BUPA FINANCE PLC

(Company No. 2779134)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Bupa Finance plc

The Directors of Bupa Finance plc (the Company) present their annual report and the financial statements for the year ended 31 December 2011 The parent company of Bupa Finance plc and The British United Provident Association Limited Group (Bupa Group) is The British United Provident Association Limited (Bupa) The Bupa Finance plc Group is referred to as 'the Group' in these financial statements

1. Principal activities

The principal activities of the Group are the provision of health insurance, and healthcare facilities and services The latter includes ownership and management of care homes, hospitals and clinics, health screening, provision of disease management services, and occupational and community health services

2. Review of the business

2011 was another good year in which we maintained our unbroken record of growth in revenue over the last decade This performance reflects the strength of our businesses in key markets which has delivered continuing growth despite the tough economic climate The management teams have continued to perform well and our results demonstrate that we deliver well for our customers

Group performance

Our International Markets division maintained excellent momentum in 2011 Our Australian and Asian health insurance businesses and our expatriate health insurance business continued to perform very well

Europe and North America performed well, despite challenging economic conditions In Europe, we grew the surplus in our health insurance businesses in the UK and Spain In the US, where the market for outsourced chronic disease management services has changed significantly, our performance was disappointing Our focus was on managing operating costs and retaining clients

In Care Services, Australia and New Zealand continued to grow and maintained excellent occupancy levels In the UK, we controlled costs carefully to mitigate the impact of worryingly inadequate state funding of aged care, whilst ensuring high standards of care were maintained Sanitas Residencial also continued to deliver growth

Economic developments

In the European and US markets, where economic conditions have been challenging, our focus was on customer retention, strengthening and broadening our offer, and on managing costs

In other markets, where the economic conditions have been more positive, we are investing to grow

Across the Group, we have invested strongly in our brands and to enhance our presence on the web

The role technology plays within Bupa

We see the web as a key channel for reaching customers We have been investing in online products, services and resources, not least our health information which is viewed by millions, and other tools, which form part of our outreach to help people be healthier

We continue to invest in our IT capability so that we have the systems to allow us to provide high quality customer service in a fast-paced environment These investments delivered returns in improved customer service and satisfaction

Our Strategy

Our ambition is to be seen by our customers as their healthcare partner We are convinced that this is the most effective way of delivering our purpose It is also the route to differentiation and competitive advantage

To achieve this ambition, we are focused on three strategic priorities

Firstly, developing high quality, good value products that respond to our customers' changing healthcare needs and allow them to exercise choice and control in their healthcare

Secondly, we are committed to using our expertise in healthcare to enable customers to make more informed healthcare decisions, driving high standards in clinical governance and quality, demonstrating improved health outcomes and being a leading voice in our priority healthcare areas We are also dedicated to working with individuals, companies, providers and governments to manage the rising cost of healthcare

Finally, we believe in taking advantage of being global to deliver better for customers locally This means sharing our expertise and talent across business units and markets Ensuring that everything we do is good for society, better for the environment and contributes to our commercial success

Bupa's commitments to society

We have made a commitment to help 60 million people around the world make positive changes to their health We've also committed to reduce our carbon footprint by 20% by 2015 against our 2009 levels

We regard these commitments as integral to our purpose and we are reaching out beyond our customers to apply our skills for the benefit of society

They are stretching but they reflect the scale of the challenge and the contribution we think we can make

The future

We will continue to invest to grow our position in developing markets In established markets we will focus on growth by strengthening and broadening our offer to be relevant to customers across life stages

We anticipate further strong momentum in Asia Pacific and Latin America Australia, in particular, is ideally positioned to develop an increasingly differentiated proposition for customers

Market conditions are likely to remain challenging for some time in Europe and the US, but we will remain focused on customer retention, operational efficiency and on developing compelling new products and services that allow customers to exercise choice and control in their healthcare

We group our business into three reporting segments, each consisting of a portfolio of operating units The results of Bupa's three business segments are discussed further below

EUROPE AND NORTH AMERICA

Results overview

Revenues increased by 1% on an organic basis, which excludes the impact of the Bupa Health Assurance (BHA) disposal and other non-recurring items Surplus increased by £37 1m, up 27%, due to increased profitability in Bupa Health and Wellbeing (BHW) and Sanitas, and a well executed exit from the domestic health insurance business in Scandinavia Excluding the impact of foreign exchange movements, surplus increased by 27%

Challenging market conditions across the division impacted customer numbers, which decreased by 0 4% to 4 99m, excluding the impact of business disposals

Bupa Health and Wellbeing UK (BHW)

The business grew underlying revenues and delivered increased surplus in an environment of continuing economic uncertainty, high unemployment and weak consumer confidence, which have contributed to a contraction of the UK health insurance market since 2008

Health insurance customer numbers declined marginally over the period to 2 87m due to challenging market conditions, however, retention among corporate customers was strong Customer satisfaction was high with 87% of customers rating the overall quality of service as excellent or good

BHW launched Bupa by You, an adaptable consumer health insurance product which broadens the appeal of health insurance and enables BHW to engage customers more fully about their individual healthcare needs and tailor cover accordingly Bupa by You can be purchased online and was launched with a multi-channel advertising campaign This campaign built on the 'Helping you find Healthy' campaign, which reinforced Bupa's position as a healthcare partner to customers

BHW continues to develop closer relationships with customers Specialist support teams for cancer, heart conditions, mental health issues and back and knee problems help customers manage the medical and practical aspects of living with these illnesses The business continues to offer specialist centres for the treatment of musculoskeletal conditions, breast cancer, bowel cancer and gynaecological conditions

BHW launched a number of initiatives to enhance the patient journey and deliver improved quality, better value healthcare for customers The business introduced a new clinical review process to ensure clinical best practice in the treatment of conditions such as knee arthroscopy, where it has identified unwarranted variation in the treatment offered to BHW's customers In partnership with corporate customers, BHW developed an 'open referrals' service to guide patients to a selection of high quality consultants and hospitals offering more certainty over the cost of treatment The open referral service has been well received, with customers who have experienced it 54% more satisfied than those who have not, and 38% more likely to recommend Bupa to others

BHW has long been concerned about escalating private hospital prices and believes private hospitals and insurers need to work in partnership to drive improved quality and value for customers In 2011, the business initiated a more robust approach to negotiation with private hospital groups to help drive better value care for customers

BHW supports the Office of Fair Trading's (OFT) provisional decision (December 2011) to refer the market for the provision of private healthcare to the Competition Commission for investigation Bupa has been saying for some time that more competition and efficiency among private hospitals and consultants is needed and the business engaged with the OFT to inform the study on behalf of its customers

BHW won a series of awards over the period, including Best Healthcare Provider at both the Money Marketing and Corporate Adviser Awards, both for the fourth year in succession, and Best Healthcare Insurance Provider at the Financial Adviser Awards for the fifth year in succession

Sanitas

Sanitas continued to benefit from its integrated business model, which combines insurance and provision assets and offers differentiation in a highly competitive market This model helps the business to manage the patient journey to deliver high quality care and manage costs The business delivered a steady performance in 2011 despite challenging economic conditions in Spain

Underlying revenue and surplus increased, supported by a focus on medical cost control in the private medical insurance (PMI) business and the strong performance of the dental insurance product Health insurance customer numbers increased to 2 03m as the business focused on customer loyalty

Sanitas introduced a number of new products, including an entry level product to facilitate access to PMI for a wider audience The business launched the first integrated, multi-channel marketing campaign covering all the Sanitas businesses The business also acquired CIMA, a 48-bed hospital in Barcelona, to provide better healthcare to customers in the region, and put in place plans to expand its dental provision in 2012

Sanitas Hospitales delivered strong occupancy at its existing two private hospitals and 16 'Milenium centres' (multi-disciplinary primary care clinics) and is investing to support the growth of the network Two new Milenium centres opened in 2011 Sanitas Hospitales invested in the refurbishment of patient areas in each of its hospitals and the business was the only healthcare organisation to gain the European Foundation for Quality Management 500+ European quality stamp

Sanitas now provides a complete health service to nearly 200,000 people in Manises, as a part of a partnership with the Valencian regional government The Manises hospital continues to operate very successfully

Health Dialog

The market for healthcare services is undergoing significant change in the US because of uncertainties regarding health reforms The changing economic climate has led a number of health plans to reassess their priorities and there is a growing trend to in-source disease management services This trend has affected the revenues of all players in the sector

As a result, in 2011, Health Dialog experienced a lapse in a small number of clients which negatively impacted revenue and surplus The business responded swiftly to control costs, including the closure of three coaching centres Health Dialog also developed a new line of business which focuses on helping healthcare providers better manage their interaction with patients and is launching a number of pilots to deploy dedicated health coaches to medical practices

The Bupa Cromwell Hospital

Revenues increased in 2011, driven by a rise in the number of Embassy customers and the business was successful in attracting a number of leading doctors and consultants to operate at the hospital The hospital is undergoing a significant redevelopment programme to improve the facilities, which will gather pace through 2012 In 2011, the hospital won the Independent Healthcare Award for the Best Use of Technology at the Laing & Buisson Awards

Strategic overview and outlook

In Europe, high unemployment levels and weak consumer confidence are likely to continue, in the USA, the economic outlook is improving We expect economic conditions to remain difficult in the near term

Bupa Health and Wellbeing – We anticipate an increase in profitability driven by strong customer retention and a focus on improving the patient journey to deliver higher quality care and better value Performance will be underpinned by tight controls over the cost base and continued investment in sales and operations

Sanitas – Sanitas has a strong business model and we anticipate that performance will be steady We will invest to strengthen our position, namely in our dental expansion plan and in the CIMA hospital, and leverage our integrated provision to deliver value for the Group

Health Dialog – Uncertainty around healthcare reforms and economic pressures are expected to continue to impact the business, which is maintaining its focus on cost control and operational efficiency We are also redeveloping our offer to be closer to providers

Bupa Cromwell Hospital – The hospital will undergo a major redevelopment in 2012, which will deliver significant patient benefits long term The works will, however, adversely affect the hospital's capacity in the short term, which may be partly off-set by an anticipated increase in complex care activity

INTERNATIONAL MARKETS

Results overview

The division delivered an excellent performance with revenues increasing by 14% and surplus up 34% Excluding the impact of foreign exchange movements, surplus was up 28% This performance was driven by strong growth in all businesses

Customer numbers across the division grew by 7% to 5 79m, with the most notable increases in Bupa Australia and our associated companies in India and Saudi Arabia

Bupa Australia

The business undertook the highly successful transition of its MBF, HBA and Mutual Community brands, and now serves all customers in Australia under the Bupa brand The transition was supported by a very well received multi-channel marketing campaign showing how Bupa can help 'find a healthier you' Prompted awareness of the Bupa brand among Australians more than doubled following the campaign and spontaneous awareness more than trebled

Bupa Australia delivered a strong financial performance Overall, revenue and surplus increased as health insurance customer numbers grew by 3% to 3 33m, equivalent to nearly 15% of the Australian population During 2011, the business improved its loss ratio and achieved increased efficiency in speed of claims processing, which has also increased the speed of the business's receipts from the industry risk equalisation pool which underpins the community rating system in the Australian PMI market

Customer focus remained central Bupa Australia maintained its high customer satisfaction rating, with 93% of customers rating the service positively The business is increasingly working with customers to help them develop healthier lifestyles and to offer them high quality, evidence-based information on treatments Peak Health, acquired in 2010, is now fully integrated and provides onsite health and wellbeing services, such as vaccinations and health assessments Bupa Australia continued its expansion into Western Australia, opening six branches in the state in 2011

Bupa International

Bupa International has seen continued momentum in the demand for international private medical insurance services that began in late 2010, particularly in Asia, where the economic outlook remained buoyant There was also growth among corporate customers, with growth in the oil and gas industry driving demand for international health insurance The business delivered an increase in revenues and surplus and grew customer numbers by 4% to 536,000 with 82% of customers rating the overall quality of service they received as excellent or good

The business continued to support customers in Libya and Egypt, amid unrest in the Middle East It also pursued opportunities for growth in Asia, with a number of new initiatives launched including a partnership with the Alltrust Insurance Company to sell international private health insurance in China The business launched its expatriate health insurance offer in Australia and introduced a new product, Vital Africa, an emergency only offering aimed at middle management in small to medium sized enterprises in Africa

Bupa Latin America

The business increased its revenues, and customer numbers were up by 5% to 160,000 Customer satisfaction also increased, with 83% of customers rating the service as excellent or good Surplus, however, was down, primarily due to foreign exchange rate volatility and increased investment in growth initiatives including those in Mexico, where the business opened four regional offices and launched Total Care, a new product tailored to the needs of the Mexican market, which has been well received by customers

Bupa Hong Kong

Bupa Hong Kong's health insurance business performed very well, delivering increases in surplus and revenue The business delivered record customer numbers, up 11% to 243,000 Customer satisfaction remained high with 79% of customers rating the service provided as excellent or good and the business launched an award-winning new TV advertising campaign in the first part of the year

Bupa Thailand

Against a backdrop of political instability and widespread flooding, Bupa Thailand delivered good growth and recorded an increase in revenues and underlying surplus Customer numbers in Bupa Thailand grew by 13% to 202,000 and the number of customers who rated the service provided as excellent or good improved to 66% This increase was driven by strong new business, the introduction of a new group renewal team and improved relationships with brokers

Max Bupa, India

Max Bupa, our health insurance joint venture launched in India in April 2010, increased customer numbers to 146,000 (2010 27,000), while trading at a small loss in line with our expectations for this start-up business

Bupa Arabia

Bupa Arabia, an associate of the Bupa Group, increased its customer numbers by 10% to 1 2m following investment in a number of new retail distribution channels Growth continued despite robust competition among health insurers

Strategic overview and outlook

We anticipate continued growth in the main economies in Asia Pacific and Latin America, we expect further progress from our businesses in these markets In Australia, we expect customers to remain cautious and price sensitive

Bupa International – We anticipate sustained growth alongside strong customer retention and new business activity We will continue to invest to enhance customer service, including upgrading our information technology platforms We also remain focused on providing tailored products to customers

Australia – With our business now operating under a single brand, we are well placed to develop an increasingly differentiated proposition for customers We anticipate that growth levels will be maintained Proposed healthcare reforms, principally to the Government's PHI rebate scheme, may impact a proportion of Bupa customers We will monitor developments and implement mitigation measures, as required

Hong Kong – We anticipate sustained growth in 2012 and will invest in brand awareness activity and service improvement

Arabia – Pressure on pricing and regulatory changes make Saudi Arabia a challenging market in 2012

India – We anticipate sustained growth in customer numbers in this developing market

China – Significant growth is expected during the first year of operations

Latin America – We anticipate sustained growth across our markets in the region, including Mexico, Peru and Guatemala and will continue to invest in the region to get closer to customers

CARE SERVICES

Results overview

Care Services continued to perform well in mixed conditions Revenues for the division increased slightly, driven by a strong performance in Australia and New Zealand Surplus was ahead of the previous year, but occupancy was marginally down at 87 8% (2010 88 2%) Excluding the impact of foreign exchange movements, surplus was up 2%

This performance is against a backdrop of increasing pressure on public sector budgets, notably in the UK, where average local authority fee increases across England remained near flat, and in Spain

As part of a continued programme of development, Bupa invested over £94m in building, extending or refurbishing homes, adding a total of 449 new beds across the division The development pipeline remains strong for 2012 and beyond

Bupa Care Homes UK

Revenues were maintained and surplus was marginally lower as a result of lower occupancy rates (overall occupancy was 87 3% in 2011, compared to 88 0% in 2010), increases in employee costs and investment in training

Current pressure on public funding means that older people are being looked after in their own homes for longer, resulting in fewer local authority referrals to care homes It is also impacting local authority fee rates, which are near flat compared to previous years

The business is concerned that if local authorities do not pay fairer fees, there will be a lack of investment in the sector which will ultimately jeopardise the quality of care and lead to a contraction in the overall care homes market and a potential bed-blocking crisis for the NHS

To help address the longer term challenges of funding aged care, Bupa Care Homes UK is actively contributing to the UK government's working groups which have been set up to respond to the Report of the Commission on Funding of Care and Support in England, led by economist Andrew Dilnot Dilnot's recommendations are likely to help people with assets better prepare for care in old age However, the majority of people in care homes today are funded by the state This means there also needs to be significant investment from the government to pay for the care of those with no means to pay for themselves

The business continues to roll out its 'Person First dementia second' training for care home managers across the division In addition, the business developed new design standards for its dementia homes, drawing on the latest thinking on dementia friendly environments The first new home to adopt these design standards was opened in Ashford, Kent in the period and the design standards will be rolled out across a further 20 dementia units in 2012

The quality of Bupa's care was recognised by its highest ever resident satisfaction levels, with 95% rating the quality of service as excellent or good Bupa Care Homes UK also won a number of awards in 2011, including 'Dementia Care Manager of the Year' at the National Care Awards and 'Nurse of the Year' at the Scottish Care Awards

Bupa Care Services Australia

Revenues and surplus increased, supported by higher than expected government fee increases that reflect the value of the service and good control over costs Occupancy levels remained high at 93 3% (2010 93 9%) notwithstanding the addition of new capacity

The business remains engaged in the debate about the delivery of healthcare in Australia, contributing to the inquiry on Caring for Older Australians by the Productivity Commission The business will be working with the government and other industry organisations to ensure that funding and the availability of high quality nursing care are at the forefront of the aged care agenda in Australia

A new home in Wodonga was opened, replacing an existing home, increasing the number of beds from 60 to 114 and offering improved specialist dementia care facilities Investment in care home development is set to continue in 2012, with over 160 new beds due to be added In addition, the business is currently constructing three new build projects, which will add over 430 beds by 2014

Customer satisfaction levels were very good, with 84% of residents rating the service as very good or good

Bupa Care Services New Zealand

The February 2011 Christchurch earthquake affected several Bupa homes in the area and, very sadly, three employees, all of whom were visiting central Christchurch at the time, lost their lives

The business delivered strong growth in surplus and revenue, although fee increases for aged care remained under pressure Excellent occupancy levels of 94 6% (2010 93 5%) were maintained

A new 88 bed home was opened in Auckland in July 2011 and extensions to three other care homes were completed, adding 57 beds In addition, three care village extensions, were completed in 2011, adding 50 assisted living units The development pipeline is strong, with a new care home and three care home extensions planned for 2012, adding 120 beds, together with five care village extensions, adding over 90 assisted living units

Customer satisfaction levels were excellent with 97% of residents rating the quality of service as excellent or good

Sanitas Residencial

Sanitas Residencial delivered robust results, as a result of improving occupancy in newer homes in the portfolio and a strong focus on operational efficiencies and costs Occupancy levels remained stable at 81 4% and surplus increased

The business opened a new home in Tarragona during the period, adding 167 beds

The economic crisis has continued to affect the aged care sector in Spain as a result of the reduction in public expenditure as well as intense competition in the private market

Bupa Home Healthcare (BHH)

Surplus increased in BHH, with careful management of operating costs beginning to show reward Revenues declined slightly as a result of exiting some unprofitable lines of business New business opportunities continued to be affected by the uncertainty surrounding UK health reforms and their impact on the NHS BHH continues actively to engage in the debate about the role of out of hospital care, publishing 'Taking the Pressure Off', a report showing that treating more patients in the home could save the NHS £1 7bn

Strategic overview and outlook

While the market conditions in Australia and New Zealand are broadly positive, in the UK and Spain we expect pressure on public spending on aged care to continue to constrain financial performance in the short term

UK – Focus will remain on managing occupancy levels and costs and we will continue to expand through developing new care homes and redeveloping existing facilities We will also make representations to the UK government on care homes funding and proposed legislative changes that will impact the sector from 2015

Sanitas – There remains good potential for an increase in profitability and occupancy, supported by favourable long-term demographics

Australia – We have a strong new build pipeline and we are focused on offering a differentiated dementia service in 2012

New Zealand – We will expand our residential care and retirement villages through new developments, which will start construction in 2012 Pressure on government budgets is likely to increase pressure to deliver value for money for medical alarms services

Bupa Home Healthcare (UK) – As the shake up from the Health and Social Care Bill continues throughout 2012, we will adapt our strategy as the future direction of the NHS becomes clearer The business will seek growth in key product areas, predicated on reform of the NHS and a shift of care provision from an acute hospital setting into the community

FINANCE DIRECTOR'S REPORT

Revenues increased by 6% to £8 0bn, 4% of which was driven by organic growth with the remainder resulting from foreign exchange movements The Group's reported surplus before taxation was up 73% to £289 9m, with underlying surplus before taxation increasing 22% to £628 9m

The strong cash flows delivered in 2011 enabled the repayment of all outstanding bank borrowings and contributed to the continued reduction in leverage which stood at 20% at the end of the year Net asset value at 31 December was £4 6bn The combination of strong profitability and cash flows and a resilient balance sheet on the back of a strong underlying financial performance enables our continued focus on investing in order to develop and sustain the Group's existing established markets, while selectively developing new market opportunities

Surplus and underlying surplus

Underlying surplus before taxation was £628 9m, an increase of 22% compared to 2010 The Group delivered another year of good underlying growth, despite mixed economic conditions in some of our markets In the International Markets division, Australia, Asia and the Middle East performed well with good growth in customer numbers Operational efficiency was enhanced in our Europe and North America division where market conditions were more challenging and Bupa continued to be a healthcare leader in these markets

Within the Care Services division the focus was on providing excellent resident care and managing costs, despite downward pressure on public sector fees in Europe Good growth was also delivered in Care Services Australia and New Zealand, which operated with high levels of occupancy

Surplus before taxation was up 73% to £289 9m from 2010 The main reason for the difference between surplus before taxation and underlying surplus before taxation is the impairment of goodwill and intangible assets arising on business combinations related to Health Dialog and the MBF Brand

Sustained weak economic conditions and uncertainty over government reforms in the US, combined with the overall decline in the market for outsourced disease management services, have resulted in the impairment of the goodwill and acquisition related intangible assets associated with the Health Dialog business of £241 1m (2010 £158 8m) These assets are now fully impaired In the Australian businesses the successful transition of the HBA, MBF and Mutual Community brands to Bupa resulted in a full impairment of the MBF brand intangible asset and a net impairment charge of £57 3m

Presented below is a reconciliation of the Group's underlying surplus before taxation to the reported surplus before taxation

	2011 £m	2010 £m	Growth %
Underlying surplus before taxation	628 9	514 9	22%
Less			
Impairment of goodwill and intangible assets arising on acquisition of Health Dialog	(241 1)	(158 8)	
Impairment of MBF Brand	(57 3)	-	
Other goodwill impairment	-	(90 4)	
Other intangible assets impairment	(1 1)	(17 7)	
Amortisation of intangible assets arising on business combinations	(34 9)	(34 7)	
Impairment arising on revaluation of property	(17 5)	(35 1)	
Profit / (loss) on sale of businesses	0 3	(18 1)	
Gain on return seeking assets	6 6	13 2	
Other items	6 0	(5 3)	
Surplus before taxation	289 9	168 0	63%

Items excluded from underlying surplus

The impairment of goodwill and intangible assets arising on acquisition are referred to above Other items excluded from underlying surplus are as follows

Amortisation of intangible assets arising on business combinations
These numbers are excluded from underlying surplus as they are reflective of past acquisitions

Property revaluations and impairments
The Group has a significant base of care homes within the portfolio and these properties are shown at fair value based on periodic revaluations On a triennial basis Bupa obtains an external market valuation of its property portfolio and in the intervening years a directors' impairment review is performed The valuations increase/decrease depending on the property market and these short term distortions do not reflect underlying performance A net impairment charge of £17 5m was made in 2011 (2010 £35 1m), arising from the revaluation of a small number of properties

