

Governance report

# Chairman’s introduction to governance



**Lord Leitch**  
Chairman

“We aim to operate to the same governance standards as required of UK FTSE 100 companies, where appropriate. The Board closely monitors developments in corporate governance and assesses how these can be applied to Bupa.”

Good corporate governance must be at the centre of any well-run company. Our status as a company limited by guarantee, without shareholders, enables Bupa to make our customers our focus. Our profits are reinvested to provide more and better healthcare for current and future customers, taking a longer term view.

In this governance report we explain the Board’s role in promoting a fair, accountable, responsible and transparent approach to corporate governance.

### Board composition and succession planning

Stuart Fletcher stepped down as CEO on 4 April 2016 after four years, having brought the customer and our people to the fore, as well as extending Bupa’s global footprint. The Board extends their thanks to Stuart for his service. The Board appointed Evelyn Bourke as Acting Group CEO, confirming her appointment as Group CEO on 25 July 2016. Evelyn was previously Bupa’s CFO for nearly four years. The Nomination & Governance Committee’s Report on pages 40-41 outlines the recruitment process undertaken.

Joy Linton, was appointed as Acting CFO on 1 May 2016, becoming CFO on 25 July. She brings 30 years’ experience in financial and strategic roles in Australia and the UK.

Full biographical details for Evelyn and Joy are included on page 25. These internal appointments were identified in Bupa’s succession plans, which are considered by the Board on a regular basis.

Simon Blair and Janet Voûte joined the Board as Non-Executive Directors (NEDs) on 12 January 2016 further strengthening the skills and international experience of our Board. Rita Clifton retired from the Board at the conclusion of the AGM on 11 May 2016. The Board would like to thank Rita for her six years of service as a NED, including her contribution as a member of the Remuneration and Nomination & Governance Committees.

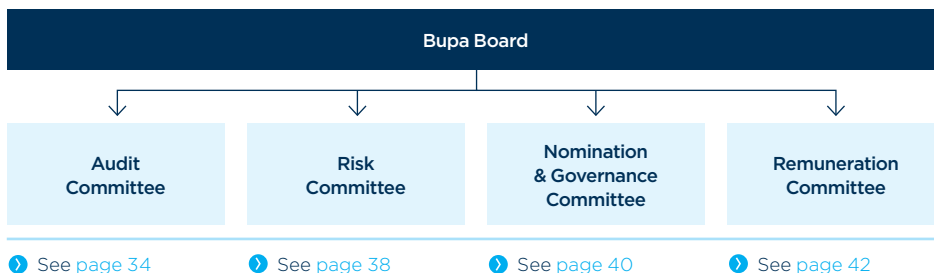
The Board will continue to regularly review and assess our succession plans to ensure an orderly refreshment of the Board as NEDs come to the end of their tenure. It will also continue to focus on strengthening the executive pipeline within the business.

### Diversity statement

We are pleased to report, that at the year end, 40% of our Board was female. We have already surpassed Lord Davies’ recommendation that by 2020, boards of FTSE 350 companies should aim for 33% female representation. Gender is, however, only one measure of diversity and Bupa believes diversity should be considered more broadly including a wide range of relevant skills and experience. Our Board diversity policy can be found on [bupa.com](http://bupa.com) and is covered in more detail on page 29 of this report.

### Board and Committee structure

The Board delegates certain matters to the Audit, Risk, Nomination & Governance and Remuneration Committees. The activities of the Board and its Committees are detailed later in this governance report.



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**Read more**

- [Board evaluation page 31](#)
- [Engagement page 33](#)

**Remuneration**

Bupa aligns its remuneration policy with performance and strategy by incentivising our Executive Directors and senior management to focus on the long term and to fulfil our purpose for current and future customers. The Directors' Remuneration Report on pages 42-52 gives further detail on the design of the Remuneration Policy and how it was implemented during 2016.

**Board evaluation**

Independent Audit Limited conducted our third, externally-facilitated, Board and Committee evaluation in the autumn of 2016 and the key findings are set out in more detail in the Effectiveness Report on page 31 and within each of the Committee reports. The Board discussed the results at its meeting in December 2016. There is a plan to address the key development areas identified in the evaluation process which will be monitored by the Nomination & Governance Committee during 2017. This evaluation confirmed that the Board and its Committees continue to be effective.

**Committee structure change**

As detailed in the 2015 Annual Report, it was agreed that the aims and objectives of the Medical Advisory Panel would be more effectively achieved through a different approach. This included the appointment of Sir John Tooke to the Risk Committee, the expansion of the independent oversight of the Executive Global Clinical Governance and Quality Steering Committee and the establishment of a new Medical Advisory Council to advise on health horizon scanning and to support Bupa on key medical risks and opportunities relevant to delivering Bupa's purpose. Details of the Risk Committee's oversight of Clinical Risk are covered on pages 38-39.

**Association Members**

Board oversight, which in listed companies is normally provided by shareholders, is exercised in Bupa by a body of around 100 distinguished Association Members (AMs). Serving for an initial term of up to 10 years, AMs are drawn mainly from business, public life, the medical professions, the charitable sector and academia. AMs are independent and do not have any claim on the assets of Bupa. They do not receive a fee for their service or a share of profits or dividends.

At the end of 2016, there were 115 AMs. They are kept informed of Bupa's strategy and performance through regular AM Briefings and at the AGM. The Group CEO, Chairman and Senior Independent Director (SID) are also available to answer questions on an individual basis. AMs views are heard and communicated to the Board and to relevant teams throughout the business. More information on how Bupa engages with our AMs is on page 33.

**Statement of compliance**

As part of our commitment to excellence, we aim to operate to the same governance standards as required of UK FTSE 100 companies, where appropriate. We have applied the main principles and complied with all of the relevant provisions, for a company without shareholders, of the UK Corporate Governance Code (the Code) throughout 2016. Information on our external audit tendering plans can be found in the Audit Committee report on pages 34-37.

The Corporate Governance Report on pages 22-41, together with the Remuneration Report on pages 42-52, describe how we have applied the main principles of the Code during the year.

Our governance arrangements continue to be reviewed in line with developments in best practice. This includes considering consultations and guidance issued from the FRC in the UK as well as governance bodies globally.

**Lord Leitch**  
Chairman

Governance report

# Board of Directors



## 1. Lord Leitch, Chairman Non-Executive Chairman

**N** Re

Joined the Board in May 2005; appointed Chairman in November 2006. Lord Leitch has a deep and broad knowledge of insurance and financial services gained over five decades as a senior executive in a number of major international businesses. Lord Leitch is currently Chairman of Intrinsic Financial Services, Chairman of FNZ (Group), Non-Executive Director of Old Mutual Wealth, and member of the House of Lords. Previously Deputy Chairman of Lloyds Banking Group plc, Chairman of Scottish Widows plc, Senior Independent Director at United Business Media plc, Chairman and Chief Executive Zurich Financial Services UK, Ireland, South Africa and Asia Pacific, and Chairman of the Association of British Insurers.

## 2. Evelyn Bourke, Group Chief Executive Officer Executive Director

Appointed as Group CEO on 25 July 2016. Previously served as Acting Group CEO from 4 April 2016 and CFO from September 2012. Evelyn has a strong track record and extensive experience in financial services, risk and capital management, and mergers and acquisitions. A qualified actuary, she also holds an MBA from London Business School and was previously a Non-Executive Director of the IFG Group in Ireland. Evelyn joined from Friends Life where she was Chief Executive Officer of its Heritage division. Previously at Friends Provident, she was the Executive Director responsible for strategy, capital and risk and, before that, Chief Financial Officer.

## 3. Joy Linton, Chief Financial Officer Executive Director

Appointed CFO on 25 July 2016, and previously served as Acting CFO from 1 May 2016. Joy brings 30 years' experience in financial and strategic roles in Australia and the UK. She joined Bupa in March 2011 as Finance Director of Bupa's Australian Health Insurance business, later becoming Finance and Commercial Director of Bupa Australia and New Zealand. Joy became Bupa's Chief People Officer on an interim basis in 2015, prior to becoming General Manager, Health Services for Bupa UK. Previously, she was CFO of National Foods, one of Australia's largest food and beverage companies. She was also a Non-Executive Director of Bega Cheese Ltd, an ASX-200 listed company, serving as Chair of their Audit and Risk Committee.

## 4. Lawrence Churchill, CBE Senior Independent Director

**Ri A N Re**

Joined the Board in July 2009 and became the SID on 14 May 2015. Lawrence brings considerable expertise from operating in large, complex organisations and has extensive knowledge of financial services, risk management, general management and public policy. Lawrence is Chairman of the Board of the Financial Services Compensation Scheme, Chairman of the Independent Governance Committee of Prudential Assurance Company and a Trustee of Prudential Corporate Trustee Limited. He is also Chairman of the Pensions Policy

Institute and Trustee of Age UK. Previously Chairman of the NEST Corporation and the Pension Protection Fund, a member of the Board for Actuarial Standards, Chief Executive of Zurich Financial Services UK, Executive Chairman of UNUM, CEO of NatWest Life and Investments, and a Director of the Association of British Insurers.

## 5. Simon Blair Independent Non-Executive Director

**A Ri**

Joined the Board in January 2016. Simon brings international experience, particularly gained in Australia and New Zealand, and a strong understanding of the insurance and healthcare sectors. He is a Non-Executive Director of the Bank of Hangzhao, Sovereign Assurance, ASB Bank and BoCommLife. Simon was Group Executive International Financial Services for the Commonwealth Bank of Australia. He was previously Chief Operating Officer at Australian health insurer, Medibank, Lead Health Specialist for the World Bank, and CEO of Inner & Eastern Healthcare Network, then Australia's largest public hospital group.

## 6. Roger Davis Independent Non-Executive Director

**A Re**

Joined the Board in July 2015. Roger has extensive business experience and an international mindset acquired during a wide-ranging career in financial services. He is Chairman of Gem Diamonds, Sainsbury's Bank, Global RadioData Communications (GRC) and Future for Heroes. Roger is also a Non-Executive Director of Experian. He has extensive experience in the UK and Asia with previous positions including Managing Director of India for Jardine Fleming, Chief Executive Officer of BZW Asia Pacific, and Chairman and Chief Executive of Barclays Capital Asia Pacific. He left Barclays as Executive Director and Head of the UK Bank in 2005.

## 7. Martin Houston Independent Non-Executive Director

**Re N**

Joined the Board in January 2014. Martin brings extensive international business experience to the Board. He is Chairman of TPH International and Vice Chairman of Tellurian Investments. He is also a Non-Executive Director of CC Energy Development and Vice Chairman of Hakluyt North America. Previously Martin was Chief Operating Officer and Executive Director of BG Group plc where he spent 32 years. He is a Fellow of the Geological Society of London, is on the advisory board of the Royal Opera House of London, is a member of the advisory board of the Global Energy Policy unit at Columbia University's School of International and Public Affairs in New York and is a former Non-Executive Director of Severn Trent plc.

## 8. Clare Thompson Independent Non-Executive Director

**A Ri N**

Joined the Board in May 2015. Clare brings a wealth of experience, particularly in the areas of finance and insurance. She is also a Non-Executive Director of Direct Line Group and Retail Charity

Bonds plc, a Non-Executive member of the Partnership Board of Miller Insurance Services LLP and a Trustee and Treasurer of the Disasters Emergency Committee. Clare was a Partner at PricewaterhouseCoopers (PwC) from 1988 until 2011. While she was at PwC, she held several senior and high profile roles, particularly within the insurance sector. Clare is a Fellow of the Institute of Chartered Accountants in England and Wales.

## 9. Professor Sir John Tooke Independent Non-Executive Director

**Ri N**

Joined the Board in July 2009. Sir John brings his medical expertise, gained over 40 years, to advise the Board on clinical governance and advances in healthcare practices and treatments. A consultant physician, he is immediate past President of the Academy of Medical Sciences. Sir John chairs the Centre for the Advancement of Sustainable Medical Innovation, joint between UCL and Oxford University, and is Executive Chairman of Academic Health Solutions Ltd. He is also a Member of the Independent Review Board for Google DeepMindHealth.

## 10. Janet Vouë Independent Non-Executive Director

**Ri Re**

Joined the Board in January 2016. Janet brings an international perspective and experience gained in corporate strategy, the health and care sector and consumer facing businesses. She is Chairman of the Creating Shared Value Council at Nestlé SA and serves as an Ambassador of the International Integrated Reporting Initiative. Previously she served as Global Head of Public Affairs at Nestlé SA and was a member of the board of Bamboo Finance SA. She also served as Partnership Advisor at the World Health Organization in the area of non-communicable diseases and mental health and as CEO of the World Heart Federation. Janet was formerly Vice President and Managing Partner at Bain & Company Switzerland.

## 11. Julian Sanders Company Secretary

Appointed as Company Secretary in July 2014. Julian was formerly Deputy Company Secretary, having joined Bupa in 1988. Prior to joining Bupa he was a Supervisor in the Business Services Group at Coopers & Lybrand (now PwC).

### Committee key

- Committee Chairman
- A** Audit
- Ri** Risk
- N** Nomination & Governance
- Re** Remuneration

➤ Full details of each director are available on [bupa.com/corporate/about-us](http://bupa.com/corporate/about-us)



Governance report

# Bupa Executive Team



The Bupa Executive Team (BET) is comprised of the Group CEO, who chairs the meetings, the CFO, the CEOs of the four Market Units and all Global Function Directors.

The BET meets regularly throughout the year to focus on Bupa's global strategic agenda, which supports each BET member as they manage performance and risk in their individual roles. In particular, the BET spends time together on:

- Bupa's refreshed strategic framework.
- Calibrating performance and generating improved opportunities.
- Aligning on priorities, including business development and M&A.
- High-level resource and capital allocation.
- Organisation culture and talent management.
- Key global strategic initiatives such as driving innovation and leadership development.

**1. Evelyn Bourke**  
**Group Chief Executive Officer**

See page 25 for biographical details.

**2. Joy Linton**  
**Chief Financial Officer**

See page 25 for biographical details.

