BUPA FINANCE PLC
(Company No. 2779134)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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Director and Officers

Directors
G M Evans
C A Richardson (resigned 01/01/2018)
M Potkins (resigned 01/02/2019)
J Linton
S Dolan (appointed 01/01/2018)
G H Roberts (appointed 01/02/2019)

Company Secretary
J P Sanders

Registered Office
1 Angel Court
London
EC2R 7HJ

Auditors
KPMG LLP

Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2018 for Bupa Finance plc (the 'Company') and its subsidiary companies (together the 'Group'). The immediate and ultimate parent of the Company is The British United Provident Association Limited (the 'Parent' or 'Bupa' and together with its subsidiaries, the 'Bupa Group').

Principal activities

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

Who we are and what we do

Bupa was established in 1947 when 17 British provident associations and other UK funding organisations such as hospital contributory schemes came together. Their aim was to enable people to fund high-quality healthcare.

Today, we describe our purpose as helping people live 'longer, healthier, happier lives'. Health insurance is the core of what we do with 15.7m[1] customers across the world. We also deliver certain health services where they complement our position in health insurance; giving us greater insight into how health systems work and enabling us to deliver excellent customer experiences.

We are an international company, with strong local businesses. This ensures we adapt to and connect with local health systems and customer needs.

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

[1] Excludes Acıbadem Sigorta (Turkey).

Bupa's business model

How Bupa creates value

Health insurance

Globally, health insurance revenue accounts for 73% of the business, with 15.7m[2] insurance customers.

- We have domestic health insurance businesses in Australia, the UK, Spain, Chile, Saudi Arabia, India, Hong Kong and Brazil. From January 2019, we also have a domestic health insurance business in Turkey. In some countries, we also provide international health insurance, travel insurance and dental insurance.
- In most of these countries we offer health insurance for corporate businesses and small and medium-sized enterprises, as well as for individuals.
- Our offer is different from country to country to adapt to local circumstances and regulations.

In Australia and New Zealand, insurance made up around 80% of the total Market Unit revenue; around 60% in Europe and Latin America and in the UK; and 90% in International Markets.

Provision

Provision revenue accounts for 18% of our business. We directly provide healthcare to around 15.0m people in our health clinics, hospitals and dental centres.

- Clinics: We operate over 350 health clinics in Spain, Chile, Poland, the UK, Brazil, Hong Kong, Australia and China.
- Hospitals: We also run hospitals in Spain, Chile, Poland and one in the UK.

Dental

Dental care is an area of growth for us across provision and insurance. We provide dental insurance in Australia, the UK, Spain, Chile and Brazil. We have over 900 dental centres across the UK, Ireland, Australia, Spain, Chile, New Zealand, Poland, Brazil and Hong Kong.

Aged care

Residential aged care revenue accounts for 9% of our business with 23,000 residents. In Australia and New Zealand, we look after 10,200 residents in 121 care homes. We also have over 30 retirement villages in New Zealand.

In the UK, we run 138 care homes and seven Richmond villages. We care for 6,800 residents.

In Spain, we look after around 6,000 residents in 46 homes and we operate five day care centres.

We create value for

Customers: Our customers are our primary stakeholder, as we are a company without shareholders.

People: As a service business, everything we do for our customers is delivered through our people. They are critical to our success. We want them to love working at Bupa and make a difference for our customers.

[2] Excludes Acıbadem Sigorta (Turkey).

Partners: We work with a wide range of partners including other health providers, brokers, distributors, and partners in our associate businesses and joint ventures.

Society: Alongside our stakeholders, we play an active role in our communities and take care of the environment.

The resources we have to create value

- We reinvest profits into the business.
- Financial strength: A robust capital base, strong profitability and cash generation.
- Governance: We operate in regulated sectors with strong internal controls and risk management.
- Brand health: Our brand is known and trusted for quality experiences for customers.

Financial performance

Revenue **£11.9bn**	**- 3%** AER (2017: £12.2bn) **0%** CER (2017: £11.9bn)	**Net cash generated from operating activities** **£810m**	**-17%** AER (2017: £979m)
Underlying profit[3] **£722m**	**- 12%** AER (2017: £825m) **- 10%** CER (2017: £802m)	**Solvency II capital coverage ratio**[4] **191%**	2017: 180%
Statutory profit before taxation **£614m**	**- 15%** AER (2017: £726m)	**Bupa Finance plc senior debt rating** **Fitch** **Moody's**	**A-** (Stable outlook) **A3** (Upgraded in May 2018)

The Group's results reflect the decision to divest part of our UK aged care business at the end of 2017 and early 2018 and the challenges in our Australian aged care and health insurance businesses. In 2018, our insurance businesses in the UK and Spain continued to perform well.

Revenue was £11.9bn, flat on prior year (£11.9bn CER) while statutory profit decreased by 15% to £614m (2017: £726m AER). Underlying profit of £722m was down 10% (2017: £802m CER). When excluding the divestment of UK care homes, revenue grew 3% and underlying profit fell on prior year by 4%.

We generated cash from operating activities of £810m, down £169m on prior year. Our Parent, The British United Provident Association Limited strengthened its capital position, to 191% from 180% at December 2017 through profits generated during the year. On a pro-forma basis, the impact of IFRS 16 Leases, and the acquisition of Acıbadem Sigorta reduces Bupa's estimated solvency position to 169% and remains well within Bupa Board's capital risk appetite. The Company's senior debt rating was upgraded by Moody's to A3 from Baa1 in May 2018.

Following an in-principle agreement reached with the Australian Taxation Office (ATO) to settle a number of disputed matters, including a transfer pricing issue relating to the funding of our Australian acquisitions in the 2007 and 2008 years, we will pay a total of £88m to the ATO. The settlement will provide certainty for Bupa and the ATO in relation to the taxation treatment of Bupa Australia's future cross border funding costs, which will be within the 'low risk' or 'green zone' rating in accordance with the risk framework set out in the ATO's Practice Compliance Guideline PCG 2017/4.

Revenue

We achieved insurance revenue growth of 2% across the Group. Our Spanish health insurance business grew by 2% through increased membership on 2017, including the acquisition of Néctar Seguros, a book of around 34,000 customers. The revenue in our Australian and UK health insurance businesses remained stable versus last year. International Markets insurance increased revenue by 4% largely due to Bupa Global and Bupa Hong Kong.

Our healthcare provision businesses grew revenue by 9%, reflecting an additional two months' trading following the acquisition of Oasis Dental Care in February 2017, strong performance in LUX MED's corporate subscription business, and the opening of the Clínica Bupa Santiago hospital in Chile.

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[3] Underlying profit is a non-GAAP financial measure which means it is not comparable to other companies. A reconciliation to Statutory profit before taxation can be found in Note 2.0 (pages 55 to 56). Underlying profit reflects our trading performance and excludes a number of items otherwise included in statutory profit, to facilitate year-on-year comparison. These items include the impairment of intangible assets and goodwill arising on business combinations, as well as market movements such as gains or losses on foreign exchange, on return-seeking assets, on property revaluations and other material items not considered part of trading performance.

[4] The 2018 Solvency II capital position, SCR and coverage ratios represents the Parent, Bupa Ltd. These are estimates and unaudited.

In our aged care businesses, revenue declined by 1% on 2017, excluding the impact of the sale of a number of UK care homes in December 2017 and February 2018. In Australia, revenue fell following the effect of funding pressures along with lower average occupancy rate of 94%, (2017: 96%) and one-off provisions associated with refunds related to service discrepancies. Our average occupancy rate in New Zealand remained relatively stable at 91%. Good performance in our aged care business in Spain partially offset this as it maintained its high average occupancy rate of 95%. In the UK, our average occupancy rate remained relatively stable versus last year at 84.5%.

Underlying profit

The methodology for calculating underlying profit was refined from the half year to provide a better representation of underlying performance while reducing the number of items excluded from underlying profit. Details can be found on pages 55 to 56. Comparators have been restated to reflect this updated methodology.

Group underlying profit decreased by 10% to £722m (2017: £802m at CER) as growth in our Market Units of Europe and Latin America and International Markets was more than offset by the decline in the aged care business in the UK following the divestments, and our Australian aged care and health insurance businesses. Excluding the impact of the UK care home divestments, underlying profit decreased by 4%.

Health insurance, our largest line of business, contributed around 80% of underlying profit for reportable segments; and year-on-year profit growth was broadly flat for the Group as a whole. Underlying profit in our Spanish and UK insurance businesses grew by 4% and 7%, respectively, with the former driven by customer growth and the latter through improved claims performance. Our insurance business in Chile was marginally up on last year, which included reserve strengthening of £8m in 2018.

Our health insurance profit in Australia declined by 3% on 2017 as the government limited the annual premum rate increase to a level lower than claims inflation. International Markets insurance profit increased 4% on last year reflecting the underlying growth in Bupa Hong Kong and stabilisation of our Bupa Global portfolio. In August 2018, we increased our stake in Bupa Arabia by 5% to 39.25%, thus increasing our share of Bupa Arabia's profit.

Our Parent's Combined Operating Ratio[5] (COR) remained constant at 93%. The Australian health insurance entity's COR remained unchanged to last year at 92%. Our Spanish health insurance business, Sanitas Seguros, maintained a COR of 88% (2017: 88%). Bupa Insurance Limited, our UK insurance entity, underwrites both domestic and international private medical insurance, covering the business written by both the UK and parts of Bupa Global. The COR improved on prior year to 93% (2017: 94%) as a result of the UK claims performance. Bupa Global stabilised after the repositioning activity of prior periods, whilst there has been a significant focus on preparing for post-Brexit trading.

Underlying profit in our healthcare provision businesses fell by around 17%. In the UK, despite twelve months of trading from the former Oasis Dental Care business, now Bupa Dental Care (2017: ten months), performance declined predominantly due to our health services business unit. In our Europe and Latin America Market Unit, growth was achieved in all our provision businesses other than Bupa Chile.

In our aged care businesses, underlying profit declined by around 25%, when adjusting for the sale of UK care homes as mentoned above. This is largely due to funding pressures, lower occupancy and a number of compliance issues in Australia, which included one-off provisions associated with refunds related to service discrepancies. The aged care business in Spain showed year-on-year growth, partly reflecting the opening of the Cornellá care home in Barcelona in December 2017.

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[5] Combined Operating Ratio is an alternative performance metric for insurance businesses. It is calculated based on incurred claims and operating expenses divided by net earned premiums. Combined operating ratios are calculated based on local reporting requirements:

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

Central expenses and net interest margin increased on prior year by £6m which includes a one-off interest charge of £7m relating to the in-principle agreement with the Australian Taxation Office. This compares to a one-off interest income benefit arising from the agreement reached with the Danish tax authorities in 2017 of £14m. In addition, following our review of our Group consolidated insurance reserves methodology, a release of £12m has been recognised in the year.

Statutory Profit
Statutory profit before taxation was £614m (2017: £726m) representing a decline of 15% at AER. This reflects the reduced trading profitability on prior year, with the quantum of non-underlying items comparable, but slightly higher than 2017.

At AER	**FY18**	**FY17**
Non-underlying items	**£m**	**£m**
Impairment of intangible assets and goodwill arising on business combinations	(36)	(16)
Net (losses)/gains on disposal of businesses and transaction costs on business combinations	(33)	34
Net property revaluation losses	-	(111)
Realised and unrealised foreign exchange losses	(8)	(24)
Other material non-underlying items	(30)	-
(Losses)/gains on return-seeking assets, net of hedging	(1)	18
Total non-underlying items	**(108)**	**(99)**

Impairment of intangibles and goodwill of £36m (2017: £16m) was higher than prior year mainly due to an impairment in our aged care business in New Zealand. We incurred losses on disposals, net of transaction costs, of £33m, primarily relating to the sale of the UK care homes in December 2017 and February 2018, as well as a loss arising from the sale of our interest in Torrejón Salud, a public hospital that we ran under the Public-Private Partnership model in Spain. This compares to £34m of gains in 2017, primarily associated with the divestment of Bupa Thailand, partly offset by the Oasis Dental Care acquisition costs.

There were no material property revaluations this year compared to £111m of losses in 2017. The period saw lower realised and unrealised foreign exchange losses of £8m (2017: loss of £24m). Other Market Unit non-underlying items reflect provisions for penalties and associated costs of £21m relating to the in-principle agreement with the Australian Taxation Office and £9m of costs in Bupa Global to set up a new Irish insurance entity in preparation for post-Brexit trading.

The return-seeking asset portfolio showed marginal losses in 2018 of £1m, a reversal of £19m on the £18m gain shown in the prior year period.

Taxation
Bupa’s effective tax rate for the period was 34% (2017: 21%), which is higher than the UK corporation tax rate of 19%. This is mainly due to profits arising in jurisdictions with a higher rate of corporate income tax and the in-principle agreement with the Australian Taxation Office for matters relating to prior years.

Cashflow
Net cash generated from operating activities fell by £169m (17%) to £810m (2017: £979m) and is broadly in line with the reduction in operating profit. In addition, net cashflows from refundable accommodation bonds in our Australian aged care business are lower than last year.

Net cash used in investing activities reduced by £464m to £505m in 2018 (2017: £969m). In 2018, we acquired Néctar Seguros and Ginemed in Spain and purchased an additional 5% shareholding in Bupa Arabia. We continued to invest in growth and development, finalising the construction of the Clínica Bupa Santiago hospital, opening our new UK office in Salford Quays, constructing seven new care villages in New Zealand, along with maintaining our care home portfolios. We increased our holdings in financial investments and long-term deposits following a number of divestments, including 22 care homes in the UK in February 2018, 12 care homes and four villages in New Zealand in the second quarter of 2018 and our interest in Torrejón Salud, in December 2018.

Cashflows from financing activities fell by £340m compared to last year. In the prior year, we engaged in significant financing activity, including entering a £650m facility and issuing a £300m senior unsecured bond, to fund the acquisition of Oasis Dental Care and the additional stake in Bupa Arabia in 2017.

Funding

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

The Company's senior debt rating was upgraded by Moody's to A3 from Baa1 in May 2018. The upgrade follows Moody's new cross sector methodology for assigning instrument ratings for insurers. Moody's modified its guidance for rating certain insurance holding company instruments, and now applies narrower notching where there is enhanced regulatory supervision at a group-wide level. Solvency II is one of the regulatory regimes that Moody's considers as providing enhanced group supervision. The Fitch rating was unchanged at A- (stable).

At 31 December 2018, we had drawn £170m under our £800m revolving credit facility, which is due to mature in August 2022. We focus on managing our leverage in line with our credit rating targets. Leverage at 31 December 2018 was 24.7% (2017: 26.6%). Coverage of financial covenants remains well within the levels required in our bank facilities.

Solvency

Our parent holds capital to cover its Solvency Capital Requirement (SCR), calculated on a Standard Formula Basis, considering all our risks, including those related to non-insurance businesses. The Bupa Group's estimated SCR as at 31 December 2018 was stable compared to 31 December 2017 at £2.1bn and Own Funds were £3.9bn, £0.2bn higher than at 31 December 2017.

The Bupa Group's surplus capital was estimated to be £1.8bn, compared to £1.6bn at 31 December 2017, representing a solvency coverage ratio of 191% (2017: 180%).

The Bupa Group's business is strongly capital generative due to our profitability. This underlying capital generation was partly offset by investment both through acquisitions and capital expenditure.

IFRS 16 Leases will apply from 1 January 2019. While this accounting change does not change the Bupa Group's risk profile, it requires all our operating lease assets and liabilities to be capitalised on the IFRS and Solvency II balance sheet. The estimated value of both lease assets and liabilities at 1 January 2019 on the Solvency II balance sheet is £1.0bn. The lease assets attract a property risk charge under the Solvency II Standard Formula. This, together with interest rate risk on the liability, is estimated to increase the SCR charge by £0.2bn. The impact on the solvency coverage ratio on transition is estimated to have reduced our coverage ratio by 16 percentage points.

On 18 January 2019, we completed the acquisition of Acıbadem Sigorta. This transaction is estimated to reduce the Bupa Group's coverage ratio by 6 percentage points. After the inclusion of lease assets and liabilities and this acquisition, the Bupa Group's solvency coverage ratio is estimated to be 169%, which is well within capital risk appetite.

The Bupa Group performs an analysis of the relative sensitivity of our estimated solvency coverage ratio to changes in market conditions and underwriting performance. Each sensitivity is an independent stress of a single risk and before any management actions. The selected sensitivities do not represent the Bupa Group's expectations for future market and business conditions. A movement in values of properties that we own continues to be the most sensitive item, with a 10% decrease having an 11 percentage point reduction to the solvency coverage ratio.

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

Group - Risk Sensitivities	**SII Coverage Ratio**
Solvency Coverage Ratio	191%
Interest rate +100bps	190%
Credit spreads +100bps*	190%
Equity markets -20%	191%
Property value -10%	180%
GBP appreciates by 10%	187%
Pension risk +10%	190%
GSP[6] +0.2%	188%
Loss ratio worsening by 2%	182%

*Assuming no credit transition.

Forthcoming changes to accounting standards

On transition to IFRS 16 Leases, the Group expects to recognise lease liabilities and corresponding right-of-use assets on the IFRS balance sheet of c.£1.1bn mainly within our provision and aged care businesses. Compared to the existing IAS 17 approach of recognising operating lease costs on a smoothed basis through operating expenses, the IFRS 16 approach results in lower operating expenses and higher finance costs. Overall profit is also lower in the early years of the lease and higher in the later years of the lease, compared to the existing approach, due to the timing of the recognition of the implicit finance costs on the outstanding liability.

IFRS 17 Insurance Contracts will apply from 1 January 2022. The impact on the financial statements is currently being evaluated by the Group, but it is anticipated that the simplified premium allocation approach option will be available for the majority of the Group's insurance contracts.

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

Market Unit Business Review

Australia and New Zealand

Stable revenue and underlying profit down, driven by challenges in our aged care and health insurance businesses.

	2018	2017 (CER)
Revenue	£4,656m	£4,635m
Underlying profit	£337m	£369m
Insurance customers	4.0m	4.0m
Provision customers	1.7m	1.7m
Aged care customers	10.2k	11.0k

Market context

- While the Australian and New Zealand economies are expected to show modest improvement in coming years, both remained subdued in 2018.
- Cost of living pressures continue to affect consumer confidence, with low real wage growth in both countries.
- There was continued strong government interest in the sector with an expert committee looking at health insurance out-of-pocket costs and a Senate Committee inquiry into aged care tax and financial practices.
- Australia will hold a Federal election in the first half of 2019 and healthcare remains a hot topic, with the Opposition proposing a cap of two per cent on health insurance premiums.
- In October, the Australian Government announced a Royal Commission into Aged Care Quality and Safety with hearings beginning in early 2019.

Operational highlights

In a challenging trading year, we delivered stable revenue, while underlying profit decreased by 9%, mainly driven by the performance in our Australian aged care and health insurance businesses.

In Australia, affordability pressures have impacted the take-up of health insurance in recent years. In response, the Government has been restricting price increases at a lower rate than claims inflation. This impacted the profitability of our health insurance business in 2018 and will continue in 2019.

Our customer numbers fell by 1.6% in a market which is contracting due to cost of living and affordability pressures. Our market share also fell 0.8% to 26.7%, as a consequence of product changes in the first half of 2018. These changes were aimed at improving transparency and reducing out-of-pocket costs for customers but were perceived by some providers and customers as detrimental. We responded and made revisions, which stabilised the impact.

In response to continued pressure on household budgets, we introduced our lowest annual health insurance premium increase in 17 years. We offered additional value for money through initiatives such as a gap-free[7] dental offering for customers with our extra cover and gap-free dental, physio and optometry services for children. Our health insurance transformation programme focused on delivering benefits for customers, including real-time claims payment and online benefit statements. We introduced initiatives to reduce indirect operating costs, while also working with the government to continue to support health reform to address affordability challenges.

Bupa Medical Visa Services achieved solid performance and the contract to provide these services was renewed for two years. In January 2019, we were selected as the health services provider for the Australian Defence Force to provide end-to-end healthcare to cover 80,000 personnel from July 2019. Introducing more efficient operating models across our dental, optical and audiology businesses also helps us to build a strong foundation for future growth.

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[7] No out-of-pocket medical expenses.

Underlying profit in our Australian aged care business fell due to funding pressures, lower occupancy and higher costs. We are managing compliance issues in some care homes and taking steps to address these. The Australian aged care sector is facing significant challenges, which have led to the establishment of the Royal Commission into Aged Care Quality and Safety. New Zealand profits were up versus last year. Our business footprint is now more focused following the sale of 12 care homes and four retirement villages along with the medical alarms business. Our Riverstone retirement village welcomed its first residents.

Europe and Latin America
Steady growth driven by our Spanish health insurance and dental businesses.

	2018	2017 (CER)
Revenue	£3,041m	£2,865m
Underlying profit	£198m	£194m
Insurance customers	2.8m	3.1m
Provision customers	9.0m	8.9m
Aged care customers	6.0k	5.7k

Market context

- The Spanish economy is recovering from years of recession and grew at 2.6% in 2018 with stable inflation. Favourable financial conditions and strong job creation will continue to support private domestic demand.
- Political uncertainty continues in Spain, with General Elections announced for April 2019, following parliamentary rejection of the Government's 2019 national budget.
- The Polish market grew strongly, and private consumption increased due to a buoyant labour market.
- The Chilean economy grew at 4% in 2018 supported by stronger external macro-economic conditions. The Chilean Government is leading the Isapre reform project engaging with all players in the sector.

Operational highlights
Our Europe and Latin America Market Unit delivered steady performance. Revenue grew by 6% and underlying profit increased by 2%, mainly driven by good growth in our health insurance and dental businesses in Spain. This was partially offset by the impact of a reserve strengthening in Bupa Chile, as previously reported, and by restructuring costs incurred in that business.

In Spain, where we operate under the Sanitas brand, performance was good. This was driven by our successful partnerships with BBVA and Santa Lucía, along with Clínica Universitaria de Navarra, a leading hospital provider. We reinforced our number two position in the health insurance market, with a stable market share of 20.4%[8]. The acquisition of Néctar Seguros, a digital health insurance player, added 34,000 customers to our portfolio of 1.7m customers. Our Blua digital proposition continues to drive growth. By the end of 2018, over 93% of insurance claims were managed digitally, and almost 450,000 customers had access to video consultations with more than 1,200 doctors of all specialties.

Activity in our Sanitas Dental centres was higher than in 2017, and we added over 92,000 dental insurance customers to our existing 1.4m customers[9], with further expansion in dental centres planned. We ended the year with 179 dental centres across Spain.

Sanitas Hospitales treated 65,000 patients during the year, a 2% increase from the previous year. We maintained our high standards of care as demonstrated by the EFQM[10] and Joint Commission International certification achieved in our hospitals. In December, we acquired Ginemed, a leading Spanish provider of in-vitro fertilisation and wider fertility services, with 18 centres and 140 employees in Spain and Portugal. In December, we completed the sale of our stake in Torrejón Salud, a public hospital that we ran under the Public-Private Partnership model.

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8 2018 Q3 Data, ICEA (Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones).

9 Includes customers with health insurance and dental cover, and dental cover only.

10 European Foundation for Quality Management.

Sanitas Mayores, our aged care business, delivered strong performance. We maintained a high average occupancy rate of 95%. We launched Sanitas en Casa Contigo, which provides home care to the elderly and training for informal carers at home, supported by a strong digital platform.

In Poland, our LUX MED business grew organically and through acquisitions. Subscription activity increased, together with improved inpatient performance. We acquired four ambulatory clinics, one image diagnostic centre, and three dental centres.

In Chile, our Isapre and Integramédica businesses grew in customer numbers. We opened the first phase of the Clínica Bupa Santiago hospital, a £140m investment and, with 460 beds, the largest Bupa hospital.

United Kingdom

Reshaping and investing to focus on changing customer needs.

	2018	2017 (CER)
Revenue	£2,537m	£2,807m
Underlying profit	£165m	£216m
Insurance customers	2.2m	2.2m
Provision customers	3.3m	3.0m
Aged care customers	6.8k	6.6k

Market context

- Uncertainty remains around the full implications of Brexit, and the terms on which the UK will leave the EU, with low economic growth.
- Continuing pressure on NHS with government commitment to increase future funding.
- The dental market remains competitive with a UK-wide review of NHS orthodontics contracts that will continue into 2019, and a shortage of dentists across the market.
- In aged care, demand for local authority-funded beds continues to increase but public funding remains constrained and the requirements of older customers continue to evolve.

Operational highlights

In the UK, as previously reported, we sold a significant part of our aged care business in December 2017 and February 2018. In our continuing businesses, revenue was up 3% and underlying profit was flat on last year.

Our UK health insurance business closed the year with 2.2m customers. It remains the market leading health insurer in the country, with a market share of 37.5%[11]. We launched Business Mental Health Advantage, offering our corporate customers the most extensive mental health coverage in the market. We also partnered with digital healthcare provider, Babylon, giving business customers access to face-to-face GP care around the clock. In October, we announced the opening of specialist centres for breast cancer in London and Manchester with the independent hospital provider, HCA Healthcare UK. These centres build on our Cancer Direct Access service and Cancer Promise, giving our customers speed of access to comprehensive diagnostics and, if needed, treatment.

We acquired 24 dental practices in 2018, strengthening our market position to a total of 477 centres serving around 2.4m customers. We purchased high-performing practices providing quality patient care. We also enhanced our dental insurance plans for business customers, including market-leading cover for preventative care.

We reshaped our aged care business, with the divestment of 132 care homes between December 2017 and February 2018. We opened four new-build care homes over the year, closing 2018 with 138 homes and seven retirement villages. Around 80% of our care services are rated as ‘Good’ or ‘Outstanding’ by the Care Quality Commission. Our average occupancy rate was relatively stable compared to 2017 at 84.5%.

[11] LangBuisson Health Cover, October 2018. Data from 2017.

Investment in our health services business continues. We partnered with food retailer, Waitrose & Partners, offering more than 10,000 shoppers health checks in-store. In September, we launched our 30-minute Male Health Check, offering a quick assessment and advice for prostate and testicular cancer. At our Cromwell Hospital, we upgraded our outpatient reception and consulting suites.

In September, we opened our new Salford Quays office, Bupa Place. It's our largest office in the UK, with over 2,000 employees and has been rated BREEAM[12] Excellent, putting it among the top 10% of new UK non-domestic buildings for its sustainability performance. To mark the move, we launched our 'Everyone's welcome' pledge, creating a positive working environment where our employees feel comfortable to bring their whole selves to work.

International Markets

Strategic investment in rapidly-developing and growing markets.

	2018	2017 (CER)
Revenue[13]	£1,626m	£1,581m
Underlying profit	£68m	£63m
Insurance customers	6.7m	6.2m
Provision customers	1.0m	0.9m

Market context

- The international private medical insurance market remained competitive. Digitally-enabled service capability is becoming an increasingly important differentiator.
- The Saudi Arabia economy began to recover, although the operating environment remained challenging with increasing regulation and intense competition. Private sector growth is expected to remain muted until 2020.
- Hong Kong's economy expanded moderately. Risks are increasing due to the US-China trade dispute and Hong Kong's close dependency on the maturing Chinese economy.
- India remained one of the world's fastest growing economies. The health insurance sector is becoming increasingly competitive, although healthcare expenditure remains low.
- Turkey was among the world's fastest-growing economies in 2018, but growth slowed due to geopolitical tensions and exchange rate volatility. It is an attractive market for health insurance in the long-term due to its fast-growing population and high-quality private healthcare.

Operational highlights

Revenue in International Markets grew by 3% and underlying profit up 9% year-on-year. We made investments in both organic growth and acquisitions during the year.

In Bupa Global, our focus on stabilising the business began to show results. We made progress in customer retention and customer satisfaction. We established an authorised insurer in Ireland, in order to continue to serve customers living in the EU (but outside the UK), after Brexit. In Colombia, we launched our first International Private Medical Insurance (IPMI) products in partnership with the country's leading insurer, Seguros Bolivar. In Brazil, the integration of Care Plus continues to progress well.

We announced the acquisition of Acıbadem Sigorta, Turkey's second largest health insurer, in August, completing the transaction in January 2019. Acıbadem Sigorta is a specialist health insurance provider with both corporate and individual customers. Headquartered in Istanbul, it covers over 550,000 health insurance customers and has over 500 employees.

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12 BREEAM (Building Research Establishment Environmental Assessment Method), is a method of assessing, rating, and certifying the sustainability of buildings.

13 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 figures.

Bupa Hong Kong continues to focus on customer proposition and service capabilities. The health insurance business has over 400,000 customers and signed a new distribution partnership agreement with Tokio Marine Hong Kong in December. Our clinics business, which operates under the Quality HealthCare brand, opened four new centres during the year. We also opened the first Bupa-branded dental centre in Hong Kong.

In August, we increased our stake in our Bupa Arabia associate business to 39.25%. In January 2018, Bupa Arabia signed a third-party administration services agreement to provide services to Saudi Aramco employees.

In India, we are making progress. Our associate business, Max Bupa[14], launched its first digital product – GoActive – which includes an integrated health and wellness platform aimed at younger customers.

[14] On February 26 2019, private equity firm True North acquired a controlling stake in Max Bupa health Insurance from Max India, subject to regulatory approval.

Risks

Any successful business needs to manage risk just as it embraces opportunity, and at Bupa we are committed to making risk management an integral part of our culture.

It's what our customers, regulators and other stakeholders expect of us, and it's the right thing to do for them. Effective risk management is a critical component in our future success.

We are also seeing significant changes in how regulators, in both insurance and healthcare provision, oversee companies and boards to ensure appropriate outcomes for markets and customers. Standards and expectations are rising globally and we must foresee and mitigate the potential risks of any future changes that could affect our customers and our business.

We have a comprehensive risk management programme to ensure risk management comes as second nature to our people and they are equipped to manage risk. The Bupa Code, risk appetites, the Enterprise Policies and our 'Speak Up' whistleblowing process are critical tools to achieve this.

The risk profiles within Bupa's health insurance, provision and aged care activities are different. Our broad geographical reach means that our local businesses are exposed to a wide range of political, regulatory, legal and economic risks. We manage these by making sure we understand the factors behind the risk to each individual business and to our balance sheet, and by assessing how these risks interact. By understanding the risks we face – including emerging and strategic risks – we can make sure we are best placed to manage and diversify them and ensure we hold sufficient capital.

Progress in 2018

We further strengthened our risk management approach and capability in response to growth in our business and the evolving focus of regulators around the world on insurance and healthcare provision.

We're continuing to embed all aspects of our Risk Management Framework into our business:

- enhancing our Enterprise Policy suite to ensure there is a clear link between risk appetite and key controls;
- conducting in-depth reviews of specific aspects of risk as they arise in the external environment and focusing on specific areas of risk for our insurance and healthcare provision businesses;
- improving our regular risk reporting to the Bupa Risk Committee to assist in its effective oversight;
- reviewing the risks to Bupa associated with the UK leaving the EU;
- reviewing the risks associated with changing regulatory environments in Australia;
- undertaking a stress and scenario testing programme to improve our understanding of severe risks and how they may affect the business plan in both our insurance and healthcare provision businesses;
- improving the way we consider emerging risks by strengthening the link to our strategy;
- reviewing the risk profile of the remaining UK care homes following disposals;
- continuing to improve our information security controls to respond to the ever-evolving external environment;
- monitoring activities to ensure effective privacy risk management (including General Data Protection Regulation (GDPR) readiness preparation compliance); and;
- assessing the risks associated with proposed acquisitions.

We're also working to make sure that our Risk Management Framework is fully understood and properly utilised across Bupa. This includes making sure that processes and controls are designed, documented and implemented effectively across our businesses in line with our Enterprise Policies. We continue to ensure that our people are appropriately trained.

Our approach to risk management

We have non-executive governance processes at subsidiary board level for our major insurance subsidiaries as well as at Bupa Board level.

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

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

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

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

This ensures that:

- current and emerging risks to the businesses and strategy are identified and potential consequences are understood;
- we have clear and established risk appetites within which we operate (these are discussed further below);
- we take appropriate and effective steps to mitigate and manage identified risks;
- we use risk management information to help inform risk-based decisions across the business;
- there is clear ownership of, and accountability for, risk;
- we have a culture in which:
    - appropriate risk behaviours are encouraged and rewarded;
    - inappropriate behaviours are challenged with appropriate consequences;
    - and risk events are communicated quickly without fear of blame.