Profit / (loss) on sale of business
Profit / losses resulting from a strategic decision to sell a business are not reflective of underlying trading performance and hence are excluded from underlying surplus

As reported in 2010, an agreement was reached to sell Bupa Health Assurance, in order for the UK business to focus on its core healthcare products and services In 2010 a £6 5m loss was recorded based on disposal costs incurred to date The sale was finalised in January 2011 and the completion of the sale process resulted in a profit on sale of business of £0 3m The profit is reported within other charges in the financial statements

Gains on return seeking assets
A portion of the Group's available cash is placed in a return seeking asset portfolio, which is invested primarily in funds holding investment grade bonds and loans Income from the return seeking asset portfolio is excluded from the underlying results, as the volatility in market values and investment performance distorts comparability between years

Gains from the return seeking asset portfolio amounted to £6 6m (2010 £13 2m) At 31 December 2011, the return seeking asset portfolio represented 6% (2010 6%) of total cash and financial investments

Financial income and expenses
Net financial income increased to £25 7m (2010 £21 7m) This was primarily due to higher yields generated on cash held in Australia, the impact of increasing cash balances around the Group and lower foreign exchange hedging costs These were partly offset by lower gains on the return seeking asset portfolio

Taxation
The taxation expense of £96 2m (2010 £137 0m) represents an effective rate of 33% (2010 82%) The headline effective tax rate has benefitted from the tax savings recognised in the year, but this has been

negated by the adverse impact from the impairment of goodwill (£165 8m) and intangible assets and other items which do not qualify for taxation relief The effective rate based on the underlying surplus of £628 9m is 22% (2010 27%) and is lower than the Group's blended tax rate of 27 6% mainly due to tax savings recognised in the year

Balance sheet, funding and solvency

Group financial strength and solvency
The Group maintains a strong balance sheet through rigorous financial planning and a conservative approach to leverage It is designed to facilitate growth within the Group's risk appetite and this approach is designed to ensure continued compliance with borrowing covenants and with solvency requirements in regulated businesses The solvency positions of the regulated companies and of the Group as a whole are routinely monitored against the requirements of local regulators and of the UK's Financial Services Authority (FSA) During 2011, leverage (debt to debt plus equity) decreased from 22% to 20% as the Group repaid all remaining bank debt using cash generated in the period

Balance sheet management
Financial risk management is undertaken by the Group Treasury department, which is responsible for cash and debt management as well as all hedging activities Our goals are to ensure that there is adequate funding to allow the Group to meet its obligations, that we effectively manage interest rate and foreign exchange risk and that we protect our financial assets

Credit ratings
The Group's goal is to operate within a targeted range for leverage and interest cover ratios which are designed to support an investment grade rating These ratios are monitored and reported to the management on a regular basis, with sensitivity analysis carried out to provide early warning of any potential issues

The Bupa Group is not rated by any rating agency, although individual debt issues and various regulated insurance companies within the Group do have a public rating

The principal debt ratings relate to the senior, unsecured bonds, secured loans in the care homes business and the callable subordinated perpetual guaranteed bonds

During the year, Fitch and Moody's both re-affirmed their ratings in relation to Bupa Finance plc's senior, unsecured bonds (A- with a stable outlook and Baa2 with a stable outlook respectively) All other key ratings remained constant during the year

Cash flow and financing
In 2011, the Group generated £689 2m in operating cash flows This is the third consecutive year in which we have delivered in excess of £500 0m of operating cash flows allowing us to reduce leverage, invest in our care home estate and other healthcare provision assets, and maintain strong funding headroom

The Group invested £182 7m in capital expenditure, paid down £205 4m of interest bearing liabilities and invested the balance in cash and financial investments

The Group's main source of additional funding comes from a £900m committed bank facility, negotiated in June 2010, which matures in September 2013 The facility has not been used since April 2011

Cash and other financial assets
The Group holds cash and other financial assets principally to meet the liabilities and solvency requirements of the regulated insurance subsidiaries Cash and other financial investments totalled £3,110 5m (2010 £2,848 1m) at 31 December 2011 The Group has no direct exposure to peripheral Eurozone sovereign debt and our exposure to Eurozone bank deposits has been reduced over the course of 2011 as part of ongoing risk management The retention of any exposures below the Group's minimum AA-/Aa3 credit rating policy have been explicitly approved by the Group's Investment Committee

Interest bearing liabilities
At 31 December 2011 the Group had total interest bearing liabilities of £1,128 5m (2010 £1,294 4m), which consisted primarily of secured loans and bonds

Foreign exchange
Approximately 63% (2010 66%) of net assets are denominated in foreign currencies, primarily Australian Dollars, Euros and US Dollars Excluding goodwill and intangible assets, the proportion of our net assets denominated in foreign currencies reduces to approximately 27% (2010 24%) In 2011, approximately 36% of the Group's net assets exposure, excluding goodwill and intangible assets, was hedged using foreign currency borrowings and currency forward contracts

The Group's key exposure results from the Australian Dollar with assets in this currency representing approximately 12% of the Group's net assets after hedging excluding goodwill and intangible assets This exposure is reviewed on a regular basis

The Group's exposure to the Euro is less than 4% of Group net assets after hedging activities During the year, additional hedging was undertaken to minimise the potential balance sheet impact of a weakening of the Euro This position remains under review

The net increase in the foreign exchange translation reserve was £6 6m and represents the increase in the value of the underlying net assets of the Group's overseas subsidiaries, net of hedging Much of the increase in reserves reflects the appreciation in 2011 of the Australian Dollar against Sterling

Solvency II
Bupa Group, as well as our regulated insurance subsidiaries in the UK and Spain, will be subject to the requirements of the Solvency II Directive The regulation, which is structured around three mutually reinforcing 'pillars', imposes new requirements in respect of how much solvency capital an insurer should hold (Pillar 1), the governance and risk management of insurers, as well as for the effective supervision of insurers (Pillar 2), and supervisory reporting and public disclosure (Pillar 3)

Solvency capital requirements will be linked more closely to the risks that the business faces and increased public disclosure will enhance transparency to stakeholders

The Bupa Group has established a programme, structured around the three pillar approach, to assist all businesses with the implementation of Solvency II Although implementation of the legislation has been delayed by a year to 1 January 2014 we have decided to maintain the current momentum and continue to introduce appropriate changes given the value they bring to the business

Relative to other insurance segments, the Group believes health insurance has a lower level of risk and currently expects to report a strong capital position under the new rules In addition, we continue to engage with European policymakers and regulators to support the development of regulations which fairly reflect, and are proportionate for, a mixed health insurance and healthcare provider such as Bupa

Conclusion
Our international scale, trusted brands, and strong balance sheet create a solid platform for the Bupa Group as it enters 2012 Overall the Group's existing businesses are in good shape, and we will continue to seek growth from these as well as consider new market and service opportunities

BUSINESS RISKS AND UNCERTAINTIES

Balancing risk and reward is an integral part of running a successful business As a large, complex company, we have identified and manage a range of business risks so that we can achieve our objectives

Risk management framework

The Bupa Group Risk Management Framework outlines Bupa's approach to risk management across the Group At the heart of the framework is the requirement for the various business units to identify periodically and quantify the key risks that they face and to assess the effectiveness of control strategies to mitigate the risks to an acceptable level

The Bupa Risk Management Framework assesses risks under five broad headings

Strategic – specifically focused on the economic environment, the products offered, Bupa's channel/markets and brand

Insurance – those risks associated with providing insurance products including underwriting, pricing and claims, reserving and reinsurance

Financial – associated with the financial operation of the Group including capital management, investments, liquidity and credit

Clinical – those risks associated with the provision of healthcare services to Bupa's customers

Operational – those risks associated with internal systems and processes or external events

Our risk management process

1 Monitoring and management

Bupa's risk appetite statements are set by the Bupa Group Board and provide a benchmark against which to identify risks that are outside Bupa's tolerance Risk monitoring is further aided by a suite of key risk indicators that provide an early indicator of an adverse shift in risk exposure Risks are assessed both quantitatively and qualitatively on a quarterly basis in line with good practice and are reviewed and challenged by the Group Risk team

2 Assessment

Each Quarterly Risk Assessment (QRA) seeks to identify the key risks faced by the business, the residual likelihood and impact of the risk based on the existing controls, and an evaluation of the level of risk against management's risk appetite Stress tests, including reverse stress tests, are performed to assess certain risk scenarios and their potential impact on the Group, as well as identifying scenarios which could lead to insolvency

3 Evaluation

The output of the QRA forms the basis for the Chief Risk Officer's report which is presented to the Group Audit, Risk & Compliance Committee quarterly The report presents a view of the key risks faced by the Group, trends that present themselves across the business and a view on the action plans that are in place to mitigate identified risks The Bupa Group Board is regularly apprised of key risks identified in the QRA process The Group is subject to the same controls and procedures as Bupa Group and follows the same reporting requirements

4 Action plans

Actions required to bring risks within tolerance levels are assigned to specific owners, with the nominated risk owner responsible for ensuring they progress appropriately Progress on actions is monitored as part of the QRA process, with performance against plan reported to local management on a regular basis and by local management to the Bupa Group Board

Risk and mitigation

We have identified the principal risks to the achievement of the Group's goals within the categories of the Risk Management Framework

Strategic

Business environment, government policy and development of the healthcare system

Impact
Many governments are reviewing their approaches to healthcare provision funding and the involvement of the private sector Such changes to government policy may have an impact on Bupa's businesses in a number of geographies and market sectors

Mitigation
Bupa actively monitors the changing political environment across all areas of operation and, where possible, seeks to engage with relevant government officials The Care Services division actively monitors demand and fee levels for residential care and responds appropriately where levels are consistently low In the face of these pressures, opportunities for efficiency improvements are identified

The diversified geographic spread of Bupa's operations reduces the organisation's exposure to significant changes in government healthcare policy within any one country

Economic Market Conditions

Impact
The current challenging economic conditions, particularly in Europe, increase the level of risk faced by Bupa's operations around the world Rising inflation, prolonged periods of low interest rates, credit rating reductions for investment counterparties and reduced GDP will each impact Bupa's businesses and investment strategies in a variety of manners

Mitigation
Bupa seeks to minimise the impact of external economic events through the diversified nature of its operations Bupa's governance structures and policies seek to protect the business from excessive exposure to specific external risks while seeking to achieve growth targets Where considered appropriate, specific actions are implemented to minimise exposures to external market risks including hedging arrangements and the purchase of specific financial instruments Management teams are responsible for considering the potential impact of macroeconomic events in terms of impacts on their business plans including the use of stress testing to consider potential consequences of specific events

Competition

Impact
Private medical insurance markets are increasingly competitive as companies diversify in search of profits A number of new entrants have entered the market in recent years, with many seeking to compete on price and often offering products with more limited benefits Bupa continues to invest in new products and brand development activities to ensure the Group maintains its leading position in the market

Mitigation
Bupa keeps its competitive position in each of its markets under continuous scrutiny, regularly reviewing competitor activity, and strategic and tactical objectives The Bupa Group Board and senior management monitor performance via key indicators such as trend data, customer satisfaction results and monthly financial results

Insurance

Underwriting, pricing and claims

Impact
Bupa's insurance businesses face the risk that unexpected variations in the frequency, size or timing of claims will lead to variations in financial returns By virtue of being in the healthcare insurance business, Bupa is exposed to a number of factors affecting its insurance risk These include macroeconomic trends, medical inflation, shifts in demographics, changes in population health, developments in healthcare technology, natural catastrophes and statistical fluctuation

Mitigation
Bupa manages its insurance risks by the use of advanced analytic models of products and prices, controls on underwriting and claims settlement, clarity over policy contract definitions, and internal and external actuarial reviews Customers purchase our products primarily to cover the costs of unexpected acute illness The majority of Bupa's insurance business covers costs for conditions in a prospective twelve month period which enables regular pricing review in the event of changes in claims trends

Financial

Capital and solvency

Impact
Solvency II will require all insurance businesses to reconsider their approaches to capital management and their overarching governance regimes This will have particular relevance to Bupa due to the unique nature of its mixed activity operations

Mitigation
Bupa has established a dedicated Solvency II programme team with workstreams created to ensure that robust and proportionate solutions are embedded throughout the organisation in line with regulatory requirements Bupa has a strong capital position and it has every expectation that this will continue to be reflected under Solvency II regulation Bupa is actively engaging with the relevant regulators to ensure that Solvency II requirements appropriately take into account mixed activity insurance firms such as Bupa

Investment

Impact
The Group had financial assets, cash and cash equivalents totalling £3 1bn at year end Failure to manage these assets effectively may result in financial loss and a reduction in Group solvency A small percentage of the Group's portfolio is invested in return-seeking assets, which may vary in value during periods of market stress or dislocation

Mitigation
The majority of the investments are managed by the Group's Treasury department under the supervision of the Treasury and Investment Committee Most of the investments are held in cash, exposure to individual counterparties is restricted and generally deposits are not held with institutions without two credit ratings of AA-/Aa3 or better by the major credit rating agencies The return seeking asset portfolio is managed within a risk budget framework using Value at Risk methodology

Funding

Impact
Bupa supports its current operations and future growth from a combination of internally generated profits and externally raised debt The Group needs to maintain good access to a variety of funding sources to ensure that short-term and long-term liquidity is maintained

Mitigation
Bupa maintains adequate levels of funding headroom through a £900m committed bank facility which expires in September 2013 In addition, Bupa has access to a variety of debt capital markets including the senior and hybrid bond markets Bupa is committed to maintaining an investment grade credit rating and monitors key financial ratios, such as leverage and interest cover

Clinical

Clinical governance

Impact
Bupa is dedicated to ensuring its customers are treated and cared for according to evidence based best practice, high patient safety and clinical standards Failure to fulfil these obligations could lead to significant financial, regulatory and reputational impact

Mitigation
To support Divisional and Business Managing Directors, all major business units have a Medical Director responsible for ensuring clinical quality and governance standards They are professionally accountable to the Group Medical Director (GMD) for clinical governance The GMD has been nominated as the senior manager, independent from the businesses, who takes overall responsibility on behalf of Group for the oversight of systems and controls relating to clinical governance The Bupa Group Board has a Medical Advisory Panel (MAP) chaired by Professor Sir John Tooke, which advises it on medical issues and considers external perspectives from a number of leading clinicians and health professionals to help inform and develop Bupa's approach

The GMD provides a Quarterly Report on clinical governance to the MAP with an Annual Report also going to the Bupa Group Board, this annual report makes commendations and recommendations for improvements The MAP receives summary information regarding clinical incidents and the results of clinical audits undertaken across the Bupa Group The Group Clinical Governance Committee, which includes all Medical Directors, and reports to the MAP, meets quarterly and monitors business units across the Group to ensure they have effective governance systems and processes in place, including the review of serious clinical incidents The Clinical Governance Quality Assurance Programme includes an assessment of the clinical risk arrangements in business units

Bupa Finance plc
2. Review of the business – continued

Operational

Provider costs

Impact
Bupa's insurance customers benefit from high quality services procured from a wide range of providers including hospitals and consultants In the face of inflationary pressures, there is a risk that increasing provider charges will lead to substantial increases in premium rates and customer dissatisfaction

Mitigation
Bupa's policy is to work with its providers to maintain and improve quality while containing the cost of procuring medical services This includes, where possible, the use of contracts, preferred supplier arrangements and case management techniques

Regulatory

Impact
Bupa serves customers in more than 190 countries and could, therefore, be affected by changes in financial, clinical and health and safety regulations in a number of countries This could affect the way it carries out business and, in certain cases, might increase costs or reduce revenues

Mitigation
Bupa seeks to operate to high regulatory standards and to maintain an awareness of and, where possible, anticipate regulatory change Bupa's principal financial regulator is the UK's Financial Services Authority, with whom Bupa senior managers maintain a close working relationship

People

Impact
As Bupa changes and grows, it needs to make sure it has the right people to move the Group forward The Bupa Group Board views the development and training of Bupa's people, and the recruitment of experienced individuals from outside the Group, as central to the organisation's future success

Mitigation

Bupa has sound selection, evaluation and reward processes to recruit, develop, recognise and motivate strong performance and has a structured succession planning process

Change management

Impact
Like all major organisations, Bupa has an ongoing programme of change and development to drive continued improvement in the products and services it provides Should these changes be managed ineffectively, the risk of failure to deliver the intended benefits may be increased

Mitigation
Bupa mitigates the risk inherent in change by having stringent change management procedures Major project expenditure on new developments is approved by the Bupa Group Board following a rigorous assessment of plans Professional programme management resources are used and the Internal Audit team reviews the impact of major changes on Bupa's operational controls Progress on key projects is reviewed by the Audit, Risk & Compliance Committee or the Bupa Group Board The Group is subject to the same controls and procedures as Bupa Group

Information technology

Impact
The services provided by each of Bupa's businesses are underpinned by information technology systems and infrastructure that enable the delivery of core processes and products Failure of these systems may reduce the ability of Bupa to deliver products and services to its customer base or increase the risk of information security breaches

Mitigation
Bupa has a global IT team, supported by specific local teams, who are responsible for the development, maintenance and monitoring of IT services A programme of work is in place to ensure the continued development and enhancement of all IT services to provide the levels of services required by the business and adequately protect sensitive customer and business data Bupa has a dedicated information technology risk management team which monitors and manages specific risks across the information technology estate, reporting to both senior management and Group Risk on a routine basis

Bupa also has clear policies and standards for information governance across the Group These are reviewed regularly at an executive level and reported on to the Audit, Risk & Compliance Committee annually

Business Continuity

Impact
The geographic diversification of Bupa's operations significantly increases its exposure to business disruption In 2011, Bupa businesses were impacted by civil unrest in Egypt and Libya, flooding in Australia and Thailand and earthquakes in New Zealand

Mitigation
Each business unit has detailed Business Continuity Plans overseen by the Group Business Continuity Management (BCM) Committee Business continuity issues are reported to the Audit, Risk & Compliance Committee

As a result of the governance structures and controls in place, Bupa was not significantly impacted by any business disruption event during 2011

SUSTAINABILITY REPORT

Bupa Well World

We want to use our unique position as a healthcare group to help people make positive changes to their health and protect our environment This is integral to how we fulfil our purpose of helping people lead longer, healthier, happier lives, and why we have developed our Bupa Well World commitments

° We will help 60 million people to make positive changes to be healthier and happier by 2015

° We will reduce our carbon footprint by 20% by 2015 based on our 2009 footprint

Our goals are ambitious, requiring new approaches and partnerships, and will stretch us to deliver a positive impact beyond the customers we serve today

Developing and delivering Bupa Well World

To develop our commitments we sought advice from leading international experts

In early 2011 we convened the first in a series of workshops where we asked external stakeholders, including those from the Climate and Health Council, Oxford University and Forum for the Future, to challenge and inform our Bupa Well World plan Their insight and experience will be vital as we strive towards meeting our commitments

Our Bupa Well World commitments are being embedded into the heart of our business through our annual plans and business metrics

The Group Sustainability Committee meets quarterly to support and influence progress A network of Sustainability Champions is responsible for implementing the commitments in each business unit

Keeping people well

Bupa is committed to helping 60 million people make positive changes to be healthier and happier by 2015 Our customers told us that as well as expecting a healthcare partner to look after them when they are ill, they want us to find new ways to help people be healthier, even people who are not our customers

The scale of the challenge

Healthcare systems are facing enormous challenges Globally there are more than 36 million preventable deaths every year from long-term health problems, such as diabetes and heart disease Not only do these preventable deaths have a devastating social impact, they also create a huge financial burden The projected cost of these long-term health conditions threatens access to quality healthcare, particularly in low and middle income countries More needs to be done to keep people well

Finding solutions

Using our health and wellness expertise, Bupa is working with partners to trial a range of innovative projects around the world aimed at keeping people well Bupa will then look for opportunities to scale up the most successful projects

Our plans focus on broad engagement – using on line health information and other digital tools – combined with initiatives to facilitate deep engagement Overall, our goal is to help people make and sustain positive changes to their lifestyle to be healthier and happier

Supporting a healthy planet

As part of our commitment to supporting a healthy planet, we have pledged to reduce our carbon footprint by 20% by 2015, based on our 2009 footprint So far, we have achieved a 4 7% reduction and are committed to accelerating our progress

We have made substantial infrastructure investments to reduce our energy consumption and improve energy efficiency Our Care Services Division, by nature of its business, is most energy intensive and accounts for 69% of our global carbon footprint Care Services invested over £3m in 2011, including the installation of Building Energy Management Systems as well as new boilers, insulation and lighting In addition, new energy efficient products will continue to be reviewed and installed, including LED lighting and occupancy sensors

In total, these and other investments have helped Bupa Care Services to reduce its carbon emissions by 7 7% in 2011 (based on 2009 baseline) Across the rest of the Group, some business units have reduced their overall emissions while in others, levels have increased This has been due to a range of reasons, including business expansion

We are committed to reducing the carbon footprint of our offices around the world Sanitas, as an example, has installed carbon emissions monitors to help the business manage and reduce energy consumption across the property portfolio, which includes our Spanish offices and hospitals

We have been engaging employees through a number of campaigns that focus on behaviour change in our offices, care homes and other facilities We will also continue to share best practice, trialling innovative technologies and approaches, and supporting these to scale across Bupa

Future focus

The Bupa Well World commitments are a core part of our ambition to be a healthcare partner Our commitments establish an ambitious agenda for achievement by 2015 As we make progress towards them, longer term sustainability goals will be developed, commensurate with the global healthcare and environmental challenges that lie ahead and the contribution we believe we can make

To support our journey to 2015 and beyond, Bupa has established a number of approaches to embed our Bupa Well World goals

Carbon reporting and management

Bupa will improve carbon reporting and management systems across the organisation In disclosing future global carbon footprint data, we will work towards independent assurance

We will create a full sustainability reporting framework that drives insight and action at Bupa This will include investments in our monitoring and reporting processes and systems, and the exploration of external reporting frameworks

Governance

The Group Sustainability Committee and network of Sustainability Champions will be critical in fulfilling the Bupa Well World commitments Recognising the commercial importance of sustainability, our senior leaders have incorporated the commitments into their performance objectives

Sustainability at the heart of the business

Our business strategy incorporates our Bupa Well World commitments and each business unit's plans include activities to help us achieve them Improved reporting will better allow us to determine opportunities for quick wins, ongoing improvements and major investments

Partnering for success

In addressing the pressing global health and environmental challenges, no single entity has all the answers We also need to address the causes, not just the effects, of the challenges we face We are committed to working with other organisations and partners to find opportunities to make a positive impact

OUR PEOPLE

We are proactive at engaging with our employees across the business so that everyone understands the needs of our customers, who are central to everything we do We believe that this also provides a more meaningful working experience

Commitment to developing leadership and talent

The quality of our people is at the heart of our ability to deliver our business ambition We have introduced more rigour to talent attraction, assessment and selection using best practice tools and approaches to support Talent Boards, succession planning, career reviews and to identify potential Our top 120 global leaders participated in a three-day thought-leadership forum co-created with Harvard Business School focused on ways to add value to customers lives

We invest in building capability at every level and look to harness our people's healthcare expertise across markets for the benefit of customers throughout the world Our experts share knowledge, building employees' capability as a healthcare partner We move people from all disciplines and levels around the Bupa Group on short and long-term international secondments and stretch assignments