**3. Richard Bowden**  
**CEO, Australia and New Zealand (ANZ)**

Richard joined Bupa in 2002 as the Managing Director of Bupa Australia and has over 30 years' experience in the health sector. He was MD of Bupa UK from 2012 to 2016 and was previously the MD of AXA Australia Health, Chairman and President of Private Healthcare Australia and a Commissioner on the Australian Commission of Safety and Quality in Healthcare.

**4. David Hynam**  
**CEO, United Kingdom (UK)**

David was appointed as MD of Bupa UK in October 2016. He joined Bupa as Transformation Director in the UK and as leader of health and dental clinics before becoming General Manager of Bupa's UK Care Services business in 2015. He was previously Chief Operating Officer and UK CEO of Friends Life.

**5. Iñaki Ereño**  
**CEO, Europe and Latin America Domestic (ELA)**

Iñaki was appointed as MD of ELA in November 2016, with responsibility for Sanitas in Spain, LUX MED in Poland and Bupa Chile. Iñaki was previously the MD of Bupa's Spain and Latin America Market Unit. He has held senior positions at Acerinox, the Telefonica Group and Carrefour as well as founding an online start-up. Iñaki has a degree in Law and holds an MBA from IESE Business School.

**6. Wayne Close**  
**Acting CEO International Markets (IM)**

Wayne was appointed as Acting MD of IM in November 2016. He brings more than 20 years' experience, having joined Bupa in 1992 with roles including leading, Bupa International (the precursor to Bupa Global), MD of Bupa Global North America, setting up and leading Bupa Saudi Arabia, and holding a number of CFO roles across Bupa including the former International Development Markets (IDM) MU.

**7. Paul Zollinger-Read**  
**Chief Medical Officer**

Paul became Chief Medical Officer of Bupa in July 2012. He has led a distinguished medical career within the UK's National Health Service, both as a GP and as CEO of a number of Primary Care Trusts. He has previously been the Medical and Primary Care Advisor at the King's Fund. Paul leads the Bupa-powered CMO Network.

**8. Alex Cole**  
**Chief Brand & Corporate Affairs Officer**

Alex joined Bupa in July 2014 and was appointed as Chief Brand & Corporate Affairs Officer in May 2016. She has over 20 years' experience across communications and public affairs and was the Director of Corporate Affairs at J Sainsbury plc and Cadbury plc.

**9. Garry Fingland**  
**Chief Information Officer**

Garry joined Bupa as its Chief Information Officer in 2014. He has extensive experience in global IT transformation, having held a number of senior IT leadership roles at both Serco and Diageo. He is a Chartered Accountant and holds an MBA from Strathclyde Business School.

**10. Elisa Nardi**  
**Chief People Officer**

Elisa was appointed as Bupa's Chief People Officer in early 2015. Prior to joining Bupa she was the Chief People & Services Officer at Virgin Media and the Group Human Resources Director at Marconi Plc. She has also worked in Human Resources at Lloyds TSB, PepsiCo, HJ Heinz and Ford Motor Company. Elisa was a Board Trustee of Regent's University London between 2010 to 2016.

**11. Penny Dudley**  
**Chief Legal Officer**

Penny was appointed as Chief Legal Officer in April 2016, having joined Bupa in 2010. Penny has extensive international legal experience in regulated financial services, originally qualifying as a solicitor in Australia, and subsequently relocating to the UK where she has held in-house legal roles at Invesco, and Macquarie.

**12. David Fletcher**  
**Chief Risk Officer**

David commenced in the new role of Chief Risk Officer in January 2017. He has been with Bupa since 2014 in senior roles including Chief Internal Auditor and MD of IDM. He has had extensive international financial services experience, having held various senior positions in Nigeria, China, Hong Kong, Singapore, Bangladesh, Indonesia, and in London with Standard Chartered and Citibank.

**13. Gabriela Pueyo**  
**Chief Strategy Officer**

Gabriela joined Bupa in 2003 and began in her role as Chief Strategy Officer in January 2017. She has held a number of senior roles in the Sanitas business, including Strategy Director, CFO and General Manager of Sanitas Dental. Gabriela started her career as a strategy consultant at McKinsey and Company. She has an MBA from Harvard University and a degree in Economics and International Relations from Stanford University.

## Governance report

# Leadership

### Bupa's Governance Framework and the Role of the Board

The Board is responsible for the long-term success of the Company. Bupa's governance structure is designed to enable the Board to lead Bupa within a framework of prudent and effective controls which enables risk to be assessed and managed. In 2016, the Board held 11 full meetings and scheduled four additional meetings to discuss specific matters such as the appointment of our Group CEO and major acquisitions requiring approval. The Board devotes its time to overseeing Bupa's strategy, the approval of business plans and significant capital expenditure, acquisitions and disposals, as well as monitoring business performance. Minutes of all Board and Committee meetings are prepared and reflect the substance of the discussion as well as the decisions made. The Board delegates certain matters to the Audit, Risk, Nomination & Governance and Remuneration Committees. The activities of the Board and its Committees are detailed later in this governance report.

Bupa has a schedule of matters reserved for the Board's approval, which was updated in 2016, and all other items are delegated to the Group CEO. The matters reserved for the

Board can be found on [bupa.com](http://bupa.com). The levels of authority delegated to management are regularly reviewed and updated when appropriate. The roles of the Board, the Chairman, the Group CEO, the Senior Independent Director (SID) and the Non-Executive Directors (NEDs) are clearly defined and set out in detail on [bupa.com](http://bupa.com).

All Board and Committee members are provided with sufficient resources to undertake their duties, including access to both internal and external specialist advice at Bupa's expense. The Directors individually and collectively act in accordance with their duties under the Companies Act 2006. Bupa has a directors' and officers' insurance policy in place as well as a deed of indemnification.

### The roles of the Chairman and the Group CEO

The roles of the Chairman and the Group CEO are clearly separated.

The Chairman is responsible for the leadership of the Board and is pivotal in the creation of the conditions necessary for overall Board and individual director effectiveness, both in and outside the boardroom. It is also the Chairman's

role to ensure effective communication with the Association Members (AMs) and to chair General Meetings.

The Group CEO is responsible for the day-to-day leadership and management of the business, in line with the strategy, risk appetite and long-term and annual objectives approved by the Board. The Group CEO may make decisions in all matters affecting the operations, performance and strategy of Bupa's businesses, with the exception of those matters reserved for the Board or specifically delegated by the Board to its Committees, executive committees or subsidiary company boards. The Group CEO leads the Bupa Executive Team (BET) in driving the performance of the business and setting the overall strategic agenda. For more information about members of the BET, please see pages 26-27.

### The role of the Senior Independent Director

Lawrence Churchill, one of the NEDs, is the SID. His role is to provide a sounding board for the Chairman, to serve as an intermediary for the other Directors where necessary and to provide an additional point of contact for AMs.

### Non-Executive Director Inductions 2016

Following any appointment to the Board, a personalised induction programme is drawn up, which includes Bupa-led knowledge building, site visits to Bupa's businesses and discussions on strategy and development plans for the business.

As new members of the Board appointed during 2016, Simon Blair and Janet Voûte both commenced extensive induction programmes during the year, including meetings with the heads of various businesses across Bupa. Site visits were arranged to the Cromwell Hospital, health and dental clinics and call centres, in the UK in the first instance, in order to enable the new Directors to experience first-hand the way Bupa cares

for its customers. Both Janet and Simon participated in the Board visits in Chile and Australia during the year which included visits to customer centres in both countries. For more information see the Board in Action section on page 30.

Janet also attended one of the AM briefing sessions in October 2016 at which attendees are encouraged to question the Group CEO, CFO and Chairman in relation to strategy and performance. In addition to gaining further knowledge about Bupa, the briefing session presented an opportunity for Janet to engage with other AMs to learn more about issues of interest to them at an early stage in her directorship.

**Simon Blair** commented that:

"As part of an excellent induction programme I have been able to see first-hand Bupa dental and health clinics, hospitals, insurance processing and call centres across four different countries and have been most impressed with the consistently high quality of our employees and the facilities, and the primacy accorded to customer service and care. Employee motivation and pride stands out across all geographies and all lines of business."

**Janet Voûte** commented that:

"A comprehensive induction programme is an essential part of new Non-Executive Director onboarding. Bupa is a health insurance and health and care company which takes time to fully understand. Attendance at the briefing session provided another opportunity for me to observe and participate in the challenge provided by Bupa's Association Members."





## The role of the Non-Executive Directors

Lawrence Churchill, Simon Blair, Roger Davis, Martin Houston, Clare Thompson, Sir John Tooke and Janet VouÛte are collectively expected to constructively challenge and help develop strategy, to participate actively in the decision-making process of the Board, and to scrutinise the performance of management in meeting agreed goals and objectives.

A copy of the standard Non-Executive Director (NED) Terms of Appointment, which set out their expected time commitment, is available on [bupa.com](http://bupa.com), at Bupa's registered office and is available for inspection before and during the AGM. NEDs have the same general legal responsibilities to the Company as any other director.

## Board diversity policy

Bupa's policy of ensuring that there is broad experience and diversity on the Board was adopted by the Board in 2012. Diversity in Bupa embraces knowledge and understanding of relevant diverse geographies, peoples and their backgrounds, including race, disability, gender, sexual orientation, religion, belief and age, as well as culture, personality and work-style. In particular, Bupa's Board is focused upon increasing Board diversity without compromising on the calibre of Directors. Appointments to the Board are based on merit as well as complementing and expanding the skills, knowledge and experience of the Board as a whole. Within this context the Board aspires to have an appropriate proportion of Directors who have direct experience of some of Bupa's key markets. In 2016 Simon Blair, Joy Linton and Janet VouÛte were appointed to the Board, each with international healthcare experience. Our Board diversity policy can be found on [bupa.com](http://bupa.com).

## Succession plans

Succession plans are continually reviewed and a phased replacement of NEDs coming to the end of their tenure agreed. This approach is designed to ensure continuity on the Board,

## Board diversity

The Board Diversity Policy was launched in 2012 with the intention of ensuring that diversity remains a central feature of the Board.

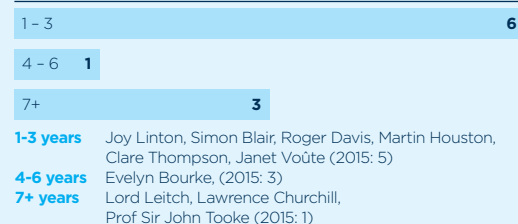
### Board composition



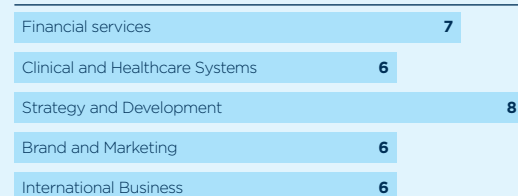
**20%** Percentage of Executive Directors  
The Executive Directors are the Group CEO and CFO

**80%** Percentage of Non-Executive Directors  
The Non-Executive Directors include the Chairman and SID

### Length of tenure (years)



### Sector experience



as well as maintaining an appropriate balance of skills and experience on the Board and its Committees and ensuring we have a strong executive pipeline within the business.

## Board composition and tenure

Bupa's Board consists primarily of NEDs (eight including the Chairman), who substantially outnumber the Executive Directors (two). The independence of NEDs from management and any other business or relationship which could materially interfere with their independence, is considered and confirmed on an annual basis. All Directors offer themselves for annual re-election by the AMs, save for those retiring at the AGM.

## The Chairman

Lord Leitch, Bupa's Chairman, who was independent on appointment, holds a small number of other appointments, none of which are considered to impede his role at Bupa. Details of his other appointments are set out in his biography on page 25.

## Conflicts of interest

The Company Secretary performed the annual review of all Directors' actual or potential conflicts of interest and all potential conflicts were recorded and authorised.

Should a conflict arise, the relevant director would agree to abstain from discussions on any matter where they may be conflicted. Many of Bupa's NEDs hold appointments at other organisations, as set out in their profiles on page 25. Each NED confirmed that they are able to devote sufficient time to perform their role effectively.

## Board training and development

During the year, Board and Committee members attended Bupa-led specific training and development sessions. These took the form of presentations on specific markets from leading academics and economists to more detailed training on forthcoming regulatory developments. During 2016 the training included the implications of the new Senior Insurance Managers Regime, an Anti-Bribery and Corruption Update and some familiarisation sessions on the new Solvency II regulatory reporting requirements. NEDs also undertook training independently throughout the year to ensure that they maintained their skills and knowledge required for the role. The Committee members also receive training as necessary on specific technical topics. For example, in 2016, the Audit Committee received awareness training on the implications of the new Base Erosion Profit Shifting taxation framework for Bupa.



## Governance report

# Board in action

The Board undertook two overseas visits during the year, the first to Chile in April and the second to Australia in October. These visits enable our Directors to deepen their knowledge of Bupa's global operations and meet with local executives, both of which help to facilitate better decision making.

### Santiago, Chile site visit

In Chile the Board visited the Integramédica Manquehue clinic where they saw the various departments in action. The Board then went on to Bupa Santiago Hospital which is currently under construction. This provided an opportunity to see the new facilities being built and hear about the approach to first class healthcare provision. One to one meetings with executives were held, some of which were tailored to the Directors' expertise and Committee positions, for example, Finance and Audit, Risk and Compliance, Medical, and Brand and Marketing. During the visit the Board also received presentations on the local economy and business environment, facilitated by Banchile Citi.

### Melbourne, Australia site visit

In Australia, Board members visited Bupa Health Insurance and Bupa Optical stores, a Bupa Dental clinic and the Bupa Medical Visa Services centre. These site visits enabled Board members to see the customer experience firsthand and to speak to Bupa's people directly, as well as see the Bupa offering in that market. The Chairmen of the Audit and Risk Committees of Bupa and Bupa Australia attended one to one meetings on the first day followed by a joint Bupa and Bupa Australia Board discussion. Once again some of the meetings with executives were tailored to the Directors' role and expertise including Corporate Affairs and the Political Landscape, Clinical and Remuneration & People.



“Site visits help the Board appreciate the context-specific nature of health and care problems and the challenges faced by management.”

