

## With no shareholders, Bupa exists to serve our customers



Helping people live *longer, healthier, happier lives*

### ...is an inspiring and motivating driver of performance

Bupa's status, as a company limited by guarantee with no shareholders, enables us to make customers our absolute focus. This means we can reinvest our profits to provide more and better healthcare for current and future customers.

As a service organisation, everything we do for our customers relies on our people and partners, so being a place where people love to work is critical to our success. We employ 86,000 people, principally in the UK, Australia, Spain, Hong Kong, Poland, New Zealand, Chile, Brazil, Thailand, China, Saudi Arabia, India and the US.

Around 70% of our revenue is from health insurance, with the rest from health and care provision. We fund healthcare around the world and run clinics, dental centres, hospitals, care homes and retirement villages in a number of countries.

## Our organisation structure

Our business is managed through four Market Units:

Australia and New Zealand	UK	Europe and Latin America	International Markets <sup>2</sup>
<p>See <a href="#">page 8</a></p> <p><b>Revenue</b> <b>£4,360.6m</b></p> <p><b>Underlying Profit</b> <b>£344.4m</b></p> <ul style="list-style-type: none"> <li>- Bupa Health Insurance</li> <li>- Bupa Health Services</li> <li>- Bupa Aged Care Australia</li> <li>- New Zealand Care Services</li> </ul>	<p>See <a href="#">page 9</a></p> <p><b>Revenue</b> <b>£2,785.9m</b></p> <p><b>Underlying Profit</b> <b>£194.9m</b></p> <ul style="list-style-type: none"> <li>- Bupa UK Insurance</li> <li>- Bupa Care Services</li> <li>- Bupa Health Clinics</li> <li>- Bupa Cromwell Hospital</li> <li>- Oasis Dental Care<sup>1</sup></li> </ul>	<p>See <a href="#">page 10</a></p> <p><b>Revenue</b> <b>£2,474.7m</b></p> <p><b>Underlying Profit</b> <b>£165.6m</b></p> <ul style="list-style-type: none"> <li>- Sanitas Seguros</li> <li>- Sanitas Hospitales and New Services</li> <li>- Sanitas Dental (Spain)</li> <li>- Sanitas Mayores (Spain)</li> <li>- LUX MED (Poland)</li> <li>- Bupa Chile</li> </ul>	<p>See <a href="#">page 11</a></p> <p><b>Revenue</b> <b>£1,427.8m</b></p> <p><b>Underlying Profit</b> <b>£65.9m</b></p> <ul style="list-style-type: none"> <li>- Bupa Global</li> <li>- Bupa Arabia</li> <li>- Bupa Hong Kong</li> <li>- Quality HealthCare (Hong Kong)</li> <li>- Max Bupa (India)</li> <li>- Bupa Thailand</li> </ul>

Our nine global functions connect across Bupa:

Medical	Information Services	People	Marketing	Corporate Affairs	Finance & Governance	Strategy	Risk & Compliance	Legal
---------	----------------------	--------	-----------	-------------------	----------------------	----------	-------------------	-------

Our Group Corporate Centre leads reporting, capital management, coordination and governance.

<sup>1</sup> Bupa completed the purchase of Oasis Dental Care on 9 February 2017 with an enterprise value of £835m.

<sup>2</sup> While revenues from our associates and joint ventures are excluded from our reported figures, customer numbers and the appropriate share of profit from these businesses are included in our reported numbers.

## Financial performance summary<sup>1</sup>

### Revenue

**£11.0bn**

**+4% CER**

2015: £10.6bn

**+12% AER**

2015: £9.8bn

### Underlying profit<sup>2</sup>

**£700.7m**

**+10% CER**

2015: £638.1m

**+2% CER<sup>3</sup>**

**+20% AER**

2015: £582.5m

### Statutory profit before taxation

**£522.9m**

**+40% AER**

2015: £374.3m

### Net cash generated from operating activities

**£891.0m**

**+13% AER**

2015: £788.1m

### Solvency II capital coverage ratio<sup>4</sup>

**204%**

2015: 178%

➤ See Our performance on [pages 6-7](#)

1 We use Constant Exchange Rates (CER) to compare trading performance in a consistent manner to the prior year. We have therefore retranslated our 2015 results using 2016 average foreign exchange rates. Please refer to the Financial Review for the foreign exchange rates in our principal currencies. Due to our geographically diverse portfolio, the impacts of foreign exchange rates fluctuate year on year.

2 To derive underlying profit, profit before taxation is adjusted for amortisation and impairment of intangible assets and goodwill arising on business combinations, net property revaluation gains or losses, realised and unrealised foreign exchange gains and losses, gains or losses on return seeking assets, profits or losses on the sale of businesses and fixed assets, transaction costs on acquisitions and disposals, and restructuring costs.

3 Underlying profit is up 2% at CER and up 12% at AER when excluding the impact of the IFRIC 12 adjustment relating to our Spanish Public-Private Partnerships (PPPs) in 2015.

4 The 2016 Solvency II capital coverage ratio is an estimated value. The 2015 Solvency II capital coverage ratio has been updated to 178% from the 180% estimate disclosed in the 2015 Annual Report and Accounts.

## Contents

### Strategic report

ifc	Our purpose and structure
01	Financial performance summary
02	Chairman's statement
03	Group Chief Executive's review
04	Our business model
05	Our strategic framework
06-07	Our performance
08-11	Our Market Unit strategy in action
12-15	Financial Review
16	Longer term viability statement
17-21	Risks

### Governance

22-23	Chairman's introduction
24-25	Board of Directors
26-27	Bupa Executive Team
28-30	Leadership
31-32	Effectiveness
33	Engagement
34-37	Audit Committee Report
38-39	Risk Committee Report
40-41	Nomination and Governance Committee Report
42-52	Remuneration Report
53	Report of the Board of Directors
54	Statement of Directors' Responsibilities

### Financial statements

55-140	Financial statements
56-58	Independent Auditor's report

Lord Leitch

# Chairman's statement



"I'm incredibly proud of the way Bupa has navigated the challenging market conditions in 2016. We anticipate these will continue for some time to come, and are committed to delivering the very best for our customers."

## Focused on customers

2016 has been a year of change at Bupa. Evelyn Bourke became Group Chief Executive Officer, after Stuart Fletcher stepped down in April. Stuart left Bupa in a strong position, and with our thanks. As our former Chief Financial Officer, Evelyn knows Bupa well. She refreshed Bupa's strategy with a renewed emphasis on high quality service for our customers in this digital age. The focus is on strengthening Bupa's positions in existing geographic markets, including extending into adjacent business lines such as dental. Selective geographic expansion will continue to be part of Bupa's strategy, with Asia and Latin America of interest. Bupa operates in highly sensitive and regulated sectors and must uphold the high standards our customers and regulators expect. During 2016, we increased our focus on risk and compliance and this remains a priority going forward as part of our refreshed strategy. This is key to delivering strong and sustainable performance, now and in the future.

## Growth in challenging markets

Over the year, Bupa made solid progress in challenging market conditions amidst global political uncertainty. Revenue grew 4% and underlying profit 10%, albeit up 2% when excluding the impact of the IFRIC 12 adjustment, related to our Spanish Public-Private Partnerships, made in 2015. Bupa became Australia's largest health insurer for the first time, and progress has been made in reshaping the UK business. Bupa UK exited the home healthcare sector and announced a purchase in the dental market. In Spain, further progress was made in digitising the customer journey with the launch of Blua, Sanitas' digital health insurance offering. Our ownership of Bupa Chile was increased to 100%, while our stake in Max Bupa in India was also increased to 49%. Performance in International Markets was impacted by a large profit decline in Bupa

Global due to our exit of non-strategic markets, investment in capability and infrastructure, and a lower rate of growth. In December, we acquired Care Plus, a market-leading health insurer in Brazil.

## Culture, diversity and corporate responsibility

Culture is core to Bupa's success, with the company's purpose and values at the heart of the customer and employee experience. It is vital that Bupa's people are engaged and empowered to deliver for our customers, and we place great emphasis on being a place where people love to work. The Bupa Code – our code of conduct – sets out the behaviours we expect, and is complemented by our confidential Speak Up hotline. We are an inclusive organisation and celebrate diversity. 40% of our Board members are female, as are 45% of the Bupa Executive Team, 41% of our senior management team and 69% of our total workforce. Gender is, of course, only one measure of diversity and is considered alongside a wide range of relevant skills and experience. We are proud of the diverse culture Bupa has fostered and our commitment to corporate responsibility and sustainability. We actively engage with the community to make a positive contribution on public health matters and promote positive environmental practices.

## Corporate governance

There were a number of changes to the Bupa Board. With Evelyn's appointment as Group CEO, we appointed Joy Linton as Chief Financial Officer. In January 2016, Simon Blair and Janet Voûte joined us as Non-Executive Directors, while Rita Clifton stepped down from the Board at the AGM in May 2016. More information about Bupa's governance is contained in my introduction to governance on pages 22-23 of this report.

## Well-positioned for the future

I'm incredibly proud of the way Bupa has navigated the challenging market conditions in 2016. We anticipate these will continue for some time to come, and are committed to delivering the very best for our customers. I would like to thank all our 86,000 people around the world. Their commitment to serving our customers is vital to our success and something we never take for granted.

Our 2016 Strategic Report, from pages 1-21, was reviewed and approved by the Board of Directors on 1 March 2017.

By order of the Board.

Lord Leitch  
Chairman

Evelyn Bourke

## Group Chief Executive's review



“We are focused on improving and extending our services for customers. To equip Bupa for the next phase of growth, we have refreshed our strategy, putting customers front and centre in the context of today's digital age.”

It is a huge honour to be the Group Chief Executive of Bupa, a special organisation which exists to help our customers live longer, healthier, happier lives. Financially strong, we have a trusted brand, committed people, and market-leading positions which we continue to grow.