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

Our Enterprise Policies define the way we do business. They cover all key areas of risk for our health insurance, provision and aged care businesses and are implemented by our Market Units and in the Centre, which check our compliance with the requirements. These policies are reviewed annually and have designated owners with defined roles and responsibilities at both enterprise and local levels.

We test how effectively we put the Risk Management Framework into practice through our Internal Control and Risk Management Assessment. This assesses how well internal control and risk management practices and policy compliance are working across the Bupa Group. It's a self-assessment conducted by the first line of defence and reviewed and challenged by the second and third lines. We run this assessment annually and the results are presented to the Bupa Risk Committee.

Risk appetite

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

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

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

Risk profile

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

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

These risks are set out in the table below in order of the solvency capital required to mitigate them.

Risk	Comment and outlook	Mitigating actions
Property risk The risk of the volatility in values or the devaluation of properties held for own use (including owned care provision properties), or for investment purposes, resulting in adverse impacts.	We generally own rather than rent property. This could leave us exposed to falls in property values. Care home valuations are based on the underlying profitability of the individual homes. The implementation of IFRS 16 Leases in 2019 will increase the amount of capital we are required to hold.	By maintaining a geographic spread of businesses across a number of countries, Bupa is able to diversify exposure to individual property markets.
Insurance risk Risks relating to our insurance businesses. Risk of inadequate pricing and/or underwriting of insurance policies, and of claims experience being materially adversely different to expectations.	Health insurance is short-tailed with lower outstanding claims as a percentage of revenue than most general insurers. Insurance risk exposure will grow in step with planned growth in premium income of the insurance businesses.	The relatively short-tailed nature of Bupa’s products allows us to respond to market changes quickly. We have extensive control mechanisms in place to ensure reserves are adequate to mitigate against the risk of higher-than-expected claims costs. The geographical diversity of Bupa offers further mitigation against insurance risk.
Currency risk Risk arising from changes in the level or volatility of currency exchange rates impacting on cash flows and assets held in currencies other than sterling, and on the financial statements.	As the net assets of businesses outside the UK grow, there will be a corresponding increase in currency risk in relation to translation into sterling. There is transactional risk relating to policies for which premiums and claims are in different currencies.	Currency translation risk is, where possible, significantly mitigated through a hedging programme. Asset liability matching in local currencies helps to ensure that sufficient funds are held in the local currency, therefore limiting currency risk exposure.

Credit spread and counterparty default risks Risk of a loss in value of bond assets and/or that a counterparty fails to meet its obligations in the face of adverse economic conditions. This also includes the risk of a loss in value of the bond assets held within the pension schemes.	Our funding businesses have modest holdings of corporate and other bonds. These are exposed to the risk of widening spreads and defaults. There is banking counterparty default risk in respect of deposits.	Our bond portfolio is small in relation to our other financial assets and the majority is investment grade. Counterparty exposure is managed by dealing with highly-rated counterparties with exposure limits defined by Group Treasury Policy.
Operational risk (including conduct risk and clinical risk) Risk of loss arising from inadequate or failed internal processes, or from personnel, systems or external events. This risk also includes conduct risk (the risk that our behaviours, actions or controls result in detriment or unfair outcomes for our customers), and clinical risk (the risk of injury, loss or harm to customers in receipt of healthcare).	We are committed to managing operational risk effectively. This includes continued close attention to management of regulatory risk and proactive engagement with regulators. If we expand our provision and aged care businesses, there will be an increase in inherent exposure to clinical risk. This is actively managed through continued refinement of our approach to clinical risk governance.	Maintaining internal control processes and governance frameworks, approving risk policies and assessing compliance help to mitigate this risk. All our Market Units have a Medical Director responsible for ensuring clinical quality and governance within the business. They are accountable to the Chief Medical Officer for clinical governance.

Other significant risks to the Bupa Group cannot be effectively mitigated through holding capital alone, although we do hold significant capital for operational risks. Bupa's Market Unit Executive Risk Committees regularly review these residual risks and the mitigating actions taken to reduce them. They also inform the Bupa Group Risk Committee and BERC about key areas of specific concern.

This provides management with a view of the priority areas in which resources should be focused. The table below reflects the themes of the most significant risks currently facing the Bupa Group. This list and the residual risks for each remained relatively stable throughout 2018.

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

People – impacting our growth agenda The risk that we do not have appropriate levels of capacity and capability of people to deliver our strategic objectives.	As a business with an international footprint, it's critical to our strategy that our people have the appropriate knowledge, skills and experience to identify and manage risk and to deliver on objectives.	This is an area of significant focus for the Bupa Executive Team. We are focusing on ensuring that we have the right experience and succession plans to run our businesses and manage change, supported by a simple operating model and improved ways of delivering training. Where we acquire businesses these bring additional resources to the Company.
Changes in government and regulatory policy The risk of failure to anticipate, respond to, or influence changes in the government and regulatory environment which may impact our customers and the viability or profitability of the business.	Our health insurance, provision and aged care businesses are subject to government and regulatory policy, including minimum wage requirements, prudential requirements, changes to tax regimes and the interpretation of existing tax practices, pricing controls in some of our funding businesses, and clinical care requirements for our healthcare provision businesses. In Australia, the government-approved premium increase for our customers was lower than claims inflation. The Australian aged care and health insurance sectors are experiencing significant challenges.	All our markets have defined key activities to make sure we can continue to monitor and assess the strategic implications on our businesses of any future changes in policy or regulation, and advocate for appropriate change in these areas. We continue to work with the Australian Government to support a broader health reform to help address the sector challenges.
External market Conditions The risk of geopolitical volatility, changing consumer dynamics and competitor activity having an adverse impact on our customers and our business model.	This includes structural market changes (e.g. political change or medical inflation) and economic volatility.	We review our strategy and processes to ensure that they are flexible enough to cope with changing external conditions.
UK exit from the EU The UK's decision to leave the EU has led to uncertainty for our business.	Bupa's key financial metrics remain strong, with a Solvency II capital coverage ratio of 191%. While uncertainty around Brexit may negatively impact sterling, as a Group with significant operations outside of the UK this would lead to higher reported profits. Operationally, currency risk is actively managed as described on page 18 above. Liquidity is robust and the investment portfolio is largely low risk, focused in bonds and cash.	We have established a new entity in Ireland to provide continuity for our Bupa Global customers within the European Economic Area. We have monitoring and risk management plans in place to protect Bupa's position from a customer, people and performance perspective, whilst recognising that the impacts of Brexit are likely to crystallise over time at an operational level and will be dependent on a range of political and economic factors.

There are further risks that capital cannot appropriately mitigate and which always remain a priority for management even though they are not highlighted in the table above. These are detailed in the table below.

Risk	Comment and outlook	Mitigating actions
Liquidity risk The risk that we hold insufficient financial resources to enable us to meet our obligations as they fall due or to take advantage of potential opportunities, or of being able to secure such resources only at excessive cost, resulting in adverse impacts.	Liquidity risk is addressed not through capital but by holding liquid assets and maintaining appropriate controls. Policyholder liabilities are predominantly backed by liquid assets, so our liquidity risk exposure primarily relates to the funding risk associated with borrowings.	This is mitigated by the Treasury function actively managing borrowings, for which the amount and timing of outflows are known, and by maintaining a portion of the bank facility undrawn.

Strategic risks The risk that we are unable to design or implement appropriate business plans and strategies, to make decisions, to allocate resources, or to adapt to changes in the business environment. This includes the risks associated with acquisition and disposal decisions and their implementation.	Global trends and key areas influencing our markets are set out in page 6 in the Parent's Annual Report. The prevalence of social media has increased the contagion risk to our brand and reputation from events in one part of the Group impacting the whole Group.	Our purpose – helping people live longer, healthier, happier lives – and our values shape how we act and deliver for our customers and our people. Through the identification and assessment of emerging risks, we can react to issues in a timely and appropriate manner.
Environmental risks The risk that our activities cause harm to the environment, and the risks that climate change could mean for our business.	Climate change is a health concern as well as an environmental risk. We play an active part in promoting positive environmental practices and we look for opportunities to reduce waste and conserve energy where possible. We are evaluating the business impacts and assessing the materiality of climate risk across the Group. We will then identify potential responses to manage the risks and opportunities.	We have a corporate responsibility and sustainability policy which includes environmental considerations and is reviewed on an annual basis. Each of our Market Units has developed a plan outlining actions to manage our social and environmental responsibilities. This is reinforced by the Bupa Code principle that "we take care of the planet".

We also recognise that our operations could expose us to risks relating to the potential violation of human rights in areas including modern slavery and human trafficking. We are conscious that such risks can arise in certain industries connected to the healthcare sector, in particular nursing, home nursing and personal care provision, as well as in the manufacturing of healthcare equipment.

We are committed to monitoring such risks in our business and in our wider supply chain and are committed to mitigating them.

Our commitment to integrity and transparency begins with our own people. Our employees adhere to the ethical standards set out in the Bupa Code and its related policies, including Conflicts of Interest, Financial Crime Risk and 'Speak Up'. We have mandatory training in place to make sure all our employees understand their responsibilities under these policies and others.

We do not tolerate bribery or corruption. Our training and awareness initiatives, clear operational standards and risk-based due diligence procedures keep our own people and the third parties we deal with fully informed about our commitment to ethical business practice.

Our values are fundamental in shaping the way we behave towards our customers and one another, and the Bupa Code has been designed to help our people make the right choices in living our values.

Joy Linton
Director
13 March 2019

Governance

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

Bupa complies with the UK Corporate Governance Code 2016 (the Code) and ensures that its governance responsibilities under the Code are enacted effectively with relevant provisions and principles being applied throughout the Bupa Group.

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

System of Governance

Bupa's governance structure is designed to enable the Board to lead within a governance framework of prudent and effective controls which enables risk to be assessed and managed. Our System of Governance includes a 'three lines of defence' approach to risk management, being:

- First line – management – responsible for identifying and reporting risks and managing risks within the risk appetite set by the Board, through documented policies, processes and controls;
- Second line – Risk function – provides assurance over first line activity, provides oversight, challenge and support to the first line; and
- Third line – Global Internal Audit – provides independent assurance.

In addition, the External Auditor provides further assurance to the Bupa Audit Committee and the Board in relation to the Group's financial statements.

Whistleblowing

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

Engagement with stakeholders

Bondholders

The Company has a number of debt securities in issue and is therefore required to operate in accordance with the relevant UK Listing Rules, Disclosure and Transparency Rules and the EU Market Abuse Regulation in respect of its announcements of financial results and operations. Briefing calls are held for bondholders to discuss the Annual and Half Year results. This provides an opportunity for them to question management on the financial performance and strategy of Bupa. Bupa's CFO and Group Treasurer hold roadshows for bondholders at least annually and bondholders are kept up to date on significant developments at Bupa by email.

Customers

We have a customer centric culture and the Bupa Board endeavours to understand the views of our customers through visits to operational sites including call centres, care homes and hospitals as well as reviewing regular customer updates and metrics. Customers are at the heart of our decision-making at all levels of the organisation, facilitated by our Customer Excellence Framework and human-centred design.

People

Our people are the backbone of our organisation and one of our strategic pillars is for our people to love working at Bupa and making a difference for our customers. During the year, the Bupa Board oversaw the development of a new People strategy and considered the results of our new People Pulse survey. The Bupa Board also receives reports on issues raised through the 'Speak Up' process and engages with our people during site visits. The Bupa Board sets an open and inclusive culture that empowers our people to deliver and to be themselves at work and welcomes Bupa's work with the organisation INvolve and other activities to increase diversity at all levels of our workforce. Bupa is considering its approach to the new Code requirements regarding engagement with employees.

Other stakeholders

Across our markets, we engage regularly with policymakers and regulators, health and social care professionals, consumer groups and other stakeholders. This enables us to champion issues that matter to our customers and contribute to policy debates. Beyond that, as part of our corporate responsibility and sustainability strategy, we play an active role in the communities we work in, connecting with other commercial and non-profit organisations to make a positive contribution to wider society, particularly in health. Our business model on pages 4 to 5 shows how we create value for customers, employees and other stakeholders.

Bupa Audit Committee

The Committee's role and governance

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

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

Key activities in 2018

The Committee examined the key issues and judgements relating to the Group's and the Bupa Group's Half and Full Year results 2018, and the Bupa Group's Solvency Financial Condition Report and Regular Supervisory Report. In particular, the Committee asked management to clarify, simplify and improve the alignment and comparability of the Alternative Performance Measures (APM) used in external reporting. The Committee accepted management's proposed approach to implementing IFRS 16 Leases and IFRS 17 Insurance Contracts, and particularly its view of the potential impact of IFRS 16 on Solvency II capital requirements.

In 2018, the Committee monitored management's progress on improving IT access controls and the External Auditor has also carried out testing in this area, noting improvements made during the year compared to 2017. In addition, management commissioned an independent assessment of the maturity of our current information security controls across Bupa Group.

During the year, Bupa has continued with its Finance Development Programme and extended the scope of this project to include creating an improved Solvency II reporting process, and delivery of IFRS 16 and IFRS 17 reporting. The Committee received regular reports on the progress of the Programme and supported management's decision to go live with a new consolidation system for the 2018 year end. Both the Risk function and Global Internal Audit provided assurance over the design and implementation of the new system and the controls put in place.

The Committee received training during the year on IFRIC 23 – Uncertainty Over Income Tax Treatments, as issued by the International Accounting Standards Board, and on actuarial reporting within Bupa.

Ahead of Bupa's and the Group's Half and Full Year 2018 results, the Committee considered various accounting issues where a high degree of judgement was required to determine their treatment under relevant accounting policies. These included reviewing management's assessment of goodwill and intangible assets, outstanding claims provisions and pension scheme assumptions including the Guaranteed Minimum Pension.

In March 2019, Bupa Australia announced that it had reached an in-principle agreement with the Australian Taxation Office (ATO) to settle a number of disputed matters, including a transfer pricing issue relating to the funding of its Australian acquisitions in 2007 and 2008. The Committee received regular reports from management on the progress of the matter during the year and liaised with the External Auditor, the audit committee of the Australian business and external counsel to consider the accounting impact of the matter.

Significant issues and areas of judgement in respect of the 2018 reporting period and the way these were addressed are detailed in the table on pages 25 to 26.

Governance (continued)
for the year ended 31 December 2018

Financial reporting

The Committee reviewed the appropriateness of Bupa's and the Group's Half and Full Year 2018 financial statements, with both management and the External Auditor. This review considered the following areas:

Going concern

The Committee reviewed the going concern assumptions and was satisfied that the assumptions on which the going concern basis of accounting are based is appropriate and reasonable.

Significant issues and areas of judgement

Key issue	Committee response
Goodwill and intangible asset valuations Significant levels of goodwill and intangibles are held in respect of prior acquisitions. Impairment reviews are inherently complex and require a high level of judgement to be applied due to the uncertainty involved in forecasting future cash flows, the appropriateness of discount rates used and future growth rates of the respective business.	The Committee critically reviewed and discussed management reports outlining the basis of the assumptions used for our most sensitive Cash Generating Units (CGUs) and challenged the results in the light of business performance and the external environment, in particular noting the impairment in respect of Bupa New Zealand which has been recognised in the consolidated income statement. The Committee challenged management on the elements included in the Weighted Average Cost of Capital methodology and the terminal growth rates for the CGUs. The Committee also received from KPMG a report of their views on the assessments performed by management. The Committee is satisfied that the assumptions applied were reasonable and the carrying value of goodwill and other intangible assets is appropriate.
Claims provisioning Calculation of the outstanding claims provision is based on assumptions including claims development, margin of prudence, claims costs inflation, medical trends and seasonality, which require a high level of judgement and actuarial expertise.	The Committee received a report from the Chief Actuary setting out estimates of the technical provisions, including the margin of prudence held by each insurance entity, as well as the result of the annual review of compliance with Bupa's Claims Reserving and Liability Adequacy Standards. The Committee sought justification for the appropriateness of the overall level of insurance technical provisions proposed, including the level of prudential margin, in view of historic reserve development patterns and the reserve strengthening undertaken during the year in some businesses. The Committee considered the appropriateness of the overall level of insurance technical provisions, including the level of prudential margin. In reviewing and approving the insurance technical provisions, the Committee also took into consideration the auditor's report to the Committee.
Property valuations Bupa has a significant portfolio of care homes, villages and hospital properties which are revalued to fair value on a periodic basis, with external valuations undertaken at least triennially. The underlying assumptions involved in the valuations, including earnings, profitability, occupancy levels and future trends are subject to a high level of judgement.	The Committee received the results from the external valuations in Spain and Chile, undertaken as part of the triennial property review, and Directors' valuations performed in other Market Units. The Committee also reviewed reporting from the External Auditor addressing the valuations to assess their reasonableness and considered the appropriateness of disclosures made. The Committee is satisfied that property values and disclosures for all properties, including those held for sale, are in compliance with financial reporting requirements and are appropriate.
Pension assets and liabilities Bupa's principal defined benefit scheme in the UK is The Bupa Pension Scheme. Significant judgement is exercised in determining the actuarial assumptions used in valuing the pension asset/liability.	The Committee considered the appropriateness of the assumptions used in the valuation of the related pension assets and liabilities performed by the independent scheme actuary and is satisfied that the assumptions used in the valuation are appropriate. The Committee also noted the equalisation allowance in the consolidated income statement in respect of Guaranteed Minimum Pensions following the recent High Court judgement. The Committee received information from KPMG benchmarking the assumptions used in the valuation of pensions liabilities. The Committee concluded that the pension assumptions were appropriate.

Acquisitions and disposals During 2018, Bupa completed the acquisition and disposal accounting for an increase in its holding of Bupa Arabia, the disposal of Torrejón Salud in Spain and the acquisition of Ginemed, a Spanish health group.	The Committee considered the proposed accounting for the respective acquisition balance sheets, including the valuation of acquired customer relationship intangible assets, and the disposal. The Committee challenged management and concluded that the approach and assumptions used were appropriate. Proposed disclosures were also presented to the Committee.
Provisions and contingent liabilities The Bupa Group and the Group have contingent liabilities arising in the ordinary course of business including losses which might arise from litigation, disputes, and interpretation of tax law.	During the year, the Committee received reports from management setting out the rationale applied to the consideration of the recognition and disclosure of provisions and contingent liabilities, including those in relation to a number of disputed matters with the Australian Taxation Office. The Committee challenged the assumptions made and the conclusions reached requesting further details where they felt necessary. After due consideration and discussion, the Committee concluded that management's assumptions were appropriate regarding the need or otherwise for accounting provisions and that the proposed disclosure in the financial statements was appropriate.
Alternative Performance Measures The Bupa Group and the Group use an Alternative Performance Measure, Underlying Profit, for its segmental reporting to explain trading performance externally. This has been refined in 2018 with 2017 comparators restated.	The Committee reviewed several proposed adjustments to the definition of Underlying Profit, based on FRC guidance, with the objective of including recurring items and reducing the number of differences between this measure and Statutory profit. The key change was the decision to include amortisation of acquired intangible assets within Underlying Profit. More detail can be found in Note 2.
IFRS 16 Leases The requirements of the standard have been assessed in advance of application on 1 January 2019.	The Committee considered the key policy recommendations for IFRS 16 in respect of lease term, discount rate, transition options and valuation under Solvency II. The Committee challenged management and concluded that key policy recommendations made by management were appropriate.

Bupa's External Auditor

Independence and objectivity

The Bupa Audit Committee provides clear guidance to KPMG LLP (KPMG) on the Committee's expectations of KPMG as External Auditor and held two meetings with KPMG during the year without management present to ensure that the audit personnel were given the opportunity to raise any concerns they may have and to ensure that they remain independent and objective.

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

KPMG has internal procedures and controls and follows the FRC's Ethical Standard for auditors to ensure it remains independent. There are no contractual obligations restricting the Company's choice of External Auditor and there is no limitation of liability in the terms of KPMG's appointment as External Auditor of the Company. The Company prohibits the recruitment of any person that has been involved in the Group's audit for the current or previous financial year without prior approval from the CFO and the Bupa Audit Committee Chairman or any person that has been otherwise employed by the External Auditor in the preceding 12 months without prior approval from the CFO.

Fees and non-audit services

To further safeguard the External Auditor's objectivity and independence, Bupa has an Audit and Non-Audit Services Policy setting out the services which the External Auditor is prohibited from providing and the approval process for those non-audit or audit-related services that may be provided. The policy is reviewed and approved by the Committee annually. In 2018, the policy was updated to revise the absolute cap on the total value of non-audit engagements that may be contracted with the External Auditor prior to any approval by the Committee for subsequent non-audit engagements. This starts at a fixed financial amount and is capped at 50% of the average Group statutory audit fees paid in the last three years.

The Committee reviews non-audit services provided by KPMG and other audit firms quarterly to assess any potential independence issues. The External Auditor's remuneration for the year ended 31 December 2018 is shown in Note 2.3.3.

Effectiveness

In liaison with executive management, the Committee annually assesses the scope, fee, objectivity, independence and effectiveness of the external audit process and the performance of the External Auditor against agreed criteria at the outset of that year's audit. This includes considering the results of the auditor satisfaction survey sent to senior finance management across the Group and the auditor evaluation survey sent to the Committee members along with the Bupa Group CEO, CFO, Chief Internal Auditor and the Corporate Controller.

The assessment carried out during 2018 considered 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 requested and reviewed the external audit plan, ahead of its approval to provide an opportunity to challenge the plan and ensure that the External Auditor allocated sufficient resources in order to meet the plan. The Committee is satisfied that KPMG continues to provide an effective audit service and recommends its re-appointment at the 2019 AGM.

The FRC's Audit Quality Review team (AQR) monitors the quality of the audit work of the major UK audit firms by inspecting a sample of their audit files and procedures each year. In 2018, the AQR reviewed KPMG's audit of the Group's 2017 financial statements. The Committee discussed the report with KPMG and noted that no significant areas for improvement had been identified and were satisfied with KPMG's planned approach for the 2018 audit.

External Audit tender

KPMG has been Bupa's External Auditor since 1985, during which time Bupa has not put the audit out to tender. Under new EU Audit Regulation transitional arrangements, Bupa is required to rotate its audit firm at the next appointment on or after 17 June 2020. As stated in the 2017 Report, the Committee has decided to hold a tender to appoint a new audit firm for the audit of the financial year ending 31 December 2021. The Committee has now agreed a process and timescale for the tender which will be led by a sub-Committee. EY, PwC and Deloitte have each confirmed that they could reach a position of independence at appointment and will be asked to take part in the tender which we expect to launch shortly. Medium-tier audit firms were also considered but they agreed that they would not be able to provide the service that an organisation of Bupa's scale and geographic diversity requires. It is anticipated that the new External Auditor will be selected by mid-2019. The new firm will shadow KPMG during their audit of Bupa's 2020 year-end, taking over as auditor from the beginning of 2021.

The Company intends to tender the External Auditor appointment at least every 10 years.

Global Internal Audit

Purpose and independence

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

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

To maintain the function's independence and objectivity, the primary reporting line for the Chief Internal Auditor (CIA) is to the Chair of the Bupa Audit Committee, liaising with the Bupa Group CEO in day-to-day operations. GIA has no direct operational responsibility or authority over any of the activities audited. Where specific skills are not available in-house, the CIA and the Chairman of the Committee may procure the services of expert external advisers to deploy additional expertise and insights in delivering the annual GIA Plan.

An Internal Audit Charter is in place setting out the function's role, authority and independence. The function operates in accordance with the Global Institute of Internal Auditors' international standards. Following an annual review of the Internal Audit Charter by the Bupa Audit Committee in December 2018, the Bupa Board approved the revised Internal Audit Charter in February 2019 and this is available on bupa.com.

Annual Plan

The assurance provided by GIA was a crucial part of the Committee's consideration of Bupa's overall control environment during the year. GIA's Annual Plan is developed using a risk-based methodology that includes input from senior management and the Bupa Board. The 2018 GIA Annual Plan and budget were approved by the Committee in December 2017 and were driven by the output of a detailed risk assessment and discussion with the second line Risk function. The Plan included a focus on access controls over data and quality of management information and documentation. Several thematic audits were also carried out covering risk culture, user access management and the quality of management information and documentation. The Committee approved a half year refresh of the 2018 Plan, based on a renewed risk assessment in line with the GIA methodology, in June 2018.

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

External quality assessment

GIA maintains a quality assurance and improvement programme that includes an annual evaluation of the function's adherence to the relevant standards. In 2018, the Committee commissioned an external quality assessment of GIA to assess its effectiveness relative to international standards. The assessment concluded that GIA generally conforms to the Global Institute of Internal Auditors' international standards. The assessment also highlighted further work required to enhance the function's effectiveness into the future, including to meet the best practices recommended in the UK FS Code. The Committee has reviewed the plans proposed by GIA to implement these recommendations.

Chief Internal Auditor

The Committee is responsible for the appointment and removal of the CIA, setting the CIA's objectives and reviewing their performance, taking into account the views of the Bupa Group CEO. The CIA has access to the Committee Chairman and the Bupa Board Chairman as required and is directly accountable to the Committee. During the year, the Committee held one private meeting with the CIA in the absence of management.

Following the issuance of their annual assessment of Bupa's governance, risk management and controls in January 2019, the CIA has moved into a new role within Bupa. The Committee is satisfied that the CIA maintained their independence and objectivity throughout their tenure. An external successor to the CIA has been found and will join the business during the second half of 2019. Additional third-party resource has been engaged to support the Committee Chairman and GIA in the interim.

Internal Control and Risk Management Assessment
As noted in the Risk section on pages 30 to 33, Bupa has an ongoing process for the identification and management of its principal risks and conducts an Internal Controls and Risk Management Assessment (ICRMA) annually to ensure that the internal controls and risk management processes are operating effectively.

The latest ICRMA process was conducted in late 2018 and the results reported to the Committee and the Bupa Risk Committee in early 2019.

Subsidiary governance
The Committee has maintained its links with the audit committees of Bupa's major insurance subsidiaries. The Committee Chairman also chairs the audit committee of the UK major insurance subsidiary. During the year she attended a meeting of the Spanish audit committee, and has held calls or meetings with the chairs of the Australian and Miami audit committees.

In addition, the minutes of the meetings of the audit committees of the major insurance subsidiaries are received to gain an insight into concerns at a local level.

Committee effectiveness review
The Committee considered the results of the 2018 review of its effectiveness and concluded that it had operated effectively throughout the year. The Committee members were found to work well together in questioning management assumptions in relation to external reporting, were focused, held good discussions on issues and had a good relationship with both the internal and External Auditor.

In 2019, the Committee has agreed to further strengthen its linkage with the Bupa Remuneration Committee and requested further improvements to papers submitted to the Committee to aid it in making informed decisions.

Bupa Risk Committee Report

The Committee's role and governance

The principal role of the Committee is to assist the Board in its leadership and oversight of risk across Bupa including the Company. This also includes understanding current and future risk exposures, recommending overall risk appetite and tolerance to the Board, reviewing the consistency of corporate strategy with the Company's risk appetite, reviewing the Risk Management Framework, considering the risk aspects of major transactions, and promoting a risk awareness culture throughout Bupa. A full description of the Committee's role is set out in its Terms of Reference on bupa.com and a detailed description of Bupa's risks are set out on pages 16 to 21 in the Strategic Report.

The Committee comprises independent Non-Executive Directors (NEDs). The Bupa Group CEO, CFO, Chief Risk Officer (CRO), Chief Medical Officer, CIA and the External Auditor are invited to attend all meetings. The CRO has unrestricted access to all members of the Committee and regular private meetings of the Committee with the CRO, in the absence of management, are held during the year to ensure an opportunity for the CRO to raise any concerns he may have. The Committee Chairman has recently been appointed as a member of the Bupa Remuneration Committee to ensure that risk management and culture are taken into account in remuneration decisions. Each year, the Committee provides a letter to the Bupa Remuneration Committee stating whether the Committee believes that variable remuneration should be reduced to reflect risk or control concerns.

2018 activities

The Committee's focus in 2018 was to continue to monitor Bupa's risk profile; creating a stronger link between the Group's risk appetite and strategy by refreshing the emerging and strategic risk analysis; reviewing the Risk Appetite Framework and statements; gaining insights into a number of areas of the business through presentations from management; and overseeing management's actions to mitigate key risks such as information security and privacy risk.

Monitoring Bupa's risk profile

The Committee receives regular reports from the Bupa CRO on the Group's risk profile and from the Bupa Chief Medical Officer on clinical risk governance. The Committee also engages with the risk committees of Bupa's major insurance subsidiaries. The UK's decision to leave the EU continues to lead to uncertainty for Bupa. We have put contingency plans in place to address a range of Brexit scenarios, including establishing a regulated entity in Ireland to allow us to continue to provide for our customers following changes to cross-border financial services regulation. In summary, our risk profile ends the year somewhat raised as improvements in internal capability are continually challenged by growing external threats.

Information security and privacy risk

The risk posed to our customers' information has continued to be a key focus for the Committee throughout 2018. As we deliver on our digital aspirations, it is essential that we can protect the data we are given by our customers, partners, employees and providers. The Committee has continued to work to improve its understanding of information security risk, and to develop suitable controls to mitigate this risk. Bupa operates in a variety of geographies, but the cyber domain is global. During the year, the Committee has overseen a detailed global review of our information security systems and controls.

With the implementation of GDPR in May 2018, privacy risk has been another key area of focus during the year. The Committee has closely monitored management's ongoing actions to meet GDPR requirements. A number of these are reliant on information security systems and required changes have been built into the information security actions.

Solvency capital implications of IFRS 16 Leases

IFRS 16 Leases applies to Bupa from 1 January 2019. The change in accounting will bring approximately £1.0bn of both lease assets and liabilities onto the Group Solvency II balance sheet. The associated property and interest rate risk charges will impact the Bupa Group's solvency coverage by 16 percentage points. Our view is that the additional Solvency Capital Requirement (SCR) is not reflective of the economic risks to which the Bupa Group is exposed through its leasing arrangements. The Committee has discussed several potential options for mitigating the capital impact. Further information can be found in Note 1.

Australia Care Homes

Our Australian aged care business is operating in a challenging market, with a Royal Commission into Aged Care Quality and Safety being called in September 2018. Tough commercial and regulatory conditions are impacting the business. Nine Australian care homes have received sanctions notices from the Australian Aged Care Quality Agency. An improvement programme has commenced to identify and implement enhancements across all care homes and specific remediation work is being undertaken at sanctioned care homes. The Committee challenged management's operating model for this business and will monitor the improvements being implemented to ensure that our residents continue to be cared for in a responsive, compassionate way, to a consistently high standard and to ensure that lessons learnt are applied across all markets.

Risk Management Framework and risk appetite

Due to their importance to the Bupa Group, information security risk and privacy risk have been separated from operational risk into separate Risk Appetite Statements. Also, the Enterprise Risk Policies have been redesigned to include minimum controls that all parts of the Group must comply with and to embed risk limits to make them more tangible to the business. The annual ICRMA process was carried out in late 2018 by the first line and was subject to challenge from the second and third line and the results considered by the Committee.

Emerging and strategic risks

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

Brexit

The Committee has monitored the potential impact of Brexit, including a no-deal Brexit on our businesses in the UK and the rest of the EU. While this scenario would be disruptive and expose Bupa to heightened risk in some areas, we do not anticipate an immediate material negative impact on Bupa's risk profile.

Management are examining an extensive list of issues and working through steps to protect Bupa's position in these areas. In particular, the Committee is closely monitoring:

- financial market volatility in the short term;
- the approach to regulation of cross-border financial services;
- the UK's future EU immigration system, including the impact of Brexit on our ability to attract and retain clinical staff;
- the impact of Brexit on the clinical supply chain in the UK; and
- the impact of Brexit on the UK economy.

The political uncertainty relating to Brexit and related uncertainty on market access, trade, free movement of people and the UK's economic outlook could affect financial and operating results.

We have hedging programmes in place to mitigate the risk of potential FX volatility and liquidity risk. As already disclosed, we have established a new entity in Ireland to provide continuity for our Bupa Global customers within the European Economic Area. We are closely monitoring the approach to regulation of financial services, the UK's future EU immigration system and the impact of Brexit on the UK economy.