**Sir John Tooke**  
Non-Executive Director



1. Evelyn Bourke visiting a Bupa Optical store in Melbourne during the Board's visit to Australia in October 2016.
2. L-R: Lawrence Churchill and Sir John Tooke visiting the Transformation Hub in Melbourne (Bupa's modern, fit-for-purpose, face-to-face collaboration capability).
3. The Board visiting the construction site of the Bupa Santiago Hospital, during their visit to Chile in April 2016. Top row L-R: Andrés Varas – Bupa Chile General Manager, Iñaki Ereño – CEO Europe & Latin America (ELA), Julian Sanders, Lawrence Churchill, Janet Vouïte, Rita Clifton, Simon Blair and José Francisco Tomás – ELA Medical Director. Bottom row L-R: Sir John Tooke, Joy Linton, Evelyn Bourke and Clare Thompson.
4. L-R: Martin Houston, Julian Sanders and Clare Thompson visiting a Bupa Health Insurance retail store in Melbourne.

# Effectiveness

## Board performance and evaluation

In 2016, the Board and individual Directors underwent the third externally facilitated Board evaluation process. This was conducted by Independent Audit Limited. The two previous reviews were conducted by Boardroom Review.

Independent Audit Limited has no connection with Bupa, other than having provided the online questionnaire tool used for the internally conducted reviews in 2014 and 2015. In 2016, the Board evaluation process took the form of

one-to-one interviews, attendance at the November Board meeting and culminated in a group discussion at the December meeting. The evaluation concluded that Bupa's Board continued to operate effectively in an open and honest manner, providing support and challenge to executive management.

The Board considered the performance of the Chairman during 2016 and concluded that he continued to provide strong leadership of the Board.

### Board performance evaluation action plan 2016 (from the 2015 Board evaluation)

The results from the 2016 action plan (arising from the 2015 internal evaluation) and achievements against the goals set are outlined in the table below.

Categories	Board action plan for 2016	Achievements against action plan during 2016
<b>Strategic focus</b>	Continue to balance the number of strategic and operational agenda items. Explore risk appetite in relation to long-term strategy. Board submissions to be amended slightly to balance the amount of operational and strategic issues discussed.	There has been a shift in the Board's Agenda during 2016 to ensure more space is made available for consideration of strategic issues, including the adoption of a new strategic framework and the ongoing detailed analysis of operations against strategy and risk appetite.
<b>Customers, competition and external developments</b>	Further discuss the activities of Bupa's competitors and external perspectives on Bupa's markets. Monitor and oversee further implementation of the Net Promoter System (NPS) across Bupa.	The Board considered updates from the Market Units in respect of their competitors and also received external perspectives on Bupa's markets during their visits to Chile in April and Australia in October. NPS has continued to be rolled out and embedded across Bupa throughout 2016.
<b>Board impact</b>	Set aside time to ensure there is real clarity about the expectations of the value that the Board can bring to Bupa, once the four new NEDs have been in the role for six months.	The Board's focus in 2016 shifted to ensuring that the right individuals were appointed as the Group CEO and CFO respectively. The four most recently appointed NEDs have brought an enhanced international lens through which to examine the Board's global activities.

### 2017 goals

Priorities arising from the 2016 evaluation are set out below and once again the Nomination & Governance Committee will monitor performance against these priorities during the year. We will report on progress in the 2017 Annual Report.

Categories	Board action plan for 2017
<b>Clarity on medium/long term strategy</b>	Keep Bupa's long term ambitions and strategy under review.
<b>Focus on Non-Executive Director succession planning</b>	Continually review the Board skill set required to lead a global organisation and ensure orderly succession plans are in place.
<b>Board impact</b>	Ensure the Board agenda continues to have space for adequate discussion of emerging risks and opportunities.

## Governance report

### Effectiveness continued

#### Board attendance

The following table sets out the attendance of the Company's Directors at scheduled Board and Committee meetings during 2016:

Number of meetings held	Board meetings 11	Audit Committee 7	Nomination & Governance Committee 5	Remuneration Committee 7	Risk Committee 5
<b>Chairman</b>					
Lord Leitch	11/11	-	5/5	7/7	-
<b>Executive Directors</b>					
Evelyn Bourke	11/11	-	2/4	-	-
Stuart Fletcher <sup>1</sup>	2/2	-	1/1	-	-
Joy Linton <sup>2</sup>	8/8	-	-	-	-
<b>Non-executive Directors</b>					
Lawrence Churchill	11/11	7/7	5/5	7/7	5/5
Rita Clifton <sup>3</sup>	4/4	-	2/2	3/3	-
Simon Blair <sup>4</sup>	10/11	3/4	-	-	3/3
Roger Davis <sup>5</sup>	10/11	5/7	-	3/4	1/2
Martin Houston <sup>6</sup>	10/11	2/3	2/3	7/7	1/2
Clare Thompson <sup>7</sup>	11/11	7/7	3/3	-	5/5
Sir John Tooke <sup>8</sup>	10/11	-	3/3	-	5/5
Janet Voûte <sup>9</sup>	11/11	-	-	4/4	3/3

1 Stuart Fletcher stepped down from the Board and the Nomination & Governance Committee (N&G) on 4 April.

2 Joy Linton joined the Board on 1 May 2016.

3 Rita Clifton stepped down from the Board and the N&G on 11 May.

4 Simon Blair joined the Board on 12 January and the Audit and Risk Committees on 11 May. He was unable to attend the December Board due to a conflicting board meeting.

5 Roger Davis stepped down from the Risk Committee on 11 May. He was unable to attend the April meeting due to a conflicting board meeting.

6 Martin Houston joined the N&G and resigned from the Audit & Risk Committees on 11 May 2016. He was unable to attend the February Board due to an annual commitment.

7 Clare Thompson joined the N&G on 11 May 2016.

8 Sir John Tooke joined the N&G on 11 May 2016. He was unable to attend the August Board due to a conflicting commitment.

9 Janet Voûte joined the Board and the Risk Committee on 11 May 2016.

#### 2016 Board meetings

The Board held 11 scheduled meetings during the year (both in the UK and overseas) and the following table shows key items discussed at those meetings. The Board also attended an annual strategy offsite session in June 2016.

#### Examples of key strategic items covered at Board meetings included:

<b>February</b>	- 2015 Outturn & Impact on 2016-18 Plan - IDM Strategy Update	- Capital & Funding Capacity 2016-2018	<b>August</b>	- Half Year Results
<b>March</b>	- PRA Presentation - Approval of 2015 Annual Report & Accounts	- Digital & Social Media Progress - Strategic Direction	<b>September</b>	- Cyber Risk - UK MU Update - Bupa Insurance Programme
<b>April</b> (meeting held in Chile)	- Group CEO Transition - Talent Breakfast Conversations	- ANZ Customer Transformation Funding - SLA MU Business Update	<b>October</b> (meeting held in Australia)	- ANZ MU Update - Global Brand Strategy
<b>May</b>	- Group CEO Recruitment - 2016 ORSA & Policy	- Brand & Customer Experience	<b>November</b>	- M&A Pipeline & Capacity to Transact - Oasis Dental Care Purchase - Bupa's Financial Framework - Talent & Succession Review
<b>June</b>	- Solvency II - IDM Organisation Structure & Strategy Refresh	- UK MU Clinical Quality	<b>December</b>	- Approval of 2017-2019 Plan - Enterprise Policies - Assets to be Made Available for Sale - Insurance Risk Appetite - Speak Up - IS&T Transformation - External Board Evaluation - IM MU Business Update
<b>July</b>	- Group CEO Recruitment - CFO Appointment - Additional Changes to BET - Board Strategy Offsite	- Bupa Global Corporate Business Strategy - US Strategic Partnership		

# Engagement

## Association Members

Bupa maintains a register of around 100 Association Members (AMs) (115 as at 31 December 2016) who perform a key governance role ordinarily undertaken by shareholders. AMs generally serve for an initial term of ten years which can be extended for further terms of five years. AMs have no equity interest and, consequently, no right to dividends. AMs are eminent individuals in their own field, coming from a diverse range of sectors, including health and social care, business, regulatory, academia, as well as charities and the public sector. Their expertise enables them to provide challenge to the Board on matters of performance and strategy, and furthermore, to draw upon their skills, knowledge and experience to help inform future strategy and development. Fundamentally, their role is to hold the Board to account in delivering on our purpose of helping people live longer, healthier, happier lives. AMs are selected via a number of criteria including having recent and relevant experience in their specific field; being independent of Bupa; being able to make a contribution; and having experience in the key overseas markets in which Bupa operates.

Bupa's AMs have a number of opportunities to engage with the entire Board, including at the AGM which is well attended. Details of the calendar of events are set out in the table to the right. A summary of the questions asked at many of the events is circulated to all AMs, the Board and the Bupa Executive Team which ensures that the views of AMs are well communicated and understood within the business. These more formal sessions are combined with regular correspondence on key changes and developments within Bupa, such as major acquisitions. The Group CEO, Chairman, Senior Independent Director and Company Secretary are available to the AMs throughout the year. To ensure that the AMs are kept fully informed, they also have access to a secure website containing useful information and updates, as well as daily media briefings and a calendar of forthcoming events.

## Bondholders

Bupa also has a number of debt securities in issue by its subsidiary company Bupa Finance plc and is therefore required to operate in accordance with the UK Listing Rules, Disclosure and Transparency Rules and the Market Abuse Regulations in respect of its announcements of financial results and operations. Briefing calls are scheduled for bondholders and other interested parties to discuss the Half Year and Full Year results. This provides an opportunity for them to question management on the financial performance and strategy of Bupa.

## Other stakeholders

Across our markets, we engage regularly with policymakers and regulators, health and care professionals, consumer groups, NGOs and other key stakeholders. This engagement enables us to contribute to the health policy debate and to build an understanding of issues relevant to our customers and to healthcare generally. We also partner with a number of other commercial organisations, to address and positively impact specific health issues as part of our commitment to help more people access better healthcare. Our business model on pages 4-5 explains how we deliver for our Customers.

### Calendar of Association Members engagement events in 2016

<b>March</b>	Financial Results Briefing Call	Briefing call with the Group CEO and CFO following the announcement of financial results allowed the AMs to understand and challenge financial and operational performance.
<b>May</b>	Annual General Meeting	The AGM is preceded by a seminar update in respect of one of Bupa's business areas. In 2016, the Seminar was "Leading Digital Transformation of the Healthcare Industry". 48% of AMs attended the 2016 AGM (2015: 50%). The number of attendees increased in 2016, by 11 AMs, but comprised a smaller percentage of the total number due to the increase in the number of AMs following the extensive 2015 appointment exercise.  At the AGM, Bupa proposes a resolution on each substantially separate issue, including a resolution on the Annual Report and Accounts and the Remuneration Report and Policy. Voting at the AGM is conducted on a show of hands. The questions raised by AMs at the 2016 meeting covered a broad range of areas such as Bupa's strategy, Brexit, Top Risks, Customer Satisfaction, Appointment of the new Group CEO, the National Living Wage, Competition and Digital Opportunities.
<b>July</b>	New AMs' Induction Session	This was an opportunity for newly appointed AMs to gain a further understanding of Bupa, our strategy, their role in our governance and how they can assist Bupa to achieve its purpose. 59% of the newly appointed AMs attended the induction session in 2016.
<b>August</b>	Half Year Results Briefing Call	As for the Financial Results Briefing Call (above).
<b>October &amp; November</b>	AMs' Briefing Sessions	This was another opportunity for engagement with representatives of the Board on matters of strategy and performance. These sessions encourage rigorous challenge and questioning by the AMs. Four briefing sessions were held with a total of 45 AMs in attendance during 2016. A short presentation on Bupa's strategy and development was followed by an in-depth Q&A at each session.
<b>Throughout the year</b>	Updates	Regular email updates provided to the AMs throughout the year as they arise on business and executive changes.



## Governance report

# Audit Committee report



**Clare Thompson**  
Committee Chair

“During 2016, the Committee oversaw the Finance Development Programme focusing on accelerated Solvency II reporting and preparing for the new Solvency and Financial Condition Report and Regular Supervisory Report.”

### Committee members

**Clare Thompson** Chair  
**Simon Blair**  
**Lawrence Churchill**  
**Roger Davis**

### Role of the Committee

The principal role of the Committee is to monitor the integrity of Bupa's financial statements, the effectiveness of the systems of internal controls and to monitor the effectiveness, performance, objectivity and independence of the internal and external auditors. The Committee also reviews regulatory reporting.

A full description of the Committee's role is set out in its Terms of Reference on [bupa.com](http://bupa.com).

### Committee governance

All members of the Committee are Non-Executive Directors (NEDs) and this applied throughout the year. Martin Houston stepped down and Simon Blair joined the Committee on 11 May 2016.

The Group CEO, CFO, Corporate Controller, Chief Internal Auditor, Chief Risk Officer and external auditors are routinely invited to attend meetings. The Committee at least annually holds separate discussions with the external auditor, the Chief Internal Auditor and Chief Actuary without management present. In compliance with the UK Corporate Governance Code (the Code), at least one of the members of the Committee has recent and relevant financial experience. The Committee as a whole has a wide range and depth of financial and commercial experience, a significant amount of which is in financial services. The biographies of members can be found on page 25.

### 2016 activities

As set out in last year's report, the Committee's focus for 2016 was to assess the implementation of the EU Audit Reform regulations and the approach to and timing of placing the external audit out to tender; the further development of the Internal Control and Risk Management Assessment system to ensure its continued effectiveness; and developing the assurance process in respect of IT systems development and digital media. The Committee also undertook core activities such as reviewing financial reporting, approving external audit plans and reviewing financial control and reporting policies.

During 2016, the Committee also:

- Oversaw matters relating to the issue of the £400m 5.00% Fixed Rate Subordinated Notes due 2026 by Bupa's subsidiary Bupa Finance plc.
- Reviewed the policy on the engagement of the external auditor to provide non-audit services and received a quarterly update on engagements with KPMG and other "Big Four" firms.
- Oversaw the new Finance Development Programme to deliver the additional processes, systems and data capabilities to ensure continued compliance with Solvency II Pillar 3 reporting requirements and in addition to bring together other financial strategic change activities.
- Reviewed Solvency II Pillar 3 reporting and plans for narrative reporting in 2017.
- Received updates on the approach taken to implement actions recommended by internal audit, including meetings with management where appropriate.
- Held deep dives to discuss the control environment relating to topics such as cybersecurity, IT controls maturity and third party provider management.
- Received an update on the status of the whistleblowing programme (Speak Up) and reviewed and recommended the related policy to the Board.
- Attended awareness training on the new Base Erosion Profit Shifting legislation coming into effect in 2017.
- Further improved the Auditor Effectiveness review process.