### Delivering for customers in the digital age

We are focused on improving and extending our services for customers. To equip Bupa for the next phase of growth, in 2016 we refreshed our strategy, putting customers front and centre in the context of today's digital age. As a service organisation, it is critical our people love working at Bupa and delivering for customers. Insurance, healthcare and care services are highly sensitive and regulated sectors and we are increasing our focus on management of risk and compliance to ensure we continue to uphold the high standards our customers and regulators expect. Through rigorous capital management, and investing in strength and depth in our existing markets with selective expansion into new growth markets, we will deliver strong and sustainable performance for our customers and for Bupa.

In 2016, our businesses 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 – and, while performance within International Markets was impacted by a significant decline in profit in Bupa Global, the overall Group grew revenue 4% and underlying profit 10%, albeit up 2% when excluding the impact of the IFRIC 12 adjustment made in 2015. Our performance was bolstered by strong and consistent cash flow, a strong balance sheet, robust management and an upgrade in one of our credit ratings.

In Australia and New Zealand, we delivered good revenue and underlying profit growth in difficult market conditions, and our Australian

health insurance business became the country's biggest health insurer for the first time. The Australian Government is considering reforms of the health insurance sector, and affordability remains a challenge for the whole healthcare industry.

In the UK, we achieved good underlying profit growth despite continued market pressures. Revenue was down due to the disposal of Bupa Home Healthcare (BHH) in July. If BHH revenue is removed from 2015 and 2016 performance, UK revenue was up 5%. Over the year we made progress in reshaping our portfolio. In July, we exited the home healthcare market. In November, we announced our agreement to purchase Oasis Dental Care. We also undertook a review of our UK care services business.

In Europe and Latin America, we delivered strong growth in revenue and underlying profit. In Spain, we grew our dental and health insurance businesses, while our Public-Private Partnerships are meeting their profit targets and providing high quality medical services in a difficult political environment. LUX MED, our business in Poland, performed well primarily due to good performance in our ambulatory and inpatient businesses. Bupa Chile achieved strong revenue growth.

In International Markets, performance was impacted by a large profit decline in Bupa Global. This was driven by the ongoing impact of our decision to exit non-strategic markets, as well as our investment in capability and infrastructure to improve the customer experience and grow our corporate book, and a lower than anticipated rate of growth in our individual and small medium enterprise books. While progress is being made, there will continue to be some impact on performance in 2017. In December, we acquired Care Plus.

### Structure and executive team changes

In July, we reshaped our operating structure, reducing from five to four Market Units. We also made a number of changes to the Bupa Executive Team. With my appointment as Group CEO, Joy Linton became Chief Financial Officer and joined the Bupa Board. Richard Bowden is now CEO of Australia and New Zealand, with David Hynam succeeding him as CEO of the UK. Wayne Close was appointed Acting CEO of International Markets. The role of Chief Risk Officer became part of the Executive Team, reflecting our increased focus on risk and compliance, with David Fletcher appointed to the role. Gabriela Pueyo became Chief Strategy Officer.

### Outlook

Looking ahead, we expect conditions to remain challenging in our key markets with changing political environments, including the UK preparing to exit the European Union. Demand for quality, value-for-money healthcare will remain strong for years to come, however governments and consumers face funding pressures and medical costs are outpacing inflation. In addition, there are new customer standards of personalisation, ease and choice as well as high expectations of quality, safety, privacy and transparency.

The Bupa Executive Team and I would like to thank our 86,000 people. Their dedication and commitment is key to delivering our purpose of helping people live longer, healthier, happier lives. By ensuring an excellent experience for customers, patients and residents, we also ensure Bupa can deliver strong and sustainable performance, both now and in years to come.

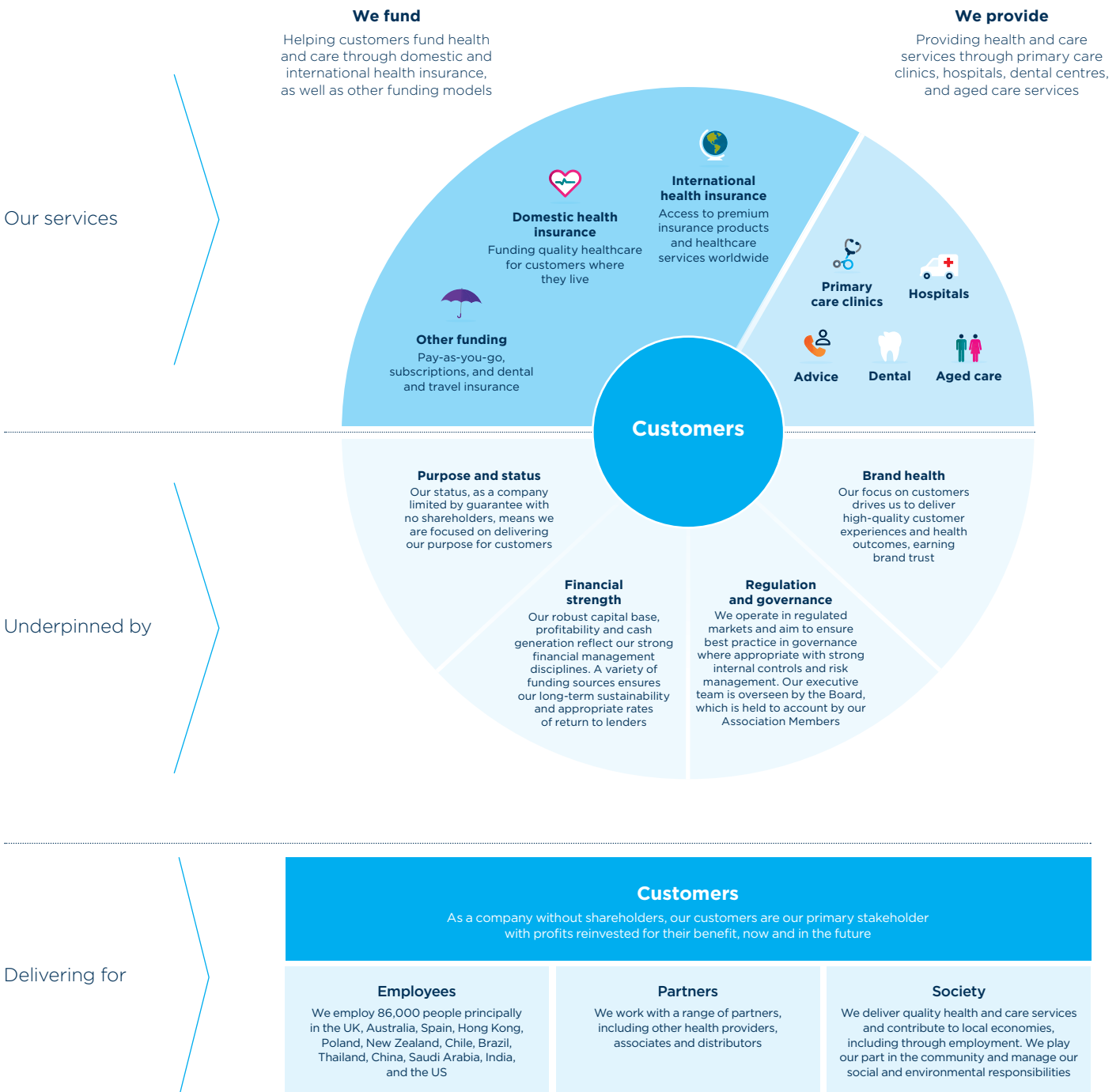
Evelyn Bourke  
Group Chief Executive Officer

Our value creation model

# How our business works

## Our business model

Customers are at the heart of everything we do. We fund and provide health and care services to fulfil our purpose of helping people live *longer, healthier, happier lives*. As a company without shareholders, our profits are reinvested back into our business for the benefit of current and future customers.



## Our strategic framework

Our refreshed strategic framework is driving the next phase of our growth in today's digital age. It has three core elements – Customers, People and Performance – underpinned by three operating principles, with Bupa's purpose and values guiding everything we do.



## Market context

The digital age is bringing new standards of customer choice, personalisation, ease and availability, with the emphasis on customer centricity, transparency and accountability higher than ever. Demand for quality, value-for-money healthcare continues to rise. Ageing populations, growth in chronic disease, continual advances in medical science, and rising consumer expectations mean demand is very strong and will remain so for years to come. Broader economic trends, exacerbated by medical costs rising ahead of spending, mean funding healthcare and associated services is increasingly challenging for both governments and consumers. Healthcare is significant within the wider political and regulatory agenda.



## Our performance

## How we are performing

## Measuring our progress

We track our performance using both financial and non-financial metrics aligned to our refreshed strategic framework. As well as revenue and underlying profit, we measure net cash flow and our solvency coverage ratio. We also measure customer numbers for insurance, provision and aged care, and regularly check how our people feel about working at Bupa. We remain committed to managing our environmental responsibilities and playing our part in communities.

## Customers

16.5m

Insurance customers  
+6%

10.6m

Provision customers  
+14%

33,100

Aged care residents  
+2%

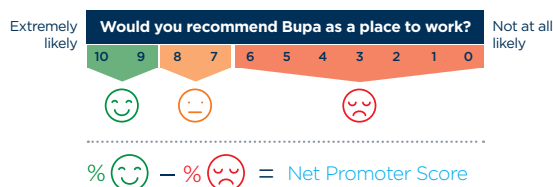
## Employee Net Promoter Score (eNPS)

+30

(October 2016)

+21

(July 2016)



## Revenue

£11.0bn

+4% CER  
+12% AER

## Trend (AER)



## Underlying profit

£700.7m

+10% CER  
+2% CER<sup>1</sup>  
+20% AER

## Trend (AER)



<sup>1</sup> Under IFRIC 12, which applies to service concession contracts such as Spanish PPPs, we use the average operating margin for the life of the contract (based on historic performance plus projections) as a means for recognising results. Once there is a change in performance compared to expectations, the operating margin is reassessed and an adjustment made to the current year results to bring the contract performance to date in line with the revised margin. In 2015, this negative non-cash adjustment of £52m included an amount relating to the current year of £8.8m together with a retrospective adjustment for the years preceding 2015 of £43.2m. To compare the result on a 'like for like' basis with 2016, we have excluded £48.6m (being £43.2m retranslated at 2016 exchange rates) from underlying profit in 2015.