We do not expect immediate interruption in workforce supply but do expect an impact in the medium-term, particularly on availability of clinical staff.

Our UK provision businesses have strategies for the attraction and retention of key clinical skills. There is a lack of clarity on how clinical supply chains might be impacted and we continue to monitor government guidance whilst identifying the key risks within our own supply chain, such as access to isotopes and pharmaceuticals with short shelf lives.

The impact of Brexit on the UK economy, and in turn our UK-based business, has been considered as part of our planning and forecasting activities and stress testing. For all other issues under review, we have monitoring and risk management plans in place to protect Bupa's position from a customer, people and performance perspective, whilst recognising that the impacts of Brexit are likely to crystallise over time at an operational level and will be dependent on a range of political and economic factors.

Stress and scenario testing
Management carries out stress and scenario tests annually to test the impact of various scenarios on the Bupa Group's capital strength, liquidity and profitability. The Committee agreed the scenarios to be tested during the year and reviewed the results of the tests. The scenarios are designed to test the strength of our three-year operating plan and also form part of the Bupa Group's Own Risk Solvency Assessment (ORSA).

Acquisition risks
Prior to the Bupa Board's decision in July 2018 to acquire Acıbadem Sigorta the Committee considered the key risks relating to this project with a particular focus on those associated with entering the Turkish market and the impact on the Bupa Group's risk profile. Carrying out risk reviews such as these is crucial to the long-term sustainability of our business, ensuring that the full range of risks is appropriately considered and proposals which would potentially introduce excessive or inappropriate risks are either rejected or fully understood and mitigated to bring them within the Bupa Group's agreed risk appetite to the extent possible.

Subsidiary governance
The Committee has maintained its links with the risk committees of Bupa's major insurance subsidiaries. The chairmen of the Australian and UK board risk committees each attended a meeting of the Committee in 2018 to provide their view of the key risks in their markets and management's actions to mitigate key risks. The current Committee Chairman also attended a meeting of the Spanish insurance subsidiary's risk committee and meetings were held with Chairman of the Australian risk committee.

In addition, the minutes of the meetings of the risk committees of the major insurance subsidiaries are received to gain an insight into the risks and concerns at a local level.

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

Committee effectiveness review
As part of the last Committee effectiveness review, the Committee agreed to take a more strategic approach to defining the type of risk the Bupa Group is willing to take, to develop a clearer picture of the controls and risk management at Bupa and manage the bandwidth across the Bupa Group. As set out above, the Bupa Group's Risk Appetite Framework and statements have been refreshed and new risk thresholds introduced to clearly set out the level of risk that the Bupa Board is prepared to take. The ICRMA process has become more robust and the reporting of risk and control information to the Committee has continued to evolve.

The 2018 review of the Committee's effectiveness concluded that, overall, the Committee works effectively and is particularly strong at involving the Bupa Board as appropriate and setting the right tone with management. The mix of skills and personalities on the Committee provides a good balance and allows meetings to be focused with a good level of debate and challenge.

The Committee agreed a number of areas to focus on in 2019, including:

- monitoring the progress of the information security programme and wider IT risk management;
- monitoring the continued maturity of privacy risk management;
- further developing the Bupa Group's risk and control culture, embedding risk management in the first line of defence; and
- continuing to strengthen the links between risk and strategy.

Other Statutory Information

The Directors present their report and the audited financial statements for the year ended 31 December 2018. The Governance report on pages 22 to 35 comprises the Directors' Report.

Directors

The Directors are responsible for the good standing of the Company and Group, the management of its assets, including the management of risk and the strategy for its future development.

Directors' indemnity

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 English 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 have adequate resources to continue in operation for the next 12 months. The directors confirm that they are satisfied the Company has adequate resources; the Company has sufficient funds to cover any liabilities as they fall due. In addition, the Company has access to bank facilities, guaranteed by the Parent. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Future developments

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

Dividends

The Company paid interim dividends totalling £79m during the year. No final dividend is proposed.

Financial instruments and risk management

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in Note 24 of the financial statements.

Corporate Governance Statement

As part of our commitment to excellence, Bupa aims, where appropriate, to operate to the same governance standards as are required of UK FTSE 100 companies. The relevant principles and provisions of the Code are applied throughout the Bupa Group. The Code is available at frc.org.uk/directors/corporate-governance-andstewardship/uk-corporate-governance-code.

Political contributions

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period. In preparing each of the Group and the Company's 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for:

- assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- using the going concern basis of accounting unless they either intend to liquidate the Group or the Company, or to cease operations, or have no realistic alternative but to do so.

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

They also 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 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.

Disclosure of information to the External Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditor 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 External Auditor is aware of that information.

External Auditor re-appointment
In accordance with Section 489 of the Companies' Act 2006, a resolution to re-appoint KPMG LLP as auditors will be put to the Company's forthcoming Annual General Meeting.

By order of the Board.
Joy Linton
Director
13 March 2019
Company number: 2779134

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

1 Our opinion is unmodified

We have audited the financial statements of Bupa Finance Plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the directors on 8 April 1993. The period of total uninterrupted engagement is for the 26 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non- audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£25.6m (2017: £26.1m) 4.2% (2017: 3.6%) profit before tax	
Coverage	78% (2017: 89%) of Group profit before tax	
Key audit matters		**vs 2017**
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Recurring risks	Valuation of goodwill and intangible assets	◀ ▶
	Valuation of freehold, leasehold and investment properties	◀ ▶
	Valuation of insurance contract liabilities	◀ ▶
	Parent company risk: Valuation of investment in subsidiaries	◀ ▶

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

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit ("Brexit") *Refer to page 20 (Strategic Report), and page 31 (Governance Report).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the: valuation of goodwill and intangible assets and valuation of investment properties below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; — **Sensitivity analysis:** When addressing: valuation of goodwill and intangible assets and valuation of investment properties below and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the: valuation of goodwill and intangible assets and valuation of investment properties; below we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under valuation of goodwill and intangible assets and valuation of investment properties we found the resulting estimates and related disclosures of these matters and disclosures in relation to going concern to be acceptable.

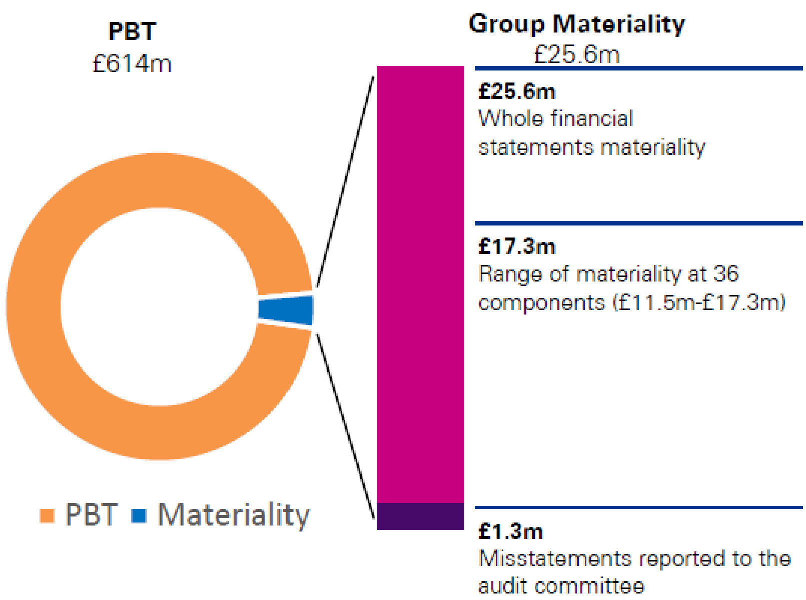
		However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Valuation of goodwill and intangible assets (£4,197 million; 2017: £4,244 million) *Refer to page 25 (Governance Report) and Note 3 (Financial Statements).*	**Forecast based valuation:** As described in note 3, impairment is assessed based on discounted cash flow projections. Estimating and discounting the cash flows requires significant judgement. The assumptions requiring the most significant judgement vary by asset or cash generating unit (CGU), as a result of the differences in Bupa's operations and market environments globally. Considering goodwill, the key assumptions are the forecast terminal growth rates and discount rates. For intangible assets with indefinite useful lives, the most significant judgements relate to the benefits that are expected to derive from the asset, and the period over which they are realised. For intangible assets held at cost and subject to amortisation there is significant judgement required to determine whether changes in internal or external market factors indicate an impairment in the value of any intangible asset. *Estimation uncertainty* The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the recoverable amount of goodwill and intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3) disclose the sensitivity estimated by the Group.	Our procedures included: — **Control design:** evaluating the management review control performed by Bupa Group over the impairment assessments performed locally by management within each relevant business unit, which is designed to provide independent review and challenge of the assumptions used to estimate cash flow forecast. — **Our valuation expertise:** using valuation specialists to evaluate and challenge the methodology applied by the Group to determine the discount rates against standard industry practices. — **Historical comparisons:** comparing cash flow forecasts used in the review to historical performance, and challenging where forecasts indicated performance that deviated significantly from historical performance, in the absence of significant changes in the business or market environment. — **Key factors assessment:** for intangible assets subject to amortisation, evaluating indicators of impairment, focusing in particular on the extent to which assets are still being utilised and the levels of customer attrition, and the current operating margin, in comparison to the assumptions applied when the assets were acquired. — **Benchmarking assumptions:** comparing the key assumptions of the terminal growth rates and discount rates to externally derived data and our knowledge of sector performance, to evaluate the reasonableness of the Group's assessments. — **Sensitivity analysis:** performing sensitivity analyses on the key assumptions such as forecast period, terminal growth rate and discount rate, to identify assumptions that the goodwill or intangible asset valuation was highly sensitive to.

		— **Assessing transparency:** assessing whether the disclosures in relation to the valuation of goodwill and intangible assets are compliant with the relevant financial reporting requirements. **Our results** — We found the resulting estimate of the recoverable amount of goodwill and intangible assets to be acceptable.
Valuation of freehold, leasehold and investment properties (freehold property £2,418 million (2017: £2,453 million); leasehold property £204 million (2017: 212 million); and investment property £454 million; (2017: £399 million) *Refer to page 25 (Governance), and Notes 4 and 5 (Financial Statements).*	**Subjective valuation:** The Group revalues its freehold, leasehold and investment properties, including care homes, dental practices and hospitals, to fair value on a cyclical basis, with external valuations being performed on at least a triennial basis and retirement villages in New Zealand being subject to an external valuation annually. A full external valuation of freehold, leasehold and investment properties in Spain and Chile was performed by chartered surveyors during 2018. Directors' valuations were performed for other properties where there was an indication that the fair value may have significantly differed from the prior valuation. The principal assumptions underpinning the valuation of properties – including operating cash flows, future profitability and competitor activity – require significant judgement, whether developed by external valuation specialists or Bupa directors. A small change in the assumptions and estimates used to value the property could have a significant impact on the overall valuation. *Estimation uncertainty* The effect of these matters is that, as part of our risk assessment, we determined that the valuation of freehold, leasehold and investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (notes 4 and 5) disclose the sensitivity estimated by the Group.	Our procedures included: — **Assessing valuer's credentials:** for properties that were valued externally, principally in Spain and Chile, critically assessing the qualifications and experience of the external valuers to determine whether they have the knowledge required to perform the valuations. — **Historical accuracy:** challenging the valuation models by comparing past cash flow forecasts to actual performance, and using this in the evaluation of the expected accuracy of current cash flow forecasts. — **Assessing key assumptions:** challenging the key assumptions relating to operating cash flows such as occupancy rates and discount rates, as well as reviewing costs capitalised during the year, carrying values and useful lives of existing facilities. In critically assessing assumptions we have utilised our own valuation specialists, considered external benchmarks and forecasts, and reports from external chartered surveyors. — **Assessing transparency:** assessing whether the disclosures in relation to the valuation of freehold, leasehold and investment properties are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions. **Our results** — We found the resulting estimate of the valuation of freehold, leasehold and investment properties to be acceptable.

Valuation of insurance contract liabilities (Provisions for claims £867 million; 2017: £870 million) *Refer to page 25 (Governance), and Note 18 (Financial Statements).*	**Subjective valuation:** The Group's operations include a number of general insurance entities writing health insurance policies primarily in the UK, Spain, Australia, Chile and Brazil. The valuation of insurance contract liabilities requires significant judgement and actuarial expertise. Calculation of the actuarial best estimate and the margin over best estimate uses historical data, which is sensitive to external inputs including claims cost inflation and medical trends, and requires assumptions to be made in respect of current and future experience. Small changes in the assumptions and estimates used to value the insurance contract liabilities can have a significant impact on the overall liability valuation. *Estimation uncertainty* The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 18) disclose the sensitivity estimated by the Group.	Our procedures included: — **Control design and implementation:** testing the design and implementation of key controls over the reserving process, including controls over the completeness and accuracy of data supporting key calculations, such as the data in respect of current and historical claims. Reviewing the effectiveness of group level oversight. — **Assessing key assumptions:** evaluating the assumptions used in the valuation of insurance contract liabilities for reasonableness, considering our understanding of the business, past history of claims settlements, wider market trends and changing legislation. — **Our actuarial expertise:** working closely with our actuarial specialists, sampling the premiums, claims and other data used in the actuarial models, and reconciling it to the data audited through our testing of these account balances; working with our IT specialists to test the data extraction processes used in the actuarial modelling process in order to obtain evidence over the entire population of input data; reviewing the mechanics of the statistical models and claims triangles, including the mathematical accuracy of formula and functioning of automated calculations. — **Sensitivity analysis:** performing sensitivity analyses to assess the adequacy of liabilities in the event of severe but possible adverse deviations in key assumptions. — **Independent re-performance:** for a sample of portfolios, selected on the basis of assessed risk of material misstatement, calculating our own estimate of the liability using the Group's data, and comparing to the liability calculated by the Group, and considering the impact of any significant differences. — **Assessing transparency:** assessing whether the disclosures in relation to the valuation of insurance contract liabilities are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions. **Our results** — We found the resulting estimate of the valuation of insurance contract liabilities to be acceptable.

Parent company: Recoverability of parent company's investment in subsidiaries (£6,061 million; 2017: £6,096 million) *Refer to page 29 (Governance Report), page 117 and Note D (Financial Statements).*	**Low risk, high value:** The carrying amount of the parent company's investments in subsidiaries represents 93% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: — **Independent re-performance:** Comparing the carrying amount of a sample of the highest value investments, with the relevant subsidiaries' financial information to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. — **Comparing valuations:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' profit. **Our results** — We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable.

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



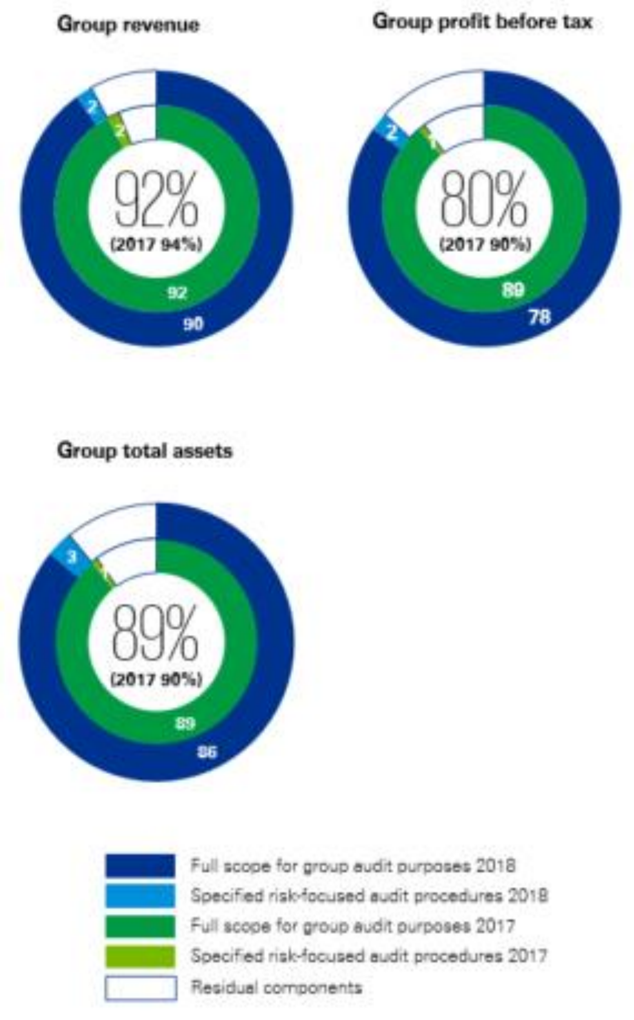
Materiality for the financial statements as a whole was set at £25.6 million (2017: £26.1 million), determined by reference to a benchmark of profit before tax, of which it represents 4.2% (2017: 3.6%).

Materiality for the parent company financial statements as a whole was set at £17.3 million (2017: £19.6 million), determined with reference to a benchmark of parent Company total assets, of which it represents 0.3% (2017: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.3 million (2017: £1.3 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

As a result of a change in the consolidation process during the year the absolute number of individual reporting components has increased, but the coverage of businesses remains similar. Of the Group's reporting components, we subjected 36 (2017: 10) to full scope audits for group purposes and 2 (2017: 3) to specified risk-focussed audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

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



The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £11.5 million to £17.3 million, having regard to the mix of size and risk profile of the Group across the components. The work on 31 of the 36 components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

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

4 We have nothing to report on going concern

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

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

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

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

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

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

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

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

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

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

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

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on pages 34 to 35, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following area as most likely to have such an effect: regulatory capital and liquidity recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

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

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

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

Philip Smart (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants 15
Canada Square London
E14 5GL
13 March 2019

Consolidated Income Statement
for the year ended 31 December 2018

	Note	2018 £m	2017 £m
Revenues			
Gross insurance premiums	2.1	**8,791**	8,920
Premiums ceded to reinsurers	2.1	**(63)**	(63)
Net insurance premiums earned		**8,728**	8,857
Care, health and other customer contract revenue	2.1	**3,117**	3,370
Other revenue	2.1	**14**	22
Total revenues		**11,859**	12,249
Claims and expenses			
Insurance claims incurred	2.2	**(6,912)**	(7,112)
Reinsurers' share of claims incurred	2.2	**44**	46
Net insurance claims incurred		**(6,868)**	(7,066)
Share of post-taxation results of equity accounted investments		**33**	29
Other operating expenses	2.3	**(4,316)**	(4,379)
Other income and charges	2.4	**(53)**	(99)
Total claims and expenses		**(11,204)**	(11,515)
Profit before financial income and expense		**655**	734
Financial income and expense			
Financial income	2.5	**70**	90
Financial expense	2.5	**(103)**	(98)
Net impairment loss on financial assets		**(8)**	-
Net financial expense		**(41)**	(8)
Profit before taxation expense		**614**	726
Taxation expense	2.6	**(211)**	(155)
Profit for the financial year		**403**	571
Attributable to:			
Bupa		**397**	567
Non-controlling interests		**6**	4
Profit for the financial year		**403**	571

Notes 1-27 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the financial year		**403**	571
Other comprehensive income / (expense)			
Items that will not be reclassified to the Income Statement			
Remeasurement gains on pension schemes	7	**1**	6
Unrealised gains on revaluation of property	4	**23**	233
Taxation charge on income and expenses recognised directly in other comprehensive income	2.6	**(9)**	(50)
Total items that will not be reclassified to the Income Statement		**15**	189
Items that may be reclassified subsequently to the Income Statement			
Foreign exchange translation differences on goodwill	3	**(73)**	(14)
Other foreign exchange translation differences		**(10)**	(10)
Net gain/(loss) on hedge of net investment in overseas subsidiary companies		**1**	(7)
Change in fair value of underlying derivative of cash flow hedge		**-**	5
Reclassification of foreign exchange translation differences to profit or loss on disposal of subsidiary		**-**	(4)
Unrealised gains on available-for-sale assets		**-**	1
Taxation charge on income and expenses recognised directly in other comprehensive income	2.6	**(10)**	(3)
Total items that may be reclassified to the Income Statement		**(92)**	(32)
Total other comprehensive income		**(77)**	157
Comprehensive income for the year		**326**	728
Attributable to:			
Bupa		**322**	725
Non-controlling interests		**4**	3
Comprehensive income for the year		**326**	728

Notes 1-27 form part of these financial statements.

Consolidated Statement of Financial Position
for the year ended 31 December 2018

	Note	2018 £m	2017 £m
Goodwill and intangible assets	3	**4,197**	4,244
Property, plant and equipment	4	**3,181**	3,184
Investment property	5	**454**	399
Equity accounted investments	6	**690**	553
Post-employment benefit net assets	7	**3**	4
Restricted assets	8	**107**	76
Financial investments	9	**2,350**	2,227
Derivative assets	10	**28**	47
Deferred taxation assets	11	**52**	5
Current taxation assets		**9**	-
Assets arising from insurance business	12	**1,348**	1,230
Inventories	13	**109**	104
Trade and other receivables	14	**745**	799
Cash and cash equivalents	15	**1,553**	1,505
Assets held for sale	16	**7**	89
Total assets		**14,833**	14,466
Subordinated liabilities	17	**(1,255)**	(1,303)
Other interest bearing liabilities	17	**(1,055)**	(1,170)
Post-employment benefit net liabilities	7	**(10)**	(12)
Provisions under insurance contracts issued	18.1	**(2,753)**	(2,637)
Derivative liabilities	10	**(47)**	(19)
Provisions for liabilities and charges	19	**(166)**	(115)
Deferred taxation liabilities	11	**(271)**	(230)
Trade and other payables	20	**(1,942)**	(1,952)
Other liabilities under insurance contracts issued	18.2	**(144)**	(117)
Current taxation liabilities		**(146)**	(73)
Liabilities associated with assets held for sale	16	**-**	(11)
Total liabilities		**(7,789)**	(7,639)
Net assets		**7,044**	6,827
Equity			
Share capital	21	**200**	200
Property revaluation reserve		**700**	796
Income and expenditure reserve		**5,640**	5,221
Cash flow hedge reserve		**20**	22
Foreign exchange translation reserve		**464**	558
Equity attributable to Bupa Finance plc		**7,024**	6,797
Equity attributable to non-controlling interests		**20**	30
Equity		**7,044**	6,827

Approved by the Board of Directors and signed on its behalf on 13 March 2019 by

Joy Linton
Director

Notes 1-27 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

`	Note	**2018 £m**	2017 £m
Operating activities			
Profit before taxation expense		**614**	726
Adjustments for:			
Net financial expense		**41**	7
Depreciation, amortisation and impairment		**352**	419
Other non-cash items		**19**	(25)
Changes in working capital and provisions:			
Increase in provisions and other liabilities under insurance contracts issued		**165**	56
Increase in assets under insurance business		**(104)**	(57)
Funded pension scheme employer contributions		**(1)**	(1)
Increase in trade and other receivables, and other assets		**(35)**	(94)
(Decrease)/increase in trade and other payables, and other liabilities		**(37)**	122
Cash generated from operations		**1,014**	1,153
Income taxation paid		**(173)**	(158)
Increase in cash held in restricted assets	8	**(31)**	(16)
Net cash generated from operating activities		**810**	979
Cash flow from investing activities			
Acquisition of subsidiary companies, net of cash acquired	22	**(146)**	(668)
Increase in equity accounted investments	6	**(81)**	(197)
Dividends received from associates		**12**	6
Disposal of subsidiary companies and other businesses, net of cash disposed of		**57**	23
Decrease in equity accounted investments		**7**	-
Purchase of intangible assets	3	**(60)**	(91)
Purchase of property, plant and equipment		**(256)**	(352)
Proceeds from sale of property, plant and equipment		**73**	372
Purchase of investment property	5	**(27)**	(28)
Disposal of investment property		**19**	2
Purchase of financial investments, excluding deposits with credit institutions		**(232)**	(252)
Net withdrawal from deposits with credit institutions		**61**	155
Interest received		**68**	61
Net cash used in investing activities		**(505)**	(969)
Cash flow from financing activities			
Proceeds from issue of interest bearing liabilities and drawdowns on other borrowings		**103**	1,327
Repayment of interest bearing liabilities and other borrowings		**(190)**	(1,040)
Interest paid[1]		**(87)**	(94)
Receipts from/(payments for) hedging instruments		**18**	(4)
Dividends paid		**(79)**	(89)
Acquisition of non-controlling interests in subsidiary company	22	**(8)**	-
Dividends paid to non-controlling interests		**(1)**	(4)
Net cash (used in)/generated from financing activities		**(244)**	96
Net increase in cash and cash equivalents		**61**	106
Cash and cash equivalents at beginning of year	15	**1,504**	1,409
Effect of exchange rate changes		**(13)**	(11)
Cash and cash equivalents at end of year	15	**1,552**	1,504

1. Includes other bank fees and charges of £3m (2017: £10m).

Notes 1-27 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Note	Property revaluation reserve £m	Income and expenditure reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Equity attributable to Bupa Finance plc £m	Equity attributable to non-controlling interest £m	Total equity £m
2018								
At beginning of year		796	5,221	22	557	**6,596**	30	**6,626**
Opening balance adjustments	1.5	-	(8)	-	-	**(8)**	-	**(8)**
Retained profit for the financial year		**-**	**397**	**-**	**-**	**397**	**6**	**403**
Other comprehensive income/(expense)								
Unrealised gain on revaluation of property	4	23	-	-	-	**23**	-	**23**
Realised revaluation profit on disposal of property		(101)	101	-	-	**-**	-	**-**
Remeasurement gain on pension schemes	7	-	1	-	-	**1**	-	**1**
Foreign exchange translation differences on goodwill	3	-	-	-	(73)	**(73)**	-	**(73)**
Other foreign exchange translation differences		(9)	14	(2)	(11)	**(8)**	(2)	**(10)**
Net gain on hedge of net investment in overseas subsidiary companies		-	-	-	1	**1**	-	**1**
Taxation charge on income and expense recognised directly in other comprehensive income	2.6	(9)	-	-	(10)	**(19)**	-	**(19)**
Other comprehensive income/(expense) for the year, net of taxation		**(96)**	**116**	**(2)**	**(93)**	**(75)**	**(2)**	**(77)**
Total comprehensive income/(expense) for the year		**(96)**	**513**	**(2)**	**(93)**	**322**	**4**	**326**
Dividends to equity holders of the company		-	(79)	-	-	**(79)**	-	**(79)**
Acquisition of subsidiary companies attributable to non-controlling interests		-	(7)	-	-	**(7)**	(4)	**(11)**
Elimination of non-controlling interest on disposal of subsidiary		-	-	-	-	**-**	(9)	**(9)**
Dividends paid to non-controlling interests		-	-	-	-	**-**	(1)	**(1)**
At end of year		**700**	**5,640**	**20**	**464**	**6,824**	**20**	**6,844**
Share capital at beginning and end of year								200
Total equity								**7,044**
2017								
At beginning of year		706	4,646	15	595	5,962	31	5,993
Retained profit for the financial year		**-**	**567**	**-**	**-**	**567**	**4**	**571**
Other comprehensive income/(expense)								
Unrealised gain on revaluation of property	4	233	-	-	-	233	-	233
Realised revaluation profit on disposal of property		(95)	95	-	-	-	-	-
Remeasurement gain on pension schemes	7	-	6	-	-	6	-	6
Unrealised gain on available-for-sale assets		-	1	-	-	1	-	1
Foreign exchange translation differences on goodwill	3	-	-	-	(14)	(14)	-	(14)
Other foreign exchange translation differences		1	-	2	(12)	(9)	(1)	(10)
Net loss on hedge of net investment in overseas subsidiary companies		-	-	-	(7)	(7)	-	(7)
Change in fair value of underlying derivative of cash flow hedge	24.2	-	-	5	-	5	-	5
Reclassification of foreign exchange translation differences to profit or loss on disposal of subsidiary		-	-	-	(4)	(4)	-	(4)
Taxation charge on income and expense recognised directly in other comprehensive income	2.6	(49)	(4)	-	-	(53)	-	(53)
Other comprehensive income/(expense) for the year, net of taxation		**90**	**98**	**7**	**(37)**	**158**	**(1)**	**157**
Total comprehensive income/(expense) for the year		**90**	**665**	**7**	**(37)**	**725**	**3**	**728**
Dividends to equity holders of the company		-	(89)	-	-	(89)	-	(89)
Acquisition of subsidiary companies attributable to non-controlling interests		-	(1)	-	-	(1)	-	(1)
Dividends paid to non-controlling interests		-	-	-	-	-	(4)	(4)
At end of year		**796**	**5,221**	**22**	**558**	**6,597**	**30**	**6,627**
Share capital at beginning and end of year								200
Total equity								**6,827**

Notes 1-27 form part of these financial statements.

1.0. Basis of preparation

Basis of preparation in brief

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

1.1. Basis of preparation

Bupa Finance plc (the 'Company'), is a company incorporated in England and Wales. Bupa is an international healthcare business, providing health insurance, treatment in clinics, dental centres and hospitals, and running care homes.

The Group's consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the EU. The appropriate provisions of the Companies Act 2006 applicable to companies reporting under IFRS have also been complied with. A summary of IFRS that are relevant for the Group is included on page 135.

The financial statements were approved by the Board of Directors on 13 March 2019. The Directors have reviewed and approved the Group's accounting policies which have been applied consistently to all the years presented, unless otherwise stated. For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the parent company.

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

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

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

1.2. Basis of consolidation

The consolidated financial statements for the year ended 31 December 2018 comprise those of the Company and its subsidiary companies (together referred to as the 'Group'), and the share of results of equity accounted investments.

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

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

1.3. Accounting estimates and judgements

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

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

Area	Estimates	Note
Claims provisioning	Expected claims payments and expenses required to settle existing insurance contract obligations. The key assumptions used in the calculation of the outstanding claims provision include claims development, margin of prudence, claims costs inflation, medical trends and seasonality.	18
Property valuations	The Group has a significant portfolio of care home, hospital and office properties and fluctuations in the value of this portfolio can have a significant impact on the Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income and solvency position of the Group. Significant assumptions for freehold and leasehold properties include average occupancy and capitalisation rates, whereas for investment property key assumptions include discount and capital growth rates.	4,5
Goodwill and intangible assets	Recognised on business combinations with the latter valued at the date of acquisition at fair value. Goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis; other intangible assets are tested if a trigger of impairment is identified. The key assumptions within this process include the discount rate and the forecast cash flows.	3
Pension assets and liabilities	The principal defined benefit scheme in the UK is the Bupa Pension Scheme. The key assumptions used in the valuation of the related pension liabilities include discount rate, and rates of inflation, salary increases and mortality.	7

1.4. Going concern

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

Details of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 3 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 6 to 10.

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

Refer to the longer term viability statement in the Strategic Report which considers the Group's ability to continue in operation and meet its liabilities as they fall due, over a period of three years. In making this assumption, management has considered the discussions with the relationship banks including the review of external ratings, forecasts that consider reasonably possible changes in trading performance, the solvency capital position and the Group's financial and operational risk framework.

1.5. New financial reporting requirements

The impact of adopting of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers which are effective for year ending 31 December 2018 are described below. All other amendments to financial reporting standards applicable to the Group for the year ended 31 December 2018 do not have a material impact on the consolidated financial statements.

(a) IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments with a date of initial application of 1 January 2018. The Group did not early adopt any of IFRS 9 in previous periods and is not eligible for the deferral approach (giving companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9).

The Group has applied IFRS 9 retrospectively with the cumulative effect of initially applying IFRS 9 recognised as an adjustment to the opening balance of retained earnings at the date of initial application of 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group's investments in debt instruments that were previously designated as available-for-sale under IAS 39 satisfy the conditions for classification as hold to collect under IFRS 9, and are measured at amortised cost.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as is the case under IAS 39. Consequently, credit losses are recognised earlier under IFRS 9. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income and lease receivables. As the Group holds high quality financial investments the impact of IFRS 9 on the measurement of these assets is limited, as set out below.

The Group has elected to apply the new general hedge accounting model in IFRS 9. The new hedge accounting model requires the Group to ensure hedging relationships are aligned to the risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Group's hedge relationships continue to qualify as continuing hedges upon the adoption of IFRS 9.

IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

Transitional impacts

	Property revaluation reserve £m	Income and expenditure reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Equity attributable to Bupa Finance plc £m	Equity attributable to non-controlling interest £m	Total equity £m
IFRS 9 impact on equity							
Impact of remeasurement of financial investments	-	(1)	-	-	**(1)**	-	**(1)**
Impact of ECL assessment	-	(6)	-	-	**(6)**	-	**(6)**
Total impact on opening equity from the adoption of IFRS 9	-	(7)	-	-	**(7)**	-	**(7)**

	Financial investments £m	Trade and receivables £m	Deferred tax £m	Equity attributabl e to Bupa Finance plc £m	Equity attributable to non-controlling interest £m	Total equity £m
IFRS 9 impact on statement of financial position						
Impact of remeasurement of financial investments	(1)	-	-	**(1)**	-	**(1)**
Impact of ECL assessment	(2)	(6)	2	**(6)**	-	**(6)**
Total impact on net assets from the adoption of IFRS 9	(3)	(6)	2	**(7)**	-	**(7)**

(b) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying IFRS 15 recognised as an adjustment to the opening balance of retained earnings at the date of initial application of 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 Revenue and IAS 11 Construction Contracts.

IFRS 15 establishes principles to be applied when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer and is based on the principle that revenue is recognised when control of a good or service transfers to a customer. It replaces IAS 11, IAS 18, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate and IFRIC 18 Transfers of Assets from Customers. IFRS 15 does not apply to revenue related to insurance or leasing contracts.

The application of IFRS 15 has not resulted in any significant changes in revenue recognition, as the majority of customer contract transaction prices tend to be fixed, rather than variable, with separate pricing for distinct performance obligations and settlement in the short term. Minor presentational changes arise from recognition of revenue as either an agent or a principal. The impacts are set out below.

	Property revaluation reserve £m	Income and expenditure reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Equity attributable to Bupa Finance plc £m	Equity attributable to non-controlling interest £m	Total equity £m
IFRS 15 impact on equity							
Change in the timing of revenue	-	(1)	-	-	**(1)**	-	**(1)**
Total impact on opening equity from the adoption of IFRS 15	**-**	**(1)**	**-**	**-**	**(1)**	**-**	**(1)**

	Inventories £m	Trade and other payables £m	Equity attributable to Bupa Finance plc £m	Equity attributable to non-controlling interest £m	Total equity £m
IFRS 15 impact on statement of financial position					
Change in the timing of revenue	1	(2)	**(1)**	-	**(1)**
Total impact on net assets from the adoption of IFRS 15	**1**	**(2)**	**(1)**	**-**	**(1)**

The adoption of IFRS 15 has not had a material impact on the Group's results for the period ending 31 December 2018.

1.6. Forthcoming financial reporting requirements

The following financial reporting standards, amendments and interpretations have been issued but are not effective for the year ended 31 December 2018 and have not been early adopted by the Group.

(a) IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases on 1 January 2019. The standard was endorsed by the EU on 31 October 2017. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 will result in almost all leases being recognised on the balance sheet for lessees, as the distinction between operating and finance leases is removed. The Group, as a lessee, will recognise a lease liability reflecting the discounted obligation to make lease payments and a right-of-use asset representing the right to use the underlying asset during the lease term. A depreciation charge for right-of-use asAssetssets and interest expense on lease liabilities will be recognised, whereas under IAS 17 an operating lease expense is recognised on a straight-line basis over the term of the lease and assets and liabilities are recognised only to the extent that there is a timing difference between actual lease payments and the expense recognition.

The Group has assessed the impact of adopting the standard, as described below.

The Group will apply IFRS 16 using the modified retrospective approach, where right of use assets equals the lease liabilities adjusted for prepaid or accrued lease payments. The cumulative effect of adopting the standard is recognised as an adjustment to opening retained earnings at 1 January 2019 with no restatement of comparative information. The Group will also apply the exemption that allows short-term and low value leases to be excluded from the measurement model.

On transition, the Group expects to recognise lease liabilities and corresponding right-of-use assets of c.£1.1bn. Compared to the existing IAS 17 approach of recognising operating lease costs on a smoothed basis through operating expenses, the IFRS 16 approach results in lower operating expenses and higher finance costs. Overall profit is also lower in the early years of the lease and higher in the later years of the lease, compared to the existing approach, due to the timing of the recognition of the implicit finance costs on the outstanding liability. The 2019 profit after tax impact will be dependent on lease activity during the year, but it is expected that profit before tax will be lower than it would have been under IAS 17.

(b) IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short-duration contracts. The mandatory effective date for applying IFRS 17 is for annual periods beginning on or after 1 January 2021. However, the International Accounting Standards Board (IASB) proposed in November 2018 to defer the effective date by one year to 2022 and it is expected that this will become the mandatory effective date once the IASB has completed its due process.

The impact of IFRS 17 on the financial statements is currently being evaluated by the Group, but it is anticipated that the simplified premium allocation approach option, similar to the current application of IFRS, will be available for the majority of the Group's insurance contracts.

(c) IFRIC 23 Uncertainty over Income Tax Treatments

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

(d) IAS 19 Plan amendment, curtailment or settlement

The amendment clarifies that when a plan amendment, curtailment or settlement occurs during the period, the entity determines revised current service costs and net interest for the remainder of the period based on the updated assumptions. The amendment, which has not yet been endorsed by the EU, is applied prospectively from 1 January 2019 and will only impact the Group in the event of a plan amendment, curtailment or settlement.

(e) IAS 28 Long term Interests in Associates and Joint Ventures

The amendment clarifies any long-term debt instruments that form part of the net investment in an associate or joint venture are accounted for in accordance with IFRS 9, including impairment requirements. The amendment, which has not been endorsed by the EU, is effective from 1 January 2019. The amendment will have no impact on Group.

(f) IFRS 9 Prepayment features with the negative compensation

The amendment enables companies to measure at amortised cost some prepayable financial assets with negative compensation (where the contractual terms permit the borrower to prepay the instrument before maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest) that otherwise would have been measured at fair value through profit and loss. The amendment, which was endorsed by the EU, is effective from 1 January 2019.The amendment will have no impact on Group.

(g) Annual improvements to IFRS Standards 2015-2017 Cycle

These improvements consist of minor amendments to four standards including IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowings costs. The amendment, which has not been endorsed by the EU, is effective from 1 January 2019. There is no immediate impact on the Group from these changes. The requirements will be applied in future, if relevant.

(h) IFRS 3 Business Combinations amendment

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' to clarify whether an entity has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. This has not been endorsed by the EU. The requirements will be applied in future, if relevant.

(i) IAS 1 and IAS 8 amendment

IASB has issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of ‘material’. The amendment, which has not been endorsed by the EU, is effective from 1 January 2020. The impact of the amendments is currently being evaluated by the Group.

1.7 Events occurring after the reporting period

The Group acquired the Turkish health insurer, Acıbadem Sigorta, for £143m on 18 January 2019. The purchase price allocation exercise for the acquisition of Acıbadem is in progress.

2. Operating segments

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

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

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

In 2018, in response to the FRC guidance on Alternative Performance Metrics, the definition of underlying profit has been refined with the objective of providing better transparency around the trading performance of the Group. The total underlying profit of the reportable segments for 2017 has been restated. The key restatement item is the inclusion of amortisation of intangible assets arising on business combinations as part underlying profit (2017: £68m). Other refinements have been made to the definition but not material to the reportable segment or Group.

The following items are excluded from underlying profit:

- Impairment of intangible assets and goodwill arising on business combinations - impairment reviews are performed at least annually. Goodwill impairments are considered to be one-off and not reflective of the ongoing trading performance of the business.
- Net gains/losses on disposal of businesses and transaction costs on business combinations - gains/losses on disposal of businesses that are material and one-off in nature to the reportable segment or Group are not considered part of the continuing business and are one-off in nature; transaction costs incurred that relate to material acquisitions or disposals are not related to the ongoing trading performance of the business.
- Net property revaluation gains/losses – short-term fluctuations which would distort underlying trading performance. Includes unrealised gains or losses on investment properties, deficit on revaluations and property impairment losses.
- Realised and unrealised foreign exchange gains/losses – short-term fluctuations outside of management control, which would distort underlying trading performance.
- Other Market Unit/Central non-underlying items – Includes items that are considered material to the reportable segment or Group and are not reflective of ongoing trading performance.
- Gains/losses on return-seeking assets, net of hedging – fluctuations on investments that are not considered to be directly related to underlying trading performance.

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

(i) Revenues

	Australia and New Zealand		Europe and Latin America		United Kingdom		International Markets		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Gross insurance premiums	**3,829**	4,031	**1,908**	1,811	**1,556**	1,557	**1,498**	1,521	**8,791**	8,920
Premiums ceded to reinsurers	**-**	-	**(9)**	(8)	**(22)**	(22)	**(32)**	(33)	**(63)**	(63)
Internal reinsurance	**-**	-	**(3)**	(5)	**-**	-	**3**	5	**-**	-
Net insurance premiums earned	**3,829**	4,031	**1,896**	1,798	**1,534**	1,535	**1,469**	1,493	**8,728**	8,857
Care, health and other customer contract revenue	**824**	888	**1,141**	1,069	**1,004**	1,266	**154**	150	**3,123**	3,373
Other revenue	**3**	8	**4**	2	**4**	8	**3**	4	**14**	22
Intersegment revenues	**-**	-	**-**	-	**(5)**	(2)	**-**	-	**(5)**	(2)
Total revenues for reportable segments	**4,656**	4,927	**3,041**	2,869	**2,537**	2,807	**1,626**	1,647	**11,860**	12,250
Net reclassifications to other expenses or financial income and expense									**(1)**	**(1)**
Consolidated total revenues									**11,859**	**12,249**

(ii) Segmental result

	Australia and New Zealand		Europe and Latin America		United Kingdom		International Markets		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Underlying profit for reportable segments[1]	**337**	392	**198**	193	**165**	216	**68**	66	**768**	867
Central expenses and net interest margin	**-**	-	**-**	-	**-**	-	**-**	-	**(46)**	(42)
Consolidated underlying profit before taxation									**722**	825
Non-underlying items:										
Impairments of intangible assets and goodwill arising on business combinations	**(36)**	-	**-**	(16)	**-**	-	**-**	-	**(36)**	(16)
Net (losses)/gains on disposal of businesses and transaction costs on business combinations[2]	**-**	-	**(23)**	-	**(18)**	(2)	**8**	36	**(33)**	34
Net property revaluation gains/(losses)[3]	**17**	(18)	**(4)**	3	**(13)**	(96)	**-**	-	**-**	(111)
Realised and unrealised foreign exchange losses[4]	**-**	(1)	**(6)**	(5)	**-**	-	**(2)**	(18)	**(8)**	(24)
Other material one-off non-underlying items[5]	**(21)**	-	-	-	-	-	**(9)**	-	**(30)**	-
(Losses)/gains on return-seeking assets, net of hedging									**(1)**	18
Total non-underlying items									**(108)**	(99)
Consolidated profit before taxation expense									**614**	726

1. Underlying profit for reportable segments includes share of post-taxation results of equity accounted investments. International Markets includes Bupa Arabia, Max Bupa and Highway to Health. For further information please refer to Note 6.
2. Includes £22m loss on disposal of interest in Torrejón Salud and £18m mainly relating to the ongoing completion costs relating to the disposal of a number of UK care homes in December 2017 and February 2018. 2017 includes profit on disposal of Bupa Thailand in July 2017 and transaction costs in relation to the acquisition of Oasis Dental Care in February 2017.
3. 2017 includes £97m of write downs on items previously held for sale.
4. Includes the FX impact of treating unearned premiums and deferred acquisition costs as a monetary item.
5. 2018 includes penalties and associated consultancy costs relating to the in-principle agreement with the Australian Taxation Office (£21m) and costs associated with setting up the Irish insurance entity as part of our Brexit strategy (£9m).

(iii) Other information

In addition to the items of income and expense separately identified in table (ii) Segmental result above, the Market Unit results include the following material non-cash items:

	Australia and New Zealand		Europe and Latin America		United Kingdom		International Markets		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Amortisation and depreciation costs for reportable segments	**85**	81	**104**	91	**83**	67	**42**	45	**314**	284
Unrealised gain on investment property	**21**	21	**-**	1	**-**	-	**-**	-	**21**	22
(Deficit)/surplus on revaluation of property	**(4)**	(39)	**(4)**	1	**(13)**	(95)	**-**	-	**(21)**	(133)
Share of profits from associates and joint ventures	**-**	**-**	**-**	-	**-**	-	**33**	29	**33**	29

(iv) Geographical information

	Australasia		United Kingdom		Spain		Rest of the world		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Total revenues	**4,656**	4,927	**3,073**	3,386	**1,682**	1,609	**2,448**	2,327	**11,859**	12,249
Consolidated non-current assets (by geography)[1]	**3,401**	3,566	**3,031**	2,736	**606**	565	**1,545**	1,671	**8,583**	8,538

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

2.1. Revenues

The Group generates revenues from its underwriting activities (insurance premiums), trading activities through the provision of insurance management services (insurance service contracts) and the provision of healthcare services (care, health, dental and other).

Revenue stream	Recognition policy
Insurance premiums	**Gross insurance premiums** Gross insurance premiums represent the premiums earned relating to risk exposure for the reported financial year. They comprise gross premiums written, adjusted for the change in provision for unearned premiums for premiums written relating to period of risk in subsequent financial years. Premiums are shown gross of commission payable and net of insurance premium taxes that may apply in certain jurisdictions. **Premiums ceded to reinsurers** Premiums ceded to reinsurers represent reinsurance premiums payable for contracts entered into that relate to risk mitigation for the reported financial year. These comprise written premiums ceded to reinsurers, adjusted for the reinsurers' share of the movement in the gross provision for unearned premiums. Premiums, losses and other amounts relating to reinsurance treaties are recognised over the period from inception of a treaty to expiration of the related business.
Care, health and other customer contract revenue	The Group generates income from fees receivable from the operation of its care homes, hospitals, dental centres and other healthcare and wellbeing centres. In instances where Bupa is acting as an agent and another party is primarily responsible for fulfilling the contract, revenue is recognised on a net basis. When considering whether the Group is acting as an agent or as a principal, factors such as which party is primarily responsible for fulfilling the obligation, bears the inventory and credit risk and has discretion in establishing prices are considered. In the majority of cases, significant judgement is not required. The revenue streams typically relate to short term services that have fixed, rather than variable, transaction prices and there is generally no significant judgement required when considering the time pattern of revenue recognition. Payment terms vary from completion of the service, to payments made monthly in advance. Bupa has the right to bill and receive payment for services rendered to date. The Sanitas Hospitales and New Services revenue stream includes one public hospital in Spain that is operated under a separate service concession arrangement granted by the local government (the grantor). Revenue is recognised from the construction of infrastructure and for operation of the hospital. Construction revenues are recognised in line with the stage of completion of the work performed. Operational revenues are recognised in the period in which the services are provided. The accounting policy for the service concession receivables is explained in Note 14.

	Other customer contract revenue includes contracts entered into by the Group's insurance entities that do not result in the transfer of significant insurance risk to the Group and are accounted for as service contracts. These contracts mainly relate to the administration of claims funds on behalf of corporate customers. Revenues from service contracts are recognised as the services are provided. Some of these contracts contain financial liabilities representing deposits repayable to the customer. These are measured at amortised cost.
Other	Other revenue is earned mainly from rental income and amenities fees from Occupation Right Agreements. Revenue is recognised on a straight-line basis over the term of the arrangement.

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

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

Analysis of net insurance premiums earned

	2018 £m	2017 £m
Gross premiums written	**8,913**	8,991
Change in gross provisions for unearned premiums	**(122)**	(71)
Gross insurance premiums	**8,791**	8,920
Gross premiums written ceded to reinsurers	**(66)**	(60)
Reinsurers' share of change in gross provisions for unearned premiums	**3**	(3)
Premiums ceded to reinsurers	**(63)**	(63)
Net insurance premiums earned	**8,728**	8,857
Care, health and other customer contract revenue	**3,117**	3,370
Other revenue	**14**	22
Total revenues	**11,859**	12,249

2.2. Insurance claims

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

Insurance claims incurred comprise insurance claims paid during the year together with related handling costs, the movement in the gross provision for claims in the period and the Risk Equalisation Special Account levy for the Australian health insurance business. See Note 18 for details of the claims provision.

In Australia, the Risk Equalisation Special Account charges a levy to all registered private health insurers and then allocates a proportion of the cost of eligible claims between all fund participants.

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

See 'Assets arising from insurance business' (Note 12) for the related balance sheet item.

	2018 £m	2017 £m
Insurance claims paid	**6,985**	7,182
Change in gross provisions for claims	**10**	5
Risk Equalisation Special Account levy (net of recoveries)	**(83)**	(75)
Insurance claims incurred	**6,912**	7,112
Recoveries from reinsurers on claims paid	**(44)**	(46)
Reinsurers' share of claims incurred	**(44)**	(46)
Net insurance claims incurred	**6,868**	7,066

2.3. Other operating expenses

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

Operating expenses exclude insurance claims, finance costs and taxation.

Other operating expenses

	Note	2018 £m	2017 £m
Staff costs	2.3.1	**1,905**	2,024
Acquisition costs	2.3.2	**299**	280
Medical supplies and fees		**908**	814
Property costs		**205**	201
Operating lease rentals		**177**	169
Marketing costs		**86**	93
Catering and housekeeping costs		**55**	81
Consultancy fees		**94**	62
Net loss/(gain) on foreign exchange transactions		**2**	(4)
Amortisation of intangible assets	3	**132**	123
Impairment of intangible assets	3	**39**	21
Depreciation expense	4	**180**	166
Other operating expenses (including auditors' remuneration)	2.3.3	**234**	349
Total other operating expenses		**4,316**	4,379

2.3.1 Staff costs

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

	2018 £m	2017 £m
Wages and salaries	**1,870**	1,969
Social security costs	**117**	123
Contributions to defined contribution schemes	**30**	24
Other pension costs	**8**	7
Total staff costs	**2,025**	2,123
Staff costs relating to claims handling reported in claims	**(120)**	(99)
Staff costs in operating expenses	**1,905**	2,024

Employee numbers

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

	2018	2017
Average employee numbers		
Australia and New Zealand	**18,389**	19,007
Europe and Latin America	**33,421**	31,899
UK	**21,816**	32,280
International Markets	**4,080**	4,254
Total average employee numbers	**77,706**	87,440

Directors' remuneration

	2018 £'000	2017 £'000
Emoluments	**2,142**	2,620
Company contributions to defined contribution pension schemes	**46**	85
Amounts receivables under long-term incentive schemes	**154**	487
Total	**2,342**	3,192
The remuneration of the highest paid Director was:		
Emoluments	**1,134**	1,355
Company contributions to defined contribution pension schemes	**-**	-
Amounts receivables under long-term incentive schemes	**68**	169
Total	**1,202**	1,524

There is one Director who is a member of a Bupa defined benefit pension scheme (2017: two).

2.3.2 Acquisition costs

	2018 £m	2017 £m
Commission for direct insurance	**297**	280
Other acquisition costs paid	**23**	14
Changes in deferred acquisition costs	**(21)**	(14)
Total acquisition costs	**299**	280

The movement in deferred acquisition costs is detailed in Note 12.

2.3.3 Auditors' remuneration

	2018 £m	2017 £m
Audit fees for audit of Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for:		
Audit fees for audit of Company's subsidiaries pursuant to legislation	**5.3**	4.8
Audit fees for audit-related assurance services	**0.9**	0.8
Audit fees to the Company's auditors, KPMG LLP and its associates	**6.3**	5.7
Fees payable to other auditors:		
Audit fees to other auditors for audit of overseas subsidiary companies	**-**	0.2
Total audit fees	**6.3**	5.9
Fees payable to the Company's auditor and its associates for other services:		
Corporate finance services and advisory services	**-**	-
All other non-audit services	**0.6**	0.2
Total non-audit fees	**0.6**	0.2
Total auditors' remuneration	**6.9**	6.1

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

2.4. Other income and charges

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

	Note	2018 £m	2017 £m
Net (losses)/gains on disposal of business[1]	22	**(31)**	36
Deficit on revaluation of property	4	**(21)**	(34)
Write down of property[2]	4	**-**	(99)
Net loss on disposal of property, plant and equipment		**-**	(2)
Movement in provision for equity accounted investments[3]		**(1)**	-
Total other income and charges		**(53)**	(99)

1. 2018 loss on disposal of business includes a £22m loss on disposal of Torrejón Salud on 28 December 2018 and £20m of losses relating to ongoing completion costs with respect of the disposal of UK care homes to HC-One and Advinia. This is partially offset by profits of £8m on disposal of a 33.33% share of Forsikringens Datacentre A/S on 3 January 2018 and a net profit of £3m on other disposals. 2017 includes a £36m profit on disposal of Bupa Thailand to Aetna on 25 July 2017.
2. 2017 includes £97m write down of property assets previously classified as held for sale.
3. Impairment of associate, Vigil Monitoring Ltd in New Zealand.

2.5. Financial income and expense

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

Financial income
Interest income, except in relation to assets classified at fair value through profit or loss, is recognised in the Consolidated Income Statement as it accrues, using the effective interest method. Any mark to market movements are split between realised or unrealised.

Changes in the value of financial assets at fair value through profit or loss are recognised within financial income as an unrealised gain or loss while the asset is held. Upon realisation of these assets, the change in fair value since the last valuation is recognised within financial income as a realised gain or loss.

The Group has applied IFRS 9 retrospectively with the cumulative effect of initially applying IFRS 9 recognised as an adjustment to the opening balance of retained earnings at the date of initial application of 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

	Note	2018 £m	2017 £m
Interest income:			
Investments at fair value through profit or loss - IFRS 9		**5**	-
Investments at amortised cost - IFRS 9		**47**	-
Loans and receivables		**-**	45
Investments designated as available for sale - IAS 39		**-**	4
Investments held to maturity - IAS 39		**-**	8
Net realised gains on financial investments at fair value through profit or loss		**8**	1
Net (decrease)/increase in fair value:			
Investments at fair value through profit or loss		**(8)**	22
Investment property	5	**21**	22
Net foreign exchange translation losses		**(3)**	(12)
Total financial income		**70**	90

Included within financial income is a net loss, after hedging, on the Group's return-seeking asset portfolio of £1m (2017: net gain of £18m).

Financial expense

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

	2018 £m	2017 £m
Interest expense on financial liabilities at amortised cost	**100**	94
Finance charges in respect of finance leases	**-**	1
Other financial expenses	**3**	3
Total financial expense	**103**	98

2.6. Taxation expense

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

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

(i) Recognised in the Consolidated Income Statement

	2018 £m	2017 £m
Current taxation expense		
UK tax on income for the year	**41**	77
UK tax adjustments in respect of prior periods	**(19)**	(16)
	22	61
Double taxation relief	**(9)**	(12)
Foreign tax on income for the year	**162**	178
Foreign tax adjustments in respect of prior years	**63**	(24)
	225	154
Total current taxation	**238**	203
Deferred taxation income		
Origination and reversal of temporary differences	**(37)**	(44)
Adjustments in respect of prior periods	**11**	(3)
Changes in taxation rates	**(1)**	(1)
Total deferred taxation	**(27)**	(48)
Taxation expense	**211**	155

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

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

(ii) Reconciliation of effective taxation rate

	2018 £m	2017 £m
Profit before taxation expense	**614**	726
UK corporation tax rate	**19%**	19.25%
Tax at the UK corporation tax rate	**116**	140
Effects of recurring tax reconciliation items:		
Different taxation rates in foreign jurisdictions	**33**	43
Deductions not allowable for tax purposes	**36**	15
Income not taxable or taxable at concessionary rates	**(29)**	(4)
Property revaluation	**(4)**	16
Results of joint ventures and associates	**(7)**	(6)
Changes in tax rates	**(1)**	(2)
Deferred tax assets not recognised	**1**	(7)
Irrecoverable withholding taxes	**-**	1
	29	56
Effects of non-recurring tax reconciliation items:		
Tax adjustments in respect of prior periods[1]	**55**	(43)
Profit/loss on disposal of business	**2**	(7)
Profit/loss on disposal of property, plant and equipment	**1**	9
Other	**8**	-
	66	(41)
Taxation expense at the effective rate of 34% (2017: 21%)	**211**	155

1. Adjustments in respect of prior periods: Relates primarily to an in-principle agreement with the Australian Taxation Office (see Note 26 (iii) Contingent assets and contingent liabilities).

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

	2018 £m	2017 £m
Deferred taxation (charge in respect of:		
Unrealised surplus on revaluation of property	**(9)**	(49)
Remeasurement loss on pension schemes	**-**	(1)
Other foreign exchange translation differences	**(10)**	(3)
Taxation charge on income and expenses recognised directly in other comprehensive income	**(19)**	(53)

3. Goodwill and intangible assets

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

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

Goodwill is stated at cost less accumulated impairment losses. Impairment reviews are performed annually or more frequently if there is an indication that the carrying value may be impaired. Impairment reviews are performed at the level of the relevant cash generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

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

Amortisation is charged to the Consolidated Income Statement on a straight-line basis as follows:

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

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

Bed licences, with a carrying value of £114m (2017: £122m), held by the Group have been attributed an indefinite useful life due to the fact that these licences, which are issued by the Australian government, have no expiry date. Intangible assets with an indefinite useful life, or not yet available for use, are subject to annual impairment reviews.

	Goodwill £m	Computer software £m	Brands/ trademarks £m	Customer relationships £m	Other £m	Total £m
2018						
Cost						
At beginning of year	**3,299**	**777**	**361**	**880**	**333**	**5,650**
Assets arising on business combinations	**104**	**-**	**12**	**43**	**-**	**159**
Additions	**-**	**60**	**-**	**-**	**-**	**60**
Disposal of subsidiary companies	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Other disposals	**(2)**	**(92)**	**(8)**	**(21)**	**(21)**	**(144)**
Other	**-**	**4**	**-**	**-**	**-**	**4**
Foreign exchange	**(72)**	**(5)**	**(11)**	**(8)**	**(4)**	**(100)**
At end of year	**3,328**	**744**	**354**	**894**	**308**	**5,628**
Amortisation and impairment loss						
At beginning of year	**336**	**532**	**128**	**264**	**146**	**1,406**
Amortisation for year	**-**	**59**	**9**	**56**	**8**	**132**
Impairment loss	**35**	**2**	**5**	**-**	**(3)**	**39**
Disposal of subsidiary companies	**-**	**-**	**-**	**-**	**-**	**-**
Other disposals	**-**	**(90)**	**(8)**	**(21)**	**(19)**	**(138)**
Other	**-**	**1**	**-**	**-**	**-**	**1**
Foreign exchange	**1**	**(2)**	**(4)**	**(4)**	**-**	**(9)**
At end of year	**372**	**502**	**130**	**295**	**132**	**1,431**
Net book value at end of year	**2,956**	**242**	**224**	**599**	**176**	**4,197**
Net book value at beginning of year	2,963	245	233	616	187	4,244
2017						
Cost						
At beginning of year	2,722	698	360	547	317	4,644
Assets arising on business combinations	596	2	3	343	16	960
Additions	-	81	-	-	4	85
Disposal of subsidiary companies	-	(3)	-	-	-	(3)
Other disposals	-	(8)	-	-	-	(8)
Other	-	6	-	-	-	6
Foreign exchange	(19)	1	(2)	(10)	(4)	(34)
At end of year	3,299	777	361	880	333	5,650
Amortisation and impairment loss						
At beginning of year	340	482	103	218	136	1,279
Amortisation for year	-	55	9	51	8	123
Impairment loss	1	5	16	-	-	22
Disposal of subsidiary companies	-	(2)	-	-	-	(2)
Other disposals	-	(7)	-	-	-	(7)
Other	-	(1)	-	-	2	1
Foreign exchange	(5)	-	-	(5)	-	(10)
At end of year	336	532	128	264	146	1,406
Net book value at end of year	2,963	245	233	616	187	4,244
Net book value at beginning of year	2,382	216	257	329	181	3,365

Intangible assets of £4,197m (2017: £4,244m) include £999m (2017: £1,036m) which is attributable to other intangible assets arising on business combinations (included within customer relationships, brand and trademarks and other) as follows:

	2018 £m	2017 £m
Customer relationships	**599**	616
Bed licences (within Bupa Villages and Aged Care Australia)	**114**	122
Brands and trademarks	**224**	233
Licences to operate care homes	**22**	20
Customer contracts	**-**	1
Leases	**23**	26
Distribution networks	**15**	16
Present valuation of acquired in-force business	**1**	1
Non-compete agreement	**1**	1
Total	**999**	1,036

Impairment testing of goodwill and indefinite life intangible assets

Intangible assets with indefinite useful lives are tested at least annually for impairment by comparing the net carrying value with the recoverable amount, using value in use calculations or in some circumstances, fair value less costs of disposal (FVLCD).

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

Aside from those mentioned below, cash flow projections have been based on management operating profit projections for a three-year period which have been approved by the Board. Cash flow projections for Bupa Care Services UK, Bupa Chile, Care Plus, LUX MED, Quality HealthCare and UK Dental are based on five years, and Bupa Cromwell Hospital is based on a period of ten years as the business model of these CGUs requires investment beyond a three-year period to reach a steady state of operation.

The recoverable amount for Bupa New Zealand has been assessed based on FVLCD, with the valuation based on a period of ten years.

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

Future post-taxation cash flows have been discounted at post-taxation discount rates. Discount rates used for the value in use calculations for each of the Group's CGUs are based on considerations of the specific risks associated with the business plans of each CGU, as well as external factors. These include the market assessment of the time value of money and the risks inherent in the relevant country where the cash flows are generated.

Cash flow projections beyond the forecast periods have been extrapolated by applying a terminal growth rate between 2.0% and 5.5% (2017: 2.0% and 5.3%) for all CGUs. The terminal growth rates represent an estimate of the long-term growth rate for each of the CGUs, taking into account the future and past growth rates and external sources of data.

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

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

	2018 **%**	2017 %
Bupa Australia Health Insurance	9.8	12.2
Bupa Health Services Australia	10.0	10.7
Bupa Villages and Aged Care - Australia	9.4	9.0
Bupa Villages and Aged Care - New Zealand	8.5	7.4
Bupa Chile	14.0	12.3
LUX MED	9.9	10.1
Sanitas Seguros	11.2	10.4
Sanitas Mayores	8.2	9.0
Bupa Care Services UK	7.0	8.2
UK Dental	7.1	10.5
Bupa Cromwell Hospital	9.0	7.0
Quality HealthCare	10.2	9.2
Bupa Global	11.3	9.9
Care Plus	17.9	17.2

An impairment of £35m was recognised in respect of Bupa New Zealand during the year.

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

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

	2018 **£m**	2017 £m
Australia and New Zealand		
Bupa Australia Health Insurance	**876**	916
Bupa Health Services Australia	**295**	308
Bupa Villages and Aged Care - Australia	**268**	280
Bupa Villages and Aged Care - New Zealand	**-**	35
Europe and Latin America		
Bupa Chile	**168**	178
LUX MED	**252**	247
Sanitas Seguros	**103**	42
Sanitas Mayores	**22**	20
Other	**-**	1
UK		
Bupa Care Services UK	**90**	87
UK Dental	**650**	621
Bupa Cromwell Hospital	**16**	16
Other	**3**	3
International Markets		
Quality HealthCare	**119**	112
Bupa Global	**68**	68
Care Plus	**26**	29
Total	**2,956**	2,963

Sensitivity to changes in key assumptions

A sensitivity analysis has been performed on the key assumptions used to determine the value in use for each CGU as at 31 December 2018.

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

It is possible that a change in key assumptions could cause the impairment of goodwill for Bupa Health Services Australia, Bupa Villages and Aged Care Australia, Bupa Chile, LUX MED, Bupa Care Services UK, UK Dental, Bupa Cromwell Hospital and Quality HealthCare. The table below shows the decrease required in the terminal growth rate or increase required in discount rate for the recoverable amount of the CGU to equal the carrying amount.