### Key items covered included:

At most meetings the Committee receives reports from Internal Audit, Finance and KPMG and in addition discussed the following:

<b>9 February</b>	- Key Accounting Issues & Areas of Judgement/Outstanding Claims Provision Update/Fraud Risk Management/Effectiveness of Audit Committee
<b>29 February</b>	- Review of Systems of Internal Control & Risk Management (ICRMA)/Annual Report & Accounts 2015/Audit & Non-Audit Services Policy Review/Long Term Viability Statement
<b>April</b>	- Solvency II Reporting/ICRMA Process
<b>June</b>	- KPMG Engagement Letter/KPMG Fee Proposal/Solvency II Reporting/EU Audit Reform - External Audit Tender
<b>July</b>	- Review of ICRMA/Key Accounting Issues & Areas of Judgement/Draft Half Year Report
<b>September</b>	- Financial Reporting Issues/External Audit Lead Partner Change/Speak Up Update
<b>December</b>	- 2017 Global Internal Audit Plan/Insurance Reserving/Draft SFCR and RSR 2016 Reports

## Financial reporting

The Committee reviewed the appropriateness of the Half Year and Annual financial statements, which it carried out with both management and the external auditors and included:

- Whether the Annual Report was fair, balanced and understandable.
- Compliance with disclosure requirements.
- The material areas in which significant judgements had been applied.

In assessing whether the Annual Report was fair, balanced and understandable, the Committee evaluated whether:

### Fair and Balanced

- The narrative reporting in the strategic report is consistent with the financial statements, providing challenge and feedback throughout the production of the Annual Report and Accounts.
- The key judgements referred to in the narrative reporting and the significant issues reported within 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 that are used to measure business performance and management are able to explain their relevance in assessing the results.

### Understandable

- 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.

The Committee has also reviewed the going concern assumptions and underlying principles in the Longer Term Viability Statement. Overall, the Committee is satisfied that the assumptions and principles on which these are based are appropriate and reasonable. They also made an assessment as to whether the requirements of the risk management and internal control section of the Code have been satisfied.

The significant issues and areas of judgement discussed in respect of the 2016 reporting period and how they were addressed are detailed below:

Key issue	Committee response
<p><b>Goodwill and intangible asset valuations:</b> 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 business.</p>	<p>The Committee critically reviewed and discussed management reports outlining the basis of the assumptions used for our most sensitive Cash Generating Units (CGUs) and considered these in light of business performance. The Committee also received information on goodwill testing from KPMG. Particular focus was given to Quality HealthCare (QHC) where the cash flows are dependent in part upon the opening of new clinics along with general growth prospects. The Committee received reports from management regarding an external valuation of QHC as a key factor in supporting the carrying value of goodwill. The Committee is satisfied that the assumptions applied were reasonable and the carrying value of goodwill is appropriate.</p>
<p><b>Claims provisioning:</b> 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.</p>	<p>The Committee received reports from management detailing claims reserving methodologies and reviewed and approved the approach to claims reserving. In particular, the Committee reviewed and approved the assessment of margins of prudence, with a focus into areas where there were changes in methodology or practice. In making these judgements, the Committee also considered reports from the external auditor and is satisfied that the assumptions applied in calculating the claims provision are appropriate.</p>
<p><b>Property valuations:</b> Bupa has a significant portfolio of care home 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.</p>	<p>The Committee considered the results from external valuations and discussed these with management in light of current trading performance of the businesses in which the properties are used and the external environment. The Committee considered and challenged Directors' valuations where no external valuation had been carried out and received information from management about material changes in valuation and any potential write downs. The Committee also reviewed reporting from the external auditors addressing the valuations to assess their reasonableness and considered the appropriateness of disclosures made. A number of properties are classified as held for sale at 31 December 2016. The Committee is satisfied that property values and disclosures for all properties, including those held for sale, are in compliance with financial reporting requirements and are appropriate.</p>
<p><b>Pension assets and liabilities:</b> 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.</p>	<p>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. The Committee challenged and reviewed internal management reports to determine their conclusions; supported by detailed triennial valuations with annual interim reviews produced 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.</p>
<p><b>Acquisitions and disposals:</b> During 2016 Bupa completed the acquisition of Care Plus, a Brazilian health insurer. The purchase of Oasis Dental Care, subject to regulatory approval in 2017, was also announced.</p>	<p>The Committee considered the proposed accounting for Care Plus and management's approach to reporting the acquisition balance sheet given the transaction's close proximity to year end. The Committee challenged management and concluded that the approach was appropriate. Proposed disclosures for the purchase of Oasis Dental Care were also presented to and challenged by the Committee including the proforma impact on solvency capital.</p>

In addition to the above, the Committee has considered any one-off transactions, such as the early redemption of the securitised loan notes, the disposal of Bupa Home Healthcare and the acquisition of increased stakes in Bupa Chile and Max Bupa in the year and is satisfied that these have been appropriately recognised and disclosed in the financial statements.

## Governance report

### Audit Committee report continued

#### External auditors

##### Effectiveness

The Committee assessed the scope, fee, objectivity and effectiveness of the external audit process during the year. Prior to making a recommendation on the reappointment of KPMG, the Committee reviewed the effectiveness of their performance against criteria which it agreed, in liaison with executive management, at the outset of each year's audit. During 2016, the Committee further developed the assessment of the effectiveness of the audit.

The Committee assessed KPMG's effectiveness during Committee meetings held in the year. The Committee also considered the results from:

- the annual auditor satisfaction survey sent to senior management across the Group; and
- a survey sent to the Committee members along with the Group CEO, CFO, Chief Internal Auditor and the Corporate Controller.

The Committee considered a number of areas such as the overall quality of service, timeliness of the resolution of issues, the quality of the audit resource and whether the audit plan was followed. The Committee is satisfied that KPMG continues to provide an effective audit service.

The Committee requested and reviewed the external audit plan, ahead of it being approved to have the opportunity to challenge resources in meeting the plan.

##### Mandatory rotation of external auditors

KPMG has been Bupa's auditor since 1985 and during this time, Bupa has not put the audit out to tender. Daniel Cazeaux was part of Bupa's 2010 audit team and appointed as Bupa's lead audit partner after the conclusion of the 2013 audit. In accordance with the Financial Reporting Council Ethical Standard he will rotate off Bupa's account after the completion of the financial year ended 31 December 2016 audit. The Audit Committee Chair participated in the process to appoint a new lead audit partner Phil Smart along with Bupa's Group CEO, CFO and Corporate Controller. Phil participated in an induction process during the latter part of 2016 which included presentations to and attendance at Committee meetings.

Under the new EU Audit Regulation transitional arrangements, Bupa will be required to rotate audit firm at the next appointment after 17 June 2020. In 2016, the Committee assessed tendering options and decided not to place the external audit out to tender in 2016. After consideration of the requirements, the Committee decided to progress with the rotation of the audit firm for the audit of financial year ending 31 December 2019 at the earliest, but no later than for financial year ending 31 December 2021. The Committee agreed it is likely to be disruptive to rotate the external audit firm earlier than for financial year ending 31 December 2019 when significant focus is being placed on delivering accelerated Solvency II reporting. In the meantime, the Committee will continue to review the effectiveness of KPMG closely.

##### Auditor independence and non-audit services

To ensure that KPMG's objectivity and independence is safeguarded, the Committee has a formal policy addressing Bupa's relationship with the external auditors, which includes financial approval limits for non-audit services and restrictions on the nature of work that can be performed. As outlined in Bupa's Audit and Non-Audit Services Policy, the Audit Committee Chair or the Audit Committee must approve all non-audit related engagements of £200k and above. In 2016, this policy was updated and approved by the Committee to address the requirements as set out in the EU Audit regulation. The Committee reviews non-audit services provided by KPMG and other audit firms, on a quarterly basis, to assess any potential independence issues. As part of the evaluation of the external auditors, the Directors confirmed that they were satisfied that the external auditors had maintained their independence.

The non-audit fees paid to KPMG were £1.4m representing a non-audit to audit fee ratio of 0.2:1. Of the non-audit fees paid, £0.6m was in relation to Solvency II assurance activities and £0.3m was for tax services. Tax services contracted with KPMG were terminated during 2016 to comply with EU audit regulation. The audit and non-audit services are shown in Note 2.3 to the financial statements.

The Committee was satisfied that KPMG continued to be independent. In addition, KPMG also annually reports on whether and why it deems itself to be independent.

#### Internal control and risk management assurance

As noted in the Risks section on pages 17-21, Bupa has an ongoing process for the identification and management of its principal risks and conducts the Internal Control and Risk Management Assessment (ICRMA) to review the effectiveness of internal controls and how well risk management and policy compliance is embedded in Bupa. This is a first line of defence self-assessment, subject to review and challenge by the second and third lines of defence, the results of which are reviewed by the Committee. The Committee considered the results of the ICRMA at both the half and full year. The Risk Committee will assume this responsibility from January 2017.

During these reviews, the Committee did not identify any weaknesses which were determined to be significant to the preparation of the financial statements. The Committee noted that there were no significant changes to the control environment noted in the current year, significant to the preparation of the financial statements. The Committee also noted the steps that had already been, and were planned to be, taken by management, to address those areas identified, and the plans to further enhance the internal control systems and strengthen risk management.

The approach to the ICRMA continues to be subject to regular review and enhancement by management to ensure its continued effectiveness.

#### Internal audit

Internal Audit provides the Committee with assurance over the effectiveness of governance, risk and internal controls. It reviews the effectiveness of controls by undertaking an agreed schedule of internal audits each year. Internal audit operates within a three lines of defence model (see page 17). As the third line of defence, it supports Bupa in accomplishing its purpose by helping the Board to protect the assets, reputation and sustainability of the organisation, and ensure risks to the customer and the Bupa business are appropriately managed. It reports its findings to the Committee and assists both the Board and management to improve the effectiveness of governance, risk management and internal controls.

In order to maintain the function's independence and objectivity, the primary reporting line for the Chief Internal Auditor is to the Chair of the Committee. Bupa's internal auditors have no direct operational responsibility or authority over any of the activities audited. Where specific skills are not available in-house, the Chief Internal Auditor and the Chair of the Committee have the ability to procure the services of expert external advisers. During the year, we appointed PwC as Internal Audit's first global co-sourcing provider. Bupa commenced onboarding in December, ensuring we were well placed to bring additional expertise and insights to the fore in delivering the 2017 Plan.

The assurance provided by Internal Audit was a crucial part of the Committee's consideration of Bupa's overall control environment during the year. In 2016, 106 audits were completed in line with the Internal Audit Plan approved by the Committee. There was a particular focus on conduct risk and customer experience, change management activities, critical business processes and data and digitalisation. The Committee received regular updates on internal audit activity as well as management's progress in addressing audit findings.

The Committee reviewed and approved the 2016 Plan and budget in December 2015. The annual Plan is developed within the context of a three year strategic internal audit plan, using a risk based methodology including input from senior management and the Board. In June, the Committee approved a half year refresh of the 2016 Plan based on a refreshed risk assessment in line with the Global Internal Audit methodology. The Committee also conducted an annual review of the Internal Audit Charter and recommended it to the Board for approval in December 2016.

The function acts in accordance with the Global Institute of Internal Auditors' International standards. In addition to the external assessment on the effectiveness of the function (due to be conducted again in 2018), Internal Audit maintains a quality assurance and improvement programme that includes an evaluation of the function's adherence to these standards. The programme outcomes were reported to the Committee which concluded that the quality, experience and expertise of the

function continue to be appropriate for the Bupa business. Across our global Internal Audit function we have a diverse skill-set with the majority of the team holding accounting or internal auditing qualifications, as well as having gained experience in insurance, health provision, transformation or technology assurance.

### Strengthening linkages with subsidiary audit committees

Progress was made in strengthening linkages with major subsidiaries. The Committee Chairman held meetings with the Chair of Bupa Chile's audit committee and the Chief Financial Officers and Head of Internal Audit of our Chilean and Spanish businesses during the Board's visit to Chile. During the Board's visit to Melbourne, the Committee Chairman held meetings with the Chair of the Australian board audit committee and Finance and Internal Audit managers of our Australian business. The Committee Chair also holds one-to-one calls with the Chairs of the audit committees of Bupa's major subsidiaries throughout the year.

### Whistleblowing

The Committee received regular updates on the adequacy and security of the Company's enhanced whistleblowing process, known as "Speak Up" which was launched in 2016. A programme of communications to all Bupa's people has commenced and the issues raised through this process will be brought to the Committee for discussion on an ongoing basis.

### Committee effectiveness review

Overall, the Committee considered that it was effective during 2016 and noted the need to continue strengthening of management's reporting to the Committee.

### Plans for 2017

In 2017, the Committee plans to:

- Continue to monitor the ongoing programme of improvements in the control environment and receive regular reports from the Internal Audit function.
- Oversee the automation and efficiency improvements in accelerated Solvency II Pillar 3 reporting.
- Oversee the purchase price accounting for major acquisitions such as those recently announced for Care Plus and Oasis Dental Care.
- Work closely with Bupa's new KPMG Lead Audit Partner, Phil Smart and receive a refreshed audit plan.
- Oversee the analysis and implementation of new accounting standards, particularly the impact of the new insurance contracts standard when it is finalised.



## Governance report

## Risk Committee report



**Lawrence Churchill**  
Committee Chair

“During the year the Committee emphasised the embedding of the Risk Management Framework across the Group, supported the strengthening of information security capabilities, identified longer term emerging risks and continued to strengthen relationships with the board risk committees of our major subsidiaries.”

### Role of the Committee

The principal role of the Committee is to assist the Board in its leadership and oversight of risk across Bupa.