## Net cash generated from operating activities

£891.0m

+13% AER

## Trend (AER)



## Solvency II capital coverage ratio

204%

## Trend (AER)



<sup>2</sup> The Solvency Coverage Ratio was updated to 178% from the 180% estimate disclosed in the 2015 Annual Report and Accounts.

## Performance commentary

From 2016, we are categorising our customers in line with our business model, grouping the numbers by insurance, provision and aged care. Insurance customers reflect closing members at the end of the year and do not include Rashtriya Swasthya Bima Yojana (RSBY) customers. Provision customers comprise people we have cared for in our health and dental clinics and hospitals during the year. This figure also includes the Bupa Home Healthcare customers we cared for until the sale of the business in July. Aged care residents reflect the number of residents in our care homes and retirement villages at the end of the year. All numbers are inclusive of customers in our associate and joint venture businesses.

In 2016, we replaced our annual employee survey with a contemporary global People Listening System called 'People Pulse'. This includes measurement of an employee Net Promoter Score (eNPS) – a widely recognised system to measure employee recommendation of Bupa as a place to work. Our October Pulse recorded an eNPS of +30, up nine points from the first wave of results in July.

Revenue increased by 4%, with solid growth across our three largest Market Units – Australia and New Zealand, the UK (when adjusted for the disposal of Bupa Home Healthcare in July 2016) and Europe and Latin America despite challenging operating environments and political uncertainty.

We achieved good profit growth in our three largest Market Units – Australia and New Zealand, the UK, and Europe and Latin America – and while performance within International Markets was impacted by a significant decline in profit in Bupa Global, the overall Group delivered growth, with underlying profit up 10%, albeit up 2% when excluding the impact of the IFRIC 12 adjustment, made in 2015.

Net cash generated from operating activities remains strong, increasing to £891.0m (2015: £788.1m). This reflects the impact of the foreign exchange fluctuations affecting profit before tax and growth in earnings following the robust trading performance from our three largest Market Units – Australia and New Zealand, the UK and Europe and Latin America.

Solvency II capital coverage was 204% at year end following a £400m subordinated bond issue in December 2016, which occurred prior to completion of the Oasis Dental Care purchase. The 2016 Solvency II capital coverage ratio is an estimated value.

## Corporate responsibility and sustainability

Our purpose – helping people live *longer, healthier, happier lives* – is at the core of our approach to corporate responsibility and sustainability.

We aim to make a positive impact by:

### 1. Funding and providing quality health and care services:

As a health and care business without shareholders, we are focused on serving our customers. We champion quality, medically-evidenced treatment and care. We seek to deliver value for money, provide exceptional care, and help customers navigate the complex world of healthcare.

### 2. Conducting our business ethically:

With a strong purpose across the organisation, we also have seven clear Bupa values and the Bupa Code which are designed to help our people make the right choices. More broadly, we aim to ensure a culture which emphasises serving the interests of customers while operating robust internal controls, including complying with our enterprise policies and all regulations. We have performance management, risk management, audit, governance, and 'Speak Up' processes in place.

### 3. Being a place where people love to work:

Our people are vital to our success. We promote a positive working environment and a diverse and inclusive culture that engages and empowers people with the right tools, training, information, recognition and reward. We want everyone to be happier and healthier because they work at Bupa and invest in this through our 'Smile' programme. Our Bupa values and the Bupa Code set clear expectations to protect our customers, our colleagues, our partners and Bupa, now and in the future.

### 4. Engaging with our communities:

Beyond our health and care services for customers, we engage people more widely in their health and wellbeing. We also connect with stakeholders to make a positive contribution on public health matters. We work with numerous community groups and sporting organisations and have dedicated Health Foundations in Australia, the UK and Spain to channel our investment in research and initiatives to improve public health (as noted below).

### 5. Making a positive impact on the environment:

Climate change is a health concern, and we play an active part in promoting positive environmental practices. In 2016, we reduced our absolute global carbon emissions by a further 1% to 149.7 ktCO<sub>2</sub>e<sup>1</sup> (representing an almost 25% reduction against our 2009 baseline) through energy efficiency and renewables projects across our business, and the purchase of electricity from certified renewable sources. During the year, we broadened our global environmental investment programme and continued our focus on promoting the use of renewable energy.

<sup>1</sup> Figure represents Bupa's Total Carbon footprint, including Scope 1 emissions 65.4 kt CO<sub>2</sub>e, Scope 2 emissions 65.9kt CO<sub>2</sub>e and Scope 3 18.4kt CO<sub>2</sub>e.

In 2016, we achieved many of our goals in corporate responsibility and sustainability. Our highlights include:

- Our Health Foundation in Australia invested AUD\$3.1 million including projects to harness data to improve patient journeys and clinical outcomes, and raising awareness of the critical 'First 1,000 Days' period of child development from conception to age two. Through the Australia Reconciliation Action Plan we are also advocating for better delivery and health outcomes for Aboriginal and Torres Strait Islander people.
- Our UK Foundation awarded nearly £1 million to initiatives focused on mid-life mental health and caring for carers. Through our strategic partnership with Age UK, we supported the health and wellbeing of older people. We also supported employee fundraising for a range of health and social care charities in the UK thanks to our match-funding programme.
- Our Sanitas Foundation invested €750,000 to support social initiatives in Spain. Its flagship project promoted the inclusion of children with disabilities through sport and set a new Guinness World Record for inclusive spinning in one of Madrid's most famous public squares. Sanitas also ran the 'Madrid Healthy Cities' initiative with a group of companies and the Spanish Heart Foundation, highlighting the power of workplaces to improve the health of employees and the wider environment. Employees from participant companies took part in walking activities, clocking more than 600,000km and raising funds to build healthy walking routes in the city.

➤ For more information, please visit [bupa.com](http://bupa.com)



Our Market Unit strategy in action

# Australia & New Zealand

Australia & New Zealand performed well in 2016, achieving strong growth in challenging local conditions.



**Richard Bowden**  
CEO, Australia & New Zealand

### Operating environment

- In the third quarter of 2016, Australia's economic growth declined for the first time in five years, by 0.5%.
- The Australian Government is considering reforms of the health insurance sector, and affordability remains a challenge not only for Bupa and our customers, but for the broader healthcare industry. There was very low growth across the sector during the year.
- We are working with a variety of stakeholders, including governments, hospitals, doctors and our networks to tackle rising overall healthcare costs.
- Changes to the Australian Aged Care Funding Instrument will reduce aged care sector funding, particularly for residents with complex care needs. These changes are expected to adversely impact revenue and the sustainability of the whole aged care sector and we continue to urge the government to consider alternative funding arrangements.

- In New Zealand, our care services business has benefited from higher property values during the year but was challenged by care home occupancy rates and reduced government funding. A pending fair wage case for care homes could increase costs in the sector.

### Performance

In 2016, we performed well with 7% growth in revenue and 9% growth in underlying profit despite low-growth macroeconomic conditions and regulatory uncertainty. We focused on transforming our business and digitising manual processes to vastly improve experiences for our customers.

Against the backdrop of slower overall growth in the market, our health insurance business grew to become Australia's largest health

insurer for the first time. We achieved a 3% growth in customer numbers at year end, which is the result of our focus on providing enhanced customer service and better value. We believe customer affordability will continue to be an issue for the sector in 2017. As a result, we are focused on having a strong say in the national health debate, advocating government policy reform that will deliver a more affordable and efficient health system for all Australians.

We grew our health services business, with our 237 Bupa dental practices making Bupa Australia's largest dental provider. We also opened three new Bupa Optical stores in Australia, taking the total to 37, with some offering audiology services for the first time.

Bupa Aged Care Australia remains the country's leading private aged care provider, caring for nearly 7,000 residents across an expanding network of 71 homes. Our Australian aged care business is driven by a person-first model of care and a consistent management system.

During the year, our aged care business in New Zealand grew, with four new care homes opening at Wattle Downs, Parkstone, St Andrews and Hugh Green. We also opened a retirement village offering at St. Andrews. We are the leading provider of dementia care in New Zealand and our focus is on ensuring people with dementia are valued, can contribute to and participate in society, and importantly that they can feel safe doing so. We are taking a leading role in dementia awareness and care, partnering with governments and industry.

We are committed to enhancing the experience of our customers and people through better and more efficient use of technology. We are building new tools and capabilities so our customers have meaningful and personalised interactions with us, whether in store, on the phone or online.

### CER

#### Revenue

**£4,360.6m**

**+7%**  
2015:  
£4,078.3m

#### Underlying profit

**£344.4m**

**+9%**  
2015:  
£314.7m

#### Customers

**4m** Insurance

**1.9m** Provision

**10,800** Aged care

# United Kingdom

In the UK, all our businesses delivered good performances, despite ongoing challenges in the market.



**David Hynam**  
CEO, UK

## Operating environment

- The UK Government has further increased the Insurance Premium Tax, which challenges the affordability of health insurance for our customers. Together with industry partners, we are championing the role of independent healthcare and campaigning to make it more affordable for customers.
- The UK aged care sector remains under pressure with increased costs including the impact of the National Living Wage. We are maintaining a disciplined approach to fee negotiations with Local Authorities in order to recover the true cost of caring for publicly-funded residents.
- In 2016, we saw an uplift in contribution from funded nursing care payments towards the cost of providing registered nursing care.

## Performance

In the UK, good performances were delivered across our businesses despite ongoing challenges in the market. Revenue was down 3% due to the disposal of Bupa Home Healthcare (BHH). If BHH revenue is removed from 2015 and 2016 performance UK revenue was up 5%.