	Headroom £m	Terminal growth rate %	Decrease in terminal growth rate %	Increase in discount rate %
Bupa Health Services Australia	242	3.0	4.7	4.0
Bupa Villages and Aged Care - Australia	147	3.0	1.3	1.1
Bupa Chile	7	3.2	0.1	0.0
LUX MED	51	3.6	0.6	0.5
Bupa Care Services UK	125	2.6	0.7	0.6
UK Dental	162	2.6	0.6	0.7
Bupa Cromwell Hospital	19	4.3	0.9	0.6
Quality Healthcare	27	3.5	0.7	0.5

Impairment of other intangible assets

At 31 December 2018, other intangible assets with indefinite useful lives were tested for impairment, resulting in an impairment of £5m relating to brands in Bupa Chile. In the prior year there were £20m of impairments to intangible assets with indefinite lives. £16m was recognised in relation to impairment of brands in Bupa Chile and £4m in relation to the impairment of computer software projects not yet completed in Bupa Global.

A review of intangible assets that are subject to amortisation resulted in an impairment of £2m relating to IT software in Bupa Australia Health Insurance and £1m representing care home leases in Bupa New Zealand. Included in impairments of intangible assets is a £4m reversal of previous impairments to licences to operate care homes in Sanitas Mayores. In the prior year there was an impairment of £1m relating to IT development in Bupa Global.

4. Property, plant and equipment

Property, plant and equipment are the physical assets utilised by the Group to carry out business activities and generate revenues and profits.

Most of the assets held relate to care homes, hospital properties and equipment, and office buildings.

Equipment

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

Depreciation

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

- Freehold buildings — 50 years
- Leasehold buildings — shorter of useful life or lease term
- Leasehold improvements — shorter of useful life or lease term
- Equipment — 3-10 years

Impairment

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

Leased assets

Leases are classified as finance leases when the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

On initial recognition, the leased asset is measured at the amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Finance lease liabilities, net of finance charges in respect of future periods, are included within other interest bearing liabilities (see Note 17). The interest element of the obligation is allocated over the lease term to reflect a constant rate of interest on the outstanding obligation.

Leasehold land, where no option to obtain title exists, is treated as an operating lease. Assets classified as being under operating leases are not capitalised and therefore not recognised within the Consolidated Statement of Financial Position (Note 26). Payments made under operating leases are recognised as prepayments within trade and other receivables (Note 14) and are recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease within other operating expenses (Note 2.3).

Included in leasehold property and improvements is £7m (2017: £7m) of property held under finance leases. The amount included in property, plant and equipment in respect of equipment held under finance leases is £12m (2017: £15m).

	Freehold property £m	Leasehold property and improvements £m	Equipment £m	Total £m
2018				
Cost or valuation				
At beginning of year	**2,510**	**285**	**1,052**	**3,847**
Acquisition of subsidiary	**9**	**1**	**4**	**14**
Additions	**68**	**24**	**156**	**248**
Transfer to assets held for sale	**(17)**	**-**	**-**	**(17)**
Disposals	**(2)**	**(5)**	**(48)**	**(55)**
Revaluations	**(53)**	**(8)**	**-**	**(61)**
Other	**(12)**	**4**	**8**	**-**
Foreign exchange	**(52)**	**(4)**	**(7)**	**(63)**
At end of year	**2,451**	**297**	**1,165**	**3,913**
Depreciation and impairment loss				
At beginning of year	**57**	**73**	**533**	**663**
Depreciation charge for year	**39**	**24**	**116**	**179**
Transfer to assets held for sale	**-**	**-**	**(1)**	**(1)**
Disposals	**(3)**	**(4)**	**(37)**	**(44)**
Revaluations	**(59)**	**(4)**	**-**	**(63)**
Impairment loss	**-**	**-**	**2**	**2**
Other	**-**	**5**	**(5)**	**-**
Foreign exchange	**(1)**	**(1)**	**(2)**	**(4)**
At end of year	**33**	**93**	**606**	**732**
Net book value at end of year	**2,418**	**204**	**559**	**3,181**
Net book value at beginning of year	2,453	212	519	3,184
2017				
Cost or valuation				
At beginning of year	2,261	251	948	3,460
Acquisition of subsidiary	8	26	35	69
Additions	160	35	131	326
Transfer to assets held for sale	(34)	-	(13)	(47)
Disposals	(10)	(6)	(69)	(85)
Disposal of subsidiary	-	(2)	(2)	(4)
Revaluations	135	-	-	135
Other	10	(15)	12	7
Foreign exchange	(20)	(4)	10	(14)
At end of year	2,510	285	1,052	3,847
Depreciation and impairment loss				
At beginning of year	83	59	487	629
Depreciation charge for year	34	24	108	166
Transfer to assets held for sale	-	-	(10)	(10)
Disposals	(1)	(5)	(62)	(68)
Disposal of subsidiary	-	(1)	(1)	(2)
Revaluations	(62)	-	-	(62)
Impairment loss	2	-	7	9
Other	1	(3)	1	(1)
Foreign exchange	-	(1)	3	2
At end of year	57	73	533	663
Net book value at end of year	2,453	212	519	3,184
Net book value at beginning of year	2,178	192	461	2,831

Freehold and leasehold properties

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

Revaluation of properties
Valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date. The external revaluation of properties in 2018 were performed independently by Alia Tasaciones S.A. in Spain and Phi Partners Consultores in Chile.

Revaluations were effective as of 31 December in the year in which they were undertaken. Directors' valuations were performed in the year where it was identified that carrying value differed significantly from fair value.

Care homes and hospitals are valued with regard to their trading potential based on discounted cash flow techniques, the principal assumptions are: quantifying a fair, maintainable level of trade and profitability; levels of competition; and assumed ability to renew existing licences, consents, certificates or permits.

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

Level three
Based on a review carried out during the year, it has been determined that due to the level of judgement and adjustments required to the observable inputs used in the valuations, a level three classification is deemed appropriate for all properties in the Group.

The valuations of care homes in the Group and hospitals in Spain, Chile and Poland are determined based on a capitalisation of earnings approach. A multiple is applied to each facility's earnings to project the financial performance of the facility to determine its value in use. The multiple applied for each facility is set based on qualitative and quantitative indicators of the facility's current and future performance and assumes normal prudent management of the facility. Unobservable inputs for these properties include the average capitalisation rate which is the average rate of return on a property based on the income that the property is expected to generate. It considers trends in earnings and land values. For all properties except those in Poland, the average occupancy is also an unobservable input.

All other properties are valued by external valuers based on observable market values of similar properties.

Sensitivity analysis

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

Freehold and leasehold property	Australia	New Zealand	United Kingdom	Spain	Chile	Poland
Valuation assumptions: average occupancy rate	95.1%	91.9%	87.9%	94.6%	N/A	N/A
Valuation assumptions: average capitalisation rate	13.8%	13.7%	11.2%	11.8%	26.3%	6.7%

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

	0.5% absolute increase	0.5% absolute decrease
Australia		
Average occupancy rate	£5m increase	£5m decrease
Average capitalisation rate	£18m increase	£20m decrease
New Zealand		
Average occupancy rate	£1m increase	£1m decrease
Average capitalisation rate	£8m increase	£9m decrease
UK		
Average occupancy rate	£4m increase	£4m decrease
Average capitalisation rate	£44m increase	£55m decrease
Spain		
Average occupancy rate	£1m increase	£1m decrease
Average capitalisation rate	£9m increase	£10m decrease
Chile		
Average occupancy rate	N/A	N/A
Average capitalisation rate	£1m increase	£1m decrease
Poland		
Average occupancy rate	N/A	N/A
Average capitalisation rate	£3m increase	£4m decrease

The table below shows the date at which properties were last subject to external valuation.

Leasehold property and improvements	Freehold property £m	Leasehold property and improvements £m
Valuation - December 2018	328	15
Valuation - December 2017	1,222	8
Valuation - December 2016	585	20
Assets held at cost	316	254
Cost or valuation	**2,451**	**297**

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

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

A £23m net revaluation gain (2017: £233m) has been recognised in the property revaluation reserve. In the current year, a revaluation deficit of £21m (2017 deficit: £34m) were charged to the Consolidated Income Statement (see Note 2.4).

Recognised in the carrying amount of freehold property is £70m (2017: £190m) in relation to freehold property in the course of construction.

Historical cost of the Group's revalued assets

	2018 £m	2017 £m
Historical cost of revalued assets	**2,483**	2,303
Accumulated depreciation based on historical cost	**(276)**	(226)
Historical cost net book value	**2,207**	2,077
Depreciation charge for the year on historical cost	**50**	46

The historical cost of all property, plant and equipment is £3,628m (2017: £3,142m).

5. Investment property

Investment properties are physical assets that are not occupied by the Group and are leased to third parties to generate rental income.

Most investment properties held by the Group relate to a portfolio of retirement villages in New Zealand.

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

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

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

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

(i) Investment properties

	Note	**2018 £m**	2017 £m
At beginning of year		**399**	391
Additions		**27**	28
Disposals		**(2)**	(2)
Increase in fair value	2.5	**21**	22
Transfer to/from assets held for sale		**1**	(13)
Reclassifications from property, plant and equipment		**6**	-
Foreign exchange		**2**	(27)
At end of year		**454**	399

In the current year, a revaluation surplus of £21m (2017 surplus: £22m) was credited to the Consolidated Income Statement.

The carrying value of investment properties of £454m (2017: £399m), primarily consisting of the Group's portfolio of retirement villages in New Zealand, was valued by management using internally prepared discounted cash flow projections, supported by the terms of any existing lease and other contracts, and when possible, by external evidence such as current market rents for similar properties in the same location and condition. Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows. The discounted cash flow projections are reviewed by an independent valuer, Deloitte. These properties are categorised as level three within the fair value hierarchy.

The historical cost of investment properties is £222m (2017: £195m).

Significant assumptions used in the valuation include:

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

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

Australia and New Zealand	**0.5% absolute increase**	**0.5% absolute decrease**
Discount rate	£10m decrease	£21m increase
Capital growth rate	£52m increase	£46m decrease

(ii) Leases as lessor

Non-cancellable leases
Investment properties include commercial properties which are leased to third parties. The leases contain an initial non-cancellable period of between one and three years. Subsequent renewals are negotiated with the lessee.

The Group leases out its investment properties under operating leases. The future lease receipts under non-cancellable leases of £1m (2017: £1m) are due between one and five years.

Retirement villages
During the year ended 31 December 2018, the Group's retirement village portfolio in New Zealand generated £19m (2017: £17m) of income which was recognised as revenue in the Consolidated Income Statement. Total direct operating expenses of these retirement villages amounted to £10m (2017: £10m).

6. Equity accounted investments

Equity accounted investments comprises associated companies and joint ventures in which the Group has significant influence, but not control.

Associated companies include those entities in which the Group has significant influence, but no right to direct the activities which determine the variable returns it receives from the entity. Joint ventures include those entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group also has the right to its share of the net assets.

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

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

Associates and joint ventures
On 9 August 2018, Bupa increased its shareholding in the associate Bupa Arabia from 34.25% to 39.25% as a result of the acquisition of a portion of the Nazer Group's stake for £78m. This is in line with the Group's strategy to strengthen market position in existing territories. During the year the Group received dividends of £10m (2017: £6m) from Bupa Arabia.

During 2018, Bupa Innovations (ANZ) Pty Ltd invested £1m in Whitecoat Holdings Pty Ltd increasing its shareholding from 20% to 24%. Whitecoat owns and operates a comprehensive online healthcare provider directory and customer review website.

During 2018, capital injections of £2m (2017: £nil) were made in Max Bupa Health Insurance Company Limited. Distributions to shareholders are currently restricted by local regulatory requirements which are re-assessed on a regular basis.

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

The carrying amount of equity accounted investments is £690m (2017: £553m). All equity investments are included on a coterminous basis.

The Group's principal equity accounted investments are:

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

(i) Summarised financial information for associates and joint ventures

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

	Bupa Arabia 2018 £m	Bupa Arabia 2017 £m	Highway to Health 2018 £m	Highway to Health 2017 £m	Max Bupa 2018 £m	Max Bupa 2017 £m
Revenue	**1,626**	1,513	**177**	177	**71**	67
Cash and cash equivalents	**61**	45	**97**	87	**1**	3
Other current assets	**611**	872	**63**	66	**12**	3
Current assets	**672**	917	**160**	153	**13**	6
Non-current assets	**1,058**	568	**12**	13	**87**	79
Current liabilities	**(1,191)**	(1,026)	**(92)**	(100)	**(34)**	(25)
Non-current liabilities	**-**	(1)	**(3)**	(2)	**(39)**	(34)
Net assets	**539**	458	**77**	64	**27**	26

Reconciliation to carrying amounts

	Bupa Arabia 2018 £m	Bupa Arabia 2017 £m	Highway to Health 2018 £m	Highway to Health 2017 £m	Max Bupa 2018 £m	Max Bupa 2017 £m
Opening net assets	**458**	438	**64**	63	**26**	29
Profit/(loss) for the period	**105**	104	**5**	5	**(2)**	(8)
Other comprehensive expenses	**(6)**	-	**-**	-	**-**	-
Dividends paid	**(32)**	(25)	**-**	-	**-**	-
Other reserve movements	**14**	(59)	**8**	(4)	**3**	5
Closing net assets	**539**	458	**77**	64	**27**	26
% ownership	**39.25%**	34.25%	**49.00%**	49.00%	**49.00%**	49.00%
Reporting entity's share	**212**	157	**38**	31	**13**	13
FV and local accounting differences[1]	**217**	150	**181**	172	**20**	18
Carrying amount	**429**	307	**219**	203	**33**	31
Reporting entity's share of profit/(loss)[2, 3]	**31**	27	**3**	3	**(2)**	(1)

1. Primarily relates to goodwill and implicit intangible assets on acquisition.
2. 2018 share of profits in Bupa Arabia are based on a share in ownership of 34.25% up to 9 August. 2017 share of profits in Bupa Arabia are based on a share in ownership of 26.25% up to 14 June 2017.
3. Included in 2017 share of post-taxation results of equity accounted investments within the Consolidated Income Statement is a £3m correction to profit relating to historical errors in the recognition of share of profits of associates.

(ii) Individually immaterial associates and joint ventures

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method. The aggregate carrying amount of these associates is £9m (2017: £12m). The reporting entity's share of profit recognised during the year for these associates was £1m (2017: share of loss of £3m).

7. Post-employment benefits

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

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

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

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

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

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

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

(i) Amount recognised in the Consolidated Income Statement

The amounts charged to other operating expenses for the year are:

	2018 £m	2017 £m
Current service cost	**1**	2
Past service cost	**-**	-
Net interest on defined benefit liability/asset	**1**	-
Administrative expenses	**-**	-
Total amount charged to Consolidated Income Statement	**2**	2

The charge to other operating expenses in respect of cash contributions to defined contribution schemes is £30m (2017: £25m).

(ii) Amount recognised directly in other comprehensive income

The amounts (credited)/charged directly to equity:

	2018 £m	2017 £m
Actual return less expected return on assets	**4**	(4)
Loss arising from changes to financial assumptions	**(5)**	1
Gain arising from changes to demographic assumptions	**-**	(3)
Total remeasurement gains credited directly to equity	**(1)**	(6)

The cumulative amount of remeasurement losses recognised directly in equity is £38m (2017: £39m).

7.1. Group post-employment benefit schemes

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

Defined benefit post-employment schemes
The principal defined benefit scheme in the UK is The Bupa Pension Scheme. The Company (which is not an employer in respect of the scheme) had entered into a legally binding and irrevocable guarantee for the benefit of the trustee in respect of the payments due from Bupa. Bupa is the sponsoring employer for The Bupa Pension Scheme. Please see the 2018 Bupa Annual Report and Accounts for full details.

There are several other smaller defined benefit schemes operated by UK and overseas subsidiaries. The defined benefit pension schemes are assessed by independent scheme actuaries in accordance with UK or local practice and under IAS 19 as at 31 December 2018 for the purposes of inclusion in the Group's consolidated financial statements. Complete disclosure of these other defined benefit schemes is not practicable within this report but they are disclosed within the financial statements of the relevant sponsoring employer of each scheme.

(a) Assets and liabilities of schemes

	Section	Defined benefit funded pension schemes 2018 £m	2017 £m
Present value of funded obligations	(b)	**(92)**	(101)
Fair value of scheme assets	(c)	**85**	93
Net recognised liabilities		**(7)**	(8)
Represented on the Consolidated Statement of Financial Position:			
Net liabilities		**(10)**	(12)
Net assets		**3**	4
Net recognised liabilities		**(7)**	(8)

(b) Present value of funded schemes' obligations

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

	Defined benefit funded pension schemes 2018 £m	2017 £m
At beginning of year	**101**	102
Current service costs	**1**	2
Interest on obligations	**3**	3
(Gains)/losses from changes to financial assumptions	**(5)**	1
Gains from changes to demographic assumptions	**-**	(3)
Pension benefits paid	**(6)**	(4)
Foreign exchange	**(2)**	-
At end of year	**92**	101

(c) Fair value of funded schemes' assets

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

`	2018 £m	2017 £m
At beginning of year	**93**	89
Interest income	**2**	3
Return on assets excluding interest income	**(4)**	4
Contributions by employer	**1**	1
Pension benefits paid	**(6)**	(4)
Foreign exchange	**(1)**	-
At end of year	**85**	93

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

`	2018 £m	2017 £m
Loans	**3**	2
Government bonds	**24**	26
Corporate bonds	**1**	3
Cash/other assets	**29**	25
Equities	**17**	18
Pooled investment funds	**11**	18
Property	**-**	1
Total market value of the assets of the funded schemes	**85**	93

All assets have a quoted market price.

7.2. Actuarial assumptions

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

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

	Defined benefit funded pension schemes	
	2018	2017
	%	%
Inflation rate	**2.7**	2.6
Rate of increase in salaries	**3.5**	3.5
Rate of increase to pensions in payment	**2.3**	1.9
Rate of increase to pensions in deferment	**2.2**	2.6
Discount rate for scheme assets and obligations	**2.9**	1.8

(a) Actuarial assumptions underlying the valuation of obligations

The inflation assumption is set by reference to the difference between the yield on long-term fixed interest gilts and the real yield on index-linked gilts, with a deduction of 0.2% to reflect an inflation risk premium.

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

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

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

(b) Mortality assumptions

The mortality tables adopted at 31 December 2018 are the S2PA year of birth mortality tables using the CMI 2017 projection model, with a long-term rate of improvement of 1.5% pa adjusted by 97% (male non-pensioners); 96% (female non-pensioners); 92% (male pensioners) and 94% (female pensioners). The average life expectancies at age 60 based on these tables for a male currently aged 60 (45) is 27.5 years (28.4 years) and for a female currently aged 60 (45) is 29.4 years (30.6 years).

(c) Assumptions over duration of liabilities

The weighted average duration of the defined benefit obligation is approximately 15 years.

8. Restricted assets

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

	2018	2017
	£m	£m
Non-current restricted assets	**42**	43
Current restricted assets	**65**	33
Total restricted assets	**107**	76

The non-current restricted assets balance of £42m (2017: £43m) consists of cash deposits held to secure a charge over the non-registered pension arrangement maturing after 2022. Included in current restricted assets is £63m (2017: £32m) in respect of claims funds held on behalf of corporate customers.

9. Financial investments

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

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

Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial investments at initial recognition are recorded using trade date accounting.

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

IFRS 9 introduces a forward-looking expected credit loss model, applicable for financial assets measured at amortised cost.

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

As the Group's financial investments at amortised cost or FVOCI are all either investment grade or short term, 12-month ECL is applied. For financial investments, an option pricing probability model is used as the basis for assessing ECL. An analysis of ECL provisions is provided in Note 24.3.

Financial investments are analysed as follows:

	Carrying value 2018 £m	**Fair value 2018 £m**	Carrying value 2017 £m	Fair value 2017 £m
Available-for-sale				
Corporate debt securities	**-**	**-**	307	308
Government debt securities	**-**	**-**	86	86
Fair value through profit or loss				
Corporate debt securities and secured loans	**310**	**310**	198	198
Government debt securities	**44**	**44**	62	62
Pooled investment funds	**195**	**195**	277	277
Deposits with credit institutions	**4**	**4**	8	8
Other loans	**9**	**9**	1	1
Equities	**20**	**20**	19	19
Amortised cost				
Corporate debt securities and secured loans	**779**	**778**	284	286
Government debt securities	**183**	**185**	98	99
Deposits with credit institutions	**805**	**807**	886	889
Other loans	**1**	**1**	1	1
Total financial investments	**2,350**	**2,353**	2,227	2,234
Non-current	**1,029**	**1,029**	1,093	1,098
Current	**1,321**	**1,324**	1,134	1,136

Classification	Criteria and treatment IFRS 9	Criteria and treatment IAS 39
Fair value through profit or loss	Debt and Equity instruments where performance is managed and evaluated on a fair value basis and the objective is to realise cash flows through the sale of the assets. The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the Consolidated Income Statement in the period in which they arise.	Debt and Equity instruments where performance is managed and evaluated on a fair value basis and the objective is to realise cash flows through the sale of the assets. The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the Consolidated Income Statement in the period in which they arise.
Amortised cost	Non-derivative debt instruments where the contractual characteristics of the financial assets represent solely payments of principal and interest and the objective is to hold the instrument to collect cash flows over its life. Any disposals are expected to be infrequent or insignificant. The investments are measured at amortised cost using the effective interest method, less any impairment losses. Any discount or premium on purchase is amortised over the life of the investment through the Consolidated Income Statement.	Held to maturity investments: are non-derivative financial assets which are quoted on an active market, with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. This is assessed at each reporting date. Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment losses. Loans and Receivables: Any discount or premium on purchase is amortised over the life of the investment through the Consolidated Income Statement. Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses.
Fair value through other comprehensive income	Non-derivative debt instruments where the contractual characteristics of the financial assets represent solely payments of principal and interest and the objective is to hold the instrument to collect cash flows and sell, with a greater frequency and value of sales than instruments at amortised cost. The investments are measured at fair value in the balance sheet and fair value changes are recognised directly in equity, through the Consolidated Statement of Changes in Equity, except for interest and foreign exchange gains or losses which go through the Consolidated Income Statement. The cumulative gain or loss that was recognised in equity is recognised in the Consolidated Income Statement when an available-for-sale financial asset is derecognised.	Available-for-sale assets are non-derivative financial assets classified on initial recognition as available for sale or any other instruments that are not classified at amortised cost or fair value through the Consolidated Income Statement. Available-for-sale assets are measured at fair value. Fair value changes on available-for-sale assets are recognised through other comprehensive income, except for interest and foreign exchange gains or losses which go through the Consolidated Income Statement. The cumulative gain or loss that was recognised in other comprehensive income is recognised in the Consolidated Income Statement when an available-for-sale financial asset is derecognised.

The Group does not hold any investments at FVOCI under IFRS 9. Under IAS 39, available-for-sale assets (non-derivative financial assets classified on initial recognition as available for sale or any other instruments that are not classified as amortised cost or FVTPL) were held at FVOCI.

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

The fair values of quoted investments in active markets are based on current bid prices. The fair values of unlisted securities and quoted investments for which there is no active market are established by using valuation techniques corroborated by independent third parties.

These may include reference to the current fair value of other investments that are substantially the same and discounted cash flow analysis.

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

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

The adoption of IFRS 9 has resulted in the reclassification of the Group's available-for-sale assets to amortised cost, as the business model for these assets is 'hold to collect'. The reclassification and measurement impacts of transition to IFRS 9 are provided below:

	At 31 December 2017 £m	Reclassification £m	Remeasurement £m	ECL £m	**At 1 January 2018 £m**
Available-for-sale (Fair value)					
Corporate debt securities	307	(307)	-	-	**-**
Government debt securities	86	(86)	-	-	**-**
Hold to collect (IFRS 9)					
Held to maturity (IAS 39)					
Corporate debt securities and secured loans	284	307	(1)	-	**590**
Government debt securities	98	86	-	(1)	**183**
Loans and receivables (IAS 39)					
Deposits with credit institutions	886	-	-	(1)	**885**
Other loans	1	-	-	-	**1**
	1,662	**-**	**(1)**	**(2)**	**1,659**

An analysis of financial investments by hierarchy level is as follows:

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2017				
Available-for-sale				
Corporate debt securities	308	-	-	308
Government debt securities	86	-	-	86
Fair value through profit or loss				
Corporate debt securities and secured loans	14	184	-	198
Government debt securities	33	29	-	62
Pooled investment funds	177	99	1	277
Deposits with credit institutions	8	-	-	8
Other loans	-	1	-	1
Unlisted equities	-	-	19	19
Amortised cost				
Corporate debt securities and secured loans	280	6	-	286
Government debt securities	98	1	-	99
Deposits with credit institutions	-	889	-	889
Other loans	-	1	-	1
Total financial investments	**1,004**	**1,210**	**20**	**2,234**

The Group currently holds level three investments totalling £32m. The majority of investments are unlisted equities that are valued using earnings multiples of comparable companies, which are deemed to be unobservable inputs. The average multiple applied is 4.6. Reasonably possible changes to the valuation assumptions applied could result in a change in fair value of plus or minus £6m.

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

Level 3	**2018 £m**	2017 £m
At beginning of year	**20**	-
Additions	**11**	22
Foreign exchange	**1**	(2)
At end of year	**32**	20

There have been no significant transfers between the valuation hierarchies.

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

	2018 %	2017 %
Sterling assets and liabilities	**1.1-1.3**	0.7-1.0
Australian dollar assets and liabilities	**1.9-2.0**	1.8-2.2
Euro assets and liabilities	**(0.6)-(0.4)**	(0.7)-(0.1)
US dollar assets and liabilities	**2.6-2.8**	1.7-2.6

10. Derivatives

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

Derivatives that have been purchased or issued as part of a hedge that subsequently do not qualify for hedge accounting are accounted for at fair value through profit or loss.

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

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

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

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

All derivatives are disclosed as level two in the fair value hierarchy.

	2018 £m	2017 £m
Derivative assets		
Non-current	**21**	35
Current	**7**	12
Total derivative assets	**28**	47
Derivative liabilities		
Non-current	**(19)**	(4)
Current	**(28)**	(15)
Total derivative liabilities	**(47)**	(19)

11. Deferred taxation assets and liabilities

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

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

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

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

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

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

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

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

Recognised deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Accelerated capital allowances	**12**	-	**(60)**	(82)	**(48)**	(82)
Post-employment benefit liability	**1**	3	**-**	-	**1**	3
Revaluation of properties to fair value	**-**	-	**(94)**	(92)	**(94)**	(92)
Employee benefits (other than post-employment)	**27**	30	**-**	-	**27**	30
Provisions	**49**	24	**-**	-	**49**	24
Taxation value of losses carried forward	**47**	41	**-**	-	**47**	41
Goodwill and intangible assets	**4**	-	**(182)**	(142)	**(178)**	(142)
Other	**51**	-	**(74)**	(7)	**(23)**	(7)
Deferred tax (before allowable netting)	**191**	98	**(410)**	(323)	**(219)**	(225)
Allowable netting of deferred tax	**(139)**	(93)	**139**	93	**-**	-
Deferred tax - net	**52**	5	**(271)**	(230)	**(219)**	(225)

Recognised deferred taxation assets

Deferred taxation assets relating to the carry forward of employee benefits, other provisions, unused taxation losses and other deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred taxation assets can be utilised.

Unrecognised deferred taxation assets

As at 31 December 2018, the Group had deductible temporary differences relating to intangible assets of £5m (2017: £5m), trading losses of £109m (2017: £57m) and capital losses of £74m (2017: £69m) for which no deferred taxation asset was recognised due to uncertainty of utilisation of those temporary differences.

Movement in net deferred taxation (liabilities)/assets

	At beginning of year £m	Recognised in Consolidated Income Statement £m	Recognised in other comprehensive income £m	Acquisitions through business combinations £m	Disposal of subsidiary undertakings £m	Foreign exchange £m	At end of year £m
2018							
Accelerated capital allowances	**(82)**	**33**	**-**	**-**	**-**	**1**	**(48)**
Post-employment benefit liability	**3**	**(2)**	**-**	**-**	**-**	**-**	**1**
Revaluation of properties to fair value	**(92)**	**6**	**(9)**	**(1)**	**-**	**2**	**(94)**
Employee benefits (other than post-employment)	**30**	**(2)**	**-**	**-**	**-**	**(1)**	**27**
Provisions	**24**	**26**	**-**	**-**	**-**	**(1)**	**49**
Taxation value of losses carried forward	**41**	**4**	**-**	**4**	**(1)**	**(1)**	**47**
Goodwill and intangible assets	**(142)**	**(26)**	**-**	**(12)**	**-**	**2**	**(178)**
Other	**(7)**	**(12)**	**(10)**	**-**	**5**	**1**	**(23)**
Total	**(225)**	**27**	**(19)**	**(9)**	**4**	**3**	**(219)**
2017							
Accelerated capital allowances	(105)	11	2	6	(1)	5	(82)
Post-employment benefit liability	3	-	(1)	-	-	1	3
Revaluation of properties to fair value	(40)	(3)	(49)	-	-	-	(92)
Employee benefits (other than post-employment)	26	4	-	-	-	-	30
Provisions	24	2	-	-	-	(2)	24
Taxation value of losses carried forward	43	(6)	-	4	-	-	41
Goodwill and intangible assets	(109)	33	-	(64)	-	(2)	(142)
Other	(5)	7	(5)	-	(2)	(2)	(7)
Total	**(163)**	**48**	**(53)**	**(54)**	**(3)**	**-**	**(225)**

12. Assets arising from insurance business

Financial assets arising from insurance business, excluding reinsurers' share of insurance provisions, are held at amortised cost. Valuation of reinsurers' share of insurance provisions is discussed in Note 18.

	Note	2018 £m	2017 £m
Insurance debtors	(b)	**1,092**	1,010
Ceded insurance provisions	(c)	**23**	18
Deferred acquisition costs	(a)	**139**	117
Medicare rebate	(d)	**71**	69
Risk Equalisation Special Account recoveries		**23**	16
Total assets arising from insurance business		**1,348**	1,230
Non-current		**24**	2
Current		**1,324**	1,228

The above balance is stated net of provision for impairment losses. Information regarding the ageing of insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries is shown in Note 24.3.

a) Deferred acquisition costs

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

The movement in deferred acquisition costs is as follows:

	2018 £m	2017 £m
At beginning of year	**117**	106
Acquisition costs deferred	**241**	383
Acquisition costs released to Consolidated Income Statement	**(220)**	(369)
Disposal of subsidiary	**-**	(1)
Foreign exchange	**1**	(2)
At end of year	**139**	117

b) Insurance debtors

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

c) Reinsurers' share of insurance provisions

The recoverables due from reinsurers are shown within assets arising from insurance business and are assessed for impairment at each balance sheet date. Reinsurers' share of insurance provisions are further analysed in Note 18.

d) Medicare rebate

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

13. Inventories

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

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

Inventories relating to drugs, prostheses, consumables and housing stock were £109m (2017: £104m). There were no inventory write-downs made during the year (2017: £nil). The Group consumed £151m (2017: £237m) of inventories, which are recognised within other operating expenses in the Consolidated Income Statement.

14. Trade and other receivables

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

	Note	2018 £m	2017 £m
Trade receivables	(a)	**249**	236
Service concession receivables	(b)	**69**	231
Amounts owed by Ultimate Parent Company		**186**	96
Other receivables	(a)	**143**	151
Prepayments		**78**	64
Accrued income		**13**	14
Investment receivables and accrued investment income		**7**	7
Total trade and other receivables		**745**	799
Non-current		**35**	123
Current		**710**	676

Trade and other receivables are carried at amortised cost net of provisions for expected credit losses (ECLs). Trade receivables relate to consideration due from customer contracts. Other receivables relate to consideration due from contracts that are outside of the scope of IFRS 15 e.g. rental receivables. Information regarding the ageing of trade and other receivables is shown in Note 24.3. All trade receivables and service concession receivables are classified as receivables under IFRS 15, as a receivable is an entity's right to consideration that is unconditional i.e. only the passage of time is required before payment is due.

The fair value of non-current investment receivables and accrued investment income is £7m (2017: £6m). The carrying values of the other non-current receivable balances are a reasonable approximation of the fair value.

(a) Impairment of financial assets

Financial assets comprise trade and other receivables and financial investments. Refer to Note 9 for financial investments.