This includes:

- Understanding and, where appropriate, optimisation of current and future risk exposures.
- Reviewing and recommending overall risk appetite and tolerance to the Board.
- Reviewing the consistency of corporate strategy and risk appetite.
- Reviewing the risk management framework including Enterprise Policies, process and controls.
- Receiving and considering reports on all categories of risk.
- 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](http://bupa.com).

In making this report, the Committee does not wish to duplicate the detailed description of Bupa's Risks which are set out on pages 17-21 and form part of the strategic report.

➤ Risks see [pages 17-21](#)

### Committee governance

The Chief Risk Officer continues to have unrestricted access to all members of the Committee.

Sir John Tooke was appointed to the Committee on 1 January 2016 to further strengthen the clinical membership. Simon Blair and Janet Voûte both joined the Committee on 11 May 2016. Roger Davis and Martin Houston stepped down on 11 May 2016. Members of the Committee are all Non-Executive Directors (NEDs) and this applied throughout the year; the Group CEO, CFO, Chief Risk Officer, Chief Medical Officer and Chief Internal Auditor are routinely invited to attend all meetings. Representatives from the external auditors, KPMG, are also invited to attend all meetings. The biographies of members can be found on page 25. David Fletcher became Chief Risk Officer on 1 January 2017. The Committee expresses its thanks and appreciation to Gerry Kelly for his excellent support over the last three years, as Chief Risk Officer.

### Committee members

**Lawrence Churchill** Chairman

**Simon Blair**

**Clare Thompson**

**Sir John Tooke**

**Janet Voûte**

### Key items covered included:

<b>February</b>	- Country Concentration Risk/Governance of Information/Stress and Scenario Testing/Property Risk Concentration/Clinical Quality and Risk Quarterly Report/Clinical Risk Framework/Risk Committee Evaluation
<b>April</b>	- Emerging Risks/Governance of Information/Draft ORSA Report & Policy/Brexit Impact Assessment/Stress & Scenario Testing/Worldwide Scenario Proposal/Chief Medical Officer's Report
<b>July</b>	- Review of Insurance Programme/Group Actuarial Function Report - Year End 2015/Group Risk Appetite Statement Review/Chief Medical Officer's Report/UK Care Homes - Continuous Improvement Programme
<b>October</b>	- Crisis Management and Business Continuity Review/Remuneration - Risk Considerations/Group Risk Appetite Statements/ICRMA/Chief Medical Officer's Report
<b>November</b>	- 2017 Insurance Compliance Plan/Information Risk Update/Insurance Risk Appetite/Health & Safety Update

## 2016 activities

As set out in last year's report, the Committee's focus for 2016 was to oversee the embedding of Solvency II procedures, monitor enhancements to risk policies and embedding in the first line, monitor a strengthening of our Information Security systems, dynamically monitor changing patterns of risk exposure and integrate the oversight of Clinical Governance.

### Solvency II

Solvency II is a major focus and force for good in strengthening risk management. The Risk Management Framework, System of Governance and the Senior Insurance Managers Regime have been implemented.

### Embedding risk policies

The Committee encouraged management to continue to strengthen the first line of defence with a view to embed the appropriate culture across the business. The Bupa Enterprise Risk Committee plays a leading role as the most senior first line executive committee. During the year, we have seen improvements in the self assessments provided by the first line via the Internal Control and Risk Management Assessment. In the most recent review, the Committee noted high standards of performance in Australia and Spain and continued evolution required in the UK and developing markets.

### Strengthening our Information Security Systems

We have significantly strengthened Bupa's information security capabilities, including the ability to detect and respond to hostile cyber attacks. We recognise however that it is impossible to claim complete immunity from these threats and this remains a key area of focus for the business.

### Dynamically monitor changing patterns of risk exposure

The Committee receives management's assessment of the top risk profile each quarter. During 2016, the Committee held its first examination of longer term emerging risks in a half day session which included participation from the Chairs of our Australian and Spanish board risk committees. A number of the ideas and questions raised have been carried through to our Board strategy sessions.

### Integrating oversight of clinical governance

The Committee's capability was enhanced by the membership of Sir John Tooke, who had previously chaired the Medical Advisory Panel and now chairs the new Medical Advisory Council, and by attendance of the Chief Medical Officer, who has been responsible for the development of an enhanced Clinical reporting system. The Chief Medical Officer presents a quarterly assessment of clinical risks across Bupa operations. Both Sir John Tooke and the Chief Medical Officer ensure that the opportunities and risks arising from medical innovation are brought to the Committee's attention.

### Strengthening linkages with subsidiary risk committees

Progress was made in strengthening linkages with major subsidiaries. Bupa's suite of 31 Enterprise Policies has been adopted by the Boards of our major subsidiaries and deployment throughout the business continued. The Committee Chairman held meetings with the Chief Risk Officer (CRO) for Spain and Latin America domestic business during the Board's visit to Chile, and with the Risk Chair and CRO of our Australian business during the Board's visit to Melbourne. In addition, as reported above, the Chairs of the Australian and Spanish subsidiary board risk committees attended the Committee's meeting on emerging risks. The Chair of Bupa UK's insurance company also attended a Group Risk Committee meeting.

During 2016, the Committee also considered the following:

#### New market entry risk assessments

Throughout the year, the Committee considered the risks associated with Bupa's expansion plans and those associated with each proposed major acquisition. These reviews included the consideration of whether new market opportunities were within risk appetite and the impact on Bupa's solvency position arising from growth through acquisition.

### Risk and remuneration oversight

During the year, the Committee provided a formal report as part of the Remuneration Committee's assessment of the Company's performance throughout the calendar year in relation to risk management and performance. This process continues to be developed and as a result, more emphasis on Return on Capital will be included in future assessments. The Chairman of the Committee also serves as a member of the Remuneration Committee to ensure close liaison between the two Committees.

### Committee effectiveness review

Overall, the Committee considered that it was effective during 2016 and noted the need to continue to focus on areas such as developing an explicit linkage between Risk Appetite and Strategy.

### Plans for 2017

In 2017, in addition to monitoring Bupa's Risk Profile, the Committee plans to:

- Further develop its role alongside the risk committees of our major subsidiaries.
- Ensure an even closer connection between risk appetite and Bupa's strategy.
- Focus on the embedding of current Enterprise Policies.
- Continue to articulate emerging risks challenging Bupa's strategy.

## Governance report

# Nomination & Governance Committee report



**Lord Leitch**  
Committee Chair

“In 2016, the Committee oversaw the appointment of a new Group Chief Executive Officer to drive Bupa forward and enhance our strategy and performance. We also oversaw the appointment of a new Chief Financial Officer and two new Non-Executive Directors to the Board.”

## Role of the Committee

The Committee leads the process for Board appointments and makes recommendations to the Board, as well as reviewing the balance of skills, experience, knowledge, structure and composition of the Board and its Committees.

The Committee keeps Bupa’s governance structures under review and makes appropriate recommendations to ensure that, where appropriate, Bupa’s arrangements are consistent with best practice governance standards. The Committee also identifies and selects suitable Association Member (AM) candidates.

A full description of the Committee’s role is set out in its Terms of Reference on [bupa.com](http://bupa.com).

## Committee governance

Members’ biographies can be found on page 25. Martin Houston, Clare Thompson and Sir John Tooke were appointed to the Committee on 11 May 2016. Evelyn Bourke joined the Committee on 25 July 2016. Stuart Fletcher stepped down from the Committee on 4 April 2016. Rita Clifton stepped down on 11 May 2016 following her retirement from the Board. The Chief People Officer and CFO are invited to attend meetings where considered appropriate.

## 2016 activities

During 2016, the Committee considered the following:

### Board succession

The Committee focused on Board recruitment during 2016. Evelyn Bourke was appointed as Acting Group CEO when Stuart Fletcher stepped down in April. The Committee agreed the key attributes required of Stuart’s successor and considered both internal and external candidates against these criteria. Lawrence Churchill in his capacity as the Senior Independent Director and I, together with Elisa Nardi the Chief People Officer, prepared a detailed role specification and the JCA Group was retained to provide external search consultancy services. JCA also provided consultancy services for other executive roles within Bupa. At the conclusion of this process, the Committee unanimously agreed to recommend to the Board that Evelyn be appointed as Bupa’s Group CEO. Upon appointment, Evelyn formally recommended to the Board that Joy, who had been Acting CFO, be appointed to the role in a permanent capacity. The Committee discussed Joy’s performance as Acting CFO and concluded that it was supportive of Joy’s appointment as the CFO.

## Committee members

Lord Leitch *Chairman*  
Evelyn Bourke  
Lawrence Churchill  
Martin Houston  
Clare Thompson  
Sir John Tooke

## Key items covered included:

<b>February</b>	- Bupa’s Annual Report & Accounts 2015: Corporate Governance Report/Board Succession & Board Committee Membership/Subsidiary Non-Executive Director Appointment/Association Members Update/Board & Committee Evaluation Process 2016/Board Development & Training Update/Non-Executive Director Expenses
<b>May</b>	- Group CEO Recruitment Process
<b>July</b>	- Group CEO Recruitment Update/Appointment of CFO/Subsidiary Non-Executive Director Appointment
<b>September</b>	- Succession Planning/Association Members Update/Board Evaluation/Committee Terms of Reference
<b>December</b>	- AM Update, Compliance with UK Corporate Governance Code/Corporate Governance Issues Update

Simon Blair and Janet Voûte were both appointed as NEDs on 12 January 2016. The recruitment process undertaken with Ridgeway Partners LLP was reported on in the 2015 Annual Report.

Our approach to Board diversity is explained on page 29.

#### **UK Corporate Governance Code**

The Committee continued to monitor Bupa's compliance with the UK Corporate Governance Code (the Code) with an update in December 2016.

#### **Governance issues**

The Committee receives regular updates on emerging governance issues which are subsequently shared with the wider Board. For example, during the year the Committee discussed the Government's green paper on Corporate Governance Reform, in addition to other governance developments.

#### **Association Members**

The Committee agreed at its meeting in September 2016 that there was no need to identify any further AMs because there were 115 AMs at the year end with only five AMs scheduled to retire during 2017. There would therefore continue to be in excess of 100 AMs, our target number, at the end of 2017.

#### **Committee effectiveness review**

Overall, the Committee considered that it was effective during 2016 and noted the continued need to focus on succession planning.

#### **Plans for 2017**

In 2017, the Committee plans to focus on Board succession planning, including identifying the key skills, knowledge and experience that the Board requires for the future and the possible recruitment of a new NED. The Committee will also keep under review the need to undertake a further recruitment exercise for AMs.



## Remuneration report

# Part 1: Committee Chairman's letter



**Martin Houston**  
Committee Chairman

“This year the Committee reviewed the Directors’ Remuneration Policy, compliance with Solvency II remuneration requirements, governance arrangements for subsidiary board remuneration committees and remuneration packages for all new BET appointments.”

### In the Remuneration report:

**Part 1: Committee Chairman's letter**

**Part 2: Policy**

**Part 3: Implementation (audited)**

On behalf of the Board, the Remuneration Committee is pleased to present the Directors’ Remuneration Report for 2016.

### Role of the Committee

We seek to ensure that we are not only rewarding people for delivering great customer outcomes and long-term sustainable performance against our agreed strategies and plans, but also putting in place reward structures that attract and motivate the very best people and ensure our people love working at Bupa. I am convinced that we are delivering and at times exceeding our goals, though we cannot and will not rest here. There is still much to achieve.

### 2016 activities

It has been a busy year for the Committee and for the first time we held a half-day strategy meeting and agreed to increase our number of meetings for 2017 to deal with increasing regulatory requirements.

I would like to highlight four key areas where we have focused our time and made tangible and positive progress.

### 1. Directors’ Remuneration Policy

Bupa’s current Directors’ Remuneration Policy was approved at the 2014 Annual General Meeting (AGM). In line with reporting requirements applying to listed companies, which require those companies to submit the Directors’ Remuneration Policy to shareholders for approval every three years, the Committee undertook a detailed review of the existing policy and propose a number of changes which are incorporated into the revised policy and will be presented for approval at the 2017 AGM.

From 2017, one of the key changes is the balanced scorecard for measuring performance for both the Management Bonus Scheme (MBS) and the Long Term Incentive Plan (LTIP). The objective for this change is to ensure we use measures based on reinforcing the sustainable long-term financial strength of Bupa enabling us to deliver on our purpose; helping people to live longer, happier, healthier lives.

For the short-term MBS scorecard, Profit, Revenue, Risk Adjusted Profit, Cost Efficiency and Customer have been set as the measures. For the LTIP scorecard, we will use Profit After

Tax, Return on Capital Employed and Customer measures. For both the MBS and the LTIP, in addition to the scorecards, the Committee will be applying an overall adjustment based on risk management across Bupa.

The Committee has worked closely with its advisers and management in developing these plans and the Remuneration Policy, which reflect a shared agenda in how Bupa rewards future performance, with customers and risk management at the heart of what we do.

### 2. Solvency II compliance

Much of our 2016 agenda was focused on making sure we both understood and then implemented changes to our policies to ensure compliance with our evolving approach to the Solvency II remuneration requirements. Further, we put in place arrangements to deal with individuals covered by the regulations, e.g. Solvency II identified staff.

### 3. Introduction of remuneration committees for subsidiary boards

We are making excellent progress with the establishment of remuneration committees in our Australia and New Zealand (ANZ) Market Unit, as well as our UK regulated entity Bupa Insurance Limited (BINS). The Hon. Nicola Roxon will chair the ANZ remuneration committee and the chairman of the new BINS Remuneration Committee will be nominated by the BINS board shortly. Terms of Reference will ensure that the responsibilities of these committees and how they interact with this Committee, are clear. They will also take account of any specific local regulatory requirements.

### 4. Executive appointments

The year was dominated by key personnel changes at Executive Director and Bupa Executive Team (BET) levels. As well as the appointments of the new Group CEO and CFO, there were six new BET appointments. The Committee agreed the terms for both incoming and outgoing executives and retirements contemplated at year end. In all cases, we carefully reviewed all elements of remuneration and used benchmarking prepared by Mercer, remuneration advisors to the Committee and management, to calibrate our proposals.