Our health insurance business has performed well, with profit driven by improved corporate and consumer loss ratios. We are committed to our digital transformation and innovating to give our customers access to the best care, with initiatives such as our pioneering breast and bowel cancer self-referral service providing our customers faster access to diagnosis without the need for a GP referral. In 2016, we also launched an expanded cataract network tackling shortfalls in ophthalmology, improving our customers' experience. Our intermediary partners are also seeing the benefits of Bupa Connect, our user-friendly online portal, which allows them to manage their clients more effectively.

Over the year we put considerable focus on managing risk and compliance across all areas of our business. We also made progress in reshaping our portfolio. In July, we exited the home healthcare market with the disposal of BHH. In November, we announced our agreement to purchase Oasis Dental Care<sup>1</sup>, the UK's leading private dental provider, from European private equity group Bridgepoint. This purchase forms part of our growth strategy, making Bupa a major dental provider in the UK's £7.1bn dental market, with over two million customers and around 420 clinics.

Following a review of our care services business, we have identified a number of homes which are now held for sale to enable us to focus our efforts and investment. We remain committed to the growing aged care sector. We refurbished 20 homes, began building four new homes and acquired two homes from Primetower Care. We are expanding our portfolio of six Richmond Care Villages with two new villages under construction in Worcestershire and South Derbyshire. Our care services occupancy is 86%.

In our health clinics business, revenue growth has been driven by health assessments, dental, primary care and greater capacity in our musculoskeletal services.

We are upgrading and improving our facilities at Bupa Cromwell Hospital, where our £2.1m investment in redeveloping our wards has taken customer satisfaction scores for accommodation from 71% to 91% post-completion.

<sup>1</sup> Bupa completed the purchase of Oasis Dental Care on 9 February 2017, subject to UK Competition and Markets Authority (CMA) approval, with an enterprise value of £835m.

### Revenue

**£2,785.9m**

**-3%**  
2015:  
£2,857.8m

### Underlying profit

**£194.9m**

**+7%**  
2015:  
£182.6m

### Customers

**2.4m** Insurance

**1.2m** Provision

**17,400** Aged care

Our Market Unit strategy in action continued

# Europe & Latin America

Europe and Latin America delivered good growth in revenue and underlying profit and made digital advances across the business.



**Iñaki Ereño**  
CEO, Europe and Latin America

### Operating environment

- In Spain, after a year of uncertainty following the first general election in December 2015, the new government was formed in November 2016.
- The Polish market continues to show positive signs of growth, in spite of uncertainty around the impact of the current government's agenda.
- Despite a challenging political scenario, our Public-Private Partnerships are meeting their profit targets while providing high quality medical service in their respective areas.
- Legal uncertainties in Chile, which are linked to the premium increase process, are affecting the performance of the whole Isapre industry.

### Performance

In Europe and Latin America, we delivered strong growth in revenue of 10% with underlying profit up 63%. When excluding the impact of the adjustment relating to our Spanish Public-Private Partnerships in 2015, underlying profit was up 10%. Our business units delivered good performance, with growth in our dental and health funding businesses and a year-on-year increase in new customers numbers.

In Spain, we achieved revenue growth across a number of business units, with a good increase in our Sanitas Seguros private medical insurance business as a result of successful partnerships with SantaLucia and Banco Bilbao Vizcaya Argentaria.

We are committed to digitising the entire customer journey through a new version of our Sanitas app, so customers can purchase products on our website, find a doctor and make an appointment, undertake video consultations with our doctors and access their medical histories. Products such as Blua,

our health insurance offering, are enhancing the customer experience through direct video consultations.

In Sanitas Mayores, our aged care business, occupancy is 96%. We opened our 14<sup>th</sup> home in Madrid and acquired a home in Valencia, and are now operating 40 homes and three day-care centres with a total capacity of nearly 5,000 residents.

In Sanitas Dental, we launched emergency video consultations, offering services outside standard business hours, available nationwide. We opened five new dental centres and acquired nine dental franchises.

In Sanitas Hospitales and New Services, we have successfully created an integrated care network in Barcelona connecting our Sanitas CIMA Hospital with a network of multi-specialty medical centres.

In Poland, LUX MED has achieved very strong growth in revenue, primarily due to good performance in our ambulatory and inpatient businesses. Ambulatory revenues were driven by demand for our core subscription product, supported by a strong fee-for-service revenue stream.

During the year, we increased our ownership of Bupa Chile from 73% to 100%. Bupa Chile has achieved year-on-year revenue growth, with good performance in our hospital and outpatient services and a performance improvement in Isapre despite difficult market conditions. Our claims programmes and operating cost controls have driven profitability. In September, we strengthened our dental business opening four centres and offering additional services at outpatient care facilities, as well as dental insurance. Construction of Clínica Bupa Santiago hospital is well advanced and expected to be operational from late 2017. We are also expanding our Clínica Bupa Antofagasta hospital.

**Revenue** **CER**  
**+10%**  
2015:  
£2,251.8m  
**£2,474.7m**

**Underlying profit** **+63%**  
2015:  
£101.8m  
**£165.6m**

**Customers**  
**2.9m** Insurance  
**6.7m** Provision  
**4,900** Aged care

# International Markets

In International Markets, while revenue grew, underlying profit declined driven by a profit decline in Bupa Global.



**Wayne Close**  
Acting CEO, International Markets

## Operating environment

- We operate in diverse markets across the world where healthcare regulation and the economic environment are constantly evolving.
- Challenging market conditions in Saudi Arabia, including a slowing economy, have affected profit margins.
- The Indian health insurance sector is attracting new entrants leading to a competitive market.
- High claims in the first half of 2016 due to influenza led to a commercially challenging year for Bupa Thailand.

## Performance

In International Markets, while revenue grew 1%, underlying profit declined 52%, predominantly due to a large profit decline in Bupa Global. As noted in our Half Year statement in August, this was driven by the ongoing impact of our 2013 decision to exit non-strategic markets, which has led to high lapses in the period, our investment in capability and infrastructure to improve the customer experience and grow our corporate book, and a lower than anticipated rate of growth in our individual and small medium enterprise (SME) books. While progress is being made, there will continue to be some impact on performance in 2017.

In Hong Kong, we grew our market share in private medical insurance through good growth in revenue and customers, supported by our bancassurance partnership with Hang Seng Bank. Our Quality HealthCare clinics delivered steady growth in patient visits, with five new facilities, including health centres and clinics, opening in residential districts in Hong Kong and new business secured with large

regional and multinational companies. We announced our plans to open two medical centres in Guangzhou, China in 2017. In Thailand, high claims in the first half of 2016 due to influenza led to a difficult year, but customer numbers have remained steady with revenue growth in the individual and SME markets.

Our Bupa Arabia associate business continued to deliver strong customer and revenue growth despite less favourable economic conditions, relaunching its health and wellness support service, Tebtom, and introducing a point-of-care service inside hospitals.

In India, we increased our shareholding of Max Bupa from 26% to 49% in June 2016 following a change in the law allowing greater foreign ownership. This business has delivered strong year-on-year growth in both customers and revenue.

In December, we announced the expansion of our Bupa Global Latin American business through the acquisition of Care Plus, a market-leading health insurer in Brazil, which serves more than 400 companies with around 100,000 customers.

<sup>1</sup> While revenues from our associates and joint ventures are excluded from our reported figures, customer numbers and the appropriate share of profit from these businesses are included in our reported numbers.

	CER
Revenue	<b>+1%</b> 2015: £1,418.9m
<b>£1,427.8m<sup>1</sup></b>	
Underlying profit	<b>-52%</b> 2015: £138.1m
<b>£65.9m</b>	
Customers	
<b>7.2m</b> Insurance	
<b>700,000</b> Provision	

# Financial Review



**Joy Linton**  
Chief Financial Officer

In 2016 we have maintained our strong financial position in challenging market conditions through our focus on sustainable profitability, supported by our robust capital base.

Following the result of the referendum on the UK's membership in the European Union (EU), sterling weakened considerably against our major operational currencies (refer to currency table) which has a positive impact across all reported measures. Net cash generated from operating activities reflects these favourable foreign exchange movements which, together with our strong financial discipline, result in an increase in cash flows from operating activities of 13% to £891m (2015: £788.1m).

The continued revenue and profit growth across our businesses underpins our cash generation. In 2016 we delivered revenue growth of 4% to £11bn (2015: £10.6bn) at constant exchange rates (CER), with our underlying profit before tax increasing by 10% to £700.7m (2015: £638.1m). The result is up 2% at CER in 2016 when excluding the £48.6m impact of the IFRIC 12 adjustment<sup>1</sup> relating to our Spanish PPPs in 2015. Underlying profit increased in all our Market Units in 2016, with the exception of International Markets.

Our statutory profit before taxation of £522.9m (2015: £374.3m) is up 40% at actual exchange rates (AER). This reflects the good trading performance in our Market Units in 2016, while our 2015 result was negatively impacted by the impairment of goodwill and a write down in the value of property and equipment in UK Care Services. The increase in 2016 is after a loss of £112.3m on the redemption of the secured loan notes as previously reported.

We continued to invest in our core markets. In 2016 we acquired the remaining minority interest shareholding in Bupa Chile, increased our holding in Max Bupa to 49% and, in December, we increased our footprint in Latin America through the acquisition of Care Plus in

“We have delivered strong cash generation, improved our credit rating and restructured our debt. These actions reflect the strong financial management disciplines we have embedded across Bupa.”

Brazil. Over the year we have made progress in reshaping our portfolio in the UK. We sold Bupa Home Healthcare in July and completed the purchase of Oasis Dental Care in February 2017, subject to UK CMA clearance, having announced our intention to do so in November 2016. We also undertook a review of our UK care services business and as a result have identified a number of homes for sale as at 31 December 2016.