Service concession receivables are measured net of 12-month ECL, consistent with the approach taken for financial investments. All other receivables are measured net of lifetime ECL. Where appropriate, a provision matrix is used to estimate ECL.

Under a provision matrix, receivables are grouped into customer segments and further divided into categories by age. Historical credit loss experience and any relevant forward-looking information is then used to establish the ECL provision for each category. ECL provisions for service concession receivables are based on 12-month ECL, using a methodology consistent with that used for financial investments. An analysis of ECL provisions for trade and other receivables is disclosed in Note 24.3. All impairment losses are recognised in the Consolidated Income Statement within net impairment loss on financial assets. Impairment losses on trade receivables under IFRS 9 of £7m have been recognised in the period. In prior periods, impairment losses under IAS 39 (2017: £10m) have been charged to other operating expenses.

(b) Service concession receivables

The Group has recognised service concession receivables in respect of the public private partnership arrangements. A financial asset has been recognised to the extent that Bupa has an unconditional contractual right to receive cash at the direction of the grantor for the construction services and the grantor has little, if any, discretion to avoid payment. This financial asset is carried at amortised cost (with an effective interest rate) less ECL provisions.

The remaining service concession receivable relates to operational revenues, which are recognised in the period. Revenue is recognised based on the average operating margin for the life of the contract. The operating margin is based on historic performance plus projections and this margin is reassessed based on changes in expected performance, with an adjustment made to the current year results to bring the contract performance to date in line with the revised margin. As revenue is based on an expected margin, with some potential variability, revenue is only ever recognised to the extent that it is highly probable a significant reversal will not occur when the uncertainty is resolved.

During 2018, the Group disposed of its holding in Torrejón Salud S. A, a public private partnership with the Madrid Government.

15. Cash and cash equivalents

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

	2018 £m	2017 £m
Cash at bank and in hand	**1,092**	1,026
Short-term deposits	**461**	479
Total cash and cash equivalents	**1,553**	1,505

Bank overdrafts of £1m (2017: £1m) that are repayable on demand form part of the Group's Capital Management Policy (see Note 23). These are reported within Other interest bearing liabilities (Note 17) on the Consolidated Statement of Financial Position, although are considered as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

16. Assets and liabilities held for sale

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

Classification as held for sale

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

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

Assets and liabilities classified as held for sale

	2018 £m	2017 £m
Assets held for sale		
Property, plant and equipment	**3**	76
Investment property	**4**	12
Trade and other receivables	**-**	1
Total assets classified as held for sale	**7**	89
Liabilities associated with assets held for sale		
Trade and other payables	**-**	(11)
Total liabilities classified as held for sale	**-**	(11)
Net assets classified as held for sale	**7**	78

At 31 December 2017, a portfolio of care homes was classified as held for sale as active plans to sell were in place. The sale of the portfolio to Advinia Health Care was completed on 14 February 2018.

The assets held for sale as at 31 December 2018 relate to a care home, a retirement village and land held by Bupa New Zealand.

17. Borrowings

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

Borrowings are recognised initially at fair value less attributable transaction costs.

Subsequent to initial recognition, they are stated at amortised cost, with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis. The carrying value of borrowings are adjusted for the gain or loss on hedged risk; changes in the fair value of derivatives that mitigate interest rate risk resulting from the fixed interest rate of the bond is recognised in financial expenses as an effective fair value hedge of this exposure.

	Note	**2018 £m**	2017 £m
Subordinated liabilities			
Callable subordinated perpetual guaranteed bonds		**336**	336
Fair value adjustment in respect of hedged interest rate risk		**21**	35
Callable subordinated perpetual guaranteed bonds at carrying value	(a)	**357**	371
5.0% subordinated unguaranteed bonds due 2023 and 2026	(b)	**898**	897
Other subordinated debt	(c)	**-**	35
Total subordinated liabilities		**1,255**	1,303
Other interest bearing liabilities			
Senior unsecured bonds	(d)	**698**	699
Fair value adjustment in respect of hedged interest rate risk		**(4)**	(2)
Bank loans and overdrafts	(e)	**357**	466
Finance lease liabilities	(f)	**4**	7
Total interest bearing liabilities		**1,055**	1,170
Total borrowings		**2,310**	2,473
Non-current		**2,073**	2,118
Current		**237**	355

	Subordinated liabilities		Other interest bearing liabilities		Total	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At beginning of year	**(1,303)**	(1,317)	**(1,170)**	(605)	**(2,473)**	(1,922)
Business combinations	**36**	-	**21**	(273)	**57**	(273)
Net repayments/(proceeds)	**-**	3	**87**	(290)	**87**	(287)
Interest payments	**65**	54	**25**	30	**90**	84
Accrued interest and amortisation	**(67)**	(57)	**(26)**	(30)	**(93)**	(87)
Foreign exchange adjustments and other	**-**	(1)	**6**	(4)	**6**	(5)
Fair value adjustment in respect of hedged risk	**14**	15	**2**	2	**16**	17
At end of year	**(1,255)**	(1,303)	**(1,055)**	(1,170)	**(2,310)**	(2,473)

(a) Callable subordinated perpetual guaranteed bonds

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

The total hedged fair value of the callable subordinated perpetual guaranteed bonds, net of accrued interest, is £357m (2017: £371m). The valuation adjustment is the change in value arising from interest rate risk which is matched by the fair value of swap contracts in place to hedge this risk.

(b) 5% subordinated unguaranteed bonds due 2023 and 2026

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

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

(c) Other subordinated debt

During 2018, the sale of Torrejón Salud S.A. resulted in the derecognition of £36m of subordinated debt.

(d) Senior unsecured bonds

On 30 June 2012, Cruz Blanca Salud S.A., now Bupa Chile, issued UF1.6m (£51m) (Unidad de Fomento - an inflation-linked currency commonly used in Chile) of inflation-linked senior unsecured bonds which mature on 30 June 2033.

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

On 5 April 2017, the Company issued £300m of senior unsecured bonds, which mature on 5 April 2024. Interest is payable on the bonds at 2.0% per annum. The total hedged fair value of the £300m senior unsecured bonds, including accrued interest, is £295m (2017: £296m). The valuation adjustment is the change in value arising from interest rate risk which is matched by the fair value of swap contracts in place to hedge this risk.

(e) Bank loans and bank overdrafts

Bank loans are £357m (2017: £466m). This includes a tri syndicated loan held in Especializada y Primaria L'Horta-Manises S.A.U. of £22m (2017: £25m) and a portfolio of loans held in Bupa Chile totalling £135m (2017: £148m).

The Group maintains an £800m revolving credit facility which was extended for a further year in June 2017 and now matures in August 2022. The facility was drawn down by £170m at 31 December 2018 (2017: £226m including outstanding letters of credit of £6m). On 27 June 2018, the Company cancelled £6m of outstanding letters of credit that were drawn under the £800m revolving credit facility and replaced this with £5m standalone letters of credit.

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

In January 2017, the Company signed a £650m committed facility to ensure sufficient funding would be made available to complete the acquisition of Oasis Dental Care. This was repaid in full on 17 January 2018 (2017: drawn down by £49m).

During the year the Company entered into a new £30m bilateral loan facility to increase Group liquidity. The full amount was drawn at year end.

During 2018, bank loans of £21m were disposed of following the sale of Torrejón Salud S.A.

(f) Obligations under finance leases

Future minimum payments under finance leases are as follows:

	Future minimum lease payments 2018 £m	**Present value of minimum lease payments 2018 £m**	Future minimum lease payments 2017 £m	Present value of minimum lease payments 2017 £m
Payable within one year	**2**	**2**	3	2
Payable after one year but within five years	**2**	**2**	4	4
Payable after five years	**-**	**-**	1	1
Total gross payments	**4**	**4**	8	7
Finance charges included in future lease payments	**-**	**-**	(1)	-
Total payments net of finance charges	**4**	**4**	7	7

Fair value of financial liabilities

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

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

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

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

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

		2018			2017	
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Subordinated liabilities	**1,294**	**-**	**1,294**	1,416	35	1,451
Senior unsecured bonds	**659**	**51**	**710**	678	54	732
Bank loans and overdrafts	**-**	**357**	**357**	-	466	466
Finance lease liabilities	**-**	**4**	**4**	-	7	7
Total	**1,953**	**412**	**2,365**	2,094	562	2,656

The Group does not have any level three financial liabilities.

18. Provisions and other liabilities under insurance contracts issued

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

18.1. Provisions under insurance contracts issued

Unearned premiums

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

Provision for claims

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

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

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

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

		2018			2017	
	Gross £m	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
General insurance business						
Provisions for unearned premiums	**1,845**	**(14)**	**1,831**	1,728	(10)	1,718
Provisions for claims	**875**	**(8)**	**867**	877	(7)	870
Long-term business						
Life insurance contract liabilities	**33**	**(1)**	**32**	32	(1)	31
Total insurance provisions	**2,753**	**(23)**	**2,730**	2,637	(18)	2,619
Non-current	**33**	**(1)**	**32**	32	(1)	31
Current	**2,720**	**(22)**	**2,698**	2,605	(17)	2,588

(i) Analysis of movements in provisions for unearned premiums

		2018			2017	
	Gross £m	**Reinsurance £m**	**Net**	Gross £m	Reinsurance £m	Net
At beginning of year	**1,728**	**(10)**	**1,718**	1,705	(12)	1,693
Premiums deferred	**8,913**	**(66)**	**8,847**	8,991	(58)	8,933
Deferred premiums released to income	**(8,791)**	**62**	**(8,729)**	(8,941)	61	(8,880)
Disposal of subsidiary	**-**	**-**	**-**	(31)	-	(31)
Foreign exchange	**(5)**	**(1)**	**(6)**	4	(1)	3
At end of year	**1,845**	**(15)**	**1,830**	1,728	(10)	1,718

(ii) Analysis of movements in provisions for claims

	2018			2017		
	Gross £m	**Reinsurance £m**	**Net**	Gross £m	Reinsurance £m	Net
At beginning of year	**877**	**(7)**	**870**	889	(7)	882
Additions through business combinations	**2**	**-**	**2**	-	-	-
Increase for current year claims	**7,020**	**(45)**	**6,975**	7,190	(44)	7,146
Cash paid to settle claims	**(6,985)**	**44**	**(6,941)**	(7,182)	46	(7,136)
Decrease for prior year claims	**(25)**	**-**	**(25)**	(5)	(1)	(6)
Disposal of subsidiary	**-**	**-**	**-**	(5)	-	(5)
Transfers	**(1)**	**-**	**(1)**	1	(1)	-
Foreign exchange	**(13)**	**-**	**(13)**	(11)	-	(11)
At end of year	**875**	**(8)**	**867**	877	(7)	870

Assumptions for general insurance business

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

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

While there is some diversity in the development profile of health insurance claims across the Group, such claims are generally highly predictable in both frequency and average amount, and claims are settled quickly following the medical event for which benefit is claimed. Medical expense claims are, typically, substantially fully-settled within just a few months. Claims management practices such as preauthorisation of the claim with the insurer, electronic claims settlement and effective network provider arrangements can reduce the development period to four to six months.

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

The following table shows the sensitivities of reasonably possible variations:

	Increase in claims	**Increase in expenses**
2018		
Change in variable	**5%**	**10%**
Reduction in profit net of reinsurance before taxation	**£73m**	**£19m**
2017		
Change in variable	5%	10%
Reduction in profit net of reinsurance before taxation	£69m	£16m

These variances would reduce the amount of profit that would otherwise emerge in subsequent periods. Since premium provisions include profit margins and claims provisions include prudence margins, variance from expectations can be absorbed by these margins.

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

Liability adequacy tests

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

18.2. Other liabilities under insurance contracts issued

Other liabilities under insurance contracts issued consist of payables to insurance creditors other than policyholders.

	2018 £m	2017 £m
Reinsurers' deposits	**6**	6
Reinsurance creditors	**77**	61
Commissions payable	**23**	16
Other insurance payables	**38**	34
Total other liabilities under insurance contracts issued	**144**	117

19. Provisions for liabilities and charges

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

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

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

	Long service and annual leave £m	**Deferred and contingent consideration £m**	**Customer remediation and legal provisions £m**	**Unoccupied property £m**	**Regulatory provisions £m**	**Other £m**	**Total £m**
At beginning of year	66	23	7	1	-	18	**115**
Acquisition through business combinations	-	17	-	-	-	-	**17**
Charge for year	56	-	3	-	4	54	**117**
Released in year	(1)	(1)	4	-	(3)	(2)	**(3)**
Utilised in year - cash	(52)	(14)	(1)	-	(1)	(10)	**(78)**
Foreign exchange	(2)	-	-	-	-	-	**(2)**
At end of year	**67**	**25**	**13**	**1**	**-**	**60**	**166**
Non-current	21	10	9	1	-	6	**47**
Current	46	15	4	-	-	54	**119**

Long service and annual leave

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

Provisions for contingent consideration

Contingent consideration is a financial liability largely related to earn-out payable on acquisitions of dental practices in Australia and the UK. In Australia, the provision relates to contingent payments to practice principals. In the UK, the contingent consideration relates to the acquisition of dental centres. This balance is reviewed at each reporting period and any fair value adjustments are recorded in the Consolidated Income Statement.

Customer remediation and legal provisions

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

Unoccupied property
In prior years, the Group entered into non-cancellable leases for property which it no longer occupies. The Group has provided for lease obligations, net of sub-lease receivables. The lease obligations are payable monthly, quarterly or annually, within a range of one to 13 years, the average being five years. The future net outflows are uncertain and are affected by the Group's ability to sub-let unoccupied property.

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

Other
Other provisions include provisions for interest and penalties associated with an in-principle agreement with the Australian Taxation Office (see note 26 (iii) Contingent assets and contingent liabilities).

20. Trade and other payables

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

	Note	2018 £m	2017 £m
Accommodation bond liabilities	a)	**596**	617
Accruals		**561**	447
Amounts owed to Ultimate Parent Company		**97**	102
Deferred income	b)	**83**	88
Other payables		**386**	465
Social security and other taxes		**47**	48
Trade payables		**172**	185
Total trade and other payables		**1,942**	1,952
Non-current		**50**	25
Current		**1,892**	1,927

The carrying value of the trade and other payables is a reasonable approximation of the fair value. Information regarding the maturity of trade payables, other payables, accommodation bond liabilities and accruals is shown in Note 24.4.

(a) Accommodation bond liabilities

Accommodation bonds are non-interest bearing deposits paid by some residents of care homes held in Bupa Aged Care Australia as payment for a place in the care home facility. These deposits are repayable when the resident leaves the facility. The bonds are recorded as the proceeds received, net of retention and any other amounts deducted at the election of the bondholder.

(b) Deferred revenue from care, health and other customer contract revenue

Deferred income includes £52m of deferred revenue related primarily to care home government funding received in advance. The liability is released and recognised as revenue as the services are provided and the performance obligations are satisfied.

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

	Deferred revenue from care, health and other customer contract revenue 2018 £m
At beginning of year	**48**
Revenue recognised in the period	**(133)**
Deferred revenue in the period	**137**
At end of year	**52**

Revenue recognised in the period includes £48m of revenue that was deferred at the beginning of the year. All revenue deferred at 31 December 2018 will be recognised during 2019 as the performance obligations are satisfied.

21. Equity

	Called up share capital	
	2018 **£m**	2017 £m
Allocated, called up and fully paid		
200,050,000 ordinary shares of £1 each	**200**	200

22. Business combinations and disposals

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

(a) 2018 acquisitions

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

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

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets acquired is recorded as goodwill. Acquisition accounting must be completed within 12 months of the transaction date.

Costs related to the acquisition are expensed as incurred.

A number of acquisitions were made in the year ended 31 December 2018, which are outlined below:

	Date of acquisition	Percentage of holdings
UK		
Oasis - dental centres	Various	100%
Europe and Latin America		
Néctar Seguros de Salud	1 October 2018	100%
INPROSA Investigación y Promoción Sanitaria SA	1 November 2018	100%
Ginemed[1]	13 December 2018	70%
Sanitas Mayores - day care centres	Various	100%
LUX MED - dental centres, medical imaging, medical centres	Various	100%
International Markets		
Bupa Middle East Holdings Two W.L.L.[2]	15 November 2018	25%

1. As part of the acquisition of Ginemed, a put/call option exists allowing the existing shareholders to sell/the Group to buy a further 30%.
2. Increased shareholding from 50% to 75%.

	Fair value (£m)	
	Ginemed	Other
Intangible assets	12	43
Property, plant and equipment	-	14
Inventories	5	-
Trade and other receivables	1	3
Cash and cash equivalents	3	20
Deferred taxation liabilities	(4)	(5)
Trade and other payables	(3)	(2)
Current taxation liabilities	-	(2)
Provisions under insurance contracts issued	-	(2)
	14	**69**
Net assets acquired	14	69
Goodwill	52	52
Consideration	**66**	**121**
Consideration satisfied by:		
Cash	51	104
Fair value of Ginemed put option consideration (30%)	15	-
Deferred consideration	-	17
Total consideration paid	**66**	**121**
Purchase consideration settled in cash	51	104
Additional 25% acquisition of Bupa Middle East Holdings Two W.L.L.	-	8
Cash acquired on acquisition	(3)	(20)
Net cash outflow on acquisition	**48**	**92**
Settlement of deferred consideration	-	14
Net cash outflow associated with acquisitions	**48**	**106**

During the year, Oasis Dental Care has continued to acquire further dental centres, with 24 dental centres acquired for a total consideration of £61m, of which £16m is deferred. Identified intangible assets include customer relationships of £35m and goodwill of £31m has been recognised which represents the continued future growth expected to be achieved through the development of Bupa's dental insurance business.

On 13 December 2018, the Group acquired 70% of Ginemed, a gynecological and reproductive medical services provider in Spain for £51m.

As it is considered virtually certain that a put/call option for the remaining 30% holding, currently valued at £15m will be exercised, the group has recognised 100% ownership under IFRS. On this basis, total consideration is £66m. As part of the acquisition, brand intangible assets of £12m and goodwill of £52m have been recognised.

On 1 October 2018 the Group acquired Néctar Seguros de Salud, a Spanish health insurance company, for consideration of £36m. Customer relationships of £7m and goodwill of £6m have been recognised. Goodwill represents synergies expected to arise following integration with the Group's existing Spanish PMI business

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

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

Additional shares were purchased in Bupa Middle East Holdings Two W.L.L. for £8m, bringing the Group shareholding to 75% (2017: 50%).

If the transaction date of the businesses acquired during the year had been 1 January 2018, revenue of £11,918m and profit before taxation of £624m would have been recorded by the Group for the year ended 31 December 2018.

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

(b) 2018 disposals

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

(c) 2017 acquisitions

Refer to the financial statements for the year ended 31 December 2017 for details of the acquisitions made during 2017, the most significant being Oasis Dental Care for £589m.

(d) 2017 disposals

On 25 July 2017, Bupa Thailand was sold for cash proceeds of £56m, realising a net gain on disposal of £36m taking into account £19m net assets divested, £5m transaction costs and £4m cumulative foreign exchange gains recycled to the Consolidated Income Statement on disposal.

23. Capital management

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

Bupa is subject to the requirements of the Solvency II Directive and must hold sufficient capital to cover its Solvency Capital Requirement (SCR), which takes account of all the risks in Bupa, including those related to non-insurance businesses. Bupa's SCR is calculated in accordance with the Standard Formula specified in the Solvency II legislation. Bupa has obtained approval from the Prudential Regulation Authority (PRA) to substitute the insurance premium risk parameter in the Standard Formula with a Group Specific Parameter (GSP) which reflects Bupa's own loss experience.

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

Bupa's capital resources are managed in line with Bupa's Capital Management Policy. All regulated entities within Bupa maintain sufficient capital resources to meet any minimum capital requirement required by the local regulators. In addition, Bupa and individual regulated entities maintain a buffer over the regulatory minimum requirements in line with their capital risk appetites. During the year, the Group and its subsidiaries complied with all externally imposed capital requirements to which they were subject.

The Group's capital comprises equity, exclusive of any non-controlling interests of £7,024m, together with eligible subordinated debt. The Group has £330m of callable subordinated perpetual guaranteed bonds, a £500m unguaranteed subordinated bond which matures on 25 April 2023 and a £400m unguaranteed subordinated bond which matures on 8 December 2026. These bond issues are accounted for as liabilities in the IFRS financial statements but are treated as capital for regulatory and management purposes.

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

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

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

At 31 December 2018, Bupa's eligible Own Funds, determined in accordance with the Solvency II valuation rules, were £3.9bn[1] (2017: £3.7bn), which was in excess of the Group estimated SCR of £2.1bn[1] (2017: £2.1bn). This represented a solvency coverage ratio of 191%[1] (2017: 180%).

[1] The Solvency II Capital Position (Own Funds and Solvency Capital Requirement) and related disclosures are estimated values and unaudited.

24. Risk management

Risk management in brief
The Bupa Risk Committee has responsibility to the Board for the oversight of risk. It recommends to the Board a risk appetite that reflects Bupa's purpose and expresses the degree of risk Bupa should accept in delivering on its strategy.
The Group operates a 'three lines of defence' approach to the governance of risk management.

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

The operations of the risk management framework and current principal risks of the Group and how they are mitigated are described on pages 16-21.

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

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

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

24.1. Insurance risk

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

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

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

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

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

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

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

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

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

(iv) Reserving risk

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

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

(v) Other risks related to underwriting health insurance business

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

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

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

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

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

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

(vi) Catastrophe risk

A natural disaster or a manmade disaster could potentially lead to a large number of claims and thus higher than expected claims costs. In the majority of jurisdictions Bupa is not liable for such claims. Risks are further reduced by excess of loss cover by Bupa and external providers. Bupa's Centre Actuarial function oversees and implements strategic improvements to ensure overall adequacy of these arrangements.

24.2. Market risk

Market risk in brief

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

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

The Group invests in a limited portfolio of return-seeking assets (principally bonds and loans) via our regulated entities in the UK and Australia. These assets totaled £452m as at 31 December 2018 (2017: £404m). These entities use value at risk analysis (VaR) to quantify risk, taking account of asset volatility and correlation between asset classes.

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

24.2.1 Foreign exchange risk

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

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

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

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

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

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

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

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

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

The following significant exchange rates applied during the year:

	Average rate		Final rate	
	2018	2017	**2018**	2017
Australian dollar	**1.7860**	1.6807	**1.8097**	1.7312
Brazilian real	**4.8674**	4.1148	**4.9461**	4.4794
Chilean peso	**855.7769**	835.9026	**884.3577**	832.2579
Danish krone	**8.4245**	8.4902	**8.3107**	8.3740
Euro	**1.1303**	1.1414	**1.1131**	1.1249
Hong Kong dollar	**10.4642**	10.0432	**9.9831**	10.5655
Mexican peso	**25.6624**	24.3482	**25.0650**	26.6255
New Zealand dollar	**1.9289**	1.8135	**1.8990**	1.9062
Polish zloty	**4.8162**	4.8591	**4.7743**	4.6972
Turkish lira	**6.4365**	4.7008	**6.7417**	5.1218
US dollar	**1.3351**	1.2887	**1.2746**	1.3524

Foreign exchange hedging activities

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

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

(a) Fair value hedges

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

(b) Cash flow hedges

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

The effectiveness of a cash flow hedge is the degree to which the cash flows attributable to a hedged risk are offset by changes in the cash flows of the hedging instrument. The effective portion of any gain or loss on the hedging instrument is recognised directly in other comprehensive income until the forecast transaction occurs and results in the recognition of a financial asset or liability which impacts the Consolidated Income Statement. The ineffective portion of the gain or loss is recognised in the Consolidated Income Statement.

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

	2018 £m	2017 £m
Notional amounts	**(95)**	-
Carrying amount - Assets	**-**	-
Carrying amount - Liabilities	**(1)**	-
Financial statement line item	**Derivatives**	Derivatives
Change in value used for calculating hedge ineffectiveness	**(1)**	-
Hedging losses recognised in other comprehensive income	**(1)**	-
Hedge effectiveness recognised in profit or loss	**-**	-
Income statement line item (for ineffectiveness)	**Financial expense**	Financial expense
Amount reclassified from cash flow hedge reserve	**-**	-
Income statement line item (for reclassifications)	**Financial expense**	Financial expense

	2018 £m	2017 £m
Change in value used for calculating hedge ineffectiveness	**(1)**	-
Amounts in reserves for continuing hedges	**(1)**	-
Amounts in reserves for discontinued hedges	**-**	-

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

In 2018, foreign currency swap contracts of SAR400m (£77m) were entered into to hedge the cash outflows in relation to the acquisition of an additional 5% of Bupa Arabia shares.

In 2017, foreign currency forward contracts of USD244m (£189m) were entered to hedge the cash outflows in relation to the acquisition of 8% Bupa Arabia shares.

At 31 December 2018, the cash flow hedge reserve amounts to £20m (2017: £22m).

(c) Net investment hedging

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

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

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

Effect of foreign exchange hedging transactions

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

	2018 £m	2017 £m
Notional amounts	**1,488**	1,260
Carrying amount - Assets	**7**	4
Carrying amount - Liabilities	**(20)**	(2)
Financial statement line item	**Derivatives**	Derivatives
Change in value used for calculating hedge ineffectiveness	**1**	-
Hedging gains/(losses) recognised in other comprehensive income	**1**	(7)
Hedge effectiveness recognised in profit or loss	**-**	-
Income statement line item (for ineffectiveness)	**Financial expense**	Financial expense
Amount reclassified from foreign exchange translation reserve to the Income Statement	**-**	-
Income statement line item (for reclassifications)	**Financial expense**	Financial expense

	2018 £m	2017 £m
Change in value used for calculating hedge ineffectiveness	**1**	7
Amounts in reserves for continuing hedges	**1**	7
Amounts in reserves for discontinued hedges	**-**	-

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

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

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

	Net currency exposure £m	Currency contracts £m	Net currency exposure including hedges £m
2017			
Australian dollar	2,807	(498)	2,309
Euro	796	(632)	164
New Zealand dollar	500	(46)	454
Polish zloty	489	(7)	482
Chilean peso	453	-	453
Hong Kong dollar	322	26	348
US dollar	197	(178)	19
Brazilian real	101	3	104
Danish krone	46	(6)	40
Singapore dollar	31	28	59
Other	5	3	8
Total foreign denominated net assets	**5,747**	**(1,307)**	**4,440**
Percentage of Group net assets	84%		65%

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

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

	Strengthening 10%		Weakening 10%	
	Gains/(losses) included in Consolidated Income Statement £m	Losses included in Equity £m	Gains/(losses) included in Consolidated Income Statement £m	Gains included in Equity £m
2017				
Australian dollar	(26)	(210)	32	257
Euro	(14)	(15)	17	18
New Zealand dollar	(2)	(41)	2	51
Polish zloty	-	(44)	-	54
Chilean peso	1	(41)	(1)	50
Hong Kong dollar	(1)	(32)	1	39
US dollar	(2)	(2)	2	2
Brazilian real	(1)	(10)	2	12
Danish krone	(2)	(4)	2	4
Singapore dollar	-	(5)	-	7
Other	1	(9)	(1)	11
Total sensitivity	(46)	(413)	56	505

24.2.2 Interest rate risk

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

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

The net balance on which the Group is exposed as at 31 December 2018 was £2,654m (2017: £2,113m). The rate at which maturing deposits are reinvested represents a significant potential risk to the Group, in currencies such as sterling and Australian dollar where the Group has a significant variable rate net asset exposure.

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

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

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

	Variable £m	Fixed £m	Total £m
2017			
2018	(339)	(17)	(356)
2019	(5)	(3)	(8)
2020	(371)	(2)	(373)
2021	(7)	(350)	(357)
2022	(45)	-	(45)
2023-2027	(330)	(927)	(1,257)
After 2027	(44)	(33)	(77)
Total	(1,141)	(1,332)	(2,473)

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

The impact of a hypothetical rise of 100 bps in interest rates at the reporting date, on an annualised basis, would have increased equity and profit by £8m (2017: £3m). The impact of a fall of 100 bps in interest rates, on an annualised basis, would have the inverse effect. This calculation is based on the assumption that all other variables, in particular foreign exchange rates, remain constant.

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

Interest rate swaps totalling £630m have been entered into to swap the fixed rate coupon on the £330m callable subordinated perpetual guaranteed bonds and the £300m senior unsecured bonds to a variable rate. These interest rate swaps are designated as fair value hedges of the underlying interest rate risk on the debt. In the year ended 31 December 2018, the fair value movement in the bonds attributable to the hedged risk amounted to £17m gain (2017: £17m gain). The fair value movement on the interest rate swaps amount to £17m loss (2017: £17m loss).

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

(i) Fair value hedges

	2018 £m	2017 £m
Notional amounts	**630**	630
Carrying amount - Assets	**21**	36
Carrying amount - Liabilities	**(7)**	(4)
Financial statement line item	**Derivatives**	Derivatives
Change in value used for calculating hedge ineffectiveness	**(17)**	(17)

	2018 £m	2017 £m
Carrying amount - Liabilities	**(630)**	(630)
Accumulated hedge adjustments included in the carrying amount of the hedged item	**-**	-
Financial statement line item	**Borrowings**	Borrowings
Change in value used for calculating hedge ineffectiveness	**17**	17

(ii) Cash flow hedges

	2018 £m	2017 £m
Notional amounts	**-**	33
Carrying amount - Assets	**-**	-
Carrying amount - Liabilities	**-**	-
Financial statement line item	**Derivatives**	Derivatives
Change in value used for calculating hedge ineffectiveness	**-**	1
Hedge ineffectiveness recognised in the Consolidated Income Statement	**-**	-
Amount reclassified from cash flow hedge reserve to the Consolidated Income Statement	**-**	-

	2018 £m	2017 £m
Change in value used for calculating hedge ineffectiveness	**-**	(1)

24.3 Credit risk

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

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

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

	2018 £m	2017 £m
Investment grade counterparties	**3,691**	3,502
Non-investment grade counterparties	**319**	306
Total	**4,010**	3,808

Investment grade counterparties include restricted assets of £107m (2017: £76m). Non-investment grade counterparties are those rated below BBB- / Baa3, and mainly comprise corporate bonds, government bonds and pooled investment funds of £210m (2017: £272m), and cash and cash equivalents of £92m (2017: £35m).

Assets pledged as security include £107m (2017: £76m) of cash held in restricted access deposits.

Information regarding the credit risk exposure for financial assets held at amortised cost is provided below:

	Government debt securities £m	**Corporate debt securities and secured loans £m**	**Deposits with credit institutions £m**	**Other loans £m**	**Restricted assets £m**	**Cash and cash equivalents £m**
2018						
AAA	**58**	**164**	**-**	**-**	**-**	**13**
AA- to AA+	**27**	**317**	**341**	**-**	**107**	**816**
A- to A+	**64**	**275**	**436**	**-**	**-**	**582**
BBB to BBB+	**-**	**12**	**5**	**-**	**-**	**108**
BBB- and below (below investment grade)	**35**	**11**	**24**	**1**	**-**	**35**
Total	**184**	**779**	**806**	**1**	**107**	**1,554**
Loss allowance	**(1)**	**-**	**(1)**	**-**	**-**	**(1)**
Carrying amount	**183**	**779**	**805**	**1**	**107**	**1,553**

Information regarding the ageing and impairment of financial and insurance assets is shown below.

	Not past due £m	0-3 months £m	3-6 months £m	6 months- 1 year £m	Greater than 1 year £m	Total carrying value £m
2018						
Insurance debtors gross value	**995**	**156**	**23**	**20**	**9**	**1,203**
Bad debt provision	**-**	**(7)**	**(2)**	**(4)**	**(4)**	**(17)**
Insurance debtors net value[1]	**995**	**149**	**21**	**16**	**5**	**1,186**
Trade and other receivables gross value	**182**	**156**	**65**	**39**	**73**	**515**
ECL	**(6)**	**(3)**	**(1)**	**(3)**	**(28)**	**(41)**
Trade and other receivables net value[2]	**176**	**153**	**64**	**36**	**45**	**474**

[1]Comprises insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries detailed in Note 12.
[2] Comprises trade receivables, other receivables, service concession receivables and accrued income detailed in Note 14.