## Performance and Pay in 2016

### Salary

The Committee has decided in light of salary increases awarded in 2016 upon appointment to Group CEO and CFO, that no further salary increases should be awarded for 2017.

### Management Bonus Scheme

As you will have seen, our business performed solidly in challenging market conditions. We achieved good profit growth in our three largest Market Units – Australia and New Zealand, the UK, and Europe and Latin America – while performance within International Markets was impacted by a significant decline in profit within Bupa Global.

The Management Bonus Scheme (MBS) for 2016 reflects Bupa’s performance not only against profit and revenue targets, but also non-financial measures including risk, people and customer.

To recognise significant achievements in a year that saw changes to our strategy, the leadership team, the organisational structure and to organisational processes, the Committee approved adjustments to the vesting level of the MBS to mitigate the effect of the disposal of BHH and the fact that the transaction costs relating to the purchase of Oasis Dental Care fell in 2016.

The Committee also discussed the effectiveness of the management of risk. It received input from the Risk and Audit Committees of the main Board as well as of the main subsidiary Boards. While the Committee noted that progress had been made during the year, the Committee decided to apply a reduction to the vesting percentage.

The Committee approved bonuses of 83.7% and 87.6% of target bonus opportunity for the Group CEO and CFO respectively, this payout also includes an individual performance modifier which takes into account strong individual performance during the year. A partial mandatory deferral of the MBS was introduced in 2014 and therefore a proportion of these bonuses has been deferred for three years and is subject to malus and clawback provisions over this period. More details are provided on page 45.

### Long Term Incentive Plan

The 2014-16 LTIP vesting is based on performance against Profit After Tax (PAT) and Revenue, and quality and sustainability targets. In reviewing the vesting of this LTIP, the Committee exercised its discretion to exclude the impact of the redemption of secured loan notes, which was deemed to be a strategic decision taken to optimise the Group’s borrowings for the future and the 2016 one-off charge was not a reflection of performance in the 2014-2016 period. As with the MBS, while the Committee noted that progress had been made during the year on risk management, the Committee decided to apply a reduction to the vesting percentage.

As stated in last year’s Directors Remuneration Report, the Committee calculated vesting of LTIP using an equal balance of actual and constant exchange rates to ensure the LTIP outcome reflects both actual results and controllable performance.

Based on this and Bupa’s performance against targets calculated as per plan rules, the 2014-16 LTIP vested at 87.65% of target.

### Plans for 2017

In 2017, the Committee plans to:

- Further develop our approach to remuneration to reflect updated Solvency II guidance;
- Continue with the development of subsidiary board remuneration committees;
- Review new approaches to compensation and best practice; and
- Build on measuring customer and risk and their influence on the outcome of incentive awards.

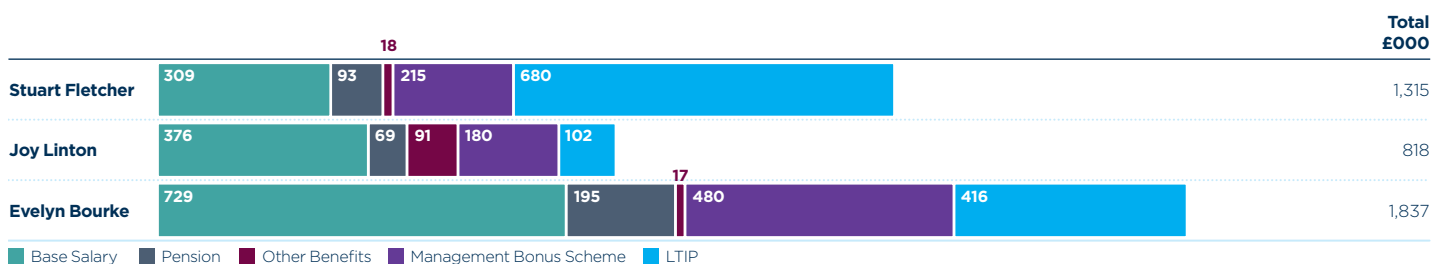
We are committed to being open and transparent with our Association Members. In addition to the familiar advisory vote on the Remuneration Report, we will this year have advisory votes on Bupa’s Remuneration Policy and the proposed LTIP.

I am available to our Association Members on any aspect of Bupa Remuneration.

**Martin Houston**  
Committee Chairman

1 March 2017

### Single figure remuneration 2016 (£000)



For more information please see page 48.

## Remuneration report

# Part 2: Policy

### Context

The aim of Bupa's remuneration policy is to promote the long-term success of the Company and motivate management to deliver strong and sustainable business performance aligned with Bupa's purpose: helping people *live longer, healthier, happier lives*. The policy is intended to deliver a competitive level and mix of remuneration compared with companies of a similar scale and complexity to Bupa.

### Remuneration policy table – Executive Directors

Base Salary	Management Bonus Scheme	Long Term Incentive Plan	Pension	Benefits
<b>Purpose and link to strategy</b>				
Core element of remuneration set to attract and retain Executive Directors, reflecting their role and contribution.	To drive behaviour and to promote focus on the business priorities for the year.  To motivate and incentivise delivery of performance over the annual operating plan.	To motivate and incentivise delivery of sustained performance over the long term aligned to Bupa's strategic objectives.	To provide an income after retirement, health security and family protection benefits.	To attract and retain Executive Directors by providing health and wellbeing benefits and providing security for families.
<b>Operation</b>				
Salary levels are reviewed annually with any changes becoming effective in April.  Factors taken into account include:  <ul style="list-style-type: none"> <li>Level of skill, experience and scope of responsibilities of the individual;</li> <li>Overall business performance, scarcity of talent, economic climate and market conditions;</li> <li>Increases across Bupa, and;</li> <li>External market data.</li> </ul>	Bonus levels and the appropriateness of measures and weightings are reviewed annually to ensure they continue to support the business strategy.  Performance over the financial year is measured against stretching financial and non-financial performance targets set at the start of the financial year.  Typically 50% of any bonus awarded will be deferred for a period of up to three years, with the remaining 50% paid in cash. To account for any loss of value over time, a modest uplift will be applied to the deferred amount.	As Bupa cannot provide incentives based on equity participation, it provides an LTIP in the form of a deferred cash incentive that is broadly reflective of equity-based plans in comparable companies.  Awards are usually made on an annual basis and relate to performance over a three-year period.  Vesting of awards is based on the extent to which performance targets, set and assessed by the Committee, are achieved.  Any payments will be made at the end of the performance period and a portion may be deferred for up to two years.	For the current Executive Directors and new appointments, the Company operates a defined contribution pension scheme, called The Bupa Retirement Savings Plan. Executive Directors have the option to take any employer contribution as a cash allowance or a combination of pension contribution and cash allowance.	Executive Directors are entitled to a number of taxable benefits which may include private health cover for themselves and their family, an annual health assessment for themselves and their partner, life insurance, income protection insurance, car allowance and 30 days' annual holiday. The Group CEO is entitled to the use of a car and driver instead of a car allowance.  The benefits offered may need to be changed from time to time to reflect changing circumstances.
<b>Maximum opportunity</b>				
Salary increases are normally in line with those of the Bupa employee population.  Larger increases may be given in certain circumstances including where a new recruit has been appointed on lower than market rate salary with the expectation of phased increases to bring it up to market level.  The Committee does not consider it appropriate to set a maximum salary level.	The maximum bonus opportunity will not exceed 200% of base salary.	The maximum award will not exceed 275% of base salary.	Executive Directors who are eligible to be members of The Bupa Retirement Savings Plan receive employer contributions of up to 30% of base salary.	There is no specific maximum benefit spend.
<b>Performance metrics</b>				
None	MBS payments are based on the achievement of challenging financial and non-financial objectives.  No less than 75% of the annual bonus will be subject to the achievement of financial measures which will be aligned to the strategic priorities of the business.	Vesting of awards is based on performance against a combination of financial and non-financial measures.  Threshold performance results in a payment of 15% of the maximum.  No less than 75% of the LTIP will be based on financial measures with the remainder based on measures linked to key strategic priorities of the business.	None	None

### Malus and clawback

Malus and clawback provisions may be operated at the discretion of the Committee in respect of awards granted under the MBS and LTIP. Malus (under which awards may be reduced, cancelled or made subject to additional conditions) may be applied prior to the payment of the award. Clawback (requiring a repayment of cash which has been delivered) may be operated for up to three years following payment of the non-deferred element of the MBS and five years from grant for the LTIP.

Circumstances in which the operation of these provisions may be considered include:

- Misstatement of results;
- An error in assessing any relevant performance metric or in the information or assumptions on which the MBS or LTIP is determined;
- Serious reputational damage to Bupa or a relevant business unit;
- A scenario in which significant risk has been taken which is outside of Bupa's or a relevant business unit's risk appetite;
- Gross misconduct or material breach of employment contract; and
- Any other circumstance which the Remuneration Committee in its discretion considers to be similar in nature or effect to the above.

### Performance measures and target setting

Measures and targets for the MBS are aligned to delivery of Bupa's annual operating plan and may include personal objectives that change from year-to-year.

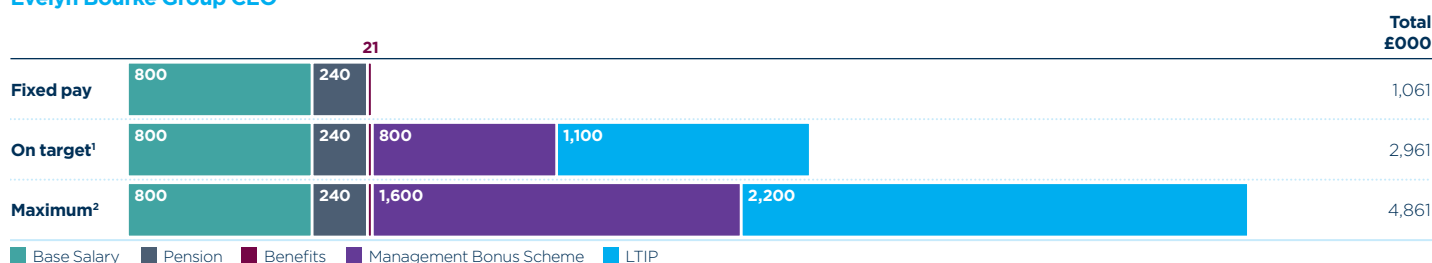
Measures and targets for the LTIP are set by the Remuneration Committee taking into account a number of internal and external reference points which include historic Bupa performance, internal forward-looking plans and broader market trends. Targets are set for vesting at threshold, 'on-target' and out-performance levels.

### Illustrations of the application of the remuneration policy

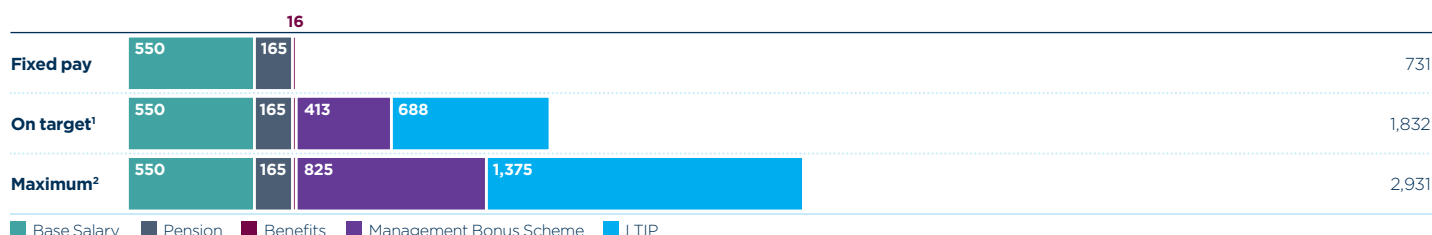
Bupa aims to provide a balance of fixed and variable compensation that provides stability while also incentivising superior business performance. At target, over 50% of Executive Directors' remuneration is based on individual and company performance.

The graph illustrates the possible variation for different levels of performance.

**Remuneration at various levels of performance (€000)**  
**Evelyn Bourke Group CEO**



### Joy Linton CFO



1 On target figures have been calculated on the basis that Bupa achieves target financial and non-financial performance and individual multiplier is set at 100%.  
 2 Maximum figures have been calculated on the basis that Bupa achieves maximum financial and non-financial performance and individual multiplier is set at 200%.

## Remuneration report

### Part 2: Policy continued

#### Remuneration Committee discretion

The Remuneration Committee has ultimate discretion over all incentive plans relating to the Executive Directors and other individuals within its remit. This includes, but is not limited to:

- determining the size of the award/payment;
- determining whether minimum levels of performance have been met or underlying performance is satisfactory before determining vesting of any awards;
- determining whether the management of risk has been acceptable, or whether any downward adjustments are required;
- choosing or adjusting performance measures within the Remuneration Policy and the plan rules;
- determining whether individuals are good leavers for incentive plan purposes, based on plan rules;
- making one-off adjustments in exceptional circumstances.

#### Approach to remuneration policy on recruitment of an Executive Director

Our approach to remuneration on recruitment is to pay no more than is necessary and appropriate to attract the right talent to the role.

The remuneration policy table on page 44 sets out the various components which would be considered for inclusion in the remuneration package for the appointment of an Executive Director. Typically a new appointment will have (or be transitioned onto) the same framework that applies to other Executive Directors as set out in the policy table. Salary would reflect the skills and experience of the individual, and may be set at a level to allow future salary progression to reflect performance in the role.

It would be expected that the structure and quantum of the variable pay elements would reflect those set out in the policy table.

The Committee reserves the right to make any remuneration payments or payments for loss of office where the terms of the payment were agreed (i) before the remuneration policy came into effect or (ii) at a time when the relevant individual was not a Director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the company.

To facilitate recruitment, the Committee may make compensatory payments and/or awards for any remuneration arrangements subject to forfeit on leaving a previous employer. We will seek to replicate, as far as practicable, the potential value and time horizon of such remuneration, as well as performance conditions that may apply. In some circumstances, it might also be necessary to set up additional or alternative arrangements including but not limited to:

- Relocation-related expenses; and
- International assignment allowances and expenses.

