to non-controlling interests	**17**	20	30	31	70
Total equity	**6,477**	7,044	6,827	6,191	5,095

International Financial Reporting Standards relevant to Bupa Finance plc

International Financial Reporting Standards (IFRS)

IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

International Accounting Standards (IAS)

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Date
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 40	Investment Property

Interpretations

IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 12	Service Concession Arrangements
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 21	Levies
IFRIC 22	Foreign Currency Transactions and Advanced Consideration
SIC 29	Service Concession Arrangements: Disclosures
SIC 32	Intangible Assets – Website Costs

Disclaimer: Cautionary statement concerning forward-looking statements

Bupa undertakes no obligation to update the forward looking statements in this report or any other forward-looking statements we may make. Forward-looking statements in this report are current only as of the date on which such statements are made.

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