Engaging employees

Engaged employees go the extra mile for our customers and our business We communicate regularly to help our people understand Bupa's strategy and priorities, unifying them behind our purpose We encourage employees to get involved in finding ways to improve service quality and our annual survey, 'Surveying Our People', invites colleagues to express their views on a wide variety of topics The results are discussed by every team who decide together how to implement changes

Key to our success is the value we place on sharing and applying best practice across the Group To encourage Group-wide collaboration we continue to invest in Bupa Live, our internal social media platform With over 4,000 on-line groups generated by our 13,500 users, our progress has been recognised by a number of industry awards Bupa Live users score up to 11% higher across a number of employee engagement survey questions and daily we see new examples of efficiencies and innovation enabled by the platform

Managing and recognising performance

To ensure everyone has challenging goals, we introduced two-factor performance management scheme Factor A objectives help individuals focus on operational excellence related to annual business plans Factor B objectives focus on activity that delivers longer-term improvements to Bupa

The Bupa One Life scheme recognises innovation, excellence and long service at all levels, with over 2,000 employees throughout the Group receiving an award

Health and safety

Bupa operates a safe environment for employees Over the past 12 months we have maintained a low and improving level of employee-related accidents We have also undertaken a review of health and safety policies and practices with a view to further developing and strengthening health and safety arrangements

Diversity

Diversity and inclusion is essential to our ability to be a creative, dynamic organisation While our overarching principles are consistent, our priorities are tailored to meet the local needs of the countries in which we operate

Employing people with disabilities forms part of our diversity commitment We recruit, train, develop and promote all our people, including those with disabilities based on their aptitude and ability Should an employee become disabled during employment, we make every effort to continue their employment and provide them with appropriate training, as necessary

Looking ahead

Bupa is about to enter an exciting new phase in its development, through a growth agenda that will take us further forward in our healthcare partner ambitions We will continue to ensure Bupa has the people, processes and organisational capabilities to deliver the strategy

3. Results and dividends

The Group profit for the year, after taxation, amounted to £193 7m (2010 £31 0m) The Group paid dividends of £200 0m (2010 £nil) during the year

4. Directors

The names of persons who were Directors of the Company at any time during the year are as follows

N T Beazley
G M Evans
I J Goodacre
B D J Kent (appointed 9 June 2011)
S M Los
M A Merchant
C A Richardson (appointed 9 June 2011)
T D Singer (resigned 16 September 2011)

5. International Financial Reporting Standards

The Group has prepared the consolidated group accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) The Company is not required to report under IFRS and therefore the individual Company accounts, attached at Appendix I, are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP)

6. Charitable and political contributions

During 2011, the Group made charitable donations totalling £4 3m (2010 £2 2m) This included payments to the Bupa Foundation Australia of £3 4m (2010 £1 8m) and to the Sanitas Foundation of £0 8m (2010 £0 4m) No other donations were made to overseas registered charities (2010 £nil)

The Group made no political donations in the year (2010 £nil)

7. Corporate governance

The Company was a wholly owned subsidiary of The British United Provident Association Limited (Bupa) throughout the year A statement on the Bupa Group corporate governance policies and the report of the Bupa Group remuneration committee are included in the Bupa Group's annual report and accounts

8. Employment policies

Details of the Bupa Group's employment policies, including policies on equal opportunities for disabled employees, are included in the Bupa Group's annual report and accounts

9. Directors' Indemnity

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted, in respect of all losses in connection with the exercise of their duties and responsibilities, as Directors of the Company or any of its subsidiaries

10. Going Concern

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

11. Policy for paying creditors

It is the Bupa policy to pay its providers and other creditors promptly and in any event in accordance with agreed terms and conditions As a holding company, the Company itself has no trade creditors

12. Disclosure of information to auditors

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

13. Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit plc as auditors of the Company will be proposed at the Annual General Meeting

Registered Office

Bupa House
15 -19 Bloomsbury Way
London WC1A 2BA

20 April 2012

By Order of the Board

B D J Kent
Director
Company Number 2779134

Bupa Finance plc

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the Group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their surplus or deficit for that period

In preparing each of the Group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent 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 parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

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

Independent Auditor's Report to the Members of Bupa Finance plc

We have audited the financial statements of Bupa Finance plc for the year ended 31 December 2011 set out on pages 23 to 108 The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

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 2011 and of the group's surplus for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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

Mary H Trussell

Mary Trussell (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL
20 April 2012

Bupa Finance plc
Consolidated income statement
for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Revenues			
Gross insurance premiums	2	**6,379 9**	6,011 8
Premiums ceded to reinsurers	2	**(34.4)**	(90 8)
Net insurance premiums earned		**6,345 5**	5,921 00
Revenues from life investment contracts		**-**	7 9
Revenues from service contracts		**11 9**	3 5
Care, health and other revenues		**1,658 8**	1,643 6
Total revenues	1, 2	**8,016 2**	7,576 0
Claims and expenses			
Insurance claims incurred	3	**(4,948 5)**	(4,648 7)
Reinsurers' share of claims incurred	3	**29 0**	75 3
Net insurance claims incurred		**(4,919 5)**	(4,573 4)
Decrease in fair value of life investment contract liabilities		**-**	9 9
Return on financial investments backing life investment contract liabilities		**-**	(10 1)
Share of post-taxation results of equity accounted investments	13	**(2 4)**	(0 7)
Other operating expenses	4	**(2,507 9)**	(2,534 7)
Impairment of goodwill	10	**(165 8)**	(249 2)
Impairment of other intangible assets arising on business combinations	10	**(133 7)**	(17 7)
Other charges	6	**(22 7)**	(53 8)
Total claims and expenses		**(7,752 0)**	(7,429 7)
Surplus before financial income and expenses		**264 2**	146 3
Financial income and expenses			
Financial income	7	**101 7**	105 0
Financial expenses	8	**(76 0)**	(83 3)
		25 7	21 7
Surplus before taxation expense	1	**289 9**	168 0
Taxation expense	9	**(96 2)**	(137 0)
Surplus for the financial year		**193 7**	31 0
Attributable to			
Bupa Finance plc		**188 9**	25 2
Non-controlling interests		**4 8**	5 8
		193 7	31 0

The notes on pages 29 to 97 form part of these financial statements

Bupa Finance plc
Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Surplus for the financial year		**193 7**	31 0
Other comprehensive (expense) / income			
Unrealised (loss) / gain on revaluation of property		(31 1)	82 2
Actuarial (loss) / gain on pension schemes	25	(9 1)	4 8
Realisation of foreign exchange on disposal of overseas subsidiary companies		-	1 6
Foreign exchange translation differences on goodwill		3 4	212 6
Other foreign exchange translation differences		(5 8)	150 5
Net gain / (loss) on hedge of net investment in overseas subsidiary companies		7 8	(43 2)
Realisation of cash flow hedge		(1 3)	1 9
Change in fair value of underlying derivative of cash flow hedge		(1 0)	(0 4)
Disposal of subsidiary companies		-	0 1
Other movements in non-controlling interests		-	(6 8)
Taxation credit / (charge) on income and expense recognised directly in other comprehensive income	9	16 7	(18 7)
Other comprehensive (expense) / income for the year, net of taxation		(20 4)	384 6
Total comprehensive income for the year		173 3	415 6
Attributable to			
Bupa Finance plc		169 1	416 1
Non-controlling interests		4 2	(0 5)
Total comprehensive income for the year		173 3	415 6

The notes on pages 29 to 97 form part of the financial statements

Bupa Finance plc
Consolidated balance sheet
as at 31 December 2011

	Note	2011 £m	2010 (restated)* £m
Non-current assets			
Intangible assets	10	**2,186 9**	2,500 3
Property, plant and equipment	11	**2,243 3**	2,272 7
Investment property	12	**132 5**	120 3
Equity accounted investments	13	**43 3**	42 2
Financial investments	15	**661 5**	1,031 8
Assets arising from insurance business	16	**4 9**	4 4
Other receivables	17	**342 8**	309 8
Post employment benefit net assets	25	**0 3**	0 7
		5,615 5	6,282 2
Current assets			
Financial investments	15	**1,221 6**	1,127 0
Inventories	18	**16 5**	19 7
Assets arising from insurance business	16	**828 8**	785 0
Trade and other receivables	17	**345 7**	869 9
Assets held for sale	19	**-**	351 5
Cash and cash equivalents	20	**1,227 4**	689 3
		3,640 0	3842 4
Total assets		**9,255 5**	10,124 6
Non-current liabilities			
Subordinated liabilities	21	**(428 9)**	(374 7)
Other interest bearing liabilities	22	**(669 4)**	(886 6)
Provisions under insurance contracts issued	23	**(25 7)**	(24 1)
Post employment benefit net liabilities	25	**(11 0)**	(3 9)
Provisions for liabilities and charges	26	**(13.3)**	(18 1)
Deferred taxation liabilities	27	**(176 5)**	(211 8)
Trade and other payables	28	**(8 3)**	(56 0)
		(1,333 1)	(1,575 2)
Current liabilities			
Subordinated liabilities	21	**(5 9)**	(5 9)
Other interest bearing liabilities	22	**(24 3)**	(27 2)
Provisions under insurance contracts issued	23	**(2,136 5)**	(2,134 5)
Other liabilities under insurance contracts issued	24	**(13 7)**	(18 9)
Provisions for liabilities and charges	26	**(51 7)**	(60 3)
Current taxation liabilities		**(134 8)**	(157 0)
Trade and other payables	28	**(928 4)**	(1,310 1)
Liabilities associated with assets held for sale	19	**-**	(181 4)
		(3,295 3)	(3,895 3)
Total liabilities		**(4,628 4)**	(5,470 5)
Net assets		**4,627 1**	4,654 1
Equity			
Called up share capital	29	**200 1**	200 1
Property revaluation reserve		**642 6**	660 4
Income and expenditure reserve		**3,059 5**	3,077 5
Cash flow hedge reserve		**29 0**	30 7
Foreign exchange translation reserve		**662 3**	655 7
Equity attributable to Bupa Finance plc		**4,593 5**	4,624 4
Equity attributable to non-controlling interests		**33 6**	29 7
Total equity		**4,627 1**	4,654 1

* The 2010 balance sheet has been restated in accordance with IFRS 3 on the finalisation of the accounting for acquisitions made during 2010, refer to note 32

Approved by the Board of Directors and signed on its behalf on 20 April 2012 by

G M Evans
Director

The notes on pages 29 to 97 form part of the financial statements

Bupa Finance plc
Consolidated statement of cash flows
for the year ended 31 December 2011

	Note	2011 £m	2010 (restated) £m
Operating activities			
Surplus before taxation expense		**289 9**	168 0
Adjustments for			
Net financial income and expenses		**(25 7)**	(21 7)
Depreciation, amortisation and impairment		**481 7**	439 9
Other non-cash items		**29 7**	54 5
Changes in working capital and provisions			
Increase in provisions and other liabilities under insurance contracts issued		**4 6**	80 1
Increase in assets under insurance contracts issued		**(47 2)**	(19 5)
Change in net pension asset / liability		**(1 6)**	(2 9)
Increase in trade and other receivables, and other assets		**(337 7)**	(96 4)
Increase in trade and other payables, and other liabilities		**415 1**	93 8
Cash generated from operations		**808 8**	695 8
Income taxation paid		**(109 7)**	(105 1)
Increase in cash held in restricted access deposits	20	**(9 9)**	(4 2)
Net cash generated from operating activities		**689 2**	586 5
Cash flow from investing activities			
Acquisition of subsidiary companies, net of cash acquired	32	**(11 7)**	(3 1)
Acquisition of equity accounted investments		**(5 6)**	(3 5)
Dividends received from associates		**1 5**	-
Disposal of subsidiary companies, net of cash disposed of	19	**171 7**	115 1
Purchase of intangible assets		**(52 3)**	(26 6)
Purchase of property, plant and equipment		**(130 4)**	(122 5)
Proceeds from sale of property, plant and equipment		**1 3**	1 8
Purchase of investment property		**(7 4)**	(5 1)
Proceeds from sale of investment property		**-**	0 2
Purchase of financial investments, excluding deposits with credit institutions		**(258 6)**	(261 5)
Proceeds from sale of financial investments, excluding deposits with credit institutions		**321 4**	375 2
Net withdrawal from / (investment into) deposits with credit institutions		**224 7**	(778 7)
Interest received		**61 4**	76 4
Net cash generated from / (used in) investing activities		**316 0**	(632 3)
Cash flow from financing activities			
Repayment of interest bearing liabilities		**(205 4)**	(223 9)
Interest paid		**(62 7)**	(80 0)
Payments for hedging instruments		**(6 3)**	(2 7)
Payment of capital redemption to non-controlling interests		**-**	(6 8)
Dividends paid		**(200 0)**	-
Dividends paid to non-controlling interests		**(0 3)**	(6 6)
Net cash used in financing activities		**(474 7)**	(320 0)
Net increase / (decrease) in cash and cash equivalents		**530 5**	(365 8)
Cash and cash equivalents at beginning of year		**651 6**	1,037 5
Effect of exchange rate changes		**(0 1)**	65 3
Cash and cash equivalents reclassified to assets held for sale		**-**	(85 4)
Cash and cash equivalents at end of year	20	**1,182 0**	651 6

The notes on pages 29 to 97 form part of the financial statements

Bupa Finance plc
Consolidated statement of changes in equity
for the year ended 31 December 2011

	Property revaluation reserve	Income and expenditure reserve	Cash flow hedge reserve	Foreign exchange translation reserve	Total attributable to Bupa Finance plc	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
2011							
At beginning of year	660 4	3,077 5	30 7	655 7	**4,424 3**	29 7	**4,454 0**
Retained surplus for the financial year	-	188 9	-	-	**188 9**	4 8	**193 7**
Other comprehensive (expense) / income							
Unrealised loss on revaluation of property	(31 1)	-	-	-	**(31 1)**	-	**(31 1)**
Actuarial loss on pension schemes	-	(9 1)	-	-	**(9 1)**	-	**(9 1)**
Foreign exchange translation differences on goodwill	-	-	-	3 4	**3 4**	-	**3 4**
Other foreign exchange translation differences	(0 4)	-	-	(5 1)	**(5 5)**	(0 3)	**(5 8)**
Net gain on hedge of net investment in overseas subsidiary companies	-	-	-	7 8	**7 8**	-	**7 8**
Realisation of cash flow hedge on impairment of intangibles arising on acquisition	-	-	(1 3)	-	**(1 3)**	-	**(1 3)**
Change in fair value of underlying derivative of cash flow hedge	-	-	(0 6)	-	**(0 6)**	(0 4)	**(1 0)**
Taxation credit on income and expense recognised directly in other comprehensive income	13 7	2 2	0 2	0 5	**16 6**	0 1	**16 7**
Other comprehensive (expense) / income for the year, net of taxation	(17 8)	(6 9)	(1 7)	6 6	**(19 8)**	(0 6)	**(20 4)**
Total comprehensive (expense) / income for the year	(17 8)	182 0	(1 7)	6 6	**169 1**	4 2	**173 3**
Dividends to equity holders of the company	-	(200 0)	-	-	**(200 0)**	0	**(200 0)**
Contributions to non-controlling interests							
Dividends paid to non-controlling interests	-	-	-	-	-	(0 3)	**(0 3)**
Total contributions to non-controlling interests for the year	-	-	-	-	-	**(0 3)**	**(0 3)**
At end of year	**642 6**	**3,059 5**	**29 0**	**662 3**	**4,393 4**	**33 6**	**4,427 0**
Share capital at beginning and end of year							**200 1**
Total equity							**4,627 1**

The notes on pages 29 to 97 form part of the financial statements

Bupa Finance plc
Consolidated statement of changes in equity - continued
for the year ended 31 December 2011

	Property revaluation reserve	Income and expenditure reserve	Cash flow hedge reserve	Foreign exchange translation reserve	Total attributable to Bupa Finance plc	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
2010							
At beginning of year	596 6	3,048 8	29 7	333 1	**4,008 2**	36 8	**4,045 0**
Retained surplus for the financial year	-	25 2	-	-	**25 2**	5 8	**31 0**
Other comprehensive income / (expense)							
Unrealised gain on revaluation of property	82 2	-	-	-	**82 2**	-	**82 2**
Actuarial gain on pension schemes	-	4 8	-	-	**4 8**	-	**4 8**
Realisation of foreign exchange on disposal of overseas subsidiary companies	-	-	-	1 6	**1 6**	-	**1 6**
Foreign exchange translation differences on goodwill	-	-	-	212 6	**212 6**	-	**212 6**
Other foreign exchange translation differences	(1 1)	-	-	151 0	**149 9**	0 6	**150 5**
Net loss on hedge of net investment in overseas subsidiary companies	-	-	-	(43 2)	**(43 2)**	-	**(43 2)**
Realisation of cash flow hedge on disposal of overseas subsidiary companies	-	-	(0 9)	-	**(0 9)**	-	**(0 9)**
Realisation of cash flow hedge on impairment of overseas subsidiary companies	-	-	2 8	-	**2 8**	-	**2 8**
Change in fair value of underlying derivative of cash flow hedge	-	-	(0 2)	-	**(0 2)**	(0 2)	**(0 4)**
Disposal of subsidiary companies	-	-	-	-	-	0 1	**0 1**
Other movements in non-controlling interests	-	-	-	-	-	(6 8)	**(6 8)**
Taxation (charge) / credit on income and expense recognised directly in other comprehensive income	(17 3)	(1 3)	(0 7)	0 6	**(18 7)**	-	**(18 7)**
Other comprehensive income / (expense) for the year, net of taxation	63 8	3 5	1 0	322 6	**390 9**	(6 3)	**384 6**
Total comprehensive income / (expense) for the year	63 8	28 7	1 0	322 6	**416 1**	(0 5)	**415 6**
Contributions to non-controlling interests							
Dividends paid to non-controlling interests	-	-	-	-	-	(6 6)	**(6 6)**
Total contributions to non-controlling interests for the year	-	-	-	-	-	(6 6)	(6 6)
At end of year	**660 4**	**3,077 5**	**30 7**	**655 7**	**4,424 3**	**29 7**	**4,454 0**
Share capital at beginning and end of year							**200 1**
Total equity							**4,654 1**

The notes on pages 29 to 97 form part of the financial statements

Basis of consolidation
The consolidated financial statements for the year ended 31 December 2011 are comprised of those of the Company and its subsidiary companies (together referred to as the 'Group')

The Group's consolidated financial statements are prepared under International Financial Reporting Standards as adopted by the EU ('IFRS') The appropriate provisions of the Companies Act have also been complied with

A summary of IFRSs that are relevant for the Group are included on page 109

The financial statements were approved by the Board of Directors on 20 April 2012 The Directors have reviewed and approved the Group's accounting policies, which are set out below and 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

Statement of compliance
The Group financial statements have been prepared in accordance with IFRS and approved by the Directors The parent Company has continued to present individual financial statements prepared on a UK Generally Accepted Accounting Practice (UK GAAP) basis as permitted by Section 396 to the Companies Act 2006 The Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes The parent Company financial statements, with their respective accounting policies, are presented at Appendix I

Basis of preparation
The financial statements are prepared on a going concern basis, and under the historical cost convention, as modified by the revaluation of property, investment property, financial investments at fair value through profit or loss, available for sale financial investments, and derivative instruments

Finalisation of accounting for business combinations
In accordance with IFRS 3, the acquisition accounting for the acquisition of Health Eyewear, made in 2010, was finalised during the financial year As a result, the 31 December 2010 balance sheet has been restated to reflect the final fair value adjustments (see note 32)

Going concern
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 Business Review on pages 1 to 19 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's report on pages 8 to 11, together with further information disclosed in notes 20 to 22 In addition, notes 30 and 31 summarise the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk

International Accounting Standards (IAS) 1 requires the Group to make an assessment of its ability to continue as a going concern when preparing its financial statements In making this assessment, management has considered the discussions with the relationship banks as well as forecasts based on the Group's three year plan for the period 2012 to 2014, which take account of reasonably possible changes in trading performance

After making enquiries, the Directors have reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing these financial statements

The Group maintains significant cash balances to meet its day to day working capital requirements (see note 20) The Group's £900 0m committed bank facility, which matures on 30 September 2013, was undrawn at 31 December 2011 with the exception of £6 4m of outstanding letters of credit for general business purposes

New financial reporting requirements
All newly effective financial reporting standards applicable to the Group for the first time for the year ended 31 December 2011 have been reviewed and it has been concluded that they have no material impact on the financial statements of the Group

Financial reporting standards applicable to the Group for future financial periods
The following financial reporting standard has been issued but not yet endorsed by the EU but are not effective for the year ended 31 December 2011, and have not been early adopted by the Group The Group has reviewed the effect of all other amendments to IFRS and interpretations effective for accounting periods beginning on or after 1 January 2012 and does not expect them to have a significant impact on the financial statements of the Group

IAS 19 Employee Benefits (Amendment)
The amendment does not change the total return on defined benefit plan assets, but it does change the split between what is recognised in the income statement and what is recognised in other comprehensive income by changing the way the interest expense is calculated in the income statement A number of new disclosures are also required The amendment becomes effective for annual periods beginning on or after 1 January 2013

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39 The standard is effective for annual periods beginning on or after 1 January 2015 In subsequent phases, the IASB will address hedge accounting and impairment of financial assets The completion of this project is expected in the second half of 2012 The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture

Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest

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 If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred

Subsidiary companies
Subsidiaries are entities controlled by the Group The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to until the date that control ceases

Investments in subsidiary companies are carried at cost less impairment in the Company's accounts Dividends received from subsidiaries are recognised in the income statement when the right to receive the dividend is established

Transactions between Group companies are on commercial terms Intra Group balances and any gains, losses, income and expenses arising from intra Group transactions are eliminated in preparing the consolidated financial statements

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

Equity accounted investments
Equity accounted investments comprise associated companies and joint ventures Associated companies include those entities in which the Group has significant influence, but no control over the financial and operating policies of the entity Joint ventures include those entities over the activities of which the Group has joint control established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions 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 consolidated financial statements include the Group's share of the 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 control or significant influence ceases

When the Group's share of losses exceed 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 or made payments on behalf of the equity accounted investment

Foreign currency
The consolidated financial statements are presented in Sterling, which is the functional and presentational currency of the Company

Foreign currency transactions
In the Group's subsidiary companies, transactions in foreign currencies 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 the income statement 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, no exchange differences therefore 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 the income statement

In the consolidated financial statements, where a loan between Group entities results in the recognition of a foreign exchange gain or loss, the exchange difference is recognised in the statement of comprehensive income to the extent that it relates to the Group's net investment in overseas operations

Foreign operations
The assets and liabilities of foreign operations, including associated goodwill, held in functional currencies other than Sterling are translated from their functional currency into Sterling at the exchange rate at the balance sheet date Income and expenses are translated at average rates for the period, provided the average approximates the rates ruling at the date of the transactions Foreign exchange differences arising on translation are recognised initially in the statement of comprehensive income, and only in the income statement in the period in which the entity is eventually disposed of

Revenues
Revenues arise from insurance contracts entered into with customers, care and health provision services rendered and contracts relating to the administration of claims funds on behalf of corporate customers The accounting policies relevant to these revenues are described within insurance activities, revenues from service contracts and care, health and other revenues

Insurance activities
Contracts entered into by the Group's insurance entities are classified into those that result in the transfer of significant insurance risk to the Group and those that do not Contracts that result in the transfer of significant insurance risk are accounted for as either general insurance or long-term insurance contracts under IFRS 4 Revenues from contracts that do not result in the transfer of significant insurance risk are included within service contract revenues