In the case of internal promotions, any commitments made before appointment may continue to be honoured unless an alternative approach, more closely aligned to the prevailing policy, is agreed by the Remuneration Committee.

Any special joining arrangements may include malus and/or clawback, for example, tied to leaving within a certain period.

#### Differences in remuneration policy for Executive Directors compared with other employees

The Remuneration Policy for the Executive Directors is designed to be broadly similar to the policy applicable to Bupa employees to ensure that they are all aligned to delivering sustainable business performance. Although the size of the opportunity varies, the underlying principles of the salary review cycle, MBS and LTIP remain the same for the senior employee population.

Junior employees are not eligible for LTIP awards, although most have an MBS opportunity. In some cases, additional flexibility has been introduced for the Executive Directors and senior employees (e.g. to provide choice to receive cash in lieu of pension contributions) to allow for personal circumstances.

A small number of senior managers across Bupa participate in the LTIP, based on the same framework as the Executive Directors, with award levels calculated as a percentage of salary which is scaled down based on their level of seniority and accountability. Vesting of the awards is dependent upon performance against specific financial and non-financial measures over a three-year performance period.



## Policy on payments for loss of office

The table to the right summarises the key elements of our policy on payment for loss of office, which will comply with the relevant plan rules and will consider local employment legislation.

Any payments made due to loss of office may include malus or clawback provisions as described under malus and clawback on page 45.

## Service contracts for Executive Directors

Executive Directors have a 12-month rolling employment contract. The notice requirements are 12 months from both the Company and the individual, which may be payable in lieu. The contracts also include specific post-termination restrictions. Executive Directors are usually permitted, subject to approval, to have one external Non-Executive Director role and to accept and retain the fee for this appointment. This is on the condition that any external appointment does not give rise to a conflict of interest.

Provision	Policy
<b>Notice period and compensation for loss of office in service contracts</b>	<ul style="list-style-type: none"> <li>- 12 months' notice from the Company to the Executive Director.</li> <li>- Up to 12 months' base salary (in line with the notice period). Notice period payments will either be made as normal (if the Executive Director continues to work during the notice period or is on garden leave) or at the termination date for any unexpired notice period.</li> </ul>
<b>Treatment of MBS on loss of office under plan rules</b>	<ul style="list-style-type: none"> <li>- The Committee may make a MBS payment for the year of cessation depending on the reason for leaving. Typically, the Committee will take into consideration the period served during the year and the individual's performance up to cessation. Any such payment is at the discretion of the Committee.</li> <li>- Any MBS will be paid at the normal time following the end of the performance year.</li> </ul>
<b>Treatment of LTIP on loss of office under plan rules</b>	<ul style="list-style-type: none"> <li>- An Executive Director's award will vest in accordance with the terms of the plan and satisfaction of performance conditions measured at the normal completion of the performance period if the reason for leaving is redundancy, pre-agreed retirement, early retirement on the grounds of ill health, death or any other special circumstance agreed by the Committee. In these cases, final awards will be pro-rated based on completed months of service, in 36ths for the actual period of active employment during the plan performance period. The period of active employment excludes any period of garden leave or other such period when the Executive Director was legally employed but not required to actively carry out their duties. For any other reason, they will not be eligible for an LTIP payment.</li> <li>- Any LTIP payment will be paid at the normal time e.g. in April following the end of the performance period, or two years later for any deferral.</li> </ul>
<b>Pension and benefits</b>	<ul style="list-style-type: none"> <li>- Generally pension and benefit provisions will continue to apply until the termination date.</li> </ul>

## Remuneration policy table - Non-Executive Directors

### Service contracts for Non-Executive Directors

Terms of engagement for the Non-Executive Directors of Bupa set out the fees and benefits to which they are entitled as well as the expectation of the time commitment required to effectively perform their role. Copies of the standard terms of engagement are available on [bupa.com](http://bupa.com).

The table to the right describes the pay policy as it applies to the Chairman and Non-Executive Directors.

Element	Purpose and link to strategy	Operation
<b>Fees</b>	To attract and provide stability, reflecting the complexity of the role and time commitment required	<p>The Chairman receives an all inclusive fee.</p> <p>NEDs receive a fixed basic fee. Additional fees are paid for chairing and membership of Board Committees and/or additional work in relation to subsidiaries, and for the Senior Independent Director role.</p> <p>Fees are reviewed annually by the Board with any changes implemented in July. Key factors taken into account include:</p> <ul style="list-style-type: none"> <li>- Overall business performance;</li> <li>- Scope and responsibility of the role;</li> <li>- Appropriate market data; and</li> <li>- NEDs are not eligible for any form of variable pay.</li> </ul>
<b>Benefits</b>	To provide health and wellbeing benefits aligned with Bupa's purpose	During their time in office, NEDs are entitled to private health cover for themselves and their family and an annual health assessment for themselves and their partner. The Chairman is also entitled to the use of a car and driver. These benefits are taxable. Travel and subsistence expenses for attending Bupa meetings are reimbursed as well as the additional tax and NIC, where these are treated as taxable income.

## Remuneration report

## Part 3: Implementation (audited)

The Implementation Report sets out details of Executive Directors' and Non-Executive Directors' pay and shows how the Executive Directors' and Non-Executive Directors' remuneration policy has been implemented in 2016 and how it will be applied for 2017. As well as disclosing remuneration figures for the Executive Directors, it includes details on the degree to which performance targets have been achieved and the resulting level of MBS payout and vesting of LTIP.

Set out below is a table showing a single total figure of remuneration for each Executive Director in 2016. Comparable figures for 2015 are also included in this table.

**Detail of performance against metrics for MBS**

For 2016, the Group CEO's target bonus opportunity was 100% of salary with a maximum of 150% of salary. The CFO's target bonus opportunity was 75% of salary with a maximum of 112.5% of salary. The performance measures used to determine the 2016 annual bonus for our Executive Directors were as follows:

- Group profit (50% of award) - similar to underlying profit before taxation, with the most significant differences being the inclusion of restructuring and transaction costs on acquisitions and disposals;
- Group revenue (25% of award) - includes Bupa's proportionate share of revenue from associates and joint ventures, which is not included within reported revenue; and
- Non-financial metrics (25% of award).

The Committee assessed the profit and revenue elements against the targets set at the start of the year and are comfortable that the amounts earned reflect Bupa's underlying financial performance.

The financial targets for the MBS and actual performance of the Company are shown in the table below.

Our business performed solidly in challenging market conditions. We achieved good profit growth in our three largest Market Units - Australia and New Zealand, the UK, and Europe and Latin America - while performance within International Markets was impacted by a significant decline in profit within Bupa Global.

The MBS for 2016 reflects Bupa's performance not only against profit and revenue targets, but also non-financial measures including risk, people and customer.

**Executive Directors: Single total figure of remuneration**

Director	Year	Salary £000	Benefits £000	MBS <sup>1</sup> £000	LTIP <sup>1</sup> £000	Pension £000	Total £000
Evelyn Bourke <sup>2</sup>	2016	729	17	480	416	195	1,837
	2015	523	16	382	215	157	1,293
Joy Linton <sup>3</sup>	2016	376	91	180	102	69	818
	2015	-	-	-	-	-	-
Stuart Fletcher <sup>4</sup>	2016	309	18	215	680	93	1,315
	2015	730	48	681	403	219	2,081

**Notes**

- MBS refers to bonus payments earned during that year, and LTIP refers to payouts from the performance period which ended in that year.
- Evelyn Bourke's salary was £548,500 from 1 April 2016 and increased to £800,000 upon appointment to Group CEO. She received an allowance for the period she was Acting Group CEO and received cash in lieu of pension contributions. She was a Non-Executive Director of IFG and received a fee of £40,192 in respect of her position, which is not disclosed in the table above.
- Joy Linton was an international assignee prior to her appointment as CFO. Her salary was AUD 613,380 and she received additional allowances and benefits relating to this. She also received an allowance for the period she was Acting CFO. Joy's salary was increased to £550,000 from 1 August 2016 upon appointment to CFO. The Annual Bonus and LTIP figures for the period prior to appointment to CFO are based on AUD and have been converted into GBP in the table above using the 2016 Bupa business Plan exchange rate of 1 GBP : 2.24 AUD which is an internal rate fixed at the start of the Plan year to report incentives across Bupa.
- Stuart Fletcher is a former executive director having left Bupa on 31 May 2016. His salary was £753,375 from 1 April 2016 and he received £991,787 as pay in lieu of notice. He received cash in lieu of pension contributions.

**2016 MBS payout**

	Threshold Performance Level £m	On Target Performance Level £m	Stretch Performance Level £m	Actual Performance Level £m	Evelyn Bourke <sup>5</sup>		Joy Linton <sup>6</sup>		Stuart Fletcher <sup>7</sup>	
					Max bonus % of salary	Actual payout % of salary	Max bonus % of salary	Actual payout % of salary	Max bonus % of salary	Actual payout % of salary
Group profit	569.5	632.8	696.1	600.9	64.1%	27.9%	53.9%	30.3%	75.0%	22.8%
Group revenue	9,831.9	10,924.3	12,016.7	10,376.2	32.0%	14.0%	26.9%	15.2%	37.5%	11.4%
Non financial metrics	-	-	-	-	32.0%	14.0%	26.9%	15.2%	37.5%	11.4%
<b>Total</b>					<b>128.1%</b>	<b>55.8%</b>	<b>107.8%</b>	<b>60.6%</b>	<b>150.0%</b>	<b>45.7%</b>

<sup>5</sup> The actual payout figures for Evelyn Bourke include an adjustment to the whole bonus for personal performance. Evelyn's individual multiplier for 2016 was 110%. The figure shown for Max Bonus (as % of salary) is pro-rated to reflect time in roles and salary earned in the year.

<sup>6</sup> The actual payout figures for Joy Linton include an adjustment to the whole bonus for personal performance. Joy's individual multiplier for 2016 was 115%. The figure shown for Max Bonus (as % of salary) is pro-rated to reflect time in role and salary earned as an Executive Director in the year.

<sup>7</sup> The actual payout figures for Stuart Fletcher include an adjustment to the whole bonus for personal performance. Stuart's individual multiplier for 2016 was 90% and the actual payout was reduced pro-rata based on his time served in 2016.

To recognise significant achievements in a year that saw changes to our strategy, the leadership team, the organisational structure and to organisational processes, the Committee approved adjustments to the vesting level of the MBS to mitigate the effect of the disposal of BHH and the fact that the transaction costs of Oasis Dental Care fell in 2016.

The Committee also discussed the effectiveness of the management of risk. It received input from the Risk and Audit Committees of the main Board as well as of the main subsidiary Boards. While the Committee noted that progress had been made during the year, the Committee decided to apply a small reduction to the vesting percentage.

The Committee approved bonuses of 83.7% and 87.6% of target bonus opportunity for the Group CEO and CFO respectively, this payout also includes an individual performance modifier which takes into account strong individual performance during the year. A partial mandatory deferral of the MBS was introduced in 2014 and therefore a proportion of these bonuses has been deferred for three years and is subject to malus and clawback provisions over this period. More details are provided on page 45.

## 2014-2016 LTIP vesting

The 2014-16 LTIP vesting is based on performance against Profit After Tax (PAT) and Revenue, and quality and sustainability targets. In reviewing the vesting of this LTIP, the Committee exercised its discretion to exclude the impact of the redemption of secured loan notes, which was deemed to be a strategic decision taken to optimise the Group's borrowings for the future and the 2016 one-off charge was not a reflection of performance in the 2014-2016 period. As with the MBS, while the Committee noted that progress had been made during the year on risk management, the Committee decided to apply a reduction to the vesting percentage.

As stated in last year's Director's Remuneration Report, the Committee calculated vesting of LTIP using an equal balance of actual and constant exchange rates to ensure the LTIP outcome reflects both actual results and controllable performance.

Based on this and Bupa's performance against targets calculated as per plan rules, the 2014-16 LTIP vested at 87.65% of target.

## Interests awarded during 2016

During the year, LTIP awards for the 2016-2018 Plan were made to the Executive Directors. The Plan covers the three-year performance period to 31 December 2018. Subject to the achievement of performance conditions, up to 50% of the award may be paid in April 2019 with any excess being deferred for a further two years.

Within the LTIP scorecard, profit after tax is weighted at 75% and revenue is weighted at 15%. For any level of payout to occur for achievement of revenue performance, a performance gateway applies in that the profit after tax threshold must be achieved. The remaining 10% weighting for the LTIP is based on the improvement in the customer and brand dashboard. The targets for the financial measures are set annually within each of the plan years. The 2016 metrics are set out in the tables below.

### Financial targets 2016-2018 LTIP (90% weighting)

	2016 targets	
	Profit after tax Weighted 75%	Revenue Weighted 15%
<b>Below threshold performance 0% vesting</b>	< 4% p.a.	< 3% p.a.
<b>Threshold performance 15% vesting</b>	4% p.a.	3% p.a.
<b>On-target performance 50% vesting</b>	7% p.a.	5% p.a.
<b>Out-performance 100% vesting</b>	10% p.a.	8% p.a.

#### Notes

Growth is measured as annual growth rate.

Straight-line vesting occurs between the discrete levels of achievement.

### Customer targets 2016-2018 LTIP (10% weighting)

0% vesting	Outcomes and improvements are significantly below expectations
30% - 70% vesting	Outcomes and improvements are broadly in line with expectations
70% - 100% vesting	Outcomes and improvements are significantly above expectations

The table below shows the detail of the awards made to the Executive Directors in the year.

### Long Term Incentive Plan

Scheme Type	2016-2018 Long-Term Incentive Plan		
	Evelyn Bourke	Joy Linton	Stuart Fletcher <sup>1</sup>
<b>Basis of award</b>	<b>200% of base salary</b>	<b>120% of base salary</b>	<b>275% of base salary</b>
Face value of award (100% of award)	£1,070,000	£321,429	£2,021,250
Amount that would vest at on-target performance (50% of award)	£535,000	£160,714	£1,010,625
Amount that would vest at threshold performance (15% of award)	£160,500	£48,214	£303,188
Date performance period ends	31 December 2018		
Payment due date	April 2019, and April 2021 (for deferred amount)		

1 Stuart Fletcher will have pro rata vesting applied to any payout based on his employment ending 31 May 2016.

## Remuneration report

### Part 3: Implementation (audited) continued

#### Historical payout table

The table to the right shows levels of payout to the Group CEO against the maximum incentive opportunity for the last five years.