Our capital base remains strong with an estimated Solvency II surplus of £2.1bn<sup>2</sup> (2015: £1.3bn), representing a coverage ratio of 204%<sup>3</sup>. Our coverage ratio decreased to an estimated 165%<sup>3</sup> following the completion of the Oasis Dental Care purchase in February 2017, comfortably within our capital risk appetite. This capital strength helped to support the Moody's upgrade of our Bupa Finance plc senior debt rating from Baa2 to Baa1 in September. The upgrade by Moody's has reduced our cost of borrowing under the £800m committed bank facility and is expected to underpin lower costs in future debt issuances.

Our leverage ratio is down to 22.6% (2015: 27.7%) driven by strong repatriations and foreign exchange movements. Following the purchase of Oasis Dental Care in February 2017, our leverage is approximately 7 percentage points higher than at the year end.

- 1 Refer to page 6 for further detail.
- 2 The 2016 Solvency II capital surplus is an estimate. The 2015 Solvency II capital surplus was updated to £1.3bn from the £1.4bn estimate disclosed in the 2015 Annual Report and Accounts.
- 3 The 2016 Solvency II coverage ratio is an estimate. The 2015 Solvency II coverage ratio was updated to 178% from the 180% estimate disclosed in the 2015 Annual Report and Accounts. The Solvency II number disclosed post Oasis Dental Care completion is a pro-forma figure as if the acquisition occurred at the balance sheet date.
- 4 Underlying profit is up 2% at CER and up 12% at AER when excluding the impact of the IFRIC 12 adjustment relating to our Spanish Public-Private Partnerships (PPPs) in 2015. Refer to page 6 for further detail.

**Revenue** **+4% CER**  
2015: £10.6bn

**£11.0bn**

**+12% AER**  
2015: £9.8bn

**Underlying profit** **+10% CER**  
2015: £638.1m

**£700.7m**

**+2% CER<sup>4</sup>**

**+20% AER**  
2015: £582.5m

**Statutory profit before tax** **+40% AER**  
2015: £374.3m

**£522.9m**

**Net cash generated from operating activities** **+13% AER**  
2015: £788.1m

**£891.0m**

**Solvency II coverage ratio<sup>3</sup>** **+26p.p.**  
2015: 178%

**204%**

**Solvency II capital surplus<sup>2</sup>** **+62% AER**  
2015: £1.3bn

**£2.1bn**

## Currency

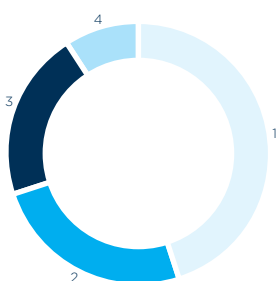
	2016	2015	Change %
AUD average rate	1.8234	2.0370	-10%
AUD closing rate	1.7106	2.0210	-15%
EUR average rate	1.2234	1.3782	-11%
EUR closing rate	1.1703	1.3560	-14%
USD average rate	1.3547	1.5288	-11%
USD closing rate	1.2345	1.4734	-16%

## Underlying profit

In order to compare trading performance in a consistent manner year-on-year, a number of non-trading items are removed from our statutory profit before taxation to arrive at underlying profit. Underlying profit excludes a number of components of the statutory profit before taxation, including items relating to business combinations and disposals, fluctuations in foreign exchange rates, property revaluations and gains or losses on return seeking assets, along with other one-off items as shown in the table. Refer to Note 2.0 for a detailed explanation of underlying profit and non-underlying items.

We achieved good underlying profit growth in our three largest Market Units – Australia and New Zealand, the UK, and Europe and Latin America. While performance within our International Markets Market Unit was impacted by a significant decline in profit in Bupa Global, the overall Group delivered growth with underlying profit up 10%. The 2015 result included a £48.6m IFRIC 12 adjustment in relation to our PPPs, excluding this impact the 2016 result is up 2%.

### Underlying profit by Market Unit (AER)



	2016	2015
1. Australia and New Zealand	45%	41%
2. United Kingdom	25%	27%
3. Europe and Latin America	21%	(restated) 13%
4. International Markets	9%	(restated) 19%

In our Australia and New Zealand Market Unit, despite challenging trading conditions, we achieved 9% underlying profit growth. The increase is due to a strong performance in our health insurance business, and is supported by increased occupancy in our care homes and retirement villages.

In the UK, revenue was down 3% due to the disposal of Bupa Home Healthcare in July. Despite the revenue shortfall, the UK achieved good underlying profit growth due to our health insurance business performing well notwithstanding the further increase in

### Non-underlying profit items (AER)

	2016 £m	2015 £m
Amortisation and impairments of intangible assets and impairments of goodwill arising on business combinations	(70.7)	(160.6)
Net gains/(losses) on disposal of businesses and transaction costs relating to business combinations	6.5	(3.8)
Net property revaluation losses	(23.8)	(61.7)
Realised and unrealised foreign exchange gains/(losses)	19.4	(11.7)
Other Market Unit and central non-underlying items	(19.8)	22.6
Early termination of secured notes	(112.3)	-
Gains on return seeking assets, net of hedging	22.9	7.0
<b>Total non-underlying profit items</b>	<b>(177.8)</b>	<b>(208.2)</b>

Insurance Premium Tax. Care Services also benefitted from a number of factors including an uplift in contribution from government funded nursing care payments to support the cost of providing registered nursing care. These were partially offset by increased staff costs following the introduction of the National Living Wage in April.

The strong growth in Europe and Latin America is primarily driven by growth in Bupa Chile, including the Isapre, hospitals and outpatient businesses, as well as increasing our shareholding to 100% (2015: 73.7%). In Spain we saw growth across most businesses.

In International Markets, our underlying profit declined 52%, primarily driven by Bupa Global. This reflects the continued impact of our 2013 decision to exit non-strategic markets which has led to high lapses in the year, our investment in capability and infrastructure to improve the customer experience and grow our corporate book, and a lower than anticipated rate of growth in our individual and small medium enterprise books.

Our underlying profit result has also benefitted from lower financial expense resulting from the early redemption of the secured notes (refer to the Funding section for further detail), as well as lower debt costs following the repayment of the £350m senior bond which matured in July 2016.

### Statutory profit

In 2016 we generated 70% of our revenues outside of the UK (2015: 66%). This geographically diverse portfolio has driven the 40% (AER) increase year-on-year in statutory profit before taxation due to the significant weakening of sterling against our major operational currencies, together with a lower number of negative non-underlying items in 2016 compared to 2015, as presented in the table above.

Most notably and as reported within our Half Year results, in 2016 there was a net loss of £112.3m on the redemption of the secured loan notes (2015: £nil). The redemption reduced the complexity and cost of maintaining this expensive and complex piece of legacy debt funding. It also reduced the ongoing interest cost of our debt.

The gains on return seeking assets were £22.9m (2015: £7m), driven by our corporate bond and emerging market debt exposure. In 2017, we will continue to actively manage the portfolio, consistent with our investment risk appetite and in line with our views of prospective asset class returns.

Following the reclassification of a number of UK care homes as assets held for sale, £10.7m was recognised as the expected costs of sale within net property revaluation losses.

To provide further year-on-year context, in 2015 there was a write down in the carrying amount of goodwill and property and equipment within our UK care services business, resulting in a charge of £181.9m to the income statement.

“Having no shareholders means that our profits are continuously reinvested into the business to fund and provide more and better healthcare, fulfilling our purpose.”

### Taxation

Our taxation expense of £136.1m (2015: £96.0m) represents an effective tax rate of 26.0%. The effective rate is higher than the UK statutory rate of 20% mainly due to profits arising in higher tax territories.

We operate in a number of markets with different tax rates ranging from 16.5% to 35.0% and the weighted average tax rate is 26.0%.

## Financial review

Continued

### Cash flows

Net cash generated from operating activities remains strong, increasing to £891.0m (2015: £788.1m). This reflects the growth in earnings, strong inflows from refundable accommodation deposits and occupational rights agreements following the opening of new care home and retirement village facilities in Australia and New Zealand, and the favourable impact of foreign exchange.

Cash used in investing activities decreased by £385.3m compared to 2015 primarily due to a change in mix in our investment portfolio from bonds into cash to support the repayment of debt and the funding of business growth and acquisitions. Capital expenditure of £502.7m (2015: £386.4m) was invested in our businesses, including the continued expansion and refurbishment of our care homes. We acquired a further 26.3% share holding in Bupa Chile for £93.1m thereby achieving 100% ownership. We increased our share holding in Max Bupa in India from 26% to 49%, for £21.9m, following the change in law allowing greater foreign ownership. In December 2016 we also acquired 100% of Care Plus.

This was partly offset by £128.5m cash received on sale of the zero coupon bond that provided security for repayment of the £235m secured loan notes and the net cash proceeds from the sale of Bupa Home Healthcare of £20.4m.

Cash outflows from financing activities increased by £458.0m compared to 2015. The variance to the prior year is due to the repayment of the aforementioned secured loan notes (£381.6m) as well as the repayment of senior unsecured bonds (£350m). Partially offsetting this were proceeds from the £400m subordinated bond issued in December 2016. As part of our effective capital management we settled hedging instruments at a cost of £77.7m to offset the impact of the weakening sterling.

Overall cash and cash equivalents increased 18% to £1,412.7m. These funds, in addition to our financial investments and longer term deposits, continue to be managed conservatively and in line with a clearly articulated risk appetite. We actively manage our counterparty exposures as part of our ongoing risk management, and cash is only invested with counterparties rated A/A2 or higher, unless approved by the relevant Investment Committee.

### Funding

#### Bupa Finance plc senior debt rating

Fitch

**A-**

(Stable outlook)

Moody's

**Baa1**

(Stable outlook)

We manage our funding prudently to secure a sustainable platform for our continued growth. A key element of our funding policy is to target an A-/A3 senior debt rating for Bupa Finance plc, the main issuer of Bupa debt.

Our Bupa Finance plc senior debt rating was upgraded by Moody's from Baa2 to Baa1 in September 2016. This follows the change to positive outlook by Moody's in September 2015, where they noted our low product risk, improved financial results and strong track record in generating capital. The Fitch rating was unchanged during the year at A- (stable). The upgrade by Moody's has reduced our cost of borrowing under the £800m committed bank facility and is expected to underpin lower costs in future debt issuances. Our continued focus on cash generation and appropriate repatriation from Market Units enabled us to fund growth in the business and end the year undrawn on the £800m committed bank facility.