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4

Basis of accounting for general insurance activities

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 the gross provision for unearned premiums during the financial year The unearned premium provision represents the proportion of premiums written in the year relating to periods of risk in subsequent financial years It is calculated on a straight line basis, which is not materially different from a calculation based on the pattern of incidence of risk

Premiums are shown gross of commissions payable and net of insurance premium taxes that may apply in certain jurisdictions

Premiums ceded to reinsurers

Premiums ceded to reinsurers represent the 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

Insurance claims incurred

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 Trust Fund levy for Australian health insurance businesses

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

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 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 a high degree of confidence

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year, in respect of contracts commencing before that date, are expected to exceed the related unearned premiums, less related deferred acquisition costs

The methods used and estimates made for claims provisions are reviewed regularly

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 The recoverables due from reinsurers are shown within assets arising from insurance business and are assessed for impairment at each balance sheet date Impairments are accounted for within the income statement on an incurred loss basis

Acquisition costs

Acquisition costs, included within other operating expenses, 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 but not yet been incurred are deferred to the subsequent period at the point at which they are paid, and recognised in the income statement in the relevant period

Medicare rebate

In Australia, the government provides a rebate to health insurers in respect of the premiums paid for private health insurance Rebates due from the government but not received at the balance sheet date are recognised in assets arising from insurance business

Revenues from service contracts
A number of contracts written by the Group's general insurance entities do not result in the transfer of significant insurance risk to the Group The contracts mainly relate to the administration of claims funds on behalf of corporate customers Some of these contracts contain financial liabilities representing deposits repayable to the customer These are measured at amortised cost Revenues from service contracts represent the surplus receivable on such contracts and are recognised as the services are provided The claims fund deposit held on behalf of customers is reported within other payables, accruals and deferred income

Care, health and other revenues
Care, health and other revenues represents revenues receivable from care and health provision services rendered

Revenues are stated net of value added taxation and other sales taxes, rebates and discounts Revenues are recognised in the accounting period in which the Group obtains the right to consideration in exchange for its performance

Revenues associated with service concession receivables include revenues from the construction of the infrastructure and operation revenues Construction revenues are recognised based on the stage of completion of the work performed Operation revenues are recognised in the accounting period in which the services are provided

Financial income and expenses
Financial income comprises interest receivable, realised gains and losses on investments, dividend income on equity investments, changes in the fair value of items recognised at fair value through profit or loss, change in the fair value of derivatives, changes in the fair value of investment property and foreign exchange gains and losses

Interest income, except in relation to assets classified at fair value through profit or loss, is recognised in the income statement as it accrues, using the effective interest method

Changes in the value of financial assets designated as 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

Financial expenses includes interest payable on borrowings, calculated using the effective interest method, impairment losses on financial investments not measured at fair value through profit or loss and other financial expenses

Taxation
Income taxation on the surplus or deficit for the year comprises current and deferred taxation Income taxation is recognised in the 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 other comprehensive income

Current taxation is the expected taxation payable on the taxable surplus 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

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

Segmental reporting
Segment results that are reported to the Chief Executive and Group Finance Director (the Group's chief operating decision makers) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis Unallocated results comprise mainly head office costs and related recharges, income and expenses which cannot be specifically allocated to the reportable segments

A reportable segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including inter segment transactions The reportable segments reflect the Group's main operating divisions The divisional structure is defined by the different products and services provided by each division and the geographic areas in which they operate

These reportable segments reflect the management structure used by management to monitor the results of the business and to assess performance and make decisions about the allocation of resources Segmental performance is assessed based on surplus (including share of post taxation results of equity accounted investments) before amortisation of intangible assets arising on business combinations, other charges and income, financial income and expenses, taxation expense and non-controlling equity interests Financial income and expenses and taxation expense are reported and monitored on a Group basis and are not attributed to individual segments

Intangible assets
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 or associated company at the date of business combination Where goodwill can only be determined on a provisional basis for a financial year, adjustments may be made to this balance for up to twelve months from the date of business combination

Goodwill arising on business combinations is capitalised and presented as part of intangible assets in the consolidated balance sheet 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

Goodwill is allocated to those cash generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill

Any excess of the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities over cost that arises on an acquisition is recognised immediately in the income statement

Other intangible assets
Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment Amortisation is charged to the income statement on a straight-line basis as follows

• Computer software	2 to 10 years

Intangible assets, other than goodwill, acquired as part of a business combination are capitalised at fair value Amortisation is charged to the income statement on a straight-line basis as follows

• Brand and trademarks	10 years
• Technology and databases	10 years
• Distribution networks	10 to 11 years
• Customer relationships	10 to 21 years
• Present value of acquired in-force business	13 to 20 years
• Licences to operate care homes	term of licence
• Non-compete agreements	term of agreement
• Leases	term of lease

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised in the income statement to reduce the carrying amount to the recoverable amount Intangible assets acquired as part of a business combination deemed to have an indefinite life are subject to annual impairment reviews and are substantiated as follows

- Bed licences - attributed an indefinite useful life due to the fact that these licences, which are issued by the Australian government, have no expiry date It is common practice in Australia to attribute an indefinite life to bed licences

- MBF brand - determined upon acquisition by an external valuation expert, based upon the existing awareness, age and market share of the MBF brand in Australia and the retention rates of brand names in acquisitions in the same business sector

Property, plant and equipment
Freehold and leasehold properties comprise care homes, hospitals and offices These properties are shown at fair value based on periodic, but at least triennial, valuations performed by external independent valuers, less subsequent depreciation and impairment losses The valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date Directors' valuations are performed in interim years where impairment indicators exist Fair value for care homes and hospitals is considered to be existing use value Valuations of office buildings are on a market value basis Borrowing costs relating to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset

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

Gains and losses on revaluation are recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement Where a revaluation reverses deficits taken to the income statement in prior years, then it is credited to the income statement

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 and lease term
• Equipment (leasehold improvements)	shorter of useful life and lease term
• Equipment	3 to 10 years

The assets' residual values and useful lives are reviewed, where significant, at each balance sheet date and adjusted if appropriate

Impairment reviews are undertaken where there are indications that carrying value may not be recoverable An impairment loss on assets carried at cost is recognised in the income statement to reduce the carrying value to the recoverable amount An impairment loss on assets carried at revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement

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

Assets obtained under finance leases are capitalised within property, plant and equipment at fair value at acquisition or, if lower, at the present value of the minimum lease payments and depreciated over the shorter of their useful economic life and the lease term

Obligations relating to finance leases, net of finance charges in respect of future periods, are included within other interest bearing liabilities 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

Payments made under operating leases are recognised as prepayments within trade and other receivables and are recognised in the income statement on a straight line basis over the term of the lease

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

Other leases are operating leases and are not recognised in the Group's balance sheet

Investment properties
Property leased to third parties or held for capital appreciation is classified within investment properties Investment properties are stated at fair value

Fair values are 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 an independent valuer, holding a recognised and relevant professional qualification and with recent experience in the location and category of investment property being valued, values the portfolio annually

In the absence of current prices in an active market the properties are valued using discounted cash flow projections based on reliable estimates of future cash flows Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows

Any gain or loss arising from a change in the fair value is recognised in the income statement

Financial investments
The Group has classified its financial investments into the following categories at fair value through profit or loss, available for sale, held to maturity and loans and receivables Management determines the classification at initial recognition

All financial investments are initially recognised at fair value, which includes transaction costs for financial investments not classified as 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 fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy

The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the income statement in the period in which they arise 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 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

Derivatives are held at fair value through profit or loss unless they are designated as hedges The accounting policy for hedging instruments is described on page 39

Available for sale
Available for sale financial investments are those intended to be held for an undisclosed period of time, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices

Available for sale financial investments are carried at fair value, with the exception of investments in equity instruments where fair value cannot be reliably determined, which are carried at cost Fair values are determined in the same manner as for investments at fair value through profit or loss Changes in fair value are recognised in other comprehensive income whilst an investment is held, and are subsequently transferred to the income statement upon sale or derecognition of the investment

Held to maturity investments
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity Investments are designated as held to maturity where the Group has a positive intention and ability to hold investments to maturity Held to maturity 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 income statement The intent and ability to hold the asset to maturity is assessed at each reporting date

Loans and receivables
Loans and receivables are non-derivative financial investments with fixed or determinable payments that are not quoted in an active market They arise when the Group provides money, goods or services directly to a borrower or customer with no intention of trading the receivable Loans are recognised when cash is advanced to the borrowers

Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses

Sale and repurchase agreements
Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet, however, the consideration paid is recognised in loans and receivables in financial investments The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method

Trade and other receivables
Trade and other receivables, excluding derivative assets, are carried at amortised cost less impairment losses Derivative assets are carried at fair value as detailed in the derivative financial instruments note

Service concession receivables
The Group has recognised a service concession receivable in respect of the public-private-partnership arrangement with the Valencian government (grantor) Under this arrangement the Sanitas business has contracted to build and operate the Manises hospital for the grantor for 15 years A financial asset has been recognised to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the grantor for the services provided At the end of the contract ownership of the hospital reverts to the grantor The service concession receivable is carried at amortised cost less impairment losses

Impairment of financial assets
Financial assets comprise investment properties, financial investments and trade and other receivables If they are not already held at fair value, financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset

An impairment loss in respect of a financial investment measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate at the date the investment was made

Significant financial assets are tested for impairment on an individual basis The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics All impairment losses are recognised in the income statement

Non-current assets classified as held for sale and discontinued operations
Non-current assets or disposal groups are classified as held for sale where their carrying amount will be recovered principally through a sale transaction rather than continuing use, where sale is highly probable and where the asset or disposal group s available for immediate sale in its present condition

Non-current assets and disposal groups held for sale are recognised at the lower of carrying amount and fair value less costs to sell Impairment losses are recognised in the income statement

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary company acquired exclusively with a view to resale Classification as a discontinued operation occurs upon disposal, abandonment or when the operation meets the criteria to be classified as held for sale, if earlier

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 Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

Callable subordinated perpetual guaranteed bonds
The Group has issued callable subordinated perpetual guaranteed bonds The terms of the bonds are such that Bupa 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 derivatives that mitigate interest rate risk resulting from the fixed interest rate of the bonds are recognised in the income statement as an effective fair value hedge of this 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 Group is therefore likely to refinance the bonds as a result of economic compulsion

Other subordinated liabilities and other interest bearing liabilities
All interest bearing liabilities are recognised initially as proceeds receivable 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 income statement over the period of the borrowings on an effective interest basis The amortised cost of borrowings with a corresponding fair value hedge is adjusted for the fair value of the risk being hedged

Offsetting financial instruments
Financial investments and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Provisions for liabilities and charges
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation that can be reliably estimated If the effect is material, provisions are determined by discounting the expected future cash flows 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

Trade and other payables
Trade and other payables, excluding derivative liabilities, are carried at amortised cost Derivative liabilities are stated at fair value, as detailed in the derivative financial instruments note

Accommodation bond liabilities
Accommodation bonds are non-interest bearing deposits paid by the resident of the care home as payment for a place in the care home facility These deposits are liabilities which fall due and are payable when the resident leaves the facility The bonds are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the bond at the election of the bondholder

Employee post employment benefits
The Group operates defined contribution and defined benefit pension schemes

Defined contribution pension schemes
Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred

Defined benefit post employment schemes
The employees of the Group participate in The Bupa Pension Scheme As no agreement exists to allocate pension scheme assets and liabilities between group companies, International Accounting Standard (IAS) No 19 Retirement Benefits permits those group companies to account for their pension costs as if the group company participates in a defined contribution pension scheme Therefore the costs of the pension contributions made to the scheme are recognised in the income statement

The assets of other smaller pension schemes are held separately from those of the Company in independently administered funds

The Group's net obligation in respect of defined benefit pension and post retirement medical schemes is calculated separately for each scheme and represents the present value of the defined benefit obligation less, for funded schemes, the fair value of scheme assets The discount rate used is the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefits 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, plus the total of any unrecognised past service costs

The charge to the income statement for defined benefit schemes represents the following current service cost calculated on the projected unit credit method, the expected return on scheme assets, less the interest cost on scheme liabilities, and gains and losses on curtailments

All actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk Derivatives that have been purchased or issued as part of a hedge that subsequently does not qualify for hedge accounting are accounted for as if they were trading instruments

Derivative financial instruments are recognised initially at fair value Subsequent to initial recognition, they are remeasured at fair value within trade and other receivables, or within trade and other payables

Fair values are obtained from exchange quoted prices and, where specific exchange prices are not available, from market observable pricing information including interest rate yield curves The fair values of futures and options are obtained from the quoted prices on the relevant exchange, including the London International Financial Futures and Options Exchange (LIFFE) The value of foreign exchange forward contracts is established using listed market prices

Hedge accounting
The Group applies fair value, net investment and cash flow hedge accounting The Group 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

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 income statement The hedged item is fair valued for the hedged risk with any adjustment being recognised in the income statement

Cash flow hedges
Gains and losses on derivative financial instruments designated as a hedge to the exposure in the variability in cash flows that are attributed to a recognised asset or liability, a firm commitment or a highly probable forecast transaction are accounted for as cash flow hedges

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 income statement The ineffective portion of the gain or loss is recognised in the income statement

If the hedged cash flow is no longer expected to take place, all deferred gains and losses are released to the 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

Foreign currency hedging of net investment
The Group applies hedge accounting to its foreign currency exposure on a net investment basis The Group uses foreign currency denominated borrowings, foreign currency forward contracts and foreign currency zero cost collars to hedge net investment risk

A zero cost collar option is an instrument which combines the purchase of a cap and the sale of a floor to specify a range in which a foreign currency rate will fluctuate The instrument insulates the buyer against the risk of a significant weakening of a foreign currency rate, but limits the benefit of a strengthening of that foreign currency rate Zero cost collar options are only exercised, at specified intervals, if the benchmark rate is exceeded Settlement amounts are calculated by reference to the agreed notional amounts

If an external foreign currency denominated loan is used as a hedge, the portion of the exchange gains or losses arising from the retranslation, that is found to be an effective hedge, is recognised in other comprehensive income The same treatment is applied to both the realised and unrealised exchange gains and losses arising from foreign currency forward contracts and foreign currency zero cost collars Any ineffective portion is recognised directly in the income statement If an entity is subsequently sold or liquidated, any gains or losses that have been previously recognised in other comprehensive income are recognised in the income statement

Accounting estimates and judgements
The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates It also requires management to exercise its judgement in applying the Group's accounting policies The estimates and assumptions are based on historical experience and other related variables, updated to reflect current trading performance The estimates and assumptions are reviewed on an ongoing basis and are considered to be prudent and appropriate but actual results may differ from these estimates Judgements made by management in applying the Group's accounting policies that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in subsequent periods, are described below

Insurance accounting The estimates, uncertainties and judgements arising as a result of the Group's insurance operations are detailed in note 23

Deferred revenue In respect of the Group's revenue and deferred revenue for performance based health service contracts, estimates are made by the Group based on the most recent performance evaluation data available at the year end and these estimates are utilised if they are determined to be reliable Reliable estimates can only be made on an individual contract basis once the results of an initial performance evaluation is available, and revenue is deferred until the first reliable evaluation is available Where the results of final performance assessment differ from the estimation or if an updated reliable estimate is available, the difference is recognised in the period in which such determination is made Where reliable estimates are not available, the Group recognises revenue only to the extent of the contract costs recognised that the Group believes are recoverable

Financial instruments The Group is exposed to uncertainty as a result of exposure to currency, credit, liquidity and interest rate risks These risks, together with the Group's procedures to mitigate resulting uncertainty, are discussed in note 31

Pension assumptions Note 25 details the estimation techniques involved in calculating the Group's net pension assets or liabilities

Intangible assets arising on business combinations All identifiable assets arising as part of a business combination must be recognised at fair value The calculation of fair value requires the use of estimates and judgements, including modelling techniques These assets are described in note 10

Goodwill impairment Note 10 contains information about the assumptions and estimates used to calculate the impairment of goodwill

Property valuations The Group's care home and hospital properties are valued with regard to their trading potential Valuations are performed by independent, external valuers who incorporate assumptions The principal assumptions relate to quantifying a fair, maintainable level of trade and profitability, levels of competition, and assumed ability to renew existing licences, consents, certificates or permits The property valuations are discussed in note 11

Income taxes The Group is subject to income taxes in numerous jurisdictions There are many transactions and calculations for which the ultimate taxation determination is uncertain during the ordinary course of business Where the final taxation outcome is different from the amount that was initially recorded, the difference is recognised in the period in which such determination is made Note 9 contains information about the taxation expense

The areas of judgement made in the process of applying the Group's accounting policies to categorise how transactions are displayed and that have the most significant effect on the amounts recognised in the financial statements are

- establishing whether special purpose entities are controlled by the Group,
- determining the nature of intangible assets arising on business combinations,
- determining the presence or absence of insurance risk in contracts entered into by the Group's insurance entities,
- determining whether a substantial transfer of risks and rewards has occurred in relation to leased assets, and
- determining the necessary taxation provision where the effect of taxation laws and regulations is unclear

1. Segmental information

The Group has three reportable segments which are defined by the different products and services they provide and the geographic areas in which they operate

- Europe and North America
  - provision of health insurance and related products sold in domestic markets within Europe,
  - provision of care management and analytic services primarily in the US,
  - management and operation of private hospitals in the UK and Spain, providing medical and ancillary services to patients

- International Markets
  - provision of health insurance and related products sold in the international expatriate market,
  - provision of health insurance and related products sold in the domestic markets within the Middle East, Africa, Asia Pacific, Australasia and South America

- Care Services
  - provision of nursing, residential and respite care within the UK, Spain, Australia and New Zealand,
  - provision of retirement village schemes within New Zealand,
  - provision of home healthcare products and services within the UK

The total surplus of the reportable segments is reconciled below to surplus before taxation expense in the consolidated income statement

	Europe and North America		International Markets		Care Services		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	£m	£m	£m	£m
(i) Revenues								
Total revenues for reportable segments	**2,941 6**	3,008 0	**3,874 3**	3,394 0	**1,204 0**	1,183 2	**8,019 9**	**7,585 2**
Inter segment elimination	**(7 9)**	(8 5)	**-**	-	**(0 3)**	(0 3)	**(8 2)**	**(8 8)**
External revenues for reportable segments	**2,933 7**	2,999 5	**3 874 3**	3,394 0	**1,203 7**	1 182 9	**8,011 7**	**7,576 4**
Net reclassifications to other expenses or financial income and expenses							**4 4**	(0 6)
Unallocated central revenues							**0 1**	0 2
Consolidated total revenues							**8,016 2**	**7,576 0**

1. Segmental information - continued

	Europe and North America		International Markets		Care Services		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	£m	£m	£m	£m
(ii) Segment result								
Surplus for reportable segments (including share of post taxation results of equity accounted investments)	172 2	135 1	303 1	226 5	146 7	139 7	622 0	501 3
Amortisation of other intangible assets arising on business combinations	(8 6)	(8 8)	(20 9)	(20 7)	(5 4)	(5 2)	(34 9)	(34 7)
	163 6	126 3	282 2	205 8	141 3	134 5	587 1	466 6
Net reclassification to financial income and expenses							(4 1)	(8 8)
Unallocated central expenses							3 4	9 2
Surplus*							586 4	467 0
Impairment of goodwill	(165 8)	(212 5)	-	-	-	(36 7)	(165 8)	(249 2)
Impairment of other intangible assets arising on business combinations	(75 3)	-	(57 5)	(4 8)	(0 9)	(12 9)	(133 7)	(17 7)
Other charges							(22 7)	(53 8)
Surplus before financial income and expenses							264 2	146 3
Financial income and expenses							25 7	21 7
	(77 5)	(86 2)	224 7	201 0	140 4	84 9		
Consolidated surplus before taxation expense							289 9	168 0
(iii) Other information								
Amortisation and depreciation costs for reportable segments	75 6	71 0	38 0	38 7	68 6	63 3	182 2	173 0
Non-cash income / (expenses) ** for reportable segments	44 3	(50 3)	9 8	(50 6)	(37 3)	(41 6)	16 8	(142 5)
Unallocated non-cash income / (expenses)							43 9	(29 9)
Total non-cash expenses							60 7	(172 4)

*Surplus before impairment of goodwill, impairment of other intangible assets arising on business combination, other charges, and financial income and expenses
** Excluding amortisation and depreciation costs

Geographic segments

		UK		Spain		Australasia		Rest of the World[a]		Total	
		2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Consolidated total revenues		2,929 5	2,982 2	1,223 3	1,161 5	3,252 7	2,804 0	610 7	628 3	8,016 2	7,576 0
Consolidated non-current assets	b	2,122 1	2,139 3	363 7	347 4	2,316 4	2,341 9	146 6	416 7	4,948 8	5,245 3

Notes

a Included within Rest of the World are operations in the US, the Middle East, Africa, Asia Pacific and South America

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

2. Total revenues

	General insurance		Long-term business		Total	
	2011	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**£m**	£m
Gross premıums wrıtten	**6,425 6**	5,881 6	**22 4**	167 7	**6,448 0**	6,049 3
Change ın gross provısıon for unearned premıums	**(64 0)**	(42 5)	**(4 1)**	5 0	**(68 1)**	(37 5)
Gross insurance premiums	**6,361 6**	5,839 1	**18 3**	172 7	**6,379 9**	6,011 8
Gross premıums wrıtten ceded to reınsurers	**(29 5)**	(20 9)	**(9 9)**	(67 4)	**(39 4)**	(88 3)
Reınsurers' share of change ın gross provısıon for unearned premıums	**2 8**	0 6	**2 2**	(3 1)	**5 0**	(2 5)
Premiums ceded to reinsurers	**(26 7)**	(20 3)	**(7 7)**	(70 5)	**(34 4)**	(90 8)
Net insurance premiums earned	**6,334 9**	5,818 8	**10 6**	102 2	**6,345 5**	5,921 0
Revenues from life ınvestment contracts					**-**	7 9
Revenues from service contracts					**11 9**	3 5
Care, health and other revenues					**1,658 8**	1,643 6
Total revenues					**8,016 2**	7,576 0

3. Net insurance claims ıncurred

	General ınsurance		Long-term busıness		Total	
	2011	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**£m**	£m
Insurance claıms paıd	**5,105 8**	4,597 4	**6 0**	81 0	**5,111 8**	4,678 4
Change ın gross provısıons for claıms	**(54 5)**	40 8	**2 1**	8 9	**(52 4)**	49 7
	5,051 3	4,638 2	**8 1**	89 9	**5,059 4**	4,728 1
Rısk Equalısatıon Trust Fund levy	**(110 9)**	(79 4)	**-**	-	**(110 9)**	(79 4)
Insurance claıms ıncurred	**4,940 4**	4,558 8	**8 1**	89 9	**4,948 5**	4,648 7
Recoverıes from reınsurers on claıms paıd	**(18 8)**	(18 7)	**(3 9)**	(46 1)	**(22 7)**	(64 8)
Reınsurers' share of change ın gross provısıons for claıms	**(6 8)**	(3 5)	**0 5**	(7 0)	**(6 3)**	(10 5)
Reinsurers' share of claıms incurred	**(25 6)**	(22 2)	**(3 4)**	(53 1)	**(29 0)**	(75 3)
Net insurance claims ıncurred	**4,914 8**	4,536 6	**4 7**	36 8	**4,919 5**	4573 4