	Not past due £m	0-3 months £m	3-6 months £m	6 months- 1 year £m	Greater than 1 year £m	Impairment £m	Total carrying value £m
2017							
Debt securities and other loans	1,056	-	-	-	-	-	1,056
Pooled investment funds	277	-	-	-	-	-	277
Deposits with credit institutions	894	-	-	-	-	-	894
Reinsurers' share of insurance provisions	18	-	-	-	-	-	18
Insurance debtors[1]	962	83	20	17	28	(15)	1,095
Investment receivables and accrued investment income	7	-	-	-	-	-	7
Trade and other receivables[2]	342	117	19	42	125	(27)	618
Total financial and insurance assets	3,556	200	39	59	153	(42)	3,965

[1]Comprises insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries detailed in Note 12.
[2] Comprises trade receivables, other receivables and service concession receivables detailed in Note 14.

Information regarding the Expected Credit Loss allowance by class of financial investments at amortised cost is shown below:

	Government debt securities		Corporate debt securities and secured loans		Deposits with credit institutions		Other loans		Trade and other receivables[1]		Other insurance debtors[2]		Restricted assets		Cash and cash equivalents	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	Bad debt provision	Gross	ECL	Gross	ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of year	**99**	**(1)**	**284**	**-**	**887**	**(1)**	**1**	**-**	**658**	**(37)**	**1,110**	**(15)**	**76**	**-**	**1,505**	**-**
Recognition and settlement	**82**	**-**	**488**	**-**	**(65)**	**-**	**-**	**-**	**(134)**	**(5)**	**82**	**(2)**	**31**	**-**	**51**	**(1)**
Write offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange and other	**3**	**-**	**7**	**-**	**(16)**	**-**	**-**	**-**	**(7)**	**1**	**11**	**-**	**-**	**-**	**(2)**	**-**
At end of year	**184**	**(1)**	**779**	**-**	**806**	**(1)**	**1**	**-**	**515**	**(41)**	**1,203**	**(17)**	**107**	**-**	**1,554**	**(1)**

[1]Comprises trade receivables, other receivables, service concession receivables and accrued income detailed in Note 14.
[2]Comprises insurance debtors, Medicare rebate and Risk Equalisation Special Account recoveries detailed in Note 12.

Offsetting financial assets and financial liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

2018	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the balance sheet £m	Net amounts of financial assets/liabilities presented in the balance sheet £m	Related amounts not set off in the balance sheet: Financial instruments £m	Related amounts not set off in the balance sheet: Cash collateral received £m	Net amount £m
Derivative financial assets	**28**	**-**	**28**	**(17)**	**-**	**11**
Derivative financial liabilities	**(47)**	**-**	**(47)**	**17**	**17**	**(13)**
Cash and cash equivalents	**2,120**	**(567)**	**1,553**	**-**	**-**	**1,553**
Trade and other receivables	**745**	**-**	**745**	**-**	**(17)**	**728**
Trade and other payables	**(1,942)**	**-**	**(1,942)**	**-**	**-**	**(1,942)**
Total	**904**	**(567)**	**337**	-	-	**337**

2017	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the balance sheet £m	Net amounts of financial assets/liabilities presented in the balance sheet £m	Related amounts not set off in the balance sheet: Financial instruments £m	Related amounts not set off in the balance sheet: Cash collateral received £m	Net amount £m
Derivative financial assets	47	-	47	(9)	(3)	35
Derivative financial liabilities	(19)	-	(19)	9	4	(6)
Cash and cash equivalents	1,674	(169)	1,505	-	-	1,505
Trade and other receivables	799	-	799	-	(4)	795
Trade and other payables	(1,952)	-	(1,952)	-	3	(1,949)
Total	549	(169)	380	-	-	380

The Group also mitigates credit risk in derivative contracts by entering into collateral agreements where appropriate. The amount of collateral received or posted is shown in the table above.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities where both elect to settle on net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

24.4 Liquidity risk

Liquidity risk in brief

Liquidity risk is the risk that the Group will not have available funds to meet its liabilities when they fall due.

The Group's main source of short-term funding is via an £800m revolving credit facility which was drawn down by £170m (2017: £226m) at 31 December 2018. This facility matures in 2022.

The Group monitors funding risk as well as compliance with existing financial covenants within the banking arrangements. There were no concerns regarding bank covenant coverage in 2018 and that position is not expected to change in the foreseeable future.

The Group enjoys a strong liquidity position and adheres to strict liquidity management policies as set by the Bupa Risk Committee as well as adhering to liquidity parameters for the Group's regulated entities. Regular stress testing is conducted to assess liquidity risk.

The contractual maturities of financial liabilities and the expected maturities of insurance liabilities including estimated interest payments of the Group as at 31 December are as follows:

	Subordinated liabilities £m	**Other interest bearing liabilities £m**	**Provisions under insurance contracts issued £m**	**Other liabilities under insurance contracts issued £m**	**Trade and other payables[1] £m**	**Derivatives £m**	**Total £m**
2018							
2019	**(65)**	**(260)**	**(2,720)**	**(144)**	**(1,189)**	**(28)**	**(4,406)**
2020	**(395)**	**(29)**	**(33)**	**-**	**(173)**	**(4)**	**(634)**
2021	**(45)**	**(377)**	**-**	**-**	**(157)**	**-**	**(579)**
2022	**(45)**	**(18)**	**-**	**-**	**(137)**	**-**	**(200)**
2023	**(545)**	**(19)**	**-**	**-**	**(12)**	**(15)**	**(591)**
2024-2028	**(460)**	**(363)**	**-**	**-**	**(40)**	**-**	**(863)**
After 2028	**-**	**(63)**	**-**	**-**	**(7)**	**-**	**(70)**
Total	**(1,555)**	**(1,129)**	**(2,753)**	**(144)**	**(1,715)**	**(47)**	**(7,343)**
Carrying value in the Consolidated Statement of Financial Position	**(1,255)**	**(1,055)**	**(2,753)**	**(144)**	**(1,715)**	**(47)**	**(6,969)**

	Subordinated liabilities £m	Other interest bearing liabilities £m	Provisions under insurance contracts issued £m	Other liabilities under insurance contracts issued £m	Trade and other payables[1] £m	Derivatives £m	Total £m
2017							
2018	(65)	(366)	(2,606)	(117)	(1,699)	(15)	(4,868)
2019	(65)	(31)	(31)	-	(8)	-	(135)
2020	(395)	(28)	-	-	(3)	-	(426)
2021	(45)	(371)	-	-	(1)	-	(417)
2022	(92)	(18)	-	-	(1)	-	(111)
2023-2027	(993)	(366)	-	-	(2)	(4)	(1,365)
After 2027	-	(80)	-	-	-	-	(80)
Total	(1,655)	(1,260)	(2,637)	(117)	(1,714)	(19)	(7,402)
Carrying value in the Consolidated Statement of Financial Position	(1,303)	(1,170)	(2,637)	(117)	(1,714)	(19)	(6,960)

[1]Comprises trade payables, other payables, accommodation bond liabilities and accruals detailed in Note 20.

The total liability is split by remaining duration in proportion to the cash flows expected to arise during that period. Interest payments are included in the cash flows for subordinated liabilities and other interest bearing liabilities.

Maturity profile of financial assets

The maturity profile of financial assets (excluding ECLs) as at 31 December, which are available to fund the repayment of liabilities as they crystallise, is as follows:

	Cash and cash equivalents £m	**Deposits with credit institutions £m**	**Government debt securities £m**	**Corporate debt securities and other loans £m**	**Pooled investment funds £m**	**Total £m**
2018						
2019	**1,554**	**683**	**156**	**432**	**62**	**2,887**
2020	**-**	**123**	**8**	**134**	**5**	**270**
2021	**-**	**-**	**1**	**288**	**1**	**290**
2022	**-**	**-**	**1**	**57**	**4**	**62**
2023	**-**	**-**	**-**	**147**	**13**	**160**
2024-2028	**-**	**4**	**62**	**41**	**75**	**182**
After 2028	**-**	**-**	**-**	**20**	**35**	**55**
Total	**1,554**	**810**	**228**	**1,119**	**195**	**3,906**

	Cash and cash equivalents £m	Deposits with credit institutions £m	Government debt securities £m	Corporate debt securities and other loans £m	Pooled investment funds £m	Total £m
2017						
2018	1,505	751	116	227	40	2,639
2019	-	111	46	180	59	396
2020	-	29	23	151	2	205
2021	-	-	1	76	1	78
2022	-	-	1	122	3	126
2023-2027	-	3	29	11	135	178
After 2027	-	-	30	43	37	110
Total	1,505	894	246	810	277	3,732

25. Related party transactions

Related party transactions in brief
These are transactions between the Group and related individuals or entities by nature of influence or control. The Group has such relationships with its key management personnel, equity accounted investments and associated pension arrangements. The disclosure of transaction with these parties in this Note enables readers to form a view of the impact of related party relationships on the Group.

All transactions with related parties are conducted on an arm's-length basis.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, provision for expected claims is made on an incurred basis.

There were no material transactions during the year with any related parties, as defined by IAS 24 Related Party Disclosures, other than those disclosed in this note.

Transactions with key management personnel
The key management personnel are the Group's Directors and the Chief Executive Officers of the Group's Market Units. No Director had any material interest in any contracts with Group companies at 31 December 2018 (2017: £nil) or at any time during the year. The remuneration of the Group's Directors is disclosed in Note 2.3.

The total remuneration of the Market Unit Chief Executive Officers is as follows:

	2018 £'000	2017 £'000
Short-term employee benefits	**4,277**	3,563
Long Term Incentive Plan awards	**383**	978
Post-employment benefits	**-**	246
Total	**4,660**	4,787

The total remuneration of key management personnel is included in staff costs (see Note 2.3).

26. Commitments and contingencies

A commitment is future expenditure that is committed to as at 31 December 2018. These commitments fall under non-cancellable operating lease payments and contracted capital expenditure. Contingent assets and liabilities are those that are considered possible at year end, whose existence will be determined by a future event.

i) Operating leases

The total value of future non-cancellable operating lease rentals is payable as follows:

	2018 £m	2017 £m
Less than one year	**162**	167
Between one and five years	**530**	471
More than five years	**602**	523
Total operating leases	**1,294**	1,161

The Group leases a number of properties under operating leases. The leases typically run for a period between 10 and 25 years, with an option to renew the lease after that date. Lease payments are reviewed regularly in accordance with the terms and conditions of the individual lease agreements. None of these leases include contingent rentals.

Some of the leased properties have been sub-let by the Group. Both the leased properties and the sub-leases expire between 2019 and 2024. Sub-lease receipts of £1m (2017: £1m) are expected to be received during the next financial year. The Group has an unoccupied property provision of £1m (2017: £1m) in respect of these leases (see Note 19). The Group leases out some of its investment properties as a lessor (see Note 5 for details).

ii) Capital commitments

Capital expenditure for the Group contracted at 31 December 2018 but for which no provision has been made in the financial statements, amounted to £175m (2017: £204m), related to aged care facility and retirement village project commitments in the Australia and New Zealand and care homes in the UK. £66m (2017: £100m) related to property, plant and equipment and £109m (2017: £104m) related to investment property.

iii) Contingent assets and liabilities

The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, disputes, regulatory compliance (including data protection) and interpretation of tax law. It is not considered that the ultimate outcome of any contingent liabilities will have a significant adverse impact on the financial condition of the Group.

An in-principle agreement has been reached with the Australian Taxation Office (ATO) to settle a number of disputed matters. Under the settlement, Bupa will pay a total of approximately £88m to the ATO, reflecting taxes, interest, penalties and an offset for overpaid withholding tax, for the 2007 to 2018 years.

iv) Defined benefit post-employment schemes

The Company has entered into a legally binding and irrevocable guarantee for the benefit of the trustee of the principal defined benefit scheme in the UK, The Bupa Pension Scheme, in respect of the payments due from the Parent.

27. Non-controlling interests

The Group has no subsidiaries whose non-controlling interest is material on the basis of their share of equity or profit or loss.

Company Primary Statements and Associated Notes
for the year ended 31 December 2018

Balance Sheet
as at 31 December 2018

	Note	2018 £m	2017 £m
Intangible assets	B	**1**	1
Property, plant and equipment	C	**10**	11
Investment in subsidiaries	D	**6,061**	6,096
Restricted assets	E	**42**	43
Derivative assets	F	**26**	44
Deferred tax asset	G	**3**	2
Trade and other debtors	H	**355**	317
Cash and cash equivalents	I	**6**	20
Total assets		**6,504**	6,534
Derivative liabilities	F	**(25)**	(13)
Trade and other creditors	J	**(5,108)**	(5,047)
Total liabilities		**(5,133)**	(5,060)
Net assets		**1,371**	1,474
Equity			
Called up share capital	K	**200**	200
Profit and loss account		**1,171**	1,274
Total equity		**1,371**	1,474

Approved by the Board of Directors and signed on its behalf on 13 March 2019 by

Joy Linton
Director
Registered number 2779134

Notes A-O form the associated notes to the Company financial statements

The adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on 1 January 2018 has had no impact on the Company's financial statements.

Statement of Changes in Equity
for the year ended 31 December 2018

	Called up share capital £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2018	**200**	**1,274**	**1,474**
Comprehensive loss for the year			
Loss for the financial year	-	**(24)**	**(24)**
Total comprehensive loss for the year	**-**	**(24)**	**(24)**
Transactions with owners, recorded directly in equity			
Dividends	-	**(79)**	**(79)**
Total distributions to owners	**-**	**(79)**	**(79)**
Balance at 31 December 2018	**200**	**1,171**	**1,371**
Balance at 1 January 2017	200	1,406	1,606
Comprehensive loss for the year			
Loss for the financial year	-	(43)	(43)
Total comprehensive loss for the year	-	(43)	(43)
Transactions with owners, recorded directly in equity			
Dividends	-	(89)	(89)
Total distributions to owners	-	(89)	(89)
Balance at 31 December 2017	200	1,274	1,474

Notes A-O form the associated notes to the Company financial statements.

Company Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation
These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual profit and loss account.

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of compensation of key management personnel;
- Certain disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not held as either part of a trading portfolio or derivatives;
- IAS 24 - Exemption for related party transactions entered into between two or more members of a group, provided that any subsidiary party to the transaction is wholly owned by such a member.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Changes in accounting policies

IFRS 15
The Company has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018. The application of IFRS 15 has not resulted in any changes in revenue recognition.

IFRS 9
The Company has adopted IFRS 9 Financial Instruments, with a date of initial application of 1 January 2018. The Company did not early adopt any of IFRS 9 in previous periods. The Company has applied IFRS 9 retrospectively with the cumulative effect of initially applying IFRS 9 recognised as an adjustment to the opening balance of retained earnings at the date of initial application of 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 39

IFRS 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The application of IFRS 9 has not resulted in any changes in classification or measurement of the company's financial assets and liabilities.

Going concern
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 12 months. They continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currency
The financial statements are presented in sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting).

Financial income and expense
Financial income comprises interest receivable, realised gains and losses on investments, foreign exchange gains and losses, dividend income on equity investments and changes in the fair value of items recognised at fair value through profit or loss.

Interest income, except in relation to assets classified as at fair value through profit or loss, is recognised in the profit and loss account as it accrues, using the effective interest method.

Changes in the value of financial investments at fair value through the profit and loss account are recognised within financial income as an unrealised gain or loss while the asset is held. Upon realisation of these assets, the change in fair value since the last valuation is recognised within financial income as a realised gain or loss.

Financial expense includes interest payable on borrowings, calculated using the amortised cost method, and other financial expense.

Classification of financial instruments issued by the Company
Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components these components are separated and accounted for individually under the above policy.

Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost less impairment.

Dividends received from subsidiaries are recognised in profit or loss when the right to receive is established.

All loans and receivables to and from subsidiary undertakings are shown at cost less amounts written off where deemed irrecoverable.

Derivative financial instruments
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Derivative fair value
Fair values of derivative instruments are obtained from market observable pricing information including interest yield curves. The value of foreign exchange forward contracts and swaps is established using listed market prices.

Hedge accounting
The Company applies fair value hedge accounting. The Company formally documents the hedging relationship between a hedging instrument and a hedged item. Documentation includes the risk management objectives and the strategy in undertaking the hedge transaction.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss.

Fair value hedges
Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in profit or loss (even if those gains would normally be recognised directly in reserves).

Trade and other debtors
Trade and other debtors are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest method, less any expected credit impairment losses.

Provision for expected credit losses for debtors are measured at lifetime ECL. Where appropriate, a provision matrix is used to estimate ECL. Under a provision matrix, receivables are grouped into customer segments and further divided into categories by age. Historical credit loss experience and any relevant forward looking information is then used to establish the ECL provision for each category.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

Trade and other creditors
Trade and other creditors are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest method.

Interest bearing borrowings
Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Callable subordinated perpetual guaranteed bonds
The Company has issued callable subordinated perpetual guaranteed bonds. The terms of the bonds are such that the Company cannot defer payments of interest in certain limited circumstances. The bonds are therefore classified as financial liabilities. The liability is stated at amortised cost using the effective interest method. The carrying value is adjusted for the gain or loss on hedged risk; changes in the fair value of the derivatives that mitigate interest rate risk resulting from the fixed interest rate of the bonds are recognised in the profit and loss account as an effective fair value hedge of the exposure. The coupon payable on the bonds is recognised as a financial expense.

The bonds have no set maturity date but are subject to an increase in the interest payments from 2020 and the Company is therefore likely to refinance the bonds as a result of economic compulsion.

Intra-group financial instruments
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Taxation including deferred taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised directly in equity to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Provisions
A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Profit attributable to the Company
The loss within the accounts of the Company is £24m (2017: loss of £43m). In accordance with the exemption granted under Section 408 of the Companies Act 2006, a separate profit and loss account for the Company has not been presented.

Notes to the Financial Statements

A. Directors and employees

The average number of persons employed by the Company (including Directors) during the year was 1 (2017: 1).

Directors' remuneration
Remuneration paid to the Directors is borne by the Company or other Group companies and is disclosed in Note 2.3.1.

B. Intangible assets

Intangible assets of £1m (2017: £1m) are held by the Company.

C. Property, plant and equipment

	2018			2017		
	Leasehold property and improvements £m	**Equipment £m**	**Total £m**	Leasehold property and improvements £m	Equipment £m	Total £m
At beginning of year	**9**	**2**	**11**	-	-	-
Additions	**-**	**1**	**1**	9	2	11
Other	**(1)**	**-**	**(1)**	-	-	-
At the end of the year	**8**	**3**	**11**	9	2	11
At beginning of year	**-**	**-**	**-**	-	-	-
Depreciation charge for year	**1**	**-**	**1**	-	-	-
At the end of the year	**1**	**-**	**1**	-	-	-
Net book value at end of year	**7**	**3**	**10**	9	2	11
Net book value at beginning of year	**9**	**2**	**11**	-	-	-

D. Investment in subsidiaries

2018	**At beginning of year £m**	**Provision £m**	**Additions £m**	**Disposals £m**	**Foreign exchange revaluation £m**	**At end of year £m**
Group undertakings:						
Shares in subsidiary undertakings	**4,828**	**-**	**517**	**-**	**(3)**	**5,342**
Loans to Group companies	**1,548**	**-**	**-**	**(531)**	**-**	**1,017**
	6,376	**-**	**517**	**(531)**	**(3)**	**6,359**
Provision for impairment	**(280)**	**(35)**	**-**	**17**	**-**	**(298)**
Net book value	**6,096**	**(35)**	**517**	**(514)**	**(3)**	**6,061**

Additions and disposals in the year relate primarily to internal restructuring and reorganisation of entities within the Group. Additions in 2017 relate primarily to the acquisition of Oasis Dental Care.

Loans to Group companies comprise loan facilities of a fixed amount and a long-term maturity date.

The subsidiary undertakings of the Company as at 31 December 2018 are listed in Note O.

2017	At beginning of year[1] £m	Provision £m	Additions £m	Disposals £m	Foreign exchange revaluation £m	At end of year £m
Group undertakings:						
Shares in subsidiary undertakings	4,475	-	387	-	(34)	4,828
Loans to Group companies	1,003	-	545	-	-	1,548
	5,478	-	932	-	(34)	6,376
Provision for impairment	(191)	(89)	-	-	-	(280)
Net book value	5,287	(89)	932	-	(34)	6,096

1. Re-presented to correct classification of provision for impairment released on the disposal of Bupa Home Healthcare in 2016.

E. Restricted assets

	2018 £m	2017 £m
Restricted assets	**42**	43

The restricted assets balance of £42m (2017: £43m) consists of cash deposits held to secure a charge over the non-registered pension arrangement maturing after 2022.

F. Derivative assets and liabilities

The fair value of non-current derivative assets relate to interest rate swaps which are recognised at fair value. The interest rate swaps are held to hedge the £330m subordinated bond held by the Company.

All financial instruments are held at fair value through profit or loss, and therefore the carrying value is equal to the fair value.

	2018 £m	2017 £m
Derivative assets		
Non-current	**21**	36
Current	**5**	8
Total derivative assets	**26**	44
Derivative liabilities		
Non-current	**(4)**	(4)
Current	**(21)**	(9)
Total derivative liabilities	**(25)**	(13)

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

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

Fair values disclosed in he table above have been calculated as follows:

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

Derivatives that have been purchased or issued as part of a hedge that subsequently does not qualify for hedge accounting are accounted for at fair value through profit or loss.

G. Deferred tax asset

	2018 £m	2017 £m
Taxation value of losses carried forward	**3**	2

H. Trade and other debtors

	2018 £m	2017 £m
Amounts owed by subsidiary companies	**325**	6
Trade and other debtors	**30**	311
Total current trade and other debtors	**355**	317

I. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	**-**	10
Short-term deposits	**6**	10
Cash and cash equivalents	**6**	20

J. Trade and other creditors

	Note	2018 £m	2017 £m
Subordinated liabilities	L	**1,255**	1,268
Senior unsecured bonds	(a)	**644**	645
Deferred income		**-**	9
Amounts owed to subsidiary undertakings		**3,000**	2,848
Other creditors		**11**	11
Bank loans	(b)	**198**	266
Total trade and other creditors		**5,108**	5,047
Non-current		**1,907**	373
Current		**3,201**	4,674

a) Senior unsecured bonds

On 17 June 2014, the Company issued £350m of 3.375% senior unsecured bonds. The bonds mature on 17 June 2021. They are guaranteed by the Parent.

On 5 April 2017, the Company issued £300m of senior unsecured bonds, which mature on 5 April 2024. Interest is payable on the bonds at 2.0% per annum.

The total senior unsecured bonds balance of £644m (2017: £645m) is net of initial issue costs, discount on issue and accrued interest.

b) Bank loans

Bank loans of £198m (2017: £268m) include drawings under a £800m revolving credit facility, maturing August 2022.

The drawings under the £800m facility are guaranteed by the Parent. The overdraft facilities are subject to cross guarantees.

The bank loans and overdrafts bear interest at commercial rates linked to LIBOR, or EURIBOR or commercial fixed rate.

K. Called up share capital

	2018 £m	2017 £m
Allocated, called up and fully paid		
200,050,000 ordinary shares of £1 each	**200**	200

L. Subordinated liabilities

	Note	2018 £m	2017 £m
Callable subordinated perpetual guaranteed bonds	(a)	**336**	336
Fair value adjustment in respect of hedged interest rate risk		**21**	35
Callable subordinated perpetual guaranteed bonds at carrying value	(a)	**357**	371
Other subordinated debt	(b)	**898**	897
Total subordinated liabilities		**1,255**	1,268
Non-current		**1,243**	1,257
Current		**12**	11

a) Callable subordinated perpetual guaranteed bonds

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

The total hedged fair value of the callable subordinated perpetual guaranteed bonds, including accrued interest, is £357m (2017: £371m). The valuation adjustment is the change in value arising from interest rate risk, which is matched by the fair value of swap contracts in place to hedge this risk.

b) Other subordinated debt

5% subordinated unguaranteed bonds due 2023 and 2026
On 25 April 2013, the Company issued £500m of unguaranteed subordinated bonds which mature on 25 April 2023. Interest is payable on the bonds at 5.0% per annum. In the event of the winding up of the Company the claims of the bondholders are subordinated to the claims of other creditors of the Company.

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

The Company has not had any defaults of principal, interest or other breaches with respect to subordinated liabilities during 2018 or 2017.

M. Commitments and contingencies

Operating lease commitments
The total value of future non-cancellable operating lease rentals is payable as follows:

	2018 **£m**	2017 £m
Less than one year	**3**	3
Between one and five years	**13**	13
More than five years	**27**	30
Total operating leases	**43**	46

The Company leases an office building under an operating lease. The lease runs for a term of 15 years and the Company has the option to renew after that date. Lease payments are reviewed regularly in accordance with the terms and conditions of the lease agreement. The lease does not include any contingent rental.

Pension contributions
The Company has given a legally binding and irrevocable guarantee for the benefit of the trustees of The Bupa Pension Scheme, in respect of payments that the Parent is obliged to make between 31 December 2018 and 31 December 2019 to The Bupa Pension Scheme. The expected contributions payable in 2019 by the Parent with regards to the accumulation of future benefits, are £9m in respect of The Bupa Pension Scheme.

Contingent liabilities
Under a Group registration the Company is jointly and severally liable for Value Added Tax due by certain other companies in the Group.

Guarantees
At 31 December 2018, the Company was party to a £800m multi-currency revolving credit facility. The Company has joint and several liability for all obligations under the agreement. The revolving credit facility was drawn down by £170m at 31 December 2018 (2017: £226m including outstanding letters of credit of £6m). On 27 June 2018, the Company cancelled £6m of outstanding letters of credit that were drawn under the £800m revolving credit facility and replaced this with £5m standalone letters of credit.

The Company has given a guarantee to other undertakings, as part of the Group banking arrangements, in respect of the overdrafts of certain other Group undertakings.

The Company has also given undertakings to provide or procure support, should they be called upon to do so, for Group undertakings to enable them to meet their liabilities as they fall due.

N. Ultimate Parent

The Company's Ultimate Parent undertaking is The British United Provident Association Limited which includes the Company in its consolidated financial statements. The consolidated financial statements of Bupa are prepared in accordance with International Financial Reporting Standards and are available to the public. Copies of the accounts of both companies can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ.

Company Primary Statements and Associated Notes (continued)
for the year ended 31 December 2018

O. Related Undertakings

In compliance with Section 409 of the Companies Act 2006, disclosed below is a list of related undertakings of the Company as at 31 December 2018, comprising subsidiaries, joint ventures, associated undertakings and other significant holdings, together with the country of incorporation, registered office address, each share class held by the Company and the Group and the proportion of the nominal value of the shares of that class represented by those shares.

Wholly Owned Related Undertakings

Unless otherwise stated, the related undertakings listed below are wholly owned by the Company with 100% of the nominal value of each share class held by Group subsidiaries.

Name of Undertaking	Share Class
United Kingdom	
1 Angel Court, London, EC2R 7HJ	
Andrew Greenwood Ltd	Ordinary
ANS 2003 Limited[1]	Ordinary
ANS Limited	Ordinary
Aqua Dental Spa Limited	Ordinary
Bede Village Management Limited	Ordinary
Belmont Care Limited[1]	Ordinary
BHS (Holdings) 2006 Limited[1]	Ordinary
Bridge Health Investments Limited[1]	Ordinary
Bupa Care Homes (Holdings) Limited[1]	Ordinary
Bupa Care Homes Investments (Holdings) Limited[1]	Ordinary
Bupa Care Services Limited[1]	Ordinary
Bupa Dental Services Limited	Ordinary
Bupa Europe Investments Limited	Ordinary
Bupa Europe Limited	Ordinary
Bupa Financial Investments Limited	Ordinary
Bupa Global Holdings Limited	Ordinary
Bupa Health at Work Limited	Ordinary
Bupa Healthcare Services Limited[1]	Ordinary
Bupa Insurance Limited[1]	Ordinary
Bupa Insurance Services Limited[1]	Ordinary
Bupa International Markets Limited	Ordinary
Bupa Investments Limited[1]	Ordinary
Bupa Investments Overseas Limited[1]	Ordinary, Redeemable Preference
Bupa Limited	Ordinary
Bupa Occupational Health Limited	Ordinary
Bupa Pension Scheme Trustees Limited[1]	Ordinary
Bupa Secretaries Limited	Ordinary
Bupa Trustees Limited	Ordinary
Bupa UK Foundation	Guarantee Membership Interest
Bupa Wellness Group Limited[1]	Ordinary
Calverguild Limited	Ordinary
Cranbrook Dental Practice Limited	Ordinary
David Row Limited	Ordinary
Ebbgate Nursing Homes (London) Limited	Ordinary-A
Ebbgate Nursing Homes Limited	Ordinary
Health Dialog UK Limited	Ordinary
In Store Dental Limited	Ordinary
K R Postlethwaite Ltd	Ordinary
Lab 53 Limited	Ordinary
Occupational Health Care Limited	Ordinary, Redeemable Preference
Paul Coulthard Ltd	Ordinary
Perlan Limited	Ordinary
Personal Effectiveness Centre Limited	Ordinary

[1] Held directly by the Company

Plainprime Limited	Ordinary
Richmond Care Villages (Property) Limited	Ordinary
Richmond Care Villages Holdings Limited[1]	Ordinary
Richmond Coventry Limited	Ordinary
Richmond Letcombe Limited	Ordinary
Richmond Nantwich Developments Limited	Ordinary
Richmond Nantwich Limited	Ordinary
Richmond Nantwich Properties Limited	Ordinary
Richmond Northampton Limited	Ordinary
Richmond Northampton Management Limited	Ordinary
Richmond Painswick Management Company Limited	Ordinary
Richmond Villages Operations Limited	Ordinary
Stephen E B Jones Ltd	Ordinary
Store Dental Care Limited	Ordinary
The Smile Centres Limited	Ordinary
Ultimate Smile Spa Ltd	Ordinary
Bupa Dental Care, Vantage Office Park, Old Gloucester Road, Hambrook, Bristol, BS16 1GW	
A4 Health Group Limited	Ordinary
Aesthetic Dental Laboratory Limited	Ordinary
Apex Dental Care Limited	Ordinary
Apex Holding Limited	Ordinary
Avsan Cove Limited	Ordinary
Avsan Dental Edinburgh Limited	Ordinary
Avsan Ferryburn Limited	Ordinary
Avsan Fife Limited	Ordinary
Avsan Fleet Limited	Ordinary
Avsan Gloucester Limited	Ordinary
Avsan Halstead Limited	Ordinary
Avsan Holdings Limited	Ordinary
Avsan Knebworth Limited	Ordinary
Avsan Kseat Limited	Ordinary
Avsan Queenscross Limited	Ordinary
Avsan Queensroad Limited	Ordinary
Avsan Visage Limited	Ordinary
B Dental Limited	Ordinary
BASDAC (2011) LLP	Partnership Interest
BE White Ltd	Ordinary
Caring Dentistry Ltd	Ordinary
Ceracryl Laboratories Limited	Ordinary
Cheshire Cat Orthodontics Limited	Ordinary
Clive Zane Limited	Ordinary
Colchester Dental Referral Centre Limited	Ordinary
Creative Designs Dental Laboratory Limited	Ordinary
Croft Dental Care Limited	Ordinary
Den Dental Group Practice LLP	Partnership Interest
Dencraft (South Yorkshire) Limited	Ordinary
Dental Confidence Limited	Ordinary
Dental Excellence - Harewood Practice LLP	Partnership Interest
Dentalign Colwyn Bay Ltd	Ordinary, Redeemable Preference
Dentalign Eastbourne Ltd	Ordinary
Dentalign Orthodontics Limited	Ordinary
Dentalign Orthodontics LLP	Partnership Interest
Dentalign Wrexham Ltd	Ordinary
Derwent House Orthodontics Limited	A Ordinary
Devon Smiles Limited	Ordinary
Deysbrook Dental Surgery Limited	Ordinary
Dr J.D. Hull & Associates (Physiotherapy & Osteopathy) Ltd	Ordinary