We focus on managing our leverage in line with our rating target. Leverage reduced during the year, driven by lower borrowings alongside the increase in equity from profits and foreign exchange movements. At year end, leverage stood at 22.6% (2015: 27.7%). Following the completion of Oasis Dental Care in February 2017, leverage is approximately 7 percentage points higher than at the year end. Coverage of financial covenants remains considerably within levels required in Bupa's bank facilities.

“Our credit rating upgrade in 2016 further supports our financial strength in pursuit of long-term sustainability.”

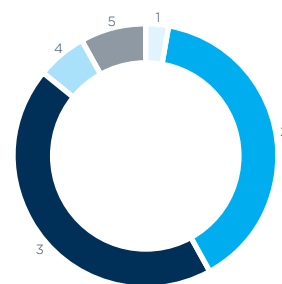
On 1 April 2016, we took the opportunity to redeem early both tranches of the £235m secured loan notes, which were due to mature in 2029 and 2031 with coupons of 6.3% and 7.5% respectively. The redemption reduced the complexity and cost of maintaining the debt. It also reduced the ongoing interest cost of our debt. A zero coupon bond which was in place to support the ultimate repayment of one of the tranches of debt was simultaneously unwound and helped to fund the redemption. This resulted in a net loss of £112.3m, which comprises the early redemption of the notes (£151.6m) and profit on early termination of the zero coupon bond (£39.3m). In July 2016, we repaid £350m of 7.5% senior unsecured bonds issued by Bupa Finance plc in July 2009.

An additional committed bank facility of £250m was agreed in June 2016 which was due to mature in December 2017.

On 8 December 2016, Bupa Finance plc issued a £400m 10 year tier 2 subordinated bond with a coupon of 5%. Following the bond issuance, a prepayment notice was issued cancelling the commitment under the £250m facility.

On 17 January 2017, Bupa Finance plc entered into a £650m acquisition financing facility to part fund the purchase of Oasis Dental Care. The facility has a 12 month term, with an option to extend for a further six months.

#### Cash and Investments by Credit Rating (%)



	2016	2015
1. AAA	3%	9%
2. AA	39%	41%
3. A	44%	41%
4. BBB	6%	4%
5. <BBB-/NR	8%	5%

## Capital structure

	2016 £bn <sup>1</sup>	2015 £bn
Unrestricted Tier 1	2.9	2.2
Restricted Tier 1	0.4	0.4
Tier 2	0.9	0.5
<b>Own Funds</b>	<b>4.2</b>	<b>3.1</b>

Our capital comprises equity, exclusive of any non-controlling interests, together with eligible subordinated debt.

We have £330m of callable subordinated perpetual guaranteed bonds, a £500m dated hybrid bond which matures on 25 April 2023 and a £400m dated hybrid bond which matures on 8 December 2026. These bond issues are accounted for as liabilities in the IFRS financial statements, but are treated as solvency capital for regulatory and management purposes.

## Solvency position

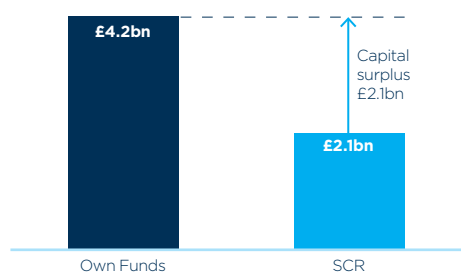
We maintain regulatory capital coverage in line with our capital management objective as set out in Note 5.3.

At 31 December 2016, our eligible Own Funds, determined in accordance with the Solvency II valuation rules, were £4.2bn<sup>1</sup> (2015: £3.1bn), which was in excess of our estimated SCR of £2.1bn<sup>1</sup> (2015: £1.8bn). This represented a solvency coverage ratio of 204%<sup>2</sup> (2015: 178%). The completion of the purchase of Oasis Dental Care in February 2017 reduced our coverage ratio to an estimated 165%<sup>2</sup>, comfortably within our capital risk appetite.

The key items of the reconciliation above:

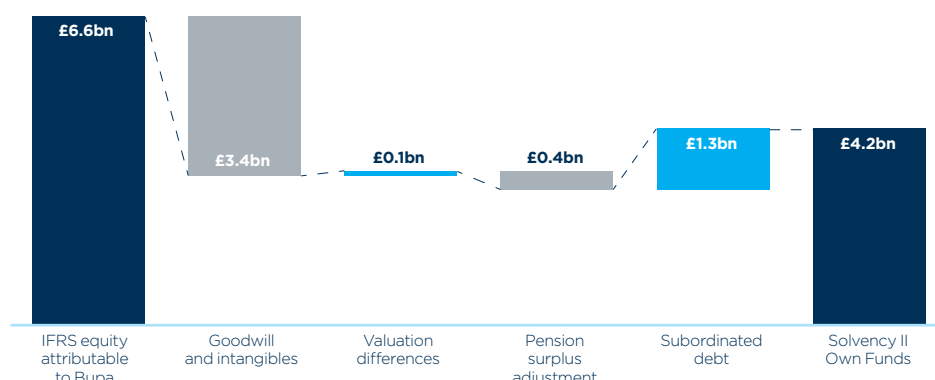
- Goodwill and intangibles on the IFRS balance sheet are not recognised as Own Funds under Solvency II.
- Subordinated debt is treated as Own Funds under Solvency II but as a liability under IFRS.
- Pension surplus in excess of the pension risk contribution to the SCR of £361m is not included in Own Funds.

## Solvency II capital position



<sup>1</sup> The 2016 Solvency II capital position and SCR are an estimate. The 2015 Solvency II capital surplus was updated to £1.3bn from the £1.4bn estimate disclosed in the 2015 Annual Report and Accounts.

## Reconciliation of IFRS equity to Solvency II Own Funds



“We continue to maintain a strong solvency position, which is comfortably within our risk appetite.”

## Solvency capital requirement

Analysis of the Solvency Capital Requirement	2016 % of diversified SCR <sup>1</sup>	2015 % of diversified SCR <sup>1</sup>
<b>Insurance risk</b>	<b>19%</b>	19%
<b>Market risk</b>	<b>60%</b>	61%
Spread	2%	3%
Equity	2%	1%
Property	34%	31%
Currency	16%	13%
Pension Scheme	6%	13%
<b>Counterparty risk</b>	<b>4%</b>	3%
<b>Operational risk</b>	<b>11%</b>	11%
<b>Participations (Associates)</b>	<b>6%</b>	6%
	<b>100%</b>	100%

SCR is calculated in accordance with the Standard Formula specified in the Solvency II legislation. We have obtained approval from the Prudential Regulation Authority (PRA) to amend the formula with an Undertaking Specific Parameter (USP) which reflects our own loss experience.

Replacing the standard parameter for insurance premium risk with our own reflects the lower risk that our size, experience and geographic diversification brings.

The single largest risk component of our SCR is property risk which relates to our care home portfolio in the UK, Australia, New Zealand and Spain. The majority of these care homes are not in regulated entities and therefore our policyholders are largely immunised for the volatility of the property value.

<sup>2</sup> The 2016 Solvency II coverage ratio is an estimate. The 2015 Solvency II coverage ratio was updated to 178% from the 180% estimate disclosed in the 2015 Annual Report and Accounts. The Solvency II number disclosed post Oasis Dental Care completion is a pro-forma figure as if the acquisition occurred at the balance sheet date.

## Risk sensitivities<sup>3</sup>

The following analysis shows the relative sensitivity of our estimated solvency coverage ratio as at 31 December 2016 to changes in market conditions and underwriting performance. Each sensitivity is an independent stress of a single risk and does not take into account management actions. The selected scenarios do not represent our expectations for future market and business conditions.

## Risk sensitivities

Solvency Coverage Ratio	204%
Interest rate +/- 100bps	204%
Credit spreads + 100bps assuming no credit transaction	204%
Equity markets - 20%	204%
Property values - 10%	193%
GBP appreciates by 10%	201%
Pension risk + 10%	203%
USP + 0.2%	201%
Loss ratio worsening by 2%	196%

## Outlook

In 2016 we have successfully navigated challenging market conditions to achieve solid trading performance, improved cash flows and reduced leverage. As we look to the future, we will continue to focus on growing and developing our businesses, as well as driving operational efficiencies while sustaining a strong capital position and managing our funding to ensure a sustainable platform to support future growth.

In 2017 we look forward to welcoming the Oasis Dental Care team into the Bupa family, which will make us a major provider of dental care services in the UK and significantly increase our high street presence for customers.

<sup>3</sup> The pension scheme surplus in excess of the pension risk contribution to the SCR is sufficient to cover the sensitivity analysis stress such that the Group solvency capital surplus is unchanged.



## Longer term viability statement

In accordance with provision C2.2 of the 2014 UK Corporate Governance code the directors have assessed the prospects of the Company and the Group. They have evaluated Bupa's ability to continue in operation and meet its liabilities as they fall due over a period of three years.

The three-year assessment period was chosen to align with the internal strategic planning process. This planning period is consistent with the nature of our business and is considered an appropriate period for strategic planning. The planning process considers all key financial and capital metrics over the period. The plan is also stressed for risks facing individual business units, as well as for global macro risks impacting Bupa as a whole.

Since 1 January 2016 the Group has been subject to regulation and supervision under Solvency II, which has promoted an increased focus on risk management. The Bupa own risk solvency assessment (ORSA) considers the appropriate level of capital that is required to meet overall solvency needs over the planning period, given the current risk profile and the strategy as articulated in the Bupa business plan and risk appetite statement. It considers all risks to Bupa as a whole. This assessment concluded that Bupa's strategy and business plan provide reassurance that Bupa has sufficient capital and liquidity to continue to meet regulatory capital requirements and Bupa's capital risk appetite over this period.