4. Other operating expenses

	2011 £m	2010 £m
Staff costs		
Wages and salaries	**1,035 8**	1,028 9
Social security costs	**86 2**	85 2
Contributions to defined contribution schemes	**20 6**	19 9
Other pension costs	**1 0**	0 1
Total staff costs	**1,143 6**	1,134 1
Acquisition costs		
Commission for direct insurance	**175 2**	208 2
Other acquisition costs paid	**15 8**	12 0
Changes in deferred acquisition costs	**(1 8)**	0 1
Total acquisition costs	**189 2**	220 3
Cost of sales	**156 0**	168 1
Property costs	**150 4**	142 4
Marketing costs	**102 4**	92 8
Medical supplies and fees	**165 3**	156 7
Operating lease rentals	**51 1**	41 8
Net (gain) / loss on foreign exchange transactions	**(0 2)**	0 3
Amortisation of intangible assets arising on business combinations and computer software	**81 1**	76 9
Depreciation expense	**100 8**	96 1
Other operating expenses (including auditors' remuneration)	**368 2**	405 2
Total other operating expenses	**2,507 9**	2,534 7

Auditor's remuneration	2011 £m	2010 £m
Statutory audit of the Company's consolidated annual accounts	**0 7**	0 7
Statutory audit of the company's subsidiaries and pension scheme audits pursuant to legislation	**3 4**	3 5
Total audit fees payable to the Company's auditors, KPMG Audit Plc and its associates	**4 1**	4 2
Fees payable to other auditors		
Audit of overseas subsidiary companies	**0 2**	0 1
Total audit fees	**4 3**	4 3
Other services relating to taxation	**0 5**	0 4
Services relating to corporate finance transactions	**0.2**	0 7
All other services	**1 1**	2 2
Total auditor's remuneration	**6 1**	7 6

Employee numbers

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

	2011	2010
Health insurance	**9,691**	9,604
Care and health provision	**32,073**	32,268
	41,764	41,872

5. Directors' emoluments

No remuneration was paid to any of the Directors during the year (2010 £nil) in their capacity as Directors of the Group

6 Other charges

	2011 £m	2010 £m
Net gain / (loss) on sale of business	**0 3**	(11 6)
Net charge on disposal group held for sale	**-**	(6 5)
Net loss on sale of equity accounted investment	**(0 4)**	-
Deficit on revaluation of property	**(0 4)**	(35 2)
Impairment of property	**(20 9)**	-
Net loss on disposal of property, plant and equipment	**(1 3)**	(0 5)
Total other charges	**(22 7)**	(53 8)

7. Financial income

	2011 £m	2010 £m
Interest income		
Loans and receivables	**88 0**	74 2
Investments held to maturity	**5 7**	10 0
Investments designated at fair value through profit or loss	**0 5**	5 1
Net realised gains on financial investments designated at fair value through profit or loss	**0 7**	0 5
Net increase in fair value		
Investments designated at fair value through profit or loss	**4 0**	15 5
Derivatives	**-**	0 3
Investment property	**3 8**	0 1
Net foreign exchange loss	**(1 0)**	(0 7)
Total financial income	**101 7**	105 0

No financial investments designated at fair value through profit or loss are held for trading

The net amount of foreign exchange differences recognised in financial income for the year, excluding those arising on financial assets and financial liabilities measured at fair value through profit or loss, was nil (2010 gain of £0 5m)

Included within financial income of £101 7m (2010 £105 0m) is a net gain, after hedging, on the Group's return seeking asset portfolio of £6 6m (2010 net gain of £13 2m)

8. Financial expenses

	2011 £m	2010 £m
Interest expense on financial liabilities at amortised cost	**74 3**	82 0
Finance charges in respect of finance leases	**0 1**	0 2
Other financial expenses	**1 6**	1 1
Total financial expenses	**76 0**	83 3

9. Taxation expense

(i) Recognised in the income statement

	2011 £m	2010 £m
Current taxation expense		
UK taxation on income for the year	75 8	75 4
Adjustments in respect of prior periods	(38 8)	(11 0)
	37 0	64 4
Double taxation relief	(2 2)	(2 0)
Foreign taxation on income for the year	80 8	59 1
Adjustments in respect of prior periods	(8 4)	(0 5)
	72 4	58 6
Total current taxation	107 2	121 0
Deferred taxation (income) / expense		
Origination and reversal of temporary differences	(21 5)	11 5
Adjustments in respect of prior periods	8 7	4 7
Changes in taxation rates	1 8	(0 2)
Total deferred taxation	(11 0)	16 0
Taxation expense	96 2	137 0

(ii) Reconciliation of effective taxation rate

	2011	2010
Surplus before taxation expense	289 9	168 0
Taxation at the domestic UK corporate taxation rate of 26 5% (2010 28 0%)	76 8	47 0
Effect of		
Different taxation rates in foreign jurisdictions	(4 6)	(0 1)
Transfer pricing adjustment	(4 6)	(5 0)
Non-deductible expenses	55 7	107 3
Current income taxation adjustments in respect of prior periods	(47 2)	(11 5)
Deferred taxation adjustments in respect of prior periods	8 7	4 7
Changes in taxation rate	1 8	(0 2)
Movement on deferred taxation asset not recognised	9 6	(5 2)
Taxation expense at the effective taxation rate of 33 2% (2010 81 6%)	96 2	137 0

9. Taxation expense (continued)

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

	2011			2010		
	Before taxation	Taxation (expense) / benefit	Net of taxation	Before taxation	Taxation benefit / (expense)	Net of taxation
	£m	£m	£m	£m	£m	£m
Current taxation credit / (charge) in respect of						
Realisation of foreign exchange on disposal of overseas subsidiary companies	-	-	-	1 6	-	1 6
Foreign exchange translation differences on goodwill	3 4	-	3 4	212 6	-	212 6
Other foreign exchange translation differences	(5 8)	0 5	(5 3)	150 5	(1 1)	149 4
Net gain / (loss) on hedge of net investment in overseas subsidiary companies	7 8	-	7 8	(43 2)	1 7	(41 5)
Realisation of cash flow hedge on disposal of subsidiary companies	-	-	-	(0 9)	(0 8)	(1 7)
Realisation of cash flow hedge	(1 3)	-	(1 3)	2 8	-	2 8
Disposal of subsidiary companies	-	-	-	0 1	-	0 1
Other movements in non-controlling interests	-	0 1	0 1	(6 8)	-	(6 8)
Dividends paid	(200 0)	-	(200 0)			
Deferred taxation (charge) / credit in respect of						
Unrealised deficit on revaluation of property	(31 1)	13 7	(17 4)	82 2	(17 3)	64 9
Actuarial (loss) / gain on pension schemes	(9 1)	2 2	(6 9)	4 8	(1 3)	3 5
Change in fair value of underlying derivative of cash flow hedge	(1 0)	0 2	(0 8)	(0 4)	0 1	(0 3)
Taxation credit / (charge) on income / (expense) recognised directly in other comprehensive income	(237 1)	16 7	(220 4)	403 3	(18 7)	384 6

(iv) Factors that may affect future tax charges

The budget in March 2012 announced that the UK corporation tax rate will reduce to 22% over a period of 3 years from 2012 The first reduction from 26% to 25% was substantively enacted on 5 July 2011 and the second reduction from 25% to 24% was substantively enacted on 26 March 2012, both to be effective from 1 April 2012 The company's deferred tax balances have been provided for at 25%, being the rate that was substantively enacted at 31 December 2011

The effect of the reduction in the UK corporation rate to 24% would create an additional reduction in the deferred tax liability of approximately £3 3m This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date The overall effect of the reductions from 25% to 22%, if applied to the deferred tax balance at 31 December 2011, would be to reduce the deferred tax liability by approximately £10 0m

10. Intangible assets

	Goodwill £m	Computer software £m	Customer relationships £m	Other £m	Total £m
2011					
Cost					
At beginning of year (restated)	2,238 3	389 9	329 2	333 1	**3,290 5**
Assets arising on business combinations	5 8	-	0 3	0 7	**6 8**
Additions	-	52 1	-	-	**52 1**
Disposals	-	(1 5)	-	-	**(1 5)**
Other	-	9 6	-	-	**9 6**
Foreign exchange	9 3	(0 6)	1 8	0 1	**10 6**
At end of year	**2,253 4**	**449 5**	**331 3**	**333 9**	**3,368 1**
Amortisation and impairment loss					
At beginning of year	440 2	197 5	69 0	83 5	**790 2**
Amortisation for year	-	51 5	22 3	7 6	**81 4**
Impairment loss	165 8	30 8	37 0	67 3	**300 9**
Disposals	-	(1 6)	-	-	**(1 6)**
Other	-	0 1	-	-	**0 1**
Foreign exchange	5 8	1 0	2 0	1 4	**10 2**
At end of year	**611 8**	**279 3**	**130 3**	**159 8**	**1,181 2**
Net book value at end of year	**1,641 6**	**170 2**	**201 0**	**174 1**	**2,186 9**
Net book value at beginning of year (restated)	1,798 1	192 4	260 2	249 6	**2,500 3**

	Goodwill £m	Computer software £m	Customer relationships £m	Other £m	Total £m
2010					
Cost (restated)					
At beginning of year	2,023 7	382 2	291 4	325 2	**3,022 5**
Assets arising on business combinations	9 9	-	-	-	**9 9**
Additions	-	26 6	-	-	**26 6**
Transfer to assets held for sale	-	(12 3)	-	-	**(12 3)**
Disposal of subsidiary companies	(22 2)	-	-	(23 4)	**(45 6)**
Disposals	-	(10 7)	-	-	**(10 7)**
Foreign exchange	226 9	4 1	37 8	31 3	**300 1**
At end of year	**2,238 3**	**389 9**	**329 2**	**333 1**	**3,290 5**
Amortisation and impairment loss					
At beginning of year	180 5	165 5	42 1	58 8	**446 9**
Amortisation for year	-	47 5	21 1	8 3	**76 9**
Impairment loss	246 4	-	-	17 7	**264 1**
Transfer to assets held for sale	-	(6 4)	-	-	**(6 4)**
Disposal of subsidiary companies	(0 3)	-	-	(3 6)	**(3 9)**
Disposals	-	(11 4)	-	-	**(11 4)**
Foreign exchange	13 6	2 3	5 8	2 3	**24 0**
At end of year	**440 2**	**197 5**	**69 0**	**83 5**	**790 2**
Net book value at end of year (restated)	1,798 1	192 4	260 2	249 6	**2,500 3**
Net book value at beginning of year	1,843 2	216 7	249 3	266 4	**2,575 6**

10. Intangible assets – continued

Intangible assets of £2,186 9m (2010 £2,500 3m) includes £375 1m (2010 £546 7m) which is attributable to intangible assets arising on acquisitions (included within computer software, customer relationships and other) as follows

	2011 £m	2010 £m
Customer relationships	**201 0**	260 2
Bed licences (within Bupa Care Services Australia)	**100 5**	99 8
Licences to operate care homes	**50 0**	54 9
Leases	**12 9**	13 4
Distribution networks	**8 7**	11 4
Present valuation of acquired in-force business	**1 4**	1 5
Brand and trademarks	**0 6**	68 6
Technology and databases	**-**	36 9
	375 1	546 7

Impairment of other intangible assets arising on business combinations
During the year, impairment of other intangible assets arising on business combinations totalled £135 0m

In addition, £1 3m of the cash flow hedge reserve gain of £36 4m on the forward foreign exchange contracts entered into in 2008 to hedge the cash outflow in respect of the acquisition of Bupa Australia has been recycled to the income statement This brings the total impairment charge recognised in the income statement to £133 7m (2010 £17 7m)

MBF brand
An impairment charge of £58 6m has been recognised in respect of the write down of the MBF brand due to the launch of the Bupa brand in Australia At the end of October the Bupa retail brand was launched in the Australia market as part of the move to a single retail brand Given the timing, breadth and scope of the re-branding strategy in Australia the value of the MBF brand has been impaired resulting in a charge of £58 6m In addition, £1 3m of the cash flow hedge associated with the acquisition of MBF will be released to the income statement as a result of the impairment resulting in a net charge of £57 3m (2010 £nil)

Health Dialog
In 2011, an impairment charge of £37 0m (2010 £nil) has been recognised against the Health Dialog customer relationship asset that arose on acquisition of the business in 2008 The asset was fully written down as a result of reduced forecast revenue and expected margins from the customers associated with the asset at acquisition

In addition, the Health Dialog brand and the technology and databases assets that arose on acquisition have both been fully impaired, resulting in an impairment charge of £7 5m and £30 8m respectively (2010 £nil) Both assets were impaired as a result of the annual impairment testing of the Health Dialog cash generating unit, further details of which are documented below

Impairment testing
Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment by comparing the net carrying value with the recoverable amount using value in use calculations In arriving at the value in use for each cash generating unit (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 PMI businesses, fee rate and occupancy for our care services businesses and revenue growth and gross margins for our Health Dialog, Bupa Home Healthcare and Bupa Cromwell Hospital businesses

Except for Bupa Care Services Australia and The Bupa Cromwell Hospital, 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 Australia and The Bupa Cromwell Hospital have been based on a period of five and seven years respectively A longer period was justified for these CGUs as management believes that this is an appropriate timescale over which to look at the annual cash flow

10. Intangible assets – continued

projections before applying the terminal growth rate to the final year 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 The discount rates used for the value in use calculations for each of the Group's CGUs are an estimate of a market assessment of the time value of money and the risks inherent in the relevant country where the cash flows are generated and within the Group's business plans

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

	2011	2010
	%	%
Health Dialog	**14 0**	12 6
Bupa Australia	**12 9**	12 8
Bupa Care Services Australia	**8 9**	9 3
Bupa Care Services UK	**9 0**	9 0
Bupa International	**12 3**	10 4
Bupa Care Services New Zealand	**9 6**	10 0
Bupa Home Healthcare	**12 2**	11 9
The Bupa Cromwell Hospital	**14 0**	13 0
Other - range of discount rates	**15 0-15 3**	12 7 – 14 3

Cash flow projections beyond the three year period have been extrapolated by applying a terminal growth rate between 1 0% and 3 0% (2010 1 5% and 3 0%) for all CGUs The terminal growth rates represent management's estimate of the long-term growth rate for each of the CGUs, taking into account both the future and past growth rates and external sources of data They are conservative estimates which do not exceed the long-term average growth rate for the respective industries, countries or markets in which the CGUs operate

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

Impairment of goodwill and other intangible assets with indefinite useful lives
At 31 December 2011, the carrying value of the Health Dialog CGU was determined to be higher than its recoverable amount, resulting in an impairment to goodwill arising on business combinations totalling £165 8m In 2010, an impairment charge of £249 2m was recognised against the Health Dialog, Bupa Home Healthcare and The Bupa Cromwell Hospital CGUs

Health Dialog
The goodwill relating to Health Dialog (acquired in 2008) has been fully impaired in 2011, resulting in an impairment charge of £165 8m (2010 £156 0m) Health Dialog is a US based provider of health analytics and care management services that helps health plans, public insurers and employers manage the cost and quality of healthcare Due to the continuing weak economic conditions in the US, the ongoing uncertainty in the US healthcare market arising from healthcare reform and an increasing trend in the market towards in-sourcing of chronic disease management, the outlook for the business has become more challenging The main assumptions on which the cash flow projections were based include revenue growth and gross margin The key valuation assumptions used to test the carrying value of goodwill included a pre-taxation discount rate of 14 0% (2010 12 6%) and a terminal growth rate of 2 0% (2010 3 0%)

The Bupa Cromwell Hospital
In 2011, the recoverable amount of The Bupa Cromwell Hospital CGU is greater than its carrying value and therefore no impairment is required

In 2010, an impairment was made to the goodwill arising on acquisition relating to The Bupa Cromwell Hospital (acquired in 2008) of £53 7m

10. Intangible assets – continued

Bupa Home Healthcare

In 2011, the recoverable amount of the Bupa Home Healthcare CGU is greater than its carrying value and therefore no impairment is required

In 2010, an impairment was made to the goodwill relating to Bupa Home Healthcare (acquired in 2006) of £36 7m

Impairment of intangible assets with indefinite useful lives

Other than the £58 6m impairment to the MBF brand held by Bupa Australia, described above, there have been no further impairments during the year to intangible assets with indefinite useful lives (2010 £16 4m)

The following table summarises goodwill by CGU as at 31 December

	2011 £m	2010 (restated) £m
Bupa Australia	**978 7**	972 1
Bupa Care Services Australia	**316 5**	314 3
Bupa Care Services UK	**178 2**	178 2
Bupa International	**59 3**	59 3
Bupa Care Services New Zealand	**31 5**	31 2
Sanitas PMI	**24 8**	19 8
Bupa Home Healthcare	**20 5**	20 5
The Bupa Cromwell Hospital	**16 2**	16 2
Bupa Latin America	**8 5**	8 5
Health Dialog	**-**	170 4
Other	**7 4**	7 6
	1,641 6	1,798 1

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 2011

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

Following the goodwill impairment in 2011 the recoverable amount of Health Dialog equalled the carrying value at 31 December 2011 Any adverse change in the assumptions would not cause a further impairment loss to be recognised as the recoverable amount of the remaining assets of the CGU is greater than or equal to their carrying value

Bupa Care Services Australia and Bupa Care Services New Zealand were impaired to recoverable amounts in 2008 The Bupa Cromwell Hospital and Bupa Home Healthcare were impaired to recoverable amounts in 2010 Since then these CGUs have built up additional headroom in the recoverable amount of the CGU value relative to the carrying value, however they remain sensitive to changes in assumptions The table below shows the change required in the terminal growth rate and discount rate for the recoverable amount of the goodwill to equal carrying amount

10. Intangible assets – continued

	Headroom £m	Terminal growth rate %	Decrease in terminal growth rate %	Increase in discount rate %
The Bupa Cromwell Hospital	5 8	2 0	0 7	0 4
Bupa Home Healthcare	7 3	2 0	1 2	1 1
Bupa Care Services New Zealand	34 4	2 8	1 0	0 9
Bupa Care Services UK	287 9	2 0	1 3	1 2
Bupa Care Services Australia	160 4	3 0	1 6	1 4

11 Property, plant and equipment

	Freehold Property £m	Leasehold Property £m	Equipment £m	Total £m
2011				
Cost or valuation				
At beginning of year (restated)	1,897 3	151 0	664 9	2,713 2
Additions through business combinations	-	-	3 6	3 6
Additions	40 3	0 4	90 2	130 9
Disposals	(3 9)	(5 2)	(69 7)	(78 8)
Revaluations	(12 6)	0 1	-	(12 5)
Other	(0 5)	0 2	(9 2)	(9 5)
Foreign exchange	(0 1)	-	(4 0)	(4 1)
At end of year	**1,920 5**	**146 5**	**675 8**	**2,742 8**
Depreciation and impairment loss				
At beginning of year	21 5	35 9	383 1	440 5
Depreciation charge for year	30 1	8 0	62 7	100 8
Disposals	(2 8)	(4 9)	(68 3)	(76 0)
Revaluations	(20 0)	-	-	(20 0)
Impairments	59 2	-	0 6	59 8
Other	0 3	(4 1)	(0 5)	(4 3)
Foreign exchange	0 1	0 2	(1 6)	(1 3)
At end of year	**88 4**	**35 1**	**376 0**	**499 5**
Net book value at end of year	**1,832 1**	**111 4**	**299 8**	**2,243 3**
Net book value at beginning of year (restated)	1,875 8	115 1	281 8	2,272 7

11. Property, plant and equipment – continued

	Freehold Property £m	Leasehold Property £m	Equipment £m	Total £m
2010 (restated)				
Cost or valuation				
At beginning of year	1,865 9	143 8	589 2	2,598 9
Additions through business combinations	-	0 6	1 5	2 1
Additions	35 9	11 4	81 5	128 8
Transfer to assets held for sale	-	-	(2 2)	(2 2)
Disposal of subsidiary companies	-	(0 8)	(1 8)	(2 6)
Disposals	(0 3)	(2 5)	(15 3)	(18 1)
Revaluations	(59 4)	(4 7)	-	(64 1)
Other	(2 3)	(1 3)	3 9	0 3
Foreign exchange	57 5	4 5	8 1	70 1
At end of year (restated)	**1,897 3**	**151 0**	**664 9**	**2,713 2**
Depreciation and impairment loss				
At beginning of year	98 4	31 6	334 4	464 4
Depreciation charge for year	25 4	8 7	62 0	96 1
Transfer to assets held for sale	-	-	(1 9)	(1 9)
Disposal of subsidiary companies	-	(0 7)	(1 1)	(1 8)
Disposals	-	(1 3)	(14 5)	(15 8)
Revaluations	(105 8)	(4 4)	-	(110 2)
Foreign exchange	3 5	2 0	4 2	9 7
At end of year	21 5	35 9	383 1	440 5
Net book value at end of year (restated)	**1,875 8**	**115 1**	**281 8**	**2,272 7**
Net book value at beginning of year	1,767 5	112 2	254 8	2,134 5

The impairment on freehold property and equipment of £59 9m (2010 £nil) arose in connection with the Directors' impairment review of the care home portfolio as at 31 December 2011 An impairment of £0 8m (2010 £nil) also arose from this review in relation to the land, bringing the total impairment to £60 7m Impairments have been recognised against care homes where the decline in future profitability since the last valuation is considered to be of a long term nature

Certain property, plant and equipment is held as securitised assets under borrowing arrangements described in note 22

Analysis of cost or valuation of the Group's freehold and leasehold properties

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

	Freehold property £m	Leasehold property £m
Valuation – December 2011	69 2	-
Valuation – December 2010	1,746 4	71 2
Valuation – December 2009	49 5	0 3
Assets held at cost	55 4	75 0
	1,920 5	146 5

The revaluation of properties was carried out independently by Knight Frank and Darroch, Chartered Surveyors The revaluations were effective as of 31 December in the year in which they were undertaken The fair value of corporate use properties were determined mainly by reference to active market prices Care homes and hospitals are valued based on value in use techniques, the principal assumptions of which are described on page 41

11. Property, plant and equipment – continued

Historical cost of the Group's revalued assets

A net £8 7m revaluatıon gaın (2010 £82 2m) and £39 8m ımpaırment loss (2010 £nıl) have been recognısed ın the property revaluatıon reserve In 2011, a net deficıt of £0 4m (2010 £35 2m) and ımpaırments of £20 9m (2010 £nıl) were charged to the ıncome statement (see note 6) The entıre net £8 3m revaluatıon surplus (2010 £47 0m) was valued by external valuers The total £60 7m property ımpaırment arose from ınternal assessments (2010 £nıl)

	2011	2010 (restated)
	£m	£m
Hıstorıcal cost of revalued assets	**1,519 6**	1,488 4
Accumulated deprecıatıon based on hıstorıcal cost	**(194 7)**	(175 5)
Hıstorıcal cost net book value	**1,324 9**	1,312 9
Deprecıatıon		
Deprecıatıon charge for the year on hıstorıcal cost	**30 4**	29 8

The hıstorıcal cost of all property, plant and equıpment ıs £2,195 4m (2010 £2,153 3m)

Amounts included in property, plant and equipment in respect of assets held under finance leases

	Equipment
	£m
Net book value	
At end of year	1 5
At begınnıng of year	2 5
Deprecıatıon	
Charge for year	0 9

Property, plant and equipment ın the course of construction

Recognısed ın the carryıng amount of freehold property ıs £0 6m (2010 £32 8m) ın relatıon to freehold property ın the course of constructıon

12. Investment property

	2011 £m	2010 £m
At beginning of year	**120 3**	104 7
Additions	**7 4**	5 1
Disposals	**-**	(0 2)
Increase in fair value	**4 1**	0 1
Other	**-**	(0 3)
Foreign exchange	**0 7**	10 9
At end of year	**132 5**	120 3

The historical cost of investment property is £114 2m (2010 £106 2m)