[1] Held directly by the Company

Duke Street Capital Oasis Acquisitions Limited	Ordinary
Duke Street Capital Oasis Midco Limited	Ordinary
Duke Street Capital Oasis Orthodontics Holdings Limited	Ordinary, Preference
Duke Street Capital Oasis Orthodontics Limited	Ordinary, Preference
Eckington Dental Practice Limited	Ordinary
Eurodontic Limited	Ordinary
FACE (Facial Aesthetic Centres of Excellence) Limited	Ordinary
Fairfield Dental Surgery Limited	Ordinary
G & M Moynes Ltd	Ordinary
Goodteeth Dental Surgeries Limited	Ordinary
Grosvenor Orthodontic Clinic (Beckenham) Limited	Ordinary
Harbour Way Surgery Limited	A Ordinary
Highland Dental Care Limited	Ordinary
Highwoods and St Johns Limited	Ordinary
Hospital Lane Dental Clinic Limited	Ordinary
J & M Dental Care Ltd	Ordinary
J A Jordan & Associates Limited	Ordinary
J.J. Thompson (Orthodontic Appliances) Limited	Ordinary
James Taylor and Partners Limited	Ordinary
JDH Holdings Limited	Ordinary
Kidson Orthodontics Limited	Ordinary
King Lane Dental Care Limited	Ordinary
Lawrence Street Dental Practice Limited	Ordinary
Linden Dental Centre Limited	Ordinary
Mark Fazakerley (VHO) Limited	Ordinary
Metrodental Limited	Ordinary
Milehouse Dental Care Limited	Ordinary
Mojo-D Limited	Ordinary
Morrison Shenfine Holdings Ltd	Ordinary
Nadir Khan Surgical Limited	Ordinary A
Nigel Reynolds Limited	Ordinary
North Devon Orthodontic Centre Limited	Ordinary
North Lakeland Ltd	Ordinary
Oasis Dental Care (Central) Holdings Limited	Ordinary
Oasis Dental Care (Central) Limited	Ordinary
Oasis Dental Care (Southern) Holdings Limited	Ordinary A, Ordinary B, Ordinary C, Ordinary D, Ordinary E
Oasis Dental Care (Southern) Limited	Ordinary
Oasis Dental Care Limited	Ordinary
Oasis Healthcare Bidco Limited	Ordinary
Oasis Healthcare International Limited	A Ordinary, B Ordinary, Deferred, Preference
Oasis Healthcare Limited	Ordinary
Oasis Healthcare Midco 1 Limited	Ordinary
Oasis Healthcare Midco 2 Limited	Ordinary
Oral Hygiene Innovations Limited	Ordinary
Oral Implantology Limited	Ordinary
Ortho 2008 Limited	Ordinary
Orthoscene Limited	Ordinary
Oswestry Dental Laboratory Limited	Ordinary
Pembury TM Limited	Ordinary
Peter Baldwin (VHO) Limited	Ordinary
Priors Croft Dental Practice Limited	Ordinary
Private Dental Services Ltd	Ordinary
Quantum Ortho Limited	Ordinary
Quest Dental Care LLP	Partnership Interest
Richley Dental Ceramics Limited	Ordinary
Rise Park Dental Practice Limited	Ordinary A, Ordinary B
Roberts-Harry Clinic Ltd	Ordinary
Smile Dental Care Ltd	Ordinary
Smile Lincs Limited	Ordinary

Steeple Grange Smiles Limited	Ordinary
Stob Dearg Limited	Ordinary
Stop the Clock Dental Care Limited	Ordinary
Synergy Ceramics Ltd	Ordinary
TC Patel Limited	Ordinary
TDK Dental Limited	Ordinary A
The Adams and Lee Dental Practice Ltd	Ordinary
The Dental Solutions Centre Ltd	Ordinary
The Exeter Dental Centre Limited	Ordinary
The Oasis Healthcare Group Limited[1]	A Ordinary, B Ordinary, C Ordinary, Preference
The Spire Halifax Limited	Ordinary
The Tutbury Dental Practice Limited	Ordinary
Tidge and Lou Limited	Ordinary
Tooth Fixer Limited	Ordinary
Total Orthodontics Limited	Ordinary
Victoria Oral Clinic Limited	Ordinary
Victoria Reese Dental Practice Limited	Ordinary
Wessington Way Limited	Ordinary
Wimborne Total Dental Care Limited	Ordinary
Windmill Dental Surgery Limited	Ordinary
Windslade Limited	Ordinary
Winning Smiles (Gillingham) Limited	Ordinary
Wylde Green Orthodontics LLP	Partnership Interest
Wylye Valley Dentistry Limited	Ordinary
Xeon Smiles UK Limited	Ordinary
Cromwell Hospital, Cromwell Road, London, SW5 0TU	
Cromwell Health Group Limited[1]	A Ordinary
Medical Services International Limited	Ordinary
C/O Shelley Stock Hutter Llp 1st Floor 7 - 10 Chandos Street London W1G 9DQ	
Luke Barnett Clinic Limited	Ordinary
Luke Barnett Limited	Ordinary
Oasis Healthcare Support Centre, Building E, Vantage Office Park, Old Gloucester Road, Hambrook, Bristol, BS16 1GW	
Oasis Group EBT Trustee Limited[2]	Ordinary
13 Queens Road, Aberdeen, Aberdeenshire, AB15 4YL	
Christopher F. Stafford Holdings Limited	Ordinary
Hillington Park Dental Practice Limited	Ordinary
Martin and Martin Dental Care Limited	Ordinary
MFM Community Limited	Ordinary
Partick Dental Ltd.	Ordinary
Mind Your Business (Ni) Ltd, 1 Elmfield Avenue, Warrenpoint, Newry, County Down, BT34 3HQ, Northern Ireland	
Belfast Orthodontic Clinic Ltd	Ordinary
Blueapple Dental and Implant Team Limited	Ordinary
Cranmore Excellence in Dentistry Limited	Ordinary
DE (Belmont Road) Ltd	Ordinary
Fortwilliam and Ballymena Specialist Dental Clinics Limited	Ordinary
Lisa Creaven Limited	Ordinary
Smiles Dental Practices North Limited	Ordinary

[1] Held directly by the Company
[2] In voluntary strike-off

Australia	
Level 16, 33 Exhibition Street, Melbourne VIC 3000	
Australia Fair Dental Care Pty Ltd	Ordinary
Bupa Aged Care Australasia Pty Limited	Ordinary, Preference
Bupa Aged Care Australia Holdings Pty Ltd	Ordinary
Bupa Aged Care Australia Pty Ltd	Ordinary
Bupa Aged Care Holdings Pty Ltd	Ordinary
Bupa Aged Care Property No.2 Trust	Trust Interest
Bupa Aged Care Property No.3 Trust	Trust Interest
Bupa Aged Care Property No.3A Trust	Trust Interest
Bupa Aged Care Property Trust	Trust Interest
Bupa ANZ Finance Pty Ltd	Ordinary
Bupa ANZ Group Pty Ltd	Ordinary
Bupa ANZ Healthcare Holdings Pty Ltd	Ordinary
Bupa ANZ Healthcare Holdings Pty Ltd	Ordinary
Bupa ANZ Insurance Pty Ltd	Ordinary, A Preference
Bupa ANZ Property 1 and 2 Limited	Ordinary
Bupa ANZ Property 3 and 3A Pty Ltd	Ordinary
Bupa Care Villages Australia Pty Ltd	Ordinary
Bupa Dental Corporation Limited	Ordinary
Bupa Disability Services Pty Ltd	Ordinary
Bupa Foundation (Australia) Limited	Guarantee Membership Interest
Bupa Health Services Pty Ltd	Ordinary
Bupa HI Holdings Pty Ltd	Ordinary
Bupa HI Pty Ltd	Ordinary
Bupa Innovations (ANZ) Pty Ltd	Ordinary
Bupa Medical (GP) Pty Ltd	Ordinary
Bupa Medical Services Pty Limited	Ordinary
Bupa Optical Pty Ltd	Ordinary
Bupa Telehealth Pty Ltd	Ordinary
Bupa Wellness Pty Limited	Ordinary
DC Holdings WA Pty Ltd	Ordinary
Dental Care Network Pty Ltd	Ordinary
Dental Corporation Australia Fair Pty Ltd	Ordinary
Dental Corporation Cox Pty Ltd	Ordinary
Dental Corporation Gerber Pty Ltd	Ordinary
Dental Corporation Holdings Limited	Ordinary
Dental Corporation Levas Pty Ltd	Ordinary
Dental Corporation Petrie Pty Ltd	Ordinary
Dental Corporation Pty Ltd	Ordinary
Dr Chris Hardwicke Pty Ltd	Ordinary
Gerber Dental Group Pty Ltd	Ordinary
Larry Benge Pty Limited	Ordinary
Scott Petrie (Dental) Pty Ltd	Ordinary, Class E, Class F
Bermuda	
Crawford House, 4th Floor, 50 Cedar Avenue, Hamilton, HM11	
Amedex Insurance Company (Bermuda) Limited	Ordinary
Bolivia	
Guapomo Street 2005, Spazio Building, 1st Floor, Offices 201-202-2013, Santa Cruz de la Sierra	
Bupa Insurance (Bolivia) S.A.	Ordinary
Brazil	
Av. das Nações Unidas, 12,901, Unidade 901, Torre Oeste, Bloco C, Centro Empresarial Nações Unidas, Brooklin Paulista, São Paulo, SP	
Personal System Serviços Médicos e Odontológicos Ltda	Quotas
Av. Sagitário, 138, 19º andar –, (conjuntos 1905, 1906, 1907, 1908, 1913, 1914) e 20º andar, Condomínio Alpha Square Torre 2, The City, Alphaville, Barueri, SP	
Care Plus Medicina Assistencial Ltda	Quotas
Care Plus Negócios Em Saúde Ltda	Quotas

British Virgin Islands	
Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British	
Altai Investments Limited	Ordinary
Berkshire Group Limited	Ordinary
Dynamic People Group Limited	Ordinary
Chile	
Av. Departamental N° 01455, Comuna La Florida, Region Metropolitana	
Inmobiliaria Y Constructora CBS S.A.	Ordinary
Avenida Departamental 1455, comuna La Florida, Chile	
Bupa Servicios Clínicos S.A.	Ordinary
Servicios De Personal Clinico CBS Dos S.A.	Ordinary
Cerro Colorado N° 5420, Piso 11, Comuna Las Condes, Region Metropolitana	
Bupa Chile S.A.	Ordinary
Bupa Compania de Seguros de Vida S.A.	Ordinary
Grupo Bupa Sanitas Chile Uno, SpA	Ordinary
Inversiones Clinicas CBS S.A.	Ordinary
Rivas N°694, Comuna San Joaquin, Region Metropolitana	
Bupa Inversiones Latam S.A.	Ordinary
Denmark	
Palaegade 8, 1261 Copenhagen K	
Bupa Denmark Services A/S[1]	Ordinary
Dominican Republic	
Av. Gustavo Melia Ricart, No. 81, Terre Profesional Biltmore II, Suite 1007, Piantini, Santo Domingo	
Amedex Medical Group, S.R.L.	Quotas
Av. Winston Churchill, corner with Rafael Augusto Sanchez, Plaza Acropolis, Apt. P2-D, Santo Domingo	
Bupa Dominicana, S.A.	Ordinary
Ecuador	
Av. Republica de El Salvador N34-229, 4th Floor, Quito	
Bupa Ecuador S.A. Compania de Seguros[2]	Capital Stock
Egypt	
Building 55, Street 18, Maadi, Cairo	
Bupa Egypt Insurance S.A.E.[3]	Ordinary
Bupa Egypt Services LLC	Ordinary
Gibraltar	
5-9 Main Street	
Bupa Malta Investments No. 1 Limited	Ordinary
Bupa Malta Investments No. 2 Limited	Ordinary
Guatemala	
Quinta avenida número cinco guión cincuenta y cinco, Zona catorce de esta ciudad, Edificio Europlaza World Business Center, Torre III, undécimo nivel, área corporativa número un mil	
Bupa Guatemala, Compania de Seguros, S.A.[4]	Ordinary

[1] Held directly by the Company
[2] 0.000025% held by nominee
[3] 0.016667% held directly by the Company
[4] 0.999488% held directly by the Company

Guernsey	
1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW	
Bupa Guernsey No 2 Limited[1]	Ordinary
PO Box 34, St Martin's House, Le Bordage, St Peter Port, Guernsey, GY1 4AU, Channel Islands	
Bupa Holdings (Guernsey) Limited	Ordinary
Bupa LeaseCo Holdings Limited	Ordinary
Bupa LeaseCo. (Guernsey) Limited	Ordinary
UK Care No. 1 Limited	Ordinary
Jersey	
IFC 5, St Helier, JE1 1ST	
Bupa Holdings (Jersey) Limited	Ordinary
Mexico	
Montes Urales, No. 745, Piso 1, Colonia Lomas de Chapultepec I Seccion, C.P. 11000, Mexico City	
Bupa Mexico, Compania de Seguros, S.A. de C.V.	Capital Stock Series E (fixed), Capital Stock Series M (variable)
Bupa Servicios Administrativos de Salud, S. de R.L. de C.V.[2]	Ordinary
Bupa Servicios de Evaluacion Medica, S. de R.L. de C.V. [3]	Ordinary
Bupa Servicios Ejecutivos de Salud, S. de R.L. de C.V. [3]	Ordinary
New Zealand	
Bupa House, Level 2, 109 Carlton Gore Road, Newmarket, Auckland, 1023	
Bupa Care Services NZ Limited	Ordinary
Bupa Retirement Villages Limited	Ordinary
Level 4, 1 Walton Leigh Avenue, Porirua, 5022	
Dental Corporation (NZ) Limited	Ordinary
Panama	
Prime Time Tower, Floor 25, Office 25 b La Rotonda Ave, Costa del Este	
Bupa Panama S.A.	Ordinary
Peru	
Av. Guardia Civil N° 664, Comuna San Isidro, Region Lima	
Integramedica Peru S.A.C.	Ordinary
Poland	
35-068 Rzeszow, Stanislawa Jablonskiego, 2/4 Street	
Medicor Sp. z.o.o.	Ordinary
Broniewskiego 89 Street, 01-876, Warsaw	
Centrum Edukacji Medycznej CEMED Sp. z.o.o. (In Liquidation)	Ordinary
Czapliniecka 93/95, 97-400, Belchatow	
Megamed Sp. z.o.o.	Ordinary
Grunwaldzka 16/18 Street, 60-780, Poznan	
Diagnostic - Med. Centrum Diagnostyki Radiologicznej Sp. z.o.o.	Ordinary
Jagiellonska 26, 10-273, Olsztyn	
Poluk Sp. z.o.o.	Ordinary
Kuznicka 1 Street, 72-010, Police	
Medika Uslugi Medyczne Sp. z.o.o.	Ordinary

[1] 0.005% held directly by the Company

[2] 0.033333% held directly by the Company

Pory 78 Street, 02-757 Warsaw	
Pory 78 Sp. z.o.o.	Ordinary
Sport Medica S.A.	Ordinary-A, Ordinary-B, Ordinary-C, Ordinary-D, Ordinary-E, Ordinary-F, Ordinary-G, Ordinary-I
ul. Elblaska 135, 80-718, Gdansk	
Centrum Opieki Medycznej Comed Sp. z.o.o.	Ordinary
ul. Gen. Augusta Emila Fieldorfa "Nila" 40, Warszawa, 04-125	
Magodent Sp. z.o.o.	Ordinary
ul. Postepu 21 C Street, 02-676, Warsaw	
Centrum Edukacji Medycznej Sp. z.o.o.	Ordinary
Elba 1 Sp. z.o.o.	Ordinary
Elblaska Sp. z.o.o.	Ordinary
Lux Med Lodz Sp. z.o.o. (In Liquidation)	Ordinary
LUX MED Sp. z.o.o.	Ordinary
LUX-MED Investment S.A.	Series A, Series B, Series C
ul. Stefana Batorego 17/19, 87-100 Torun	
Tomograf Sp. z.o.o.	Ordinary
Wladyslawa Broniewsiego 48, 43-300, Bielsko - Biala	
Nzoz Ultramedic Centrum Medyzcne Sp. z.o.o.	Ordinary
Republic of Ireland	
25-28 North Wall Quay, Dublin 1	
Bupa Global Designated Activity Company	Ordinary
1st Floor, 9 Exchange Place, I.F.C.S	
Hugh Bradley Limited	Ordinary
Oasis Healthcare Holdings Ireland Limited	Ordinary
Xeon Dental Services Limited	Ordinary
Saint Kitts and Nevis	
Amory Building, Victoria Road, Basseterre, St. Kitts	
Amedex Services Ltd. (St Kitts)	Capital Stock
Singapore	
600, North Bridge Road, #05-01 Parkview Square, 188778	
Bupa Singapore Holdings Pte Ltd	Ordinary
Spain	
Avda Marcelo Celayeta, 144 - Pamplona (31014)	
Sanitas Mayores Navarra S.L.	Ordinary
Avenida Generalitat Valenciana no 50, Valencia	
Especializada y Primaria L'Horta-Manises, S.A.U.	Ordinary
c/ Eguskiaguirre no.8, 48902, Baracaldo, Bilbao	
Sanitas Mayores Pais Vasco S.A.	Ordinary
Calle Ribera Del Loira, 52, 28042, Madrid	
Clinica Londres, S.L.	Ordinary
Elegimosalud S.L.U.	Ordinary
Grupo Bupa Sanitas S.L.U.	Ordinary
Investigacion Y Promocion Sanitaria S.A.	Ordinary
Sanitas Emision S.L.U.	Ordinary
Sanitas Holding, S.L.U.	Ordinary
Sanitas Mayores S.L.	Ordinary

Sanitas Nuevos Negocios S.L.U.	Ordinary
Sanitas S.L. de Diversificacion S.U.	Ordinary
Sanitas, S.A. de Hospitales S.U.	Ordinary
Sweden	
Box 27093, 102 51, Stockholm	
LMG Forsakrings AB	Ordinary
United Arab Emirates	
Unit C1204, Level 12, Burj Daman, DIFC, PO Box 507019, Dubai	
Bupa Global Middle East (DIFC) Limited	Ordinary
United States	
17901 Old Cutler Road, Suite 400, Palmetto Bay FL 33157	
Bupa Insurance Company	Capital Stock
Bupa Investment Corporation, Inc.	Capital Stock
Bupa U.S. Holdings, Inc.	Common Stock
Bupa Worldwide Corporation	Capital Stock
U.S.A. Medical Services Corporation	Capital Stock

Other Related Undertakings

The related undertakings listed below are not wholly owned by the Company. The proportion of the nominal value of each share class held indirectly by the Company is shown below, unless otherwise stated.

Name of Undertaking	Share Class	Actual % held
United Kingdom		
1 Angel Court, London, EC2R 7HJ, United Kingdom		
Bupa Care Homes (AKW) Limited	Ordinary	100.00
Bupa Care Homes (ANS) Limited	Ordinary	100.00
Bupa Care Homes (Bedfordshire) Limited	Ordinary	100.00
Bupa Care Homes (BNH) Limited	Ordinary	100.00
Bupa Care Homes (BNHP) Limited	Ordinary	100.00
Bupa Care Homes (CFCHomes) Limited	Ordinary	100.00
Bupa Care Homes (CFG) plc	Ordinary	99.99
Bupa Care Homes (CFHCare) Limited	Ordinary, Redeemable Preference	100.00
Bupa Care Homes (Developments) Limited	Ordinary	100.00
Bupa Care Homes (GL) Limited	Ordinary	100.00
Bupa Care Homes (HH Bradford) Limited	Ordinary	100.00
Bupa Care Homes (HH Hull) Limited	Ordinary	100.00
Bupa Care Homes (HH Leeds) Limited	Ordinary	100.00
Bupa Care Homes (HH Northumberland) Limited	Ordinary	100.00
Bupa Care Homes (HH Scunthorpe) Limited	Ordinary	100.00
Bupa Care Homes (HH) Limited	Ordinary	100.00
Bupa Care Homes (Partnerships) Limited	Ordinary	100.00
Bupa Care Homes (PT Lindsay Prop) Limited	Ordinary	100.00
Bupa Care Homes (PT Lindsay) Limited	Ordinary	100.00
Bupa Care Homes (PT Links Prop) Limited	Ordinary	100.00
Bupa Care Homes (PT Links) Limited	Ordinary	100.00
Bupa Care Homes (PT) Limited	Ordinary	100.00
Fulford Grange Medical Centre Limited	A' Ordinary	100.00
Watertight Investments Limited	Ordinary	100.00

Bridge House, Outwood Lane, Horsforth, Leeds, LS18 4UP		
Bupa Care Homes Group Limited (in Liquidation)[1]	Ordinary	100.00
Ground Floor, Bury House, 31 Bury Street, London, EC3A 5AR, United Kingdom		
Healthbox Europe 1 LP	Partnership Interest	37.00
Swan Court, Waterman's Business Park, Kingsbury Crescent, Staines, Surrey, England, TW18 3BA, United Kingdom		
Healthcode Limited[2]	A Ordinary	100.00
	E Ordinary	20.00
39 Victoria Road, Glasgow, G78 1NQ		
Bupa Care Homes (Carrick) Limited	Ordinary	100.00
Australia		
Level 16, 33 Exhibition Street, Melbourne VIC 3000, Australia		
Mobile Dental Pty Ltd	Ordinary	49.00
Level 3, 60-62 Clarence Street, Sydney NSW 2000, Australia		
Whitecoat Holdings Pty Ltd	Ordinary	18.15
Whitecoat Operating Pty Ltd	Ordinary	100.00
Bahrain		
Flat 207, Building No. 743, Road 831, Block 408, Sanabis, Bahrain		
Bupa Middle East Holdings Two W.L.L.	Ordinary	75.00
British Virgin Islands		
Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British		
Altai Investments Limited	Ordinary	100.00
Berkshire Group Limited	Ordinary	100.00
Dynamic People Group Limited	Ordinary	100.00
Chile		
Anabaena N° 336, Comuna Viña del Mar, Region Valparaiso, Chile		
Clinica Renaca S.A.	Ordinary	100.00
Desarrollo E Inversiones Medicas S.A.	Ordinary	96.97
Promotora De Salud S.A.	Ordinary	67.03
Sociedad Medica Imageneologia Clinica Renaca Limitada	Social Rights	80.00
Augusto D'halmar N° 1369, Comuna Arica, Region Arica y Parinacota, Chile		
Centro De Diagostico Avanzado San Jose S.A.	Ordinary	100.00
Av Libertador Bernardo O'Higgins N° 654, Comuna Santiago, Region Metropolitana, Chile		
Examenes De Laboratorio S.A.	Ordinary	100.00
Integramedica S.A.	Ordinary	99.99
Av. Vicuña Mackenna N° 7255, Comuna La Florida, Region Metropolitana, Chile		
Sonorad II S.A.	Ordinary	100.00
Baquedano N° 298, Comuna Antofagasta, Region Antofagasta, Chile		
Sociedad Medico Quirurgica De Antofagasta S.A.	Ordinary	100.00
Bernarda Morin N° 495, Comuna Providencia, Region Metropolitana, Chile		
Recaumed S.A.	Ordinary	58.40
Cerro Colorado N° 5420, Piso 4,5,7, Comuna Las Condes, Region Metropolitana, Chile		
Isapre Cruz Blanca S.A.	Ordinary	99.69

[1] In liquidation

[2] Held directly by the Company

Coyancura N° 2270, Oficina 910, Comuna Providencia, Region Metropolitana, Chile		
Bupa Servicios de Salud SpA	Ordinary	100.00
Dr. Juan Noe N° 1370, Comuna Arica, Region Arica y Parinacota, Chile		
Corporacion Medica de Arica S.A.	Ordinary	68.97
Sociedad De Inversiones Pacasbra S.A.	Ordinary	100.00
Las Bellotas N° 200, Comuna Providencia, Region Metropolitana, Chile		
Sonorad I S.A.	Ordinary	100.00
Manuel Antonio Matta N° 1868, Comuna Antofagasta, Region Antofagasta, Chile		
Inmobiliaria Centro Medico Antofagasta S.A.	Ordinary	99.99
Inmobiliaria Somequi S.A.	Ordinary	100.00
Manuel Antonio Matta N° 1945, Comuna Antofagasta, Region Antofagasta, Chile		
Centro Medico Antofagasta S.A.	Ordinary	100.00
Inversiones Clinicas Pukara S.A.	Ordinary	85.88
Servicios Y Abastecimiento A Clinicas S.A.	Ordinary	100.00
Sociedad De Resonancia Magnetica Del Norte S.A.	Ordinary	100.00
Sociedad Instituto De Cardiologia Del Norte Limitada	Social Rights	50.00
Pedro Aguirre Cerda N° 843, Comuna Arica, Region Arica y Parinacota, Chile		
Centro De Imagenes Medicas Avanzadas San Jose S.A.	Ordinary	70.00
China		
Room 07-08, 3rd floor, Building 1, 21st Century Plaza, 40A Liangmaqiao Road, Chaoyang District, Beijing, 100125, China		
Bupa Consulting (Beijing) Co. Ltd.	Ordinary	100.00
Unit 03, 13/F, No.604 RenMin North Road, Yuexiu District, Guangzhou, China		
Guangzhou Bupa Hospital Management Company Limited	Ordinary	100.00
Unit 305A -305, 3/F, GT Land Autumn Plaza, No.11, 13 ZhuJiang East Road, ZhuJiang New Town, Tianhe District, Guangdong Province, China		
Guangzhou Bupa Quality HealthCare General Outpatient Department Company Limited	Ordinary	100.00
Hong Kong		
18/F Berkshire House, 25 Westlands Road, Quarry Bay		
Bupa (Asia) Limited	Ordinary	100.00
Bupa International Limited	Ordinary	99.99
Bupa Limited	Ordinary	100.00
3rd Floor, Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon		
Allied Medical Practices Guild Limited	Ordinary	100.00
Alpha Medical MRI (TST) Limited	Ordinary	65.00
Case Specialist Limited	Ordinary	100.00
Central Medical Diagnostic Centre Limited	Ordinary	74.49
Central MRI Centre Limited	Ordinary	100.00
Central PET/CT Scan Centre Limited	Ordinary	100.00
DB Health Services Limited	Ordinary	100.00
Great Option Limited	Ordinary	100.00
Jadeast Limited	Ordinary	100.00
Jadefairs International Limited	Ordinary	100.00
Jadison Investment Limited	Ordinary	100.00
Jadway International Limited	Ordinary	100.00
Marvellous Way Limited	Ordinary	100.00
Megafaith International Limited	Ordinary	100.00
Quality HealthCare Dental Services Limited	Ordinary	100.00
Quality HealthCare Medical Centre Limited	Ordinary	100.00

Quality HealthCare Medical Services Limited	Ordinary	100.00
Quality HealthCare Nursing Agency Limited	Ordinary	100.00
Quality HealthCare Physiotherapy Services Limited	Ordinary	100.00
Quality HealthCare Professional Services Limited	Ordinary	100.00
Quality HealthCare Psychological Services Limited	Ordinary	100.00
Room 901B-03A, 9th Floor, Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong		
Quality Healthcare TPA Services Limited	Ordinary	100.00
India		
Max House, 1, Dr Jha Marg, Okhla, New Delhi, 110020, India		
Max Bupa Health Insurance Company Limited[1]	Ordinary	49.00
Macau		
Rua De Xangai No. 175 Edif., Associacao Comercial De Macau, 11 Andar, K, Macau		
Quality EAP (Macau) Limited	Ordinary	100.00
Quality Healthcare Medical Services (Macau) Limited	Ordinary	100.00
Peru		
Av. Guardia Civil N° 664, Comuna San Isidro, Region Lima, Peru		
Anglolab S.A.	Ordinary-A	100.00
MediPeru S.A.C	Ordinary	99.97
Poland		
Al. Niepodleglosci 18, 02-653, Warsaw, Poland		
Endoterapia PFG Sp. z.o.o.	Ordinary	40.00
Marszalkowska 99 A lok. 5B Street, 00-693, Warsaw, Poland		
Centrum Edukacyjne Medycyny Sportowej Sp. z.o.o.	Ordinary	50.00
Porebskiego 9 Street, 81-185, Gdynia, Poland		
Niepubliczny Zaklad Opieki Zdrowotnej Przychodnia Lekarska "POGORZE" Sp. z.o.o.	Ordinary	88.15
ul. Dluga 43, 05-510 Konstancin Jeziorna, Poland		
Lux Med Tabita Sp. z.o.o.	Ordinary	88.00
Saudi Arabia		
Al-Khalidiyah-Nour Al Ehsan 3538, Unit 1 Jeddah 7505-23423, P.O. Box 23807, Jeddah, 21436, Saudi Arabia		
Bupa Arabia For Cooperative Insurance Company	Ordinary	39.25
Prince Sultan St, Al Mohammediyah Dist., PO Box 260, Jeddah, 21411, Saudi Arabia		
Nazer Bupa Medical Equipment Company Limited	Ordinary	50.00
Spain		
Avenida República Argentina, Número 6, Entreplanta, Seville, Spain		
Clinicas Ginemed S.L.	Ordinary	70.00
Calle Arenal Numero 22, 3 Derecha, Madrid, Spain		
Foren Project S.L.	Ordinary	20.00

[1] Part held by nominees

Calle Ribera Del Loira, 52, 28042, Madrid, Spain		
Fundacion Sanitas[1]	Contribution	100.00
Sahna-E, Servicios Integrales de Salud, S.A. de Seguros y Reaseguros (Unipersonal)	Ordinary	100.00
Sanitas S.A. de Seguros	Ordinary	99.91
United States		
One Radnor Corporate Center, Suite 100, Radnor, PA 19087, United States		
Highway to Health, Inc	Ordinary	49.00
HTH Re, Ltd	Ordinary	100.00
HTH Worldwide, LLC	Ordinary	100.00
Worldwide Insurance Services, LLC	Ordinary	100.00

[1] The Sanitas Foundation

Five-year financial summary

Five-year financial summary in brief
The five-year financial summary provides a five-year time summary in order to better understand trends.

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue - segmental analysis					
Australia and New Zealand	**4,656**	4,927	4,360	3,648	3,760
Europe and Latin America	**3,041**	2,869	2,475	2,027	2,036
United Kingdom	**2,537**	2,807	2,786	2,858	2,711
International Markets	**1,626**	1,647	1,428	1,296	1,272
Net reclassifications to other expenses or financial income and expenses	**(1)**	(1)	(1)	(1)	(1)
Consolidated total revenues	**11,859**	12,249	11,048	9,828	9,778
Claims and expenses					
Operating expenses (including claims)	**(11,112)**	(11,399)	(10,329)	(9,162)	(9,059)
Impairment of goodwill	**(35)**	(1)	-	(114)	-
Impairment of other intangible assets arising on business combinations	**(4)**	(16)	(21)	-	(1)
Other income and charges	**(53)**	(99)	(39)	(41)	14
Total claims and expenses	**(11,204)**	(11,515)	(10,389)	(9,317)	(9,046)
Profit before financial income and expense	**655**	734	659	511	732
Net financial expense/income	**(41)**	(8)	(29)	(49)	(37)
Profit before tax expense	**614**	726	630	462	695
Tax expense	**(211)**	(155)	(154)	(113)	(100)
Profit for the financial year	**403**	571	476	349	595
Attributable to:					
Bupa Finance plc	**397**	567	471	349	588
Non-controlling interests	**6**	4	5	-	7
Profit for the financial year	**403**	571	476	349	595
Equity					
Share Capital	**200**	200	200	200	200
Property revaluation reserve	**700**	796	706	632	708
Income and expense reserve	**5,640**	5,221	4,644	4,270	4,141
Cash flow hedge reserve	**20**	22	15	21	20
Foreign exchange translation reserve	**464**	558	595	(98)	71
Equity attributable to Bupa Finance plc	**7,024**	6,797	6,160	5,025	5,140
Equity attributable to non-controlling interests	**20**	30	31	70	78
Total equity	**7,044**	6,827	6,191	5,095	5,218

International Financial Reporting Standards relevant to Bupa

International Financial Reporting Standards (IFRS)

IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 15	Revenue from Contracts with Customers

International Accounting Standards (IAS)

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Date
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 40	Investment Property

Interpretations

IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 12	Service Concession Arrangements
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 21	Levies
IFRIC 22	Foreign Currency Transactions and Advanced Consideration
SIC 15	Operating Leases – Incentives
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SIC 29	Service Concession Arrangements: Disclosures
SIC 32	Intangible Assets – Website Costs