As part of the assessment of the viability of Bupa, the directors have considered the financial performance, capital management, cash flow, solvency and future outlook. Bupa is well capitalised and is expected to remain so over the plan period. The insurance businesses are cash generating and therefore expected to be able to settle liabilities as they fall due. Bupa has no shareholders and therefore has no requirement to pay dividends. Instead Bupa can invest in growing organically and through acquisition.

The directors considered each of the principal risks and uncertainties set out in the Risks section from page 17 which include those that would threaten its business model, future performance, solvency or liquidity. They are satisfied that Bupa has appropriate risk management and governance procedures in place to manage and mitigate these over the plan period. Bupa's governance structure and the robust, regular reviews through the Internal Control Risk Management Assessment (ICRMA) process give comfort in this regard.

Based on the results of this analysis and the regular risk and capital reporting processes, the directors have a reasonable expectation that Bupa will be able to continue in operation and meet its liabilities as they fall due throughout the three year planning period up to 31 December 2019.

The going concern assessment within the Basis of Preparation in the financial statements section includes information regarding the directors' detailed assessment of the Group's going concern status based on its current position and forecast results. As part of this assessment details are provided on Bupa's revolving credit facility and the Group's short-term liquidity position.

## Risks

# Delivering our purpose sustainably



“Understanding our risks is the responsibility of everyone at Bupa and allows us to make the best decisions for our customers, our people and Bupa. Through an appropriately embedded framework for taking and accepting suitable risks, Bupa is able to deliver its purpose sustainably into the future.”

**David Fletcher**  
Chief Risk Officer

## Overview

The risk profile of Bupa differs between funding and provision activities. Bupa’s geographic reach also exposes our Market Units (MUs) to a wide range of political, legal and economic contexts. We manage the risks to Bupa as a whole by understanding the risk drivers for our individual businesses and our balance sheet and by assessing how they interact. By understanding the risks we face, we seek opportunities to benefit from risk diversification, to identify emerging risks and to understand and manage any risk concentrations.

## Risk Governance

We adopt a “three lines of defence” approach to the governance of risk management which is set out in our Risk Management Framework as described below.

The first line of defence encompasses management and staff in our MUs, Business Units and the Centre. MU CEOs are responsible for the identification and management of their risks. In each MU, executive risk committees, chaired by the MU CEO, scrutinise their risk profiles and generate mitigating actions where necessary covering both the funding and provision businesses. This process culminates in the Bupa Group CEO chairing an enterprise-wide committee, the Bupa Enterprise Risk Committee (BERC), which brings the whole picture together. For some key categories of risk there are specific risk forums, such as the Clinical Governance and Quality Steering Committee.

Each of the large insurance entities also has a Board Risk Committee composed primarily of independent Non-Executive Directors (NEDs) to oversee the operation of the risk management framework. Subsidiary boards receive reports from local management and local risk directors.

The second line of defence is comprised of risk and compliance and clinical governance functions both at the Centre and within MUs. Bupa has a global Risk Function led by the Chief Risk Officer. Its role is to advise, challenge and oversee the first line risk management activities and to collate reports for management and the Board on their independent views on risk issues.

The Bupa Board Risk Committee (BRC) receives the minutes from the subsidiary board committees and the BERC, and reports from the Chief Risk Officer and other Bupa executives as appropriate, covering both the funding and provision businesses. The BRC is accountable for the oversight of risk by the Board and recommends risk appetite to the Board for approval.

The third line of defence is Internal Audit. Bupa has a global Internal Audit Function led by the Chief Internal Auditor at the Centre. Internal Audit is responsible for providing assurance over the effectiveness and adequacy of governance and risk and controls, including the activities undertaken by the first and second lines in accordance with the Global Internal Audit Plan, which is approved by the Board Audit Committee.

## Risk framework

We manage risks according to a Board approved Risk Management Framework covering funding and provision businesses. This sets out the principles underpinning a robust and continuous risk management system for the first line. This ensures:

- Current and emerging risks to the business are identified and the potential consequences of them are understood;
- We have clear and established risk appetites within which we operate. These are discussed further below;
- Appropriate and effective steps are taken to mitigate and manage identified risks;
- Risk management information is utilised to make risk based decisions across the business;
- There is clear ownership of, and accountability for, risk;
- There is a culture in which:
  - Appropriate risk behaviours are encouraged and rewarded;
  - Inappropriate behaviours are challenged and sanctioned;
  - Risk events are communicated as quickly as good news without fear of blame.

We have well-established, regular reporting mechanisms in place which ensure that relevant top risks for our businesses are appropriately identified and escalated. These processes also ensure that strategies to manage and mitigate the risks to acceptable levels are identified and executed.

## Risks

### Continued

Our Enterprise policies define the way we do business and cover funding and provision. The policies cover all key areas of risk and are implemented in our MUs which monitor compliance against the requirements. These policies all have designated ownership at both the enterprise and MU levels with defined roles and responsibilities. These policies are reviewed on an annual basis.

The processes we use to identify, measure, manage, monitor and report risks, include a programme of stress and scenario testing. We also undertake specific detailed reviews on particular risks where considered necessary.

We test the effectiveness of our implementation of the Risk Management Framework through our Internal Control and Risk Management Assessment (ICRMA). This aims to assess how well internal control and risk management practices and policy compliance are embedded across Bupa. This is a self-assessment conducted by the first line of defence, which is subject to review and challenge by the second and third lines. This assessment has been conducted on a half yearly basis and the results are presented to the Audit Committee and the Risk Committee.

### Risk appetite

Our Board risk appetite expresses the degree of risk we are prepared to accept as we work to deliver on our strategy. Our core risk appetite statements focus on:

- management of our financial strength;
- the treatment of customers and employees;
- the sustainability of our business; and
- operational risk.

Our risk appetite statements are a key consideration in our business planning process and a central reference point for key decisions. These statements are not intended to automatically prevent activity outside of Bupa's risk appetite, but rather to help identify any such instances in a timely manner so that the Board can consider an appropriate response.

The statements apply to all MUs. MU Enterprise Risk Committees ensure risk limits, consistent with Bupa's Risk Appetite statements, are in place to manage the amount of risk taken within businesses and at the MU level. There is regular reporting against our risk

appetite statement limits at an MU and Group level to the Enterprise Risk Committees and to the Board Risk Committees.

The risk appetite statements are reviewed on an annual basis, with the Board Risk Committee recommending any changes to the statements to the Board for approval.

### What we did in 2016

During 2016, we continued to strengthen our risk management approach and capability in response to Bupa's growth and the increasing expectations of our regulators around the world. The Solvency II Directive came into force from 1 January 2016 and is now business as usual, with the ORSA process and report considered to be a key part of our Risk Management Framework. Insurance, healthcare and care services are highly sensitive and regulated sectors and we are increasing our focus on management of risk and compliance to ensure we continue to uphold the high standards our customers and regulators expect.

We have continued to embed all aspects of our risk management framework, including:

- refreshing our Enterprise policies to ensure the scope of the policies and the requirements within the policies remain adequate;
- strengthening our crisis management and business continuity capability;
- reviewing how risk management factors into our reward system;
- conducting a detailed review of how effectively we are mitigating operational risks through insurance;
- enhancing our ongoing regular risk reporting particularly in relation to risk appetite;
- introducing the Bupa Code, which aims to support all staff at Bupa to make the correct choices to protect our customers, our colleagues, our partners and Bupa;
- assessing the resilience of Bupa's business model, including contagion risk of unrelated events in different parts of the group; and
- undertaking a stress and scenario testing programme to strengthen our understanding of severe scenario risks and how they may interact with business plan.

We are focused on ensuring that our risk management framework is fully embedded across the Group. This includes ensuring that processes and controls are designed and operating effectively and well documented in all MUs in line with our Enterprise Policies. We continue to look to ensure the training of our people is appropriate and adequate.

We are also deepening our understanding of particular areas of risk most notably in regards to the governance of all aspects of information risk and cyber security risk (see case study below); financial crime risk, pension risk and aspects of conduct risk.

### Managing cybersecurity risk

Our cybersecurity programme, which commenced in 2015, has continued throughout 2016. The programme has increased a range of capabilities, including cybersecurity controls, incident response and crisis management, people capabilities and post-incident customer care. This is a Group wide programme and is enhancing our capabilities across all our MUs. This includes ensuring our IT systems that monitor and detect external threats are appropriate and implementing a robust and consistent internal control framework.

This has been supported by the formation of a new Directorate of Information Strategy and Governance in the first line to lead this programme. Working with the Risk function, the Directorate has realigned our risk categorisation to give our executive and board risk committees clearer visibility of cybersecurity risk on a quarterly basis. Fundamental cybersecurity controls have also formed a key focus of our Internal Audit plans.

### Risk profile

Bupa accepts risks as part of its business operation. Some risks are avoidable (e.g. certain financial risks) and others are part and parcel of Bupa's business model (e.g. operational risks). We consider that we have an effective risk management system and appropriate internal controls in place to mitigate our risks.

Bupa maintains significant economic capital as a mitigant against certain inherent risks. These reflect the nature of our operations and the level of risk associated with them.

These risks are set out in the table below in order of magnitude of SCR.