The carrying value of investment properties is the fair value of the properties

Of the £132 5m (2010 £120 3m) of investment properties in the balance sheet as at 31 December 2011, £9 1m (2010 £9 8m) was valued by an external valuer, Knight Frank, Chartered Surveyors

The remaining carrying value of investment properties of £123 4m (2010 £110 5m) 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 projects are reviewed by an independent valuer, Deloitte

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

13. Equity accounted investments

	2011 £m	2010 £m
Carrying amount of equity accounted investments	**43 3**	**42 2**

The Group's principal equity accounted investments are

		Business activity	Share of issued share capital	Principally operates in	Country of incorporation	Accounting period end date
Bupa Arabia For Cooperative Insurance Company	Associate	Insurance	26 25%	Saudi Arabia	Saudi Arabia	31 December
Forsikringsselskaber Nes Data Centre A/S	Associate	Insurance	33 33%	Denmark	Denmark	31 December
Mutual Community General Insurance Pty Limited	Associate	Insurance	49 00%	Australia	Australia	31 December
IBC Asia Healthcare Limited	Associate	Healthcare	26 04%	USA	British Virgin Islands	31 December
MAX Bupa Health Insurance Company Limited	Joint Venture	Insurance	26 00%	India	India	31 December

13. Equity accounted ınvestments – contınued

All equıty accounted ınvestments are ıncluded on a cotermınous basıs

The Group has not recognısed losses relatıng to Bupa Healthcare Asıa ın the year of £0 1m (2010 £nıl) and cumulatıvely £0 5m (2010 £0 4m) as thıs ınvestment has been fully ımpaıred and the share of losses exceeds the ınterest ın the assocıate

Durıng 2011, a capıtal ınjectıon of £5 1m (2010 £3 2m) was made ın MAX Bupa Health Insurance Company Lımıted to maıntaın the shareholdıng of 26 0%

The Group's share of the assets, lıabılıtıes, revenue and surplus as reported ın the most recent accounts of the ındıvıdual equıty accounted ınvestments, ıs as follows

	2011 £m	2010 £m
Assets	108 5	100 9
Lıabılıtıes	(76 6)	(68 3)
	31 9	32 6
Revenues	115 4	102 5
Surplus before taxatıon expense	0 7	2 8

The Group's share of the assets, lıabılıtıes, revenue and surplus as reported ın the most recent accounts of the ındıvıdual joınt ventures, ıs as follows

	2011 £m	2010 £m
Non-current assets	6 2	5 0
Current assets	0 6	0 6
Non-current lıabılıtıes	-	-
Current lıabılıtıes	(3 4)	(1 7)
	3 4	3 9
Revenues	1.2	0 4
Expenses	(5 9)	(4 1)

14. Investment in subsidiary companies

The ultimate parent company is The British United Provident Association Limited

The principal subsidiary companies of the Group as at 31 December 2011 are listed below and, except where stated, are incorporated in England and Wales Subsidiary companies are 100% owned unless otherwise stated Full details of all Group undertakings will be annexed to the Company's next annual return in compliance with the Companies Act 2006

Health insurance – general business	
Bupa Insurance Limited	
Sanitas, SA de Seguros (99% holding)	Spain
Bupa Australia Pty Limited	Australia
Bupa Asia Pacific Pty Limited	Australia
Bupa (Asia) Limited	Hong Kong
Bupa Insurance Company	US

Investment and financing activities	
Bupa Investments Limited	
Bupa Investments Overseas Limited	
Bupa Treasury Limited	
Grupo Bupa Sanitas SL	Spain
UK Care No 1 Limited	Guernsey

Care and health provision	
Bupa Care Homes (CFG) plc	
Bupa Care Homes Group Limited	
Bupa Care Homes (BNH) Limited	
Bupa Care Services Limited	
Bupa Care Homes (CFCHomes) Limited	
Bupa Care Homes (CFHCare) Limited	
Bupa Care Homes (GL) Limited	
Bupa Care Homes (Partnerships) Limited	
Bupa Home Healthcare Limited	
Bupa Occupational Health Limited	
Bupa Aged Care Australasia Pty Limited	Australia
Bupa Care Services NZ Limited	New Zealand
Euroresidencias Sotogrande SL	Spain
Sanitas Residencial SL	Spain
Sanitas, SA de Hospitales	Spain
Health Dialog Services Corporation	US
Medical Services International Limited	

Although the Group holds none of the voting power of UK Care No 1 Limited, it has the right to obtain benefits or is exposed to risks relating to the activities of this company Consequently, the Group has included the results of this entity in its consolidated income statement

15. Financial investments

	Carrying value 2011 £m	Cost 2011 £m	Carrying value 2010 £m	Cost 2010 £m
Non-current				
Designated at fair value through profit or loss				
Debt securities – government gilts	7 1	7 9	39 3	39 1
Debt securities – corporate bonds	56 5	75 0	54 8	69 4
Shares and other variable yield securities	139 3	124 2	132 6	124 3
Held to maturity				
Medium-term notes	200 9	200 0	150 8	150 0
Loans and receivables				
Debt securities – corporate bonds	72 2	39 9	69 0	40 2
Deposits with credit institutions	185 5	184 9	585 3	585 3
	661 5	631 9	1,031 8	1,008 3
Current				
Designated at fair value through profit or loss				
Debt securities – government gilts	8 4	8 3	6 2	6 0
Debt securities – corporate bonds	26 5	26 4	-	-
Shares and other variable yield securities	-	-	10 1	19 0
Held to maturity				
Medium-term notes	180 5	179 2	75 5	74 5
Debt securities – government gilts	0 5	0 5	0 3	0 3
Loans and receivables				
Reverse repo securities	-	-	202 2	202 2
Deposits with credit institutions	1,005 7	979 4	832 7	832 7
	1,221 6	1,193 8	1,127 0	1,134 7
Total financial investments	1,883 1	1,825 7	2,158 8	2,143 0

Financial investments comprise

	Fair value 2011 £m	Cost 2011 £m	Fair value 2010 £m	Cost 2010 £m
Listed investments	201 5	187 3	110 7	133 8
Unlisted investments	490 4	474 1	630 1	591 2
Deposits with credit institutions	1,191 2	1,164 3	1,418 0	1,418 0
	1,883 1	1,825 7	2,158 8	2,143 0

The movement in fair value attributable to credit risk on loans and receivables designated at fair value is immaterial

16. Assets arising from insurance business

	2011 £m	2010 £m
Non-current		
Reinsurers' share of insurance provisions	**3 1**	1 3
Deferred acquisition costs	**1 8**	3 1
	4 9	4 4
Current		
Insurance debtors	**656 5**	607 1
Reinsurers' share of insurance provisions	**16 3**	8 5
Deferred acquisition costs	**62 0**	60 6
Medicare rebate	**70 9**	80 2
Risk Equalisation Trust Fund recoveries	**23 1**	28 6
	828 8	785 0
Total assets arising from insurance business	**833 7**	789 4

Reinsurers' share in insurance provisions are further analysed in note 23

Impairment losses in respect of insurance debtors amounting to £13 5m (2010 £8 4m) have been charged to other operating expenses in the income statement

Deferred acquisition costs

As part of the Group's insurance business, direct costs in relation to the acquisition of insurance contract revenues are deferred The movement in these deferred costs is set out below

	2011 £m	2010 £m
At beginning of year	**63 7**	139 3
Acquisition costs deferred	**273 8**	300 7
Acquisition costs released to income statement	**(271 7)**	(300 8)
Transferred to assets held for sale	**-**	(76 4)
Foreign exchange	**(2 0)**	0 9
At end of year	**63 8**	63 7

17. Trade and other receivables

	2011 £m	2010 (restated) £m
Non-current		
Investment receivables and accrued investment income	**2 1**	2 1
Amounts owed by ultimate parent company	**210 6**	232 6
Other receivables	**33.7**	1 8
Service concession receivables	**4 8**	22 0
Fair value of derivative assets	**76 7**	40 8
Prepayments	**11 8**	7 6
Accrued income	**3 1**	2 9
	342 8	309 8
Current		
Trade receivables – net of impairment losses	**122 8**	123 3
Investment receivables and accrued investment income	**0 7**	0 8
Amounts owed by ultimate parent company	**49 5**	520 7
Other receivables	**33 5**	54 0
Service concession receivables	**103 8**	130 2
Fair value of derivative assets	**5 0**	3 0
Prepayments	**26 0**	22 8
Accrued income	**4 4**	15 1
	345 7	869 9
Total trade and other receivables	**688 5**	1,179 8

Impairment losses on trade receivables amounting to £1 7m (2010 £7 4m) and on investment receivables amounting to £0 1m (2010 £7 4m) have been charged to other operating expenses in the income statement

18. Inventories

	2011 £m	2010 (restated) £m
Drugs, prostheses and consumables	16 5	19 7

Inventorıes are stated at the lower of cost and net realısable value Cost ıs determıned usıng the first-ın first-out method, or methods that approxımate thıs, and ıncludes costs ıncurred ın acquırıng the ınventorıes and ın brıngıng them to theır current locatıon and condıtıon

Inventory wrıte downs of £nıl (2010 £0 2m) were made durıng the year

The Group consumed £176 8m (2010 £201 8m) of ınventorıes, whıch ıs recognısed wıthın other operatıng expenses ın the ıncome statement Certaın ınventorıes are subject to a floatıng charge ın respect of certaın ınterest bearıng lıabılıtıes (see note 22)

19. Disposals and assets and associated liabilities classified as held for sale

(i) Dısposals

2011 disposals

On 31 January 2011, the Group sold ıts 100% shareholdıng ın Bupa Health Assurance Lımıted, whıch was ıncluded ın the Europe and North Amerıca segment, for cash proceeds of £168 2m Thıs busıness had been held for sale at 31 December 2010

2010 disposals

On 9 June 2010, the Group sold ıts 100% shareholdıng ın MBF Management Pty Lımıted and ıts subsıdıary companıes These subsıdıary companıes held the trade of the lıfe ınsurance busıness (MBF Lıfe) and wealth management busıness (ClearVıew) ın Australıa, and were ıncluded wıthın the Internatıonal Markets segment The MBF Lıfe and ClearVıew busınesses were sold for cash proceeds of £121 4m (AU$204 3m)

On 24 September 2010, the Group completed the sale of ıts 100% shareholdıng ın Guardıan Homecare UK Lımıted, the domıcılıary care busıness of Bupa Home Healthcare ıncluded wıthın the Care Servıces segment, for cash proceeds of £6 9m, of whıch £0 2m ıs deferred

On 21 June 2010, the Group sold ıts 88% shareholdıng ın Byrne and Hıckman Lımıted, whıch was ıncluded ın the Internatıonal Markets segment, for cash proceeds of £0 4m (HK$4 8m)

19. Disposals and assets and associated liabilities classified as held for sale - continued

Total disposals are analysed below

	At 31 December 2011 £m	At 31 December 2010 £m
Intangible assets	4 6	41 7
Property, plant and equipment	0 2	0 8
Financial investments	179 1	148 3
Assets backing life investment contract liabilities	-	852 4
Assets arising from insurance business	177 0	0 4
Trade and other receivables	0 7	9 1
Cash and cash equivalents	-	5 0
Other interest bearing liabilities	(4 5)	-
Provisions under insurance contracts issued	(157 1)	37 1
Other liabilities under insurance contracts issued	(12 1)	-
Provisions for liabilities and charges	-	(0 4)
Life investment contract liabilities	-	(852 8)
Deferred taxation liabilities	(18 3)	(5 5)
Trade and other payables	(2 7)	(99 2)
Net assets divested	166 9	136 9
Foreign exchange	-	1 6
Cash flow hedge	-	(0 9)
Directly related costs of disposal		
- cash	1 0	2 7
- non-cash	-	-
Net (loss) / gain on the sale of businesses	0 3	(11 6)
Sale proceeds	**168 2**	**128 7**

The net gain on sale of business is included within other charges in the consolidated income statement (see note 6)

The 2011 sale proceeds from the disposal of subsidiary company was satisfied by cash of £168 2m The cash proceeds received, net of disposal costs paid to 31 December 2011 and bank overdraft disposed of, resulted in a cash inflow of £171 7m

19. Disposals and assets and associated liabilities classified as held for sale - continued

Assets and associated liabilities classified as held for sale

There were no assets or liabilities classified as held for sale as at 31 December 2011

The assets and liabilities of the Group's subsidiary Bupa Health Assurance Limited, part of the Europe and North America segment, were presented as held for sale at 31 December 2010 following the decision to sell the business after a review of strategy for the life market The completion date of the transaction was 31 January 2011

	2011 £m	2010 £m
Assets held for sale		
Intangible assets	-	4 6
Property, plant and equipment	-	0 2
Financial investments	-	88 2
Assets arising from insurance business	-	170 8
Trade and other receivables	-	2 3
Cash and cash equivalents	-	85 4
Total assets classified as held for sale	-	351 5
Liabilities associated with assets held for sale		
Provisions under insurance contracts issued	-	(151 9)
Other liabilities under insurance contracts issued	-	(8 9)
Net deferred tax liability	-	(18 0)
Trade and other payables	-	(2 6)
Total liabilities classified as held for sale	-	(181 4)
Net assets classified as held for sale	-	170 1

20. Cash and cash equivalents

	2011 £m	2010 (restated) £m
Cash at bank and in hand	**445 0**	480 9
Short-term bank deposits	**782 4**	208 4
Cash and cash equivalents	**1,227 4**	689 3
Bank overdrafts	**(0 1)**	(2 3)
Restricted access deposits	**(45 3)**	(35 4)
Cash and cash equivalents in the statement of cash flows	**1,182 0**	651 6

Cash and cash equivalents include £45 3m (2010 £35 4m) over which the Group has restricted access These amounts are 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 Included in short-term deposits is £39 4m (2010 £29 5m) to secure a liability for unapproved pension arrangements

21. Subordinated liabilities

	2011 £m	2010 £m
Non-current		
Callable subordinated perpetual guaranteed bonds	330 0	330 0
Fair value adjustment in respect of hedged interest rate risk	76 7	40 8
Callable subordinated perpetual guaranteed bonds at carrying value	406 7	370 8
Other subordinated debt due 2024	18 3	-
10 5% subordinated guaranteed bonds due 2018	3 9	3 9
	428 9	374 7
Current		
Callable subordinated perpetual guaranteed bonds	5 9	5 9
Total subordinated liabilities	434 8	380 6

Callable subordinated perpetual guaranteed bonds
In December 2004, Bupa Finance plc issued £330 0m 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 Bupa Finance plc to redeem the bonds on 16 September 2020 In the event of the winding up of Bupa Finance plc or Bupa Insurance Limited the claims of the bondholders are subordinated to the claims of other creditors of these companies

The total carrying value of the callable subordinated perpetual guaranteed bonds, net of accrued interest, is £412 6m (2010 £376 7m) 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

Other subordinated debt
Debt issued by Especializada y Primaria L'Horta-Manises SA (a public-private-partnership in Spain) matures on 7 May 2024 Interest accrues on the debt at EURIBOR +2 5% In the event of a winding up of Especializada y Primaria L'Horta-Manises SA, the claims of the holder of the debt are subordinated to the claims of all other creditors of that company In 2010 this was included in other interest bearing liabilities

10.5% subordinated guaranteed bonds
The 10 5% subordinated guaranteed bonds, which are repayable on 3 December 2018, were issued by Bupa Finance plc and are guaranteed by Bupa A call option is exercisable by Bupa Finance plc to redeem the bonds on 3 December 2013 In the event of the winding up of Bupa Finance plc or Bupa, the claims of the bondholders are subordinated in right of payment to the claims of other creditors of Bupa Finance plc and Bupa Interest is payable at 10 5% per annum

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2011 or 2010

22. Other interest bearing liabilities

This note provides information about the contractual terms of the Group's interest bearing liabilities Further information about the Group's exposure to interest rate and foreign currency risk is included in note 31

	Note	Non-current £m	Current £m	Total £m
2011				
Secured loans	(i)	**233 9**	**4 1**	**238 0**
Debenture stock	(ii)	**53 2**	**1 9**	**55 1**
Senior unsecured bonds	(iii)	**348 2**	**12 3**	**360 5**
Bank loans	(iv)	**31 1**	**5 5**	**36 6**
Bank overdrafts	(iv)	**-**	**0 1**	**0 1**
Finance lease liabilities	(v)	**3 0**	**0 4**	**3 4**
Total interest bearing liabilities		**669 4**	**24 3**	**693 7**
2010 (restated)				
Secured loans	(i)	234 0	4 1	238 1
Debenture stock	(ii)	55 1	1 8	56 9
Senior unsecured bonds	(iii)	347 7	12 3	360 0
Bank loans	(iv)	246 5	5 9	252 4
Bank overdrafts	(iv)	-	2 3	2 3
Finance lease liabilities	(v)	3 3	0 8	4 1
Total interest bearing liabilities		886 6	27 2	913 8

(i) Secured loans

The secured loans balance of £238 0m (2010 £238 1m) relates to a loan issue by UK Care No 1 Limited On 17 February 2000, UK Care No 1 Limited issued two classes of secured notes A £175 0m Class A1 note is due to mature in 2029 and a £60 0m Class A2 note is due to mature in 2031 The £238 0m balance is shown net of initial issue costs and discount on issue not yet fully amortised of £4 8m The A1 and A2 loan notes bear a fixed interest rate of 6 3% and 7 5% respectively The loan notes are secured by fixed and floating charges over the assets and undertakings of UK Care No 1 Limited The security includes UK Care No 1 Limited's overriding lease interest, and the rental income receivable thereunder, held in a number of the Group's care homes which eliminates on consolidation The carrying value of the property, plant and equipment of these homes is £543 8m (2010 £571 2m)

(ii) Debenture stock

The 11 8% debenture stock of £55 1m (2010 £56 9m) is repayable at par in 2014 The stock is secured by a fixed charge over certain of the Group's assets and a first floating charge over the businesses attached thereto and a general floating charge over certain assets The assets pledged as security include £80 3m (2010 £86 8m) of property, plant and equipment and £0 4m (2010 £0 5m) of inventories

(iii) Senior unsecured bonds

On 2 July 2009, Bupa Finance plc issued £350 0m of 7 5% senior unsecured bonds The bonds are repayable in July 2016 They are guaranteed by Bupa and other Group subsidiary companies The £360 5m balance (2010 £360 0m) is net of initial issue costs, discount on issue and accrued interest

(iv) Bank loans and bank overdrafts

Bank loans of £36 6m (2010 £252 4m) do not include any amounts that are guaranteed by Bupa Finance plc In 2010 Bupa guaranteed £196 9m The overdraft facilities are subject to cross guarantees within the Group The bank loans and overdrafts bear interest at commercial rates linked to LIBOR, EURIBOR, or at commercial fixed rates

22. Other interest bearing liabilities - continued

(v) Obligations under finance leases

Future minimum payments under finance leases are as follows

	Future minimum lease payments 2011 £m	Present value of minimum lease payments 2011 £m	Future minimum lease payments 2010 £m	Present value of minimum lease payments 2010 £m
Payable within one year	0 4	0 3	1 0	0 9
Payable after one but within five years	1 5	1 1	1 4	1 0
Payable after five years	2 8	2 0	3 1	2 2
Total gross payments	4 7		5 5	
Less finance charges included above	(1 3)		(1 4)	
Total payments net of finance charges	3 4	3 4	4 1	4 1

The balance of £3 4m (2010 £4 1m) due under finance leases relates to leases of equipment

23. Provisions under insurance contracts issued

		2011			2010		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Note	£m	£m	£m	£m	£m	£m
General insurance business							
Provision for unearned premiums	(i)	1,353 7	(7 6)	1,346 1	1,292 1	(4 6)	1,287 5
Provision for claims	(ii)	785 0	(11 0)	774 0	843 2	(3 9)	839 3
Long-term business							
Provisions for life insurance benefits	(iii)	23 5	(0 8)	22 7	23 3	(1 3)	22 0
Total insurance provisions		2,162 2	(19 4)	2,142 8	2,158 6	(9 8)	2,148 8
Non-current		25 7	(3 1)	22 6	24 1	(1 3)	22 8
Current		2,136 5	(16 3)	2,120 2	2,134 5	(8 5)	2,126 0
		2,162 2	(19 4)	2,142 8	2,158 6	(9 8)	2,148 8

23. Provisions under insurance contracts issued – continued

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
General insurance						
(i) Analysis of movements in provisions for unearned premiums						
At beginning of year	**1,292 1**	**(4 6)**	**1,287 5**	1,202 2	(2 8)	1,199 4
Premiums deferred	**6,425 6**	**(94 1)**	**6,331 5**	5,881 8	(20 9)	5,860 9
Deferred premiums released to income	**(6,361 6)**	**91 3**	**(6,270 3)**	(5,839 3)	20 3	(5,819 0)
Foreign exchange	**(2 4)**	**(0 2)**	**(2 6)**	47 4	(1 2)	46 2
At end of year	**1,353 7**	**(7 6)**	**1,346 1**	1,292 1	(4 6)	1,287 5
(ii) Analysis of movements in provisions for claims						
At beginning of year	**843 2**	**(3 9)**	**839 3**	755 4	(0 5)	754 9
Cash paid to settle claims	**(4,994 9)**	**18 8**	**(4,976 1)**	(4,518 0)	18 7	(4,499 3)
Decrease for prior years' claims	**(62 9)**	**2 0**	**(60 9)**	(86 9)	-	(86 9)
Increase for current year claims	**5,114 2**	**(27 6)**	**5,086 6**	4,725 1	(22 2)	4,702 9
Increase in Risk Equalisation Trust Fund levy	**(110 9)**	**-**	**(110 9)**	(79 4)	-	(79 4)
Disposal of subsidiary companies	**-**	**-**	**-**	(5 7)	-	(5 7)
Foreign exchange	**(3 7)**	**(0 3)**	**(4 0)**	52 7	0 1	52 8
At end of year	**785 0**	**(11 0)**	**774 0**	843 2	(3 9)	839 3
Long-term business						
(iii) Analysis of movement in provisions for life insurance benefits						
At beginning of year	**23 3**	**(1 3)**	**22 0**	132 5	(78 4)	54 1
Movement in opening value of in force business	**0 2**	**0 5**	**0 7**	(29 7)	12 9	(16 8)
New business written	**-**	**-**	**-**	30 1	(14 9)	15 2
Assumption changes	**-**	**-**	**-**	3 5	(1 9)	1 6
Net movement in deferred acquisition costs in Bupa Australia	**-**	**-**	**-**	(2 2)	-	(2 2)
Transfer to assets held for sale	**-**	**-**	**-**	(151 9)	81 3	(70 6)
Disposal of subsidiary companies	**-**	**-**	**-**	42 8	-	42 8
Foreign exchange	**-**	**-**	**-**	(1 8)	(0 3)	(2 1)
At end of year	**23 5**	**(0 8)**	**22 7**	23 3	(1 3)	22 0

In compliance with IFRS 4, local GAAP applies for insurance accounting Under Australian IFRS, acquisition costs incurred in Australia in relation to life insurance contracts are capitalised within the valuation of the policy liabilities The Group's Australian life business was disposed of in 2010 The Group's other deferred acquisition costs are included within assets arising from insurance business (see note 16)

23. Provisions under insurance contracts issued – continued

The movement in the long-term business provision includes £0 8m (2010 £2 2m) in respect of the movements in policyholder deposits relating to certain policies that include savings features The receipts associated with these deposits are accounted for directly in provisions under insurance contracts

At 31 December 2011, there was no change in the long-term business provision in respect of net assumption changes (2010 increase of £1 6m) relating to model changes, demographic and economic changes