Year	Group CEO	Single figure of total remuneration (£'000)	Management Bonus Scheme payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2016	Evelyn Bourke <sup>1</sup>	1,837	56%	67%
2016	Stuart Fletcher <sup>2</sup>	1,315	46%	67%
2015	Stuart Fletcher	2,081	62%	30%
2014	Stuart Fletcher	2,812	82%	71%
2013	Stuart Fletcher	1,703	71%	**N/A <sup>3</sup>
2012 <sup>4</sup>	Stuart Fletcher	1,670	100%	**N/A <sup>3</sup>
2012 <sup>4</sup>	Ray King	1,797	67%	83%

1 Evelyn Bourke was appointed Group Chief Executive Officer on 21 July 2016.

2 Stuart Fletcher left Bupa on 31 May 2016 and annual bonus payment reflects a pro-rated payment.

3 Stuart Fletcher did not receive payouts from these plans. However, the payment to other eligible participants was 83% in 2012 and 84% in 2013.

4 Stuart Fletcher joined Bupa on 1 March 2012 and Ray King retired on 30 June 2012.

#### Percentage change in remuneration of the Group CEO

The table to the right shows the change in salary, benefits and short-term incentives (annual bonus) for the Group CEO in 2016 compared to 2015 alongside a corresponding average figure for the Bupa employee comparator group. The UK salaried population<sup>5</sup> has been chosen by the Committee as the most appropriate comparison, as the Group CEO is located in the UK.

	Group CEO	Employees
Salary	0.5%	2.49%
Benefits (excluding pension)	-58.37%	no material change
Short Term Incentives	-18.93%	6.84%

5 The UK salaried population refers to the UK-based permanent employees whose records are held on the HR database.

#### Relative importance of spend on pay

The table to the right shows the relative importance of spend on pay. Given that Bupa does not have shareholders and therefore does not pay dividends, cash flow used in investing activities has been shown as an alternative measure.

	2016 (£m)	2015 (£m)	Difference 2016-2015 (£m)
Remuneration paid to all employees	1,905.2	1,653.7	251.5
Cash flow used in investing activities	310.0	695.3	-385.3

#### Payments for loss of office

The following was approved by Bupa's Remuneration Committee in accordance with Bupa's Remuneration Policy and Stuart Fletcher's contract of employment.

Mr Fletcher remained an employee until 31 May 2016 to provide support to the Acting Group CEO, Evelyn Bourke, who took over Mr Fletcher's responsibilities. He continued to receive his current salary and benefits until that date.

He received a payment of £991,687. This was in lieu of 12 months' salary (£753,375), car allowance (£12,300) and pension allowance (£226,012). Mr Fletcher's healthcare and life cover will continue until 31 May 2017, and the company contributed £40,000 plus VAT in respect of outplacement support for him, and £10,000 plus VAT in respect of legal fees incurred by him in connection with his departure.

Bupa will treat Mr Fletcher as eligible for MBS under the 2016 bonus scheme pro rata for the

period of his employment to 31 May 2016, subject to the rules of the scheme. Any such payment (subject to any deferral) would be paid in March or April 2017. He will also receive good leaver treatment under Bupa's Long Term Incentive Plans (LTIPs) of which he is a member, with pro rata vesting based on his employment ending on 31 May 2016. All MBS and LTIP awards will be subject to the rules of the plans (including, for example, malus and clawback and the satisfaction of any applicable performance conditions).

### Statement of Implementation of Remuneration Policy in 2017

In the current financial year (2017) Bupa intends to implement the remuneration policy as described on pages 44-45. The remuneration of the Group CEO and CFO will be as follows:

	Salary (effective from 1 April)	Management Bonus Scheme	Long-term Incentive Plan
<b>Evelyn Bourke</b> Group CEO	£800,000 (0% increase)	Target opportunity - 100% salary  Maximum opportunity - 200% salary	Fair (on-target) value - 137.5% salary (£1,100,000)  Maximum award - 275% salary (£2,200,000)
<b>Joy Linton</b> CFO	£550,000 (0% increase)	Target opportunity - 75% salary  Maximum opportunity - 150% salary	Fair (on-target) value - 125% salary (£687,500)  Maximum award - 250% salary (£1,375,000)

For 2017 onwards the MBS and LTIP have been redesigned, in line with the remuneration policy, to support the Bupa strategy more effectively. The targets and the weighting of these were carefully considered to ensure that the right balance of financial and non-financial measures in the short-term and long-term.

Strategic Pillar	Measure	MBS scorecard	LTIP scorecard
Strong and sustainable performance	Profit	Management Profit - 50%	Profit after tax - 60%
	Revenue	10%	-
	Return	Risk Adjusted Profit - 10%	ROCE - 20%
	Cost	Cost efficiency - 10%	-
Loved as a true customer champion in health and care	Customer	20%	20%

In addition to these measures, both schemes are subject to an overall adjustment based on Risk Management across Bupa. The Committee has the discretion to adjust any payment down to nil if required. The MBS also has an individual multiplier based on personal performance during the year against agreed objectives.

As stated in the policy, the underlying principles for reward remain the same for the senior employee population. As a result, both the Management Bonus Scheme and Long Term Incentive Plan are cascaded down through Bupa. The MBS is cascaded even further than the senior employee population and the only change is the level of opportunity.

### Chairman and Non-Executive Director Fees

The table on the right shows the structure of the Chairman and Non-Executive Director fees with effect from 1 July 2016.

	2016 Fee	
Chairman Fee	<b>£400,000</b>	
Non-Executive Director basic fee	<b>£65,000</b>	
Senior Independent Director fee	<b>£17,000</b>	
Committee chairmanship	Audit Committee	<b>£25,000</b>
	Remuneration Committee	<b>£25,000</b>
	Risk Committee	<b>£25,000</b>
Committee membership	Audit Committee	<b>£8,000</b>
	Remuneration Committee	<b>£8,000</b>
	Risk Committee	<b>£8,000</b>
	Nomination & Governance Committee	<b>£4,500</b>



## Remuneration report

### Part 3: Implementation (audited) continued

#### Non-Executive Directors: single total figure of remuneration

	Fees £000		Benefits <sup>1</sup> £000		Total £000	
	2016	2015	2016	2015	2016	2015
Lord Leitch (Chairman)	365	345	42	40	407	385
Lawrence Churchill	148	150	14	16	162	166
Simon Blair <sup>2</sup>	71	-	2	-	73	-
Rita Clifton <sup>3</sup>	34	70	4	6	38	76
Roger Davis	77	31	2	1	79	32
Martin Houston	92	87	34	56	126	143
Clare Thompson	159	86	1	0	160	86
Prof Sir John Tooke	100	84	2	2	102	86
Janet Voûte <sup>4</sup>	72	-	28	-	100	-
<b>Total</b>	<b>1,118</b>	<b>853</b>	<b>129</b>	<b>121</b>	<b>1,247</b>	<b>974</b>

1 Travel and subsistence expenses for attending meetings at Bupa House are treated as taxable income, all Non-Executive Director expenses in relation to this are grossed up to meet the costs of the additional tax and NIC. The benefits figures reflect this approach.

2 Simon Blair was appointed as a Non-Executive Director on 12 January 2016.

3 Rita Clifton ceased to be a Non-Executive Director on 11 May 2016.

4 Janet Voûte was appointed as a Non-Executive Director on 12 January 2016.

#### Committee governance

Martin Houston has chaired the Committee since 11 June 2014.

In addition to the Company Secretary, regular attendees at the Remuneration Committee meetings who have provided comment and advice were the Group CEO, the CFO, the Chief People Officer and the Reward Director.

The Committee reviews the quality and independence of their advisors on a regular basis. The Committee re-appointed their advisor, Mercer, from September 2016.

Mercer is the independent advisor to the Remuneration Committee. The Committee is of the view that Mercer provides independent remuneration advice to the Committee and does not have any connections with Bupa that may impair its independence. Mercer is a member of the Remuneration Consultants' Group and voluntarily operates under their code of conduct when providing advice on executive remuneration in the UK. Mercer's fees for services to the Committee in 2016 were £194,000 on a time and materials basis. Support to the Committee during the year has included reviewing incentives and performance conditions, advice on remuneration under Solvency II, advice on market and best practice guidance, remuneration benchmarking, drafting remuneration disclosures, and attending Committee meetings.

The Terms of Reference for the Committee were reviewed in February 2017 and adopted by the Board in March 2017. A copy of the Committee's Terms of Reference is available on bupa.com.

#### Plans for 2017

During 2017, the Committee intends to:

- Further develop our approach to remuneration to reflect updated Solvency II guidance;
- Continue with the development of subsidiary board remuneration committees;
- Review new approaches to compensation and best practice; and
- Build on measuring customer and risk and their influence on the outcome of incentive awards.

#### Voting at the Annual General Meeting

The Association Members will be invited to vote at the Annual General Meeting on 10 May 2017 on the Remuneration Policy, Long-term Incentive Plan and Implementation Report.

#### Payments to former directors

No payments, other than those disclosed under "Payments for loss of office", were made to former directors in 2016.

#### Committee effectiveness review

Overall the Committee considered that it was effective during 2016 and noted the need to ensure that the relationships between the Risk and Audit Committees and the Committee continue to be well managed, particularly when considering executive remuneration.

#### Committee members

Martin Houston **Chairman**

Lawrence Churchill

Roger Davis

Lord Leitch

Janet Voûte

#### Key items covered included:

<b>12 February</b>	- Annual Reward Review - Group CEO, CFO and BET
<b>24 February</b>	- LTIP Payout Level for 2013-2015 and 2016 Incentive Targets
<b>July</b>	- 2017 Incentive Design, 2016 Management Bonus Scheme and 2016-18 LTIP Rules/Subsidiary NED Fees and Solvency II
<b>September</b>	- 2017 Incentive Design/Re-appointment of Committee Advisors/Solvency II
<b>December</b>	- 2017 Incentive Design/Regulatory Update/Committee Terms of Reference Review/Group CEO, CFO and Bupa Executive Team Comparator Groups

# Report of the Board of Directors

The Directors of The British United Provident Association Limited ('Bupa') present their reports and the financial statements for the year ended 31 December 2016.

The Strategic Report and the audited Financial Statements are presented on pages 1-21, and from page 55, respectively. The Governance Report on pages 22-52, including the Remuneration Report on pages 42-52 all form part of this report.

The Directors have chosen, in accordance with section 414C(11) of the Companies Act 2006, to set out in the Strategic Report on pages 1-21 the following information which would otherwise be required by Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 to be disclosed in the Directors' Report: Disclosures concerning Greenhouse Gas Emissions.

## Financial results

The results of the Group for 2016 are reported on pages 55-118. The profit for the financial year of £386.8m (2015: profit £278.3m) has been transferred to equity.

## Acquisitions and disposals

Details of the acquisitions and disposals made during the year are shown in Note 4.0.

## Board of Directors

The Board is responsible for the good standing of the Company, the management of its assets, including the management of risk and the strategy for its future development. There are 11 scheduled Board meetings each year and other meetings are convened as needed.

Biographical details of the Non-Executive Chairman, two Executive Directors and seven Non-Executive Directors who held office at the end of the year, are set out on pages 24-25. Simon Blair and Janet Voûte were appointed as Non-Executive Directors on 12 January 2016. Joy Linton was appointed as an Executive Director at the AGM on 14 May 2016. Stuart Fletcher and Rita Clifton stepped down from the Board on 4 April 2016 and 11 May 2016 respectively.

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors and certain senior

managers, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries.

## Going concern

The Directors confirm that they are satisfied that the Company and the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the financial statements.

## Political contributions

No political donations were made, nor any political expenditure incurred.

## Employment policies

Bupa considers clear communication with employees about employment issues to be key. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through a wide range of channels to ensure accessibility by all. The new Bupa People Manager Expectations, clearly sets out management expectations, including the need to listen to our employees needs and issues. People Pulse provides the opportunity for all our employees to raise their views anonymously. A new approach to managing performance has simplified performance expectations. Every effort is made to inform, consult and encourage the full involvement of staff on matters concerning them as employees and affecting the Company's performance. Schemes exist to incentivise, recognise and reward performance.

Bupa is committed to being an inclusive workplace for all its people where we recognise diversity by providing equal opportunities to all. The employment of disabled persons is included in this commitment and is reflected in our membership of Business Disability International. The recruitment, training, career development and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided.

## Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

## Auditors

A resolution to reappoint KPMG LLP as auditors will be put to the forthcoming Annual General Meeting of the Company.

## Health and safety

During 2016 we have implemented lost-time injury reporting across Bupa. There were 837 employee lost-time injuries in 2016. This equates to 1.45 lost-time injuries per 100 full-time equivalents. As this is our first report against lost-time injury, benchmarking against previous years is not possible. Going forward we will benchmark against the previous year's performance. We have launched a programme across our care homes called the 90 day challenges. This programme aims to help us more fully understand the causes of injury to our people and implement changes to improve safety in areas such as moving and handling and slips, trips and falls. Early indications are that this programme is having a positive impact on keeping our people safe and well.

## Modern Slavery Act 2015

In 2017 we will make our first statement under the Modern Slavery Act, explaining the steps we have taken to address the risk of modern slavery and human trafficking in Bupa's business and supply chains. This will be available on [bupa.com](http://bupa.com).

By order of the Board.

**Julian Sanders**  
Company Secretary

1 March 2017

Company number: 432511

## Governance report

# Statement of Directors' responsibilities

### In respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and the Parent Company financial statements in accordance with IFRS as adopted by the EU and applicable law.

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRS as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that its financial statements comply with the Companies Act 2006.

They have a 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.

The Directors consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Association Members to assess the Group's position and performance, business model and strategy.

The Directors have decided to prepare, voluntarily, a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company.

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.