Risk	Comment and outlook	Mitigating actions
<p><b>Property risk</b></p> <p>Risk of devaluations in property markets leading to a material devaluation of Bupa's property portfolio such as head offices, hospitals and care homes.</p>	<ul style="list-style-type: none"> <li>- Bupa generally owns rather than rents property, which keeps lease commitments down but leaves Bupa exposed to falls in property values.</li> <li>- If Bupa expands its care provision businesses and, if properties are owned rather than leased, its property risk exposure would increase.</li> </ul>	<ul style="list-style-type: none"> <li>- By maintaining a geographic spread of businesses across the globe, Bupa is able to diversify exposure to individual property markets.</li> <li>- Care home valuations are based on underlying profitability of the individual homes.</li> </ul>
<p><b>Insurance risk</b></p> <p>Risks relating to Bupa's insurance businesses. Risk of inadequate pricing and/or underwriting of insurance policies, and of claims experience being materially adversely different to expectations.</p>	<ul style="list-style-type: none"> <li>- Bupa's health insurance is short-tailed with lower outstanding claims as a percentage of revenue than most general insurers.</li> <li>- Insurance risk exposure will grow with planned growth in premium income of the funding businesses.</li> </ul>	<ul style="list-style-type: none"> <li>- The relatively short-tailed nature of Bupa's products allows Bupa to respond to market changes quickly.</li> <li>- Bupa has extensive control mechanisms in place to mitigate against the risk of higher than expected claims costs.</li> <li>- Health insurance is a well diversified business and the geographical diversity of Bupa provides further mitigation against insurance risk.</li> </ul>
<p><b>Currency risk</b></p> <p>Risk arising from changes in the level, or volatility, of currency exchange rates impacting on cash flows and assets held in currencies other than sterling, and on the financial statements.</p>	<ul style="list-style-type: none"> <li>- As the net assets of businesses outside the UK grow there will be a corresponding increase in currency risk in relation to translation into sterling.</li> <li>- There is transactional risk relating to policies where premiums and claims are in different currencies</li> </ul>	<ul style="list-style-type: none"> <li>- Currency translation risk is partially mitigated through a hedging programme.</li> <li>- Asset liability matching in local currencies helps ensure that sufficient funds are held in the local currency therefore limiting currency risk exposure.</li> </ul>
<p><b>Credit Spread and Counterparty Default Risks</b></p> <p>Risk of a loss in value of bond assets and/or that a counterparty fails to meet its obligations in the face of difficult economic conditions. This also includes the risk of a loss in value of the bond assets held within the Pension Schemes.</p>	<ul style="list-style-type: none"> <li>- Bupa's funding businesses have modest holdings of corporate and other bonds. These are exposed to the risk of widening spreads and defaults.</li> <li>- There is banking counterparty default risk in respect of deposits.</li> </ul>	<ul style="list-style-type: none"> <li>- Bupa's bond portfolio is small in relation to its other financial assets and of investment grade.</li> <li>- Counterparty exposure is managed by dealing with highly rated counterparties with exposure limits as per Group Treasury Policy. In addition, Bupa does not permit securitised lending of its assets.</li> </ul>
<p><b>Operational Risk (including Conduct Risk and Clinical Risk)</b></p> <p>Risk of loss arising from inadequate or failed internal processes, or from personnel, systems or external events. This includes Conduct and Clinical Risk.</p>	<ul style="list-style-type: none"> <li>- We are committed to managing operational risk effectively. This includes continued close attention to management of regulatory risk and proactive engagement with regulators.</li> <li>- As Bupa expands its care provision businesses, there will be an increase in inherent exposure to clinical risk. This is being actively managed through continued refinement of our approach to clinical risk governance.</li> </ul>	<ul style="list-style-type: none"> <li>- Maintenance of robust internal control processes and governance frameworks, the approval of risk policies, and the assessment of compliance helps mitigate this risk.</li> <li>- All MUs have a Medical Director responsible for ensuring clinical quality and governance within the business. They are accountable to the Chief Medical Officer (CMO) for clinical governance.</li> </ul>

## Risks

### Continued

There are other risks that cannot be effectively mitigated through capital. These are significant risks to Bupa. The MU Risk Committees regularly review the residual risks arising and the mitigating actions in place to reduce the levels of residual risk and the key themes and any areas of specific concern are provided to the Board and Enterprise Risk Committees. This provides management with a view of the areas of priorities to focus resources. The table below reflects the themes of the most significant risks currently facing Bupa from the latest review.

Risk	Comment and outlook	Mitigating actions
<p><b>Change risks – transformations and transactions</b></p> <p>The risk that change programmes and portfolios of transformation are not adequately planned or managed, fail to deliver expected benefits, or do not deliver in appropriate timescales resulting in adverse impacts.</p>	<ul style="list-style-type: none"> <li>- This risk could lead to excessive management stretch, inadequate capability within the organisation, failure to identify and manage key risks.</li> <li>- Failure to deliver on aspects of the existing transformation programmes which are of strategic importance to Bupa could have significant impacts.</li> </ul>	<ul style="list-style-type: none"> <li>- MU ownership is an important component of how change is managed and each MU has defined plans in place covering the change programmes underway.</li> </ul>
<p><b>People</b></p> <p>The risk that we do not have the appropriate levels of capacity and capability of people to deliver our strategic objectives.</p>	<ul style="list-style-type: none"> <li>- As a complex business with a multinational footprint it is critical to the delivery of our strategy that our people have the appropriate knowledge, skills and experience to identify and manage risk and to deliver on objectives.</li> </ul>	<ul style="list-style-type: none"> <li>- We are focusing on ensuring we have the right levels and amount of experience and succession plans to manage our businesses and deliver on change management, supported by a simple more automated operating model and enhanced ways of delivering training.</li> </ul>
<p><b>Cyber resilience</b></p> <p>The risk that our inability to identify and respond to a successful information breach through an Advanced Persistent Threat (APTs) results in adverse impacts.</p>	<ul style="list-style-type: none"> <li>- Healthcare providers are increasingly being targeted by APTs.</li> </ul>	<ul style="list-style-type: none"> <li>- This risk has been identified and reported as significant by all MUs and the Centre. A detailed programme of activities is underway across Bupa to ensure this risk is appropriately mitigated.</li> </ul>
<p><b>Information governance</b></p> <p>The risk that a failure in our policies or controls over the management and security of personal data and other information results in adverse impacts.</p>	<ul style="list-style-type: none"> <li>- We continue to review and enhance our controls over the management and security of information.</li> <li>- For EU-based MUs there is also an additional risk arising from the implementation of a new European regulation on data in 2018.</li> </ul>	<ul style="list-style-type: none"> <li>- MU specific programmes of work are in place to continue to address this risk.</li> <li>- This is being supported by the implementation of the Information Risk Operating Model.</li> <li>- Affected MUs have projects to implement the new European regulations, with a central oversight and assurance programme in place.</li> </ul>
<p><b>Changes in government and regulatory policy</b></p> <p>The risk that political, government, regulatory, economic or market changes adversely impact on the delivery of Bupa's strategy. Also includes the risk that changes are either not reacted to quickly enough or are responded to inappropriately.</p>	<ul style="list-style-type: none"> <li>- Our funding and provision businesses operate in the context of government and regulatory policy ranging from minimum wage requirements to prudential requirements and include clinical care requirements for our provision businesses.</li> </ul>	<ul style="list-style-type: none"> <li>- All MUs have defined key activities to ensure we can continue to appropriately monitor, lobby and consider strategic implications on our businesses of any future changes in policy or regulation.</li> </ul>

Risk	Comment and outlook	Mitigating actions
<p><b>External conditions</b></p> <p>There are a number of evolving economic and geo-political conditions in the markets Bupa operates in that could impact our business model.</p>	<ul style="list-style-type: none"> <li>- These include structural market changes (e.g. political change, medical inflation, minimum wage increases) and economic volatility.</li> </ul>	<ul style="list-style-type: none"> <li>- We continue to review our strategy and processes to ensure that they are flexible enough to take into account changing external conditions.</li> </ul>
<p><b>UK exit of the EU</b></p> <p>The result of the UK Referendum to leave the EU has introduced uncertainty to our business.</p>	<ul style="list-style-type: none"> <li>- The immediate impact on Bupa's financial position following the EU referendum in June has been limited.</li> <li>- Liquidity remains strong, our investment portfolio is largely cash-based and low risk and our statutory profits and cashflows would be higher if sterling continues to stay weak.</li> <li>- The UK Government intends to notify the intention to leave the EU by the end of March 2017 which will start the formal process.</li> </ul>	<ul style="list-style-type: none"> <li>- While there will be commercial, operational and legal impacts from the UK's eventual exit from the EU, it is too early to conclude how the UK exit will affect the Group's businesses, customers and employees.</li> <li>- While the UK Government has set out its intention to leave the 'Single Market', uncertainties remain relating to limitations about the movement of people and workers, regulation of financial services (passporting) and the wider impact on the UK economy.</li> </ul>

There are also other risks where capital is not an appropriate mitigant and even though they are not highlighted in the table above they are always a priority issue for management. These are set out in more detail in the table below.

Risk	Comment and outlook	Mitigating actions
<p><b>Liquidity risk</b></p> <p>The risk of insufficient financial resources to enable Bupa to meet its obligations as they fall due or to take advantage of potential opportunities, or being able to secure such resources only at excessive cost, resulting in adverse impacts.</p>	<ul style="list-style-type: none"> <li>- Liquidity risk is addressed not by capital but by holding liquid assets and through appropriate controls.</li> <li>- With policyholder liabilities predominantly backed by liquid assets, Bupa's liquidity risk exposure primarily relates to the funding risk associated with borrowings.</li> </ul>	<ul style="list-style-type: none"> <li>- This is mitigated by the Treasury Function actively managing borrowings, where the amount and timing of outflows are known, and maintaining a portion of the Bank Facility undrawn.</li> </ul>
<p><b>Strategic risks</b></p> <p>The risk of the inability to design or implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment.</p>	<ul style="list-style-type: none"> <li>- The world is changing rapidly. The political and economic backdrop is uncertain, with powerful global social trends. Populations are ageing, public health solutions are ever-evolving, governments are facing funding issues in healthcare and aged care, and competition is intense - both from traditional and non-traditional players.</li> </ul>	<ul style="list-style-type: none"> <li>- We have refreshed our strategy, and remain focused on delivering value for money and great service and care to our customers.</li> <li>- Our purpose - helping people live longer, healthier, happier lives - and our values shape how we act and deliver for our customers and our people.</li> <li>- Through the identification and assessment of emerging risks we are able to react to issues in a timely and appropriate manner.</li> </ul>