Assumptions for general insurance business

The process of recognising liabilities arising from general insurance contracts requires the exercise of judgement in relation to estimating future claims payments, claims handling expenses and unexpired risk provisions The principal assumption affecting the measurement of liabilities is that the nature of recent claims development profile of the Group's insurance entities and that current claims experience will be consistent with recent trends Other assumptions are also applied in measuring the Group's insurance liabilities but have a less material effect The aim of these assumptions is to arrive at the best estimate of future obligations and cash outflows of the Group A margin for adverse deviation is reflected within the estimates

Claims development patterns are analysed in each of the Group's general insurance entities and, in some cases, are further sub-analysed where an entity has distinct portfolios of general insurance with distinct characteristics The characteristics may differ by product line, geographic sector or market sector The analysis is used to determine a claims settlement pattern using recent experience, adjusted where appropriate by observed trends over time Claims are assessed on a case by case basis Extrapolation methods based on the claims settlement pattern are used these are recognised methods described in the Institute and Faculty of Actuaries Claims Reserving Manual (1997) Large homogeneous sections of insurance business (eg corporate business in a specific region) are often analysed by more than one method, such as the chain ladder, Bornheutter-Ferguson and paid claim loss ratio methods

While there is some diversity in the claims development profile across the Group, the Group's general insurance contracts principally relate to healthcare benefits that occur with stable frequencies and exhibit very short development patterns that can be characterised in months rather than years Less automated medical insurance portfolios may have development patterns extending out to 12 to 18 months, whereas pre-authorisation electronic claims settlement and network provider arrangements may produce development patterns of four to six months

Insurance provisions are estimates Actual experience may vary, primarily as a result of claims or administrative expenses being greater than expected The following table shows the sensitivities to such variation from expectations

	2011		2010	
	Change in variable	**Reduction in surplus net of reinsurance before taxation**	Change in variable	Reduction in surplus net of reinsurance before taxation
	%	**£m**	%	£m
Base run				
Increase in claims	**5 0**	**52 2**	5 0	50 2
Increase in expenses	**10 0**	**18 0**	10 0	19 8

These variances would lower the amount of surplus that would otherwise be expected to emerge in subsequent periods Since premium provisions include profit margins and claim provisions include margins of prudence, variance from expectations by the amounts shown will be absorbed by these margins for the current book of business

Assumptions for long-term insurance business

The Group owns a small life insurance company domiciled in Bermuda that was acquired in 2005, but which is now in run-off and hence does not assume insurance risk This portfolio is largely reinsured The long term insurance liabilities of £23 5m (2010 £23 3m) as shown on the Group's balance sheet relates entirely to this subsidiary

24. Other liabilities under insurance contracts issued

	2011 £m	2010 £m
Current		
Reinsurers' deposit	4 3	1 8
Reinsurance payables	0 3	-
Commission payable	6 0	10 5
Other insurance payables	3 1	6 6
Total other liabilities under insurance contracts issued	**13 7**	18 9

25. Post employment benefits

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

	Note	Defined benefit funded pension schemes 2011 £m	2010 £m
Present value of funded obligations	(ii)	(82 9)	(74 6)
Fair value of scheme assets	(iii)	72 2	71 4
Net recognised liabilities		**(10 7)**	(3 2)

Individual pension schemes showing a net deficit are classified on the balance sheet within post employment benefit liabilities and those schemes showing a net surplus are classified within post employment benefit assets as follows

Net assets	0 3	0 7
Net liabilities	(11 0)	(3 9)
Net recognised liabilities	**(10 7)**	(3 2)

Pensions — funded schemes

The Bupa Group operates defined benefit and defined contribution pension schemes for the benefit of employees The Bupa Pension Scheme is the principal defined benefit pension scheme which provides benefits based on final pensionable salary, with charges made to the profit and loss account of Bupa comprising the current service cost calculated on the projected unit method, interest cost on plan liabilities, less the expected return on plan assets, and gains and losses on curtailments

The Bupa Pension Scheme was closed to new entrants from 1 October 2002 Under this scheme, contributions by employees and the Bupa Group are administered by trustees in funds independent of the Group The scheme is funded to cover future pension liabilities allowing for future earnings and pension increases

An independent actuary performs triennial valuations together with periodic interim reviews Both triennial and interim valuations use the attained age method, recognising the closure of the scheme to new entrants The trustees and the Group are currently in discussions regarding the results of the 1 July 2011 actuarial valuation Under legislation, the valuation must be finalised by 30 September 2012

The Bupa Pension Scheme was valued as at 31 December 2011 under the requirements of International Accounting Standard No 19 Employee Benefits (IAS 19) as the Group prepares its consolidated financial statements under International Financial Reporting Standards This valuation showed a surplus before deferred tax of £67 8m (2010 £120 6m) with assets of £1,076 8m (2010 £967 9m) and liabilities of £1,009 0m (2010 £847 3m), which would not be materially different from a valuation performed under the requirements of FRS 17 It is not possible to identify the Company's share of this surplus on a consistent and reliable basis, therefore, as permitted by FRS 17, the pension contributions paid by the Company relating to this scheme are charged to the profit and loss account of the Company

Details of the latest valuations of the scheme and main assumptions are included in the annual report and accounts of the ultimate holding company, The British United Provident Association Limited (Bupa)

25. Post employment benefits - continued

As recommended by the scheme's independent actuary employer contributions were paid at the rate of 31 9% of pensionable salaries Included in the employer contributions is 7 0% which represents the employer pension contributions paid as part of the Group's salary sacrifice arrangement, PeopleChoice Pensions There is a corresponding reduction in wages and salaries as a result

The full disclosure requirements under IAS 19 are disclosed in the Annual Report and Accounts of Bupa

(i) Actuarial assumptions

The responsibility for setting the assumptions underlying the IAS 19 valuations rests with the 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 smaller schemes are as follows

	Defined benefit funded pension schemes	
	2011	2010
	%	%
Inflation rate	**2 9**	2 9
Rate of increase in salaries	**4 1**	4 5
Rate of increase to pensions in payment	**1 7**	2 1
Discount rate for scheme obligations	**4 2**	5 2
Rate of increase to pensions in deferment	**1 9**	2 0
Overall expected return on scheme assets	**5 5**	6 8

Asset performance for the disclosures for the year ended 31 December 2011 have been measured against the expected return on assets disclosed as at 31 December 2010

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

Expected rate of return on assets

The overall expected return on scheme assets has been derived by calculating the weighted average expected return applied to each of the major asset classes, equities, bonds and 'other'

The expected return on equities and other return seeking assets has been taken as the yield on fixed interest gilts at the balance sheet date plus a margin of 3 5% representing the additional return on top of the risk-free return available on the asset class The expected return on bonds has been taken as an average of the yield available on fixed interest gilts and high quality corporate bonds at the balance sheet date The expected return on 'other' has been taken as 3 0% pa, representing the long-term expected return on cash and short dated securities

25. Post employment benefits – continued

(ii) Present value of the scheme obligations

The movement in the present value of the schemes' obligations is

	Defined benefit funded pension schemes	
	2011	2010
	£m	£m
At beginning of year	**74 6**	71 3
Current service cost	**2 4**	2 8
Interest on obligations	**3 4**	3 6
Contributions by employees	**0 8**	0 7
Actuarial losses / (gains)	**6 1**	(1 6)
Benefits paid	**(4 6)**	(3 4)
Past service cost	**-**	(2 2)
Foreign exchange	**0 2**	3 4
At end of year	**82 9**	74 6

(iii) Fair value of funded schemes' assets

The movement in the fair value of the funded schemes' assets is

	2011	2010
	£m	£m
At beginning of year	**71 4**	60 5
Expected return on scheme assets	**4 8**	4 2
Actuarial (losses) / gains	**(5 3)**	1 1
Contributions by employer	**4 7**	4 8
Contributions by employees	**0 8**	0 7
Benefits paid	**(4 3)**	(3 2)
Foreign exchange	**0 1**	3 3
At end of year	**72 2**	71 4

The market value of the assets of the funded schemes is as follows

	2011	2010
	£m	£m
Equities	**41 3**	46 0
Bonds	**17 8**	17 2
Other assets	**13 1**	8 2
	72 2	71 4

The funded schemes' assets does not include any of the Group's own financial instruments, or any property occupied by the Group

25. Post employment benefits - continued

(iv) Amounts recognised in the consolidated income statement

The amounts charged / (credited) directly to other operating expenses for the year are

	2011 £m	2010 £m
Current service cost	**2 4**	2 8
Interest on obligations	**3 4**	3 6
Expected return on scheme assets	**(4 8)**	(4 2)
Past service cost	**-**	(2 2)
Total amount charged to consolidated income statement	**1 0**	-
Actual loss / (return) on scheme assets	**0 4**	(5 3)

The charge to other operating expenses in respect of cash contributions to defined contribution schemes is £20 5m (2010 £19 9m)

(v) Amounts recognised directly in other comprehensive income

The amounts charged / (credited) directly to other comprehensive income are

	2011 £m	2010 £m
Actual return less expected return on assets	**5 3**	(1 1)
Experience gains arising on obligations	**(0 2)**	(3 5)
Changes in assumptions	**4 0**	(0 2)
Total actuarial losses / (gains) charged / (credited) directly to other comprehensive income	**9 1**	(4 8)

The cumulative amount of actuarial losses recognised directly in other comprehensive income is £17 1m (2010 £8 0m)

(vi) History of experience gains and losses

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit funded pension schemes					
Present value of scheme obligations	**(82 9)**	(74 6)	(71 3)	(55 6)	(32 6)
Fair value of scheme assets	**72 2**	71 4	60 5	46 5	35 1
Net (deficit) / surplus	**(10 7)**	(3 2)	(10 8)	(9 1)	2 5
Experience charge / (credit) arising on					
Scheme obligations	**2 1**	(1 4)	0 2	1 6	(5 3)
Scheme assets	**5 2**	(1 1)	(5 5)	12 6	2 8

26. Provisions for liabilities and charges

	Long service and annual leave	Regulatory provisions	Unoccupied property	Other	Total
	£m	£m	£m	£m	£m
At beginning of year (restated)	35 8	5 4	7 8	29 4	78 4
Charge for year	26 1	3 8	2 1	7 1	39 1
Released in year	(1 1)	(3 2)	(0 7)	(13 4)	(18 4)
Utilised in year - cash	(22 0)	(2 2)	(2 3)	(6 5)	(33 0)
Utilised in the year – no cash	-	-	-	(1 1)	(1 1)
Foreign exchange	0 3	-	-	(0 3)	0
At end of year	**39 1**	**3 8**	**6 9**	**15 2**	**65 0**
Non-current	8 2	-	4 8	0 3	13 3
Current	30 9	3 8	2 1	14 9	51 7
	39 1	**3 8**	**6 9**	**15 2**	**65 0**

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 pre-determined 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

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

Unoccupied property

In prior years, the Group entered into non-cancellable leases for property which it no longer fully 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

Other

Other provisions include amounts relating to restructuring provisions, legal claims, payments under legislation and deferred consideration

27. Deferred taxation assets and liabilities

Recognised deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2011	2010 (restated)	**2011**	2010	**2011**	2010 (restated)
	£m	£m	**£m**	£m	**£m**	£m
Accelerated capital allowances	-	-	**(37 3)**	(39 6)	**(37 3)**	(39 6)
Post employment benefit asset / liability	**3 4**	1 0	-	-	**3 4**	1 0
Revaluation of properties to fair value	-	-	**(117.5)**	(133 2)	**(117.5)**	(133 2)
Employee benefits (other than post employment)	**20 9**	3 1	-	-	**20 9**	3 1
Provisions	-	3 2	**(1 0)**	-	**(1 0)**	3 2
Taxation value of losses carried forward	**13 3**	14 0	-	-	**13.3**	14 0
Goodwill and intangible assets	-	-	**(77 3)**	(98 3)	**(77 3)**	(98 3)
Other	**23 3**	71 2	**(4 3)**	(33 2)	**19 0**	38 0
Deferred taxation assets / (liabilities)	**60 9**	92 5	**(237 4)**	(304 3)	**(176 5)**	(211 8)
Allowable netting of deferred taxation assets and liabilities	**(57 7)**	(92 5)	**57 7**	92 5	-	-
Net deferred taxation asset / (liability)	**3 2**	-	**(179 7)**	(211 8)	**(176 5)**	(211 8)

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 2011, the Group had deductible temporary differences relating to intangible assets of £8 4m (2010 £19 8m), trading losses of £8 5m (2010 £nil) and capital losses of £31 7m (2010 £23 2m) for which no deferred taxation asset was recognised due to uncertainty of utilisation of those temporary differences

27. Deferred tax liabilities - continued

Movement in net deferred taxation liabilities

	At beginning of year £m	Recognised in income statement £m	Recognised in other comprehensive income £m	Acquisitions through business combinations £m	Disposal of subsidiary companies £m	Transferred to assets held for sale £m	Foreign exchange £m	At end of year £m
2011								
Accelerated capital allowances	(39 6)	3 6	-	-	-	-	(1 3)	(37 3)
Post employment benefit asset / liability	1 0	0 2	2 2	-	-	-	-	3 4
Revaluation of properties to fair value	(133 2)	1 7	13 7	-	-	-	0 3	(117 5)
Employee benefits (other than post employment)	3 1	17 4	-	-	-	-	0 4	20 9
Provisions	3 2	(4 1)	-	-	-	-	(0 1)	(1 0)
Taxation value of losses carried forward	14 0	(7 7)	0 2	6 7	-	-	0 1	13 3
Goodwill and intangible assets	(98 3)	19 5	-	-	-	-	1 5	(77 3)
Other	38 0	(19 6)	-	-	0 3	-	0 3	19 0
At end of year	(211 8)	11 0	16 1	6 7	0 3	-	1 2	(176 5)
2010 (restated)								
Accelerated capital allowances	(16 2)	(18 9)	-	-	-	-	(4 5)	(39 6)
Post employment benefit asset / liability	2 0	(0 1)	(1 3)	-	-	-	0 4	1 0
Revaluation of properties to fair value	(109 2)	(7 5)	(17 3)	-	-	-	0 8	(133 2)
Employee benefits (other than post employment)	0 6	2 4	-	-	-	-	0 1	3 1
Provisions	0 6	2 4	-	-	-	(0 1)	0 3	3 2
Taxation value of losses carried forward	21 1	(7 1)	-	-	-	-	-	14 0
Goodwill and intangible assets	(108 0)	8 7	-	-	5 9	-	(4 9)	(98 3)
Other	16 4	4 1	0 1	-	(0 4)	18 1	(0 3)	38 0
At end of year	(192 7)	(16 0)	(18 5)	-	5 5	18 0	(8 1)	(211 8)

28. Trade and other payables

	2011 £m	2010 (restated) £m
Non-current		
Amounts owed to ultimate parent company	-	50 4
Deferred income	1 5	1 6
Other payables	1 7	0 5
Accruals	0 1	0 4
Fair value of derivative liabilities	5 0	3 1
Total non-current trade and other payables	8 3	56 0
Current		
Trade payables	114 2	123 5
Amounts owed to ultimate parent company	90 2	415 8
Social security and other taxes	27 8	26 7
Deferred income	71 5	65 4
Other payables	377 5	383 8
Accruals	243 4	281 2
Fair value of derivative instruments	3 8	13 7
Total current trade and other payables	928 4	1,310 1
Total trade and other payables	936 7	1,366 1

Current other payables of £377 5m (2010 £383 8m) includes £230 1m (2010 £219 5m) relating to accommodation bonds in Bupa Care Services Australia

29. Equity

Called up share Capital

	2011 £m	2010 £m
Allotted, called up and fully paid		
200,050,000 ordinary shares of £1 each	200 1	200 1

Capital management

The Group manages as capital the cumulative individual amount of the equity of all Group subsidiaries, exclusive of any non-controlling interests, and other inadmissible assets as discussed below The Group has a £330 0m perpetual bond accounted for as debt in these financial statements However, this is managed as though it were capital for regulatory purposes, as discussed below

As Bupa Finance plc's parent company, The British United Provident Association, is limited by guarantee, all surpluses are used to develop the Group's businesses for the benefit of customers

The Group's capital management objective is to maintain sufficient capital to protect the interests of all of its customers, investors, regulators and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development

The Group aims to operate within a targeted range for solvency, leverage and interest cover ratios designed to support an investment grade rating The Bupa Group (The British United Provident Association Limited (Bupa) and its subsidiary companies) as a whole is not rated by any rating agency although individual debt issues and various subsidiaries within the Group do have public ratings

29. Equity - continued

The UK's Financial Services Authority (FSA) classifies the whole of the Group as an insurance group As such, the Group must maintain regulatory capital resources in excess of a collective capital requirement, imposed by the FSA through its Prudential Sourcebook (PSB), for Bupa to comply with the EU Insurance Groups Directive (IGD) When assessing the Group's compliance with its capital requirement, the PSB requires that the Group values and credits towards its net asset position only those assets that meet certain criteria on admissibility, concentration limits and counterparty exposure limits Group companies that are regulated are subject to similar regulatory restrictions within the jurisdictions in which they operate The Group and its regulated subsidiaries complied with all externally imposed capital requirements during the prior year Although they are not insurance businesses, the Group can and does recognise the book value of its care provision businesses as capital resources

It is the Board's policy that the Group maintains capital resources significantly in excess of its capital requirements and furthermore, that all regulated entities within the Group's corporate structure meet any local minimum capital requirement imposed by local regulators at all times

The Group has a number of internal processes to ensure compliance with the Group's capital requirements These include requiring that significant future capital expenditure and growth initiatives be approved by the Board, either as stand alone projects or as part of the budgeting and forecasting exercises The Group's Investment Committee must approve any change to financial investment strategy Strategic developments and acquisitions affecting the Group's capital require Board authorisation

The Group Finance Department routinely reports to the Board the Group's capital position, leverage and interest cover ratios as well as any constraints, risks or uncertainties about this position The Group reports on any regulatory capital resources to local regulators and the FSA each year end

In addition, the Group's management reporting process to the Board includes the regular calculation of the return on capital employed

The Group has in place internal debt and investment management arrangements that allow the assets supporting technical liabilities or any solvency capital to be efficiently managed in a centralised manner The Group's Treasury Department also maintains large external credit lines with several leading banks to ensure the liquidity of the Group as needed

There have been no changes to the Group's capital management objectives, policies or procedures during the year

30. Financial instruments

Fair value of financial instruments
The fair value of a financial instrument is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties Fair values have been calculated as follows

- — debt securities, shares and other variable yield securities — quoted price if available or discounted expected future principal and interest cash flows,
- — listed securities — quoted price,
- — interest bearing loans and borrowings — quoted price if available or discounted expected future principal and interest cash flows,
- — other receivables and other payables (current) — amortised cost,
- — other receivables and other payables (non-current) — discounted cash flows,
- — derivatives (currency forward contracts) — quoted prices at balance sheet date,
- — derivatives (interest rate swaps) — bank and broker quotes, and
- — derivatives (currency swaps) — quoted prices at balance sheet date

The carrying values of short-term receivables and payables are a reasonable approximation of the fair value

Financial instruments carried at fair value are measured by different valuation methods defined by a three level hierarchy The different levels have been defined 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 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices), and
- — Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs)

An analysis is as follows

2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments				
Debt securities - government gilts	15 4	0 1	-	15 5
Debt securities - corporate bonds	46 4	36 6	-	83 0
Shares and other variable yield securities	139 1	0 2	-	139 3
Trade and other receivables				
Derivative assets	-	81 7	-	81 7
Trade and other payables				
Derivative liabilities	-	(8 8)	-	(8 8)
2010				
Financial investments				
Debt securities - government gilts	45 3	0 2	-	45 5
Debt securities - corporate bonds	14 4	40 4	-	54 8
Shares and other variable yield securities	142 6	0 1	-	142 7
Trade and other receivables				
Derivative assets	-	43 8	-	43 8
Trade and other payables				
Derivative liabilities	-	(16 8)	-	(16 8)

30. Financial instruments – continued

The Group uses the zero coupon curve as at the balance sheet date to discount financial instruments where the fair value cannot otherwise be found from quoted market values The range of interest rates used is as follows

	2011 %	2010 %
Sterling assets and liabilities	1 3 – 3 1	1 5 – 4 2
Australian Dollar assets and liabilities	3 2 – 4 2	5 0 – 5 7
Euro assets and liabilities	0 2 – 2 6	0 7 – 3 6
US Dollar assets and liabilities	0 1 – 3 3	0 3 – 5 0

The fair values of financial instruments are as follows

	2011		2010 (restated)	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Financial investments				
Debt securities - government gilts	16 0	45 8	45 8	45 8
Debt securities - corporate bonds	155 2	123 8	123 8	123 8
Shares and other variable yield securities	139 3	142 7	142 7	142 7
Medium-term notes	381 4	225 0	226 3	225 0
Reverse repo securities	-	-	202 2	202 2
Deposits with credit institutions	1,191 2	1,191 2	1,418 0	1,418 0
Trade and other receivables				
Investment receivables and accrued investment income	2 8	2 5	2 9	2 5
Amounts owed by ultimate parent undertaking	260 1	279 6	753 3	773 7
Other receivables	38 3	38 2	55 8	55 7
Service concession receivables	137 5	137 5	152 2	152 2
Derivative assets	81 7	81 7	43 8	43 8
Accrued income	7 5	7 5	18 0	17 9
Cash and cash equivalents	1,227 4	1,227 4	689 3	689 3
Liabilities				
Subordinated liabilities	(434 8)	(276 3)	(380 6)	(296 1)
Other interest bearing liabilities	(693 7)	(789 8)	(913 8)	(977 2)
Trade and other payables				
Amounts owed to ultimate parent undertaking	(90 2)	(90 2)	(466 2)	(470 6)
Other payables	(379 2)	(379 2)	(384 3)	(384 3)
Accruals	(243 5)	(243 7)	(281 5)	(281 5)
Derivative liabilities	(8 8)	(8 8)	(16 8)	(16 8)

31. Risk management

Risk management policy

The Board is responsible for ensuring that there is a continuous process for identifying, evaluating and managing any material risks faced by the Group and for ensuring that it is effective As such, the Board is responsible for the nature and extent of the risks facing the Group This includes

- the extent and categories of risk the Board regards as acceptable for the Group to bear,
- the likelihood of these risks materialising,
- the Group's ability to reduce the incidence or impact on the business of any risks that do crystallise, and
- the costs of operating particular controls relative to the benefit from managing the related risks

Bupa operates the three lines of defence model Business management provide the first line of defence and is responsible for the identification and assessment of risks and controls The second line is provided by the risk functions together with risk policy owners who provide support and challenge the completeness and accuracy of risk assessments and the adequacy of mitigation plans Internal audit constitutes the third line by providing independent and objective assurance on the robustness of the risk management framework, and the appropriateness and effectiveness of internal controls

The principal significant risks of the Group and how they are mitigated are described on pages 11 to 16

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 Investment Committee reviews and monitors any significant investment and market risks

The Group has exposure to a number of risks from its use of financial instruments and risks associated with its insurance business 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

1 Insurance risk and future cash flows from short-term health insurance contracts
2 Market risk
3 Credit risk
4 Liquidity risk

1 Insurance risk and future cash flows from short-term health insurance contracts

a) Underwriting, pricing and claims risk

Underwriting risk affects future cash flows of the general insurance entities in the Group It can be subdivided into claims risk and pricing risk which represent the risk of adverse variances in claims outflows and premium inflows respectively, these are described in more detail on page 13, Risks and Uncertainties Pricing risk arises from routine revisions to premium tariffs and from the processes, in certain businesses, to set bespoke premiums for large corporate health insurance customers The adequacy of pricing rests on thorough actuarial analyses of past and most recent claims levels, combined with forward projections of the most recent observed trends Pricing risk affects only future cash flows since new tariffs impact on levels of premium earned when health insurance contracts renew

In every general insurer in the Group, the dominant product style is of an annually renewable health insurance contract This permits tariff revisions to respond reasonably quickly to changes in claim experience This is a significant mitigant to pricing risk The Group underwrites no material general insurance business that commits it to cover risks at premiums fixed beyond a twelve month period from inception or renewal

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

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

31. Risk management – continued

Generally, the Group's health insurance contracts contain terms and conditions that provide for the reimbursement of incurred medical expenses for treatment related to acute medical conditions The contracts do not provide for capital sums or indemnified amounts Therefore claims experience is necessarily underpinned by prevailing rates of illness Additionally, claims risk is generally mitigated by the insurers running control processes to ensure that both the treatments and the consequent reimbursements are appropriate

b) Reserving risk

Reserving risk is the risk of technical provisions for claims incurred proving inadequate in light of later events or information Reserving risk is not significant to the Group as a result of the shortness of claims development patterns, coupled with the efficacy of the processes used to derive the assumptions used in setting provisions

The short-tail nature of the Group's general insurance contracts means that movements in claims development assumptions are generally not significant The development 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 not material Also, of the small provisions that do relate to longer than one year, it is possible to predict with reasonable confidence the outstanding amounts Comparisons of actual claims against previous estimates are therefore not provided

c) 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 unaffected by changes in interest rates

None of the Group's general insurance contracts contain embedded derivatives so the contracts do not in that respect 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

All 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 concentrations of insurance risk for the following reasons

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

The Group as a whole and its principal general insurance entities are very well diversified Only in select circumstances does the Group use reinsurance The reinsurance that is used does not give rise to a material credit risk exposure to the Group

2 Market risk

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

31. Risk management – continued

Under the guidance of the Committee, the role of the Group Treasury Department is to manage the Group's liquidity position and short-term borrowings, together with the risks arising on interest rates and foreign currencies and to protect the security of the Group's financial assets

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

The Group manages price risk by ensuring that the majority of its cash and investments are held with highly rated credit institutions

Where the Group has moved away from straight money market investments and invested in a limited portfolio of absolute return assets (principally corporate bonds), the Group uses a value at risk analysis (VaR95) to quantify risk, taking account of asset volatility and correlation between asset classes This portfolio was £179 2m at 31 December 2011 (2010 £184 5m) and the 1 year VaR95 figure attributable to the portfolio is £19 2m at 31 December 2011 (2010 £13 3m)

a) 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

Bupa has exposure to foreign exchange risk arising from its overseas operations Key exposures are to the Australian Dollar, US Dollar, Euro, New Zealand Dollar, Bahraini Dinar, Danish Krone, Hong Kong Dollar, Thai Baht, Swiss Franc, Mexican Peso and Brazilian Real

Where appropriate, the Group uses foreign currency forward contracts and foreign currency borrowings to hedge balance sheet translation exposure

31. Risk management – continued

The carrying value of total assets and total liabilities categorised by currency is as follows

	Net currency exposure £m	Currency forward contracts £m	Borrowing transactions £m	Net currency exposure including hedges £m
2011				
Australian Dollar	2,165 3	(66 0)	-	2,099 3
US Dollar	111 6	(198 7)	-	(87 1)
Euro	362 0	(186 2)	-	175 8
New Zealand Dollar	209 5	-	-	209 5
Bahraini Dinar	23 7	-	-	23 7
Danish Krone	(2 3)	-	-	(2 3)
Hong Kong Dollar	19 0	-	-	19 0
Thai Baht	9 7	-	-	9 7
Swiss Franc	2 4	(8 2)	-	(5 8)
Mexican Peso	4 3	16 3		20 6
Brazilian Real	-	14 4		14 4
Other	8 3	-	-	8 3
Total foreign denominated net assets	2,913 5	(428 4)	-	2,485 1
Percentage of Group net assets	63 0%			53 7%
2010				
Australian Dollar	2,134 6	(261 2)	-	1,873 4
US Dollar	352 7	(322 8)	-	29 9
Euro	337 0	(44 3)	(94 8)	197 9
New Zealand Dollar	197 1	-	-	197 1
Bahraini Dinar	25 0	-	-	25 0
Danish Krone	(3 8)	-	-	(3 8)
Hong Kong Dollar	9 5	-	-	9 5
Thai Baht	9 6	-	-	9 6
Swiss Franc	4 9	(8 2)	-	(3 3)
Other	7 6	-	-	7 6
Total foreign denominated net assets	3,074 2	(636 5)	(94 8)	2,342 9
Percentage of Group net assets	66 1%			50 3%

The following significant exchange rates applied during the year

	Average Rate		Closing Rate	
	2011	2010	2011	2010
Australian Dollar	1 5545	1 6832	1 5157	1 5259
US Dollar	1 6040	1 5456	1 5539	1 5610
Euro	1 1526	1 1664	1 1972	1 1650

31. Risk management – continued

The impact of strengthening / (weakening) of Sterling against the currencies below, with all other variables constant, would have increased / (decreased) equity and surplus by the amounts shown below

	Strengthening 10%		Weakening 10%	
	Gains / (losses) included in income statement £m	Gains / (losses) included in equity £m	Gains / (losses) included in income statement £m	Gains / (losses) included in equity £m
2011				
Australian Dollar	(22 1)	(190 8)	27 0	233 3
US Dollar	20 4	7 9	(24 9)	(9 7)
Euro	(13 6)	(16 0)	16 6	19 5
Other	(2 0)	(27 1)	2 4	33 0
Total sensitivity	(17 3)	(226 0)	21 1	276 1
2010				
Australian Dollar	(17 0)	(170 3)	20 7	208 2
US Dollar	12 4	(2 7)	(15 2)	3 3
Euro	(7 9)	(18 0)	9 6	22 0
Other	2 0	(22 3)	(2 4)	27 2
Total sensitivity	(10 5)	(213 3)	12 7	260 7

Foreign exchange hedging activities

The Group applies net investment hedges, fair value hedges and cash flow hedge accounting in order to hedge its exposure to foreign exchange

(i) Net investment hedges

Net investment foreign exchange risk is managed using foreign currency forward contracts, foreign currency zero cost collar options and foreign currency borrowings These hedging relationships are documented and tested, as required by IAS 39, as net investment hedges All foreign currency forward contracts are accounted for on a fair value basis

The Group's Australian Dollar translation exposure of £2,165 3m (AU$3,281 9m) (2010 £2,134 6m (AU$3,257 2m)) arises from the net assets of Bupa Australia, Bupa Australia Pty Limited, Bupa Care Services Australia and their subsidiary companies Foreign exchange gains and losses on the Australian Dollar inter company loans that are permitted to be taken to other comprehensive income on consolidation, under IAS 21, total a gain of £15 8m (2010 loss of £78 2m) At 31 December 2011, the Group held both forward foreign exchange contracts totalling £66 0m (AU$100 0m) (2010 £261 2m (AU$398 5m)) and collar options totalling £132 0m (AU$200 0m) (2010 £nil (AU$nil)) to hedge a portion of net assets, which have been designated as hedges under IAS 39 The forward contracts mature within six months from balance sheet date The collar options mature within one year (AU$100 0m) and two years (AU$100 0m) from balance sheet date

31. Risk management - continued

Euro translation exposure of £362 0m (€433 4m) (2010 £337 0m (€392 6m)) arises from the net assets of Grupo Bupa Sanitas SL and its subsidiary companies Foreign exchange gains and losses on the Euro inter company loans that are permitted to be taken to other comprehensive income on consolidation, under IAS 21, total a gain of £10 2m (2010 gain of £19 9m) At 31 December, the Group held Euro borrowings of £nil (€nil) (2010 £94 8m (€110 5m)) and forward foreign exchange contracts totalling £140 8m (€168 6m) (2010 £nil (€nil)) to hedge a portion of these net assets, all of which have been designated as hedges under IAS The forward contracts mature within two months from balance sheet date and are rolled forward on an ongoing basis

US Dollar translation exposure of £130 6m (US$173 4m, HK$229 3m) (2010 £362 2m (US$550 6m, HK$115 3m)) arises from the net assets of Health Dialog, Bupa International Miami and their subsidiary companies, and from exposure through the Hong Kong Dollar (which is pegged to the US Dollar), which arises from the net assets of Bupa International (Hong Kong), Bupa Asia Limited and Bupa Limited (HK) Foreign exchange gains and losses on the US Dollar inter company loans that are permitted to be taken to other comprehensive income on consolidation, under IAS 21, total a gain of £1 2m (2010 gain of £9 3m) At 31 December 2011, the Group held forward foreign exchange contracts totalling £nil (US$nil) (2010 £182 6m (US$285 0m)) to hedge a portion of net assets, which have been designated as hedges under IAS 39 Responding to the decrease in the US Dollar translation exposure, on 15 December 2011, the Group discontinued to hedge a portion of the net assets

Fair value hedges

As at 31 December, the following derivative contracts were in place to hedge the Group's currency exposure

	Maturity, expiry or execution date	Initial value of contracts sold	Notional value of liabilities	Carrying value
	£m	£m	£m	£m
2011				
Currency forward contracts held in the following currencies				
Euro (€36 2m)	16 January 2012	(30 4)	(30 2)	0 2
US Dollar (US$79 0m)	17 January 2012	(51 1)	(50 8)	0 3
2010				
Currency forward contracts held in the following currencies				
Euro (€30 3m)	20 January 2011	(25 7)	(26 0)	(0 3)
US Dollar (US$84 0m)	20 January 2011	(54 3)	(53 8)	(0 5)

The currency forward contracts hedge the Group's currency exposure, which arises from holding US Dollar and Euro denominated financial investments classed as shares and other variable yield securities These hedged items have resulted in an income statement gain of £0 1m (2010 loss of £0 5m)

(ii) Cash flow hedges

In 2008, forward foreign exchange contracts were entered into to hedge cash outflows for the acquisition of MBF amounting to AU$2,001 1m (£915 2m) which led to a cash flow hedge reserve gain of £36 4m, and the acquisition of Health Dialog amounting to US$653 2m (£343 0m) resulting in a cash flow hedge reserve loss of £2 8m In 2010, part of the MBF business was disposed of and as a result £0 9m of the related cash flow hedge gain has been recognised in the income statement The impairment of Health Dialog goodwill in 2010 has resulted in the cash flow hedge loss of £2 8m being recognised in the income statement

31. Risk management – continued

Effect of foreign exchange hedging transactions

The impact of all external foreign currency hedging activity is set out below The ineffective portion of all hedges recognised in the income statement was a gain of £nil (2010 £0 5m)

Gains / (losses) included in the income statement are

	Currency forward contracts £m	External borrowing £m	Total £m
2011			
Euro	0 9	-	0 9
US Dollar	(0 3)	-	(0 3)
Danish Krone	-	-	-
	0 6	-	0 6
2010			
Euro	0 5	-	0 5
US Dollar	(1 7)	-	(1 7)
Danish Krone	-	0 5	0 5
	(1 2)	0 5	(0 7)

Gains / (losses) included in other comprehensive income are

	Currency forward contracts £m	External borrowing £m	Total £m
2011			
Australian Dollar	4 0	-	4 0
Euro	2 0	2 0	4 0
US Dollar	(0 2)	-	(0 2)
Danish Krone	-	-	-
	5 8	2 0	7 8
2010			
Australian Dollar	(40 2)	-	(40 2)
Euro	-	3 2	3 2
US Dollar	(6 3)	-	(6 3)
Danish Krone	-	0 1	0 1
	(46 5)	3 3	(43 2)

At 31 December 2011 and 2010, there were no material exposures to foreign currency transaction risk

b) 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 both the return on floating rate assets, the cost of floating rate liabilities and the balance sheet value of its investment in fixed rate bonds Floating rate assets represent a natural hedge for floating rate liabilities The net balance on which the Group is exposed as at 31 December 2011 was £1,584 6m (2011 £1,259 8m) 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 net floating cash position

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 floating rates This increases the ability to match floating rate assets with floating rate liabilities

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

31. Risk management – continued

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

	Variable £m	Fixed £m	Total £m	Undrawn facility £m
2011				
2012	(5 5)	(24 7)	(30 2)	(893 6)
2013	0 5	(2 4)	(1 9)	-
2014	(1 6)	(51 6)	(53 2)	-
2015	(1 9)	(0 5)	(2 4)	-
2016	(2 0)	(348 7)	(350 7)	-
2017-2021	(332 5)	(83 0)	(415 5)	-
After 2021	(41 9)	(232 7)	(274 6)	-
Total	(384 9)	(743 6)	(1,128 5)	(893 6)
2010 (restated)				
2011	(6 2)	(26 9)	(33 1)	(703 1)
2012	(1 0)	(3 4)	(4 4)	-
2013	(195 8)	(2 6)	(198 4)	-
2014	(4 8)	(51 6)	(56 4)	-
2015	(26 3)	(0 4)	(26 7)	-
2016-2020	(347 5)	(394 8)	(742 3)	-
After 2020	-	(233 1)	(233 1)	-
Total	(581 6)	(712 8)	(1,294 4)	(703 1)

The impact of a rise of 100 bps (2010 100 bps) in interest rates at the reporting date, on an annualised basis, would have increased / (decreased) equity and surplus by £26 0m (2010 £21 3m) The impact of a fall of 100 bps (2010 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 in order to hedge its exposure to interest rate risk

(i) Fair value hedges

Interest rate swaps totalling £330 0m have been entered into to swap the fixed rate coupon on the £330 0m callable subordinated perpetual guaranteed bond to a floating rate These interest rate swaps are designated as fair value hedges of the underlying interest rate risk on the debt The fixed receipt occurs annually on the payment of the bond coupon in September The variable payment is settled quarterly and the rate is reset on the floating element at this time As at 31 December 2011, the fair value movement in the bond attributable to the hedged risk amounted to £35 9m (2010 £18 2m)

The following derivative contracts were in place as at 31 December to hedge the Group's interest rate exposure

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of assets £m	Carrying value £m
2011				
Interest rate swaps — fair value	September 2020	330 0	330 0	76 7
2010				
Interest rate swaps — fair value	September 2020	330 0	330 0	40 8

31. Risk management – continued

(ii) Cash flow hedges

During 2009, interest rates swaps were designated to hedge the €40 3m (£35 7m) floating rate debt in Especializada Y Primaria L'Horta Manises The swaps currently cover 70 4% of the floating rate loan principal balance outstanding at the balance sheet date At 31 December 2011, the fair value of the interest rate swap liability was £3 9m (€4 7m) (2010 £3 1m (€3 6m))

3. Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations The Group manages its credit risk exposures under the guidance of the Investment Committee

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least AA– by two of the three key rating agencies used by the Group (unless specifically approved by the Investment Committee)

The Group has no direct exposure to peripheral Eurozone sovereign debt, however, there may be small holdings within the Group's portfolio of return seeking assets The Group's exposure to Eurozone bank deposits has been reduced over the course of 2011 as part of ongoing risk management Within the amount listed below under investment grade counterparties, the Group held £264 6m with key Spanish and Italian banks The retention of each of these exposures has been specifically approved by the Group's Investment Committee and all exposures remain under constant review

The investment profile at 31 December is as follows

	2011	2010 (restated)
	£m	£m
Overseas government gilts	**16 0**	45 8
Investment grade counterparties	**3,057 9**	2,761 8
Non-investment grade counterparties	**36 6**	40 5
	3,110 5	2,848 1

Investment grade counterparties include cash and cash equivalents of £1,227 4m (2010 £689 3m)

The investments which are held with non-investment grade counterparties are classed as shares and other variable yield securities and include corporate bonds Non-investment grade counterparties are those rated below BBB-

31. Risk management – continued

Information regarding the ageing of financial and insurance assets and the value of the impairment made against these assets is provided below

	Neither past due or impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Impairment £m	Carrying value in the balance sheet £m
2011							
Debt securities	171 2	-	-	-	-	-	171 2
Shares and other variable yield securities	139 3	-	-	-	-	-	139 3
Medium-term notes	381 4	-	-	-	-	-	381 4
Deposits with credit institutions	1,191 2	-	-	-	-	-	1,191 2
Reinsurers' share of insurance provisions	19 4	-	-	-	-	-	19 4
Insurance debtors	646 3	101 7	9 4	7 7	2 8	(17 4)	750 5
Investment receivables and accrued investment incomes	2 0	-	-	-	2 4	(1 6)	2 8
Trade and other receivables	270 8	59 4	10 0	8 5	41 9	(10 3)	380 3
Total financial and insurance assets	2,821 6	161 1	19 4	16 2	47 1	(29 3)	3,036 1
2010 (restated)							
Debt securities	169 6	-	-	-	-	-	169 6
Shares and other variable yield securities	142 7	-	-	-	-	-	142 7
Medium-term notes	226 3	-	-	-	-	-	226 3
Reverse repo securities	202 2	-	-	-	-	-	202 2
Deposits with credit institutions	1,418 0	-	-	-	-	-	1,418 0
Reinsurers' share of insurance provisions	9 8	-	-	-	-	-	9 8
Insurance debtors	643 1	72 9	9 1	8 5	0 4	(18 1)	715 9
Investment receivables and accrued investment incomes	2 3	0 3	-	-	1 9	(1 6)	2 9
Trade and other receivables	287 5	52 0	8 4	8 0	33 2	(14 0)	375 1
Total financial and insurance assets	3,101 5	125 2	17 5	16 5	35 5	(33 7)	3,262 5

The carrying amount of financial and insurance assets of £3,038 2m (2010 £3,263 7m) included on the Group balance sheet represents the maximum credit exposure

The movement in the allowance for impairment in respect of financial and insurance assets during the year was as follows

	2011 £m	2010 £m
At beginning of year	**33 7**	31 3
Impairment loss recognised	**15 1**	17 4
Additions through business combinations	**0 1**	-
Disposal of subsidiary companies	**-**	(0 3)
Bad debt provision released in year	**(19 5)**	(14 2)
Transferred to assets held for sale	**-**	(0 4)
Foreign exchange	**(0 3)**	(0 1)
At end of year	**29 1**	33 7

The Group believes no impairment allowance is necessary in respect of financial assets not past due date

The Group considers notified disputes, significant changes in the counterparty's financial position and collection experience in determining which assets should be impaired The credit quality of receivables is managed at a local business unit level with uncollectable amounts being impaired when necessary

31. Risk management – continued

Assets pledged as security include £45 3m (2010 £35 4m) of cash held in restricted access deposits (see note 20), £80 3m (2010 £86 8m) of property, plant and equipment and £0 4m (2010 £0 5m) of inventories The property, plant and equipment is subject to a first legal mortgage and inventories are subject to a first floating charge as security for debenture stock issued by the Group, repayable in 2014

4. Liquidity risk
Liquidity risk is the risk that the Group will not have available funds to meet its liabilities when they fall due

The Group's main source of funding is via a £900 0m committed bank facility, which matures on 30 September 2013, and was fully undrawn at 31 December 2011 with the exception of £6 4m of outstanding letters of credit required for general business purposes The Group repaid £196 8m of bank borrowings under this facility during 2011 primarily from operating cash flows and proceeds from the disposal of businesses

The Group Treasury department monitors funding risk as well as compliance with existing financial covenants within the banking arrangements There were no concerns regarding bank covenant coverage in 2011 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 Investment Committee as well as adhering to certain liquidity parameters, as defined by the FSA for the Group's regulated entities in the UK and local equivalent authorities for the Group's foreign operations

Liquidity is managed by currency, and by considering the segregation of accounts required for regulatory purposes, short-term operational working capital requirements are met by cash in hand and committed bank facilities

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 £m	Total £m
2011						
2012	(20 6)	(72 1)	(2,136 5)	(13 7)	(738 9)	(2,981 8)
2013	(20 6)	(49 7)	(2 2)	-	(3 3)	(75 8)
2014	(20 6)	(98 1)	-	-	(1 2)	(119 9)
2015	(20 6)	(44 4)	-	-	(0 7)	(65 7)
2016-2021	(431 1)	(462 7)	-	-	(1 6)	(895 4)
After 2021	(31 5)	(403 8)	(23 5)	-	-	(458 8)
Total	(545 0)	(1,130 8)	(2,162 2)	(13 7)	(745 7)	(4,597 4)
Carrying value in the balance sheet	(434 8)	(693 7)	(2,162 2)	(13 7)	(745 7)	(4,050 1)
2010 (restated)						
2011	(20 6)	(75 0)	(2,134 5)	(18 9)	(802 3)	(3,051 3)
2012	(20 6)	(52 3)	(0 8)	-	(11 7)	(85 4)
2012	(20 6)	(246 2)	-	-	(6 7)	(273 5)
2013	(20 6)	(101 3)	-	-	(0 7)	(122 6)
2014-2019	(451 7)	(527 9)	-	-	(1 0)	(980 6)
After 2019	-	(377 7)	(23 3)	-	-	(401 0)
Total	(534 1)	(1,380 4)	(2,158 6)	(18 9)	(822 4)	(4,914 4)
Carrying value in the balance sheet	(380 6)	(913 8)	(2,158 6)	(18 9)	(822 4)	(4,294 3)

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

31. Risk management – continued

The maturıty profile of fınancıal assets as at 31 December 2011 and 2010, whıch are avaılable to fund the repayment of lıabılıtıes as they crystallıse, ıs as follows

	Cash and cash equivalents £m	Deposits with credit institutions £m	Reverse repo securıtıes £m	Overseas government gilts £m	UK corporate bonds £m	Overseas corporate bonds £m	Medium term notes £m	Shares and other variable yield securities £m	Total £m
2011									
2012	1,227 4	1,005 8	-	0 5	-	-	180 5	-	2,414 2
2013	-	185 4	-	8 7	3 4	29 2	-	139 0	365 7
2014	-	-	-	-	1 9	36 6	150 7	-	189 2
2015	-	-	-	-	0 3	-	50 2	-	50 5
2016	-	-	-	0 1	1 6	-	-	-	1 7
2017-2021	-	-	-	6 7	9 8	-	-	0 3	16 8
After 2021	-	-	-	-	72 2	0 2	-	-	72 4
Total	1,227 4	1,191 2	-	16 0	89 2	66 0	381 4	139 3	3,110 5
2010 (restated)									
2011	689 3	832 7	202 2	6 5	-	-	75 5	10 1	1,816 3
2012	-	585 3	-	39 1	-	14 7	50 1	132 3	821 5
2013	-	-	-	0 1	-	-	-	-	0 1
2014	-	-	-	-	-	-	50 0	-	50 0
2015	-	-	-	-	-	-	50 7	-	50 7
2016-2020	-	-	-	0 1	-	40 4	-	0 2	40 7
After 2020	-	-	-	-	68 7	-	-	0 1	68 8
Total	689 3	1,418 0	202 2	45 8	68 7	55 1	226 3	142 7	2,848 1

Informatıon regardıng the ageıng of financıal and ınsurance assets, ıncludıng those above, and the value of any ımpaırment made agaınst these assets ıs ıncluded on page 90

32. Acquisitions

2011 acquisitions

On 1 June 2011, the Group acquired 100% of the share capital of Centro Internacional de Medicina Avazada (CIMA) for cash consideration of £11 8m (€13 7m) This resulted in goodwill of £5 8m being recognised The goodwill attributed to the acquisition of CIMA represents a premium paid to reflect that the acquisition materially increases Sanitas's provision footprint in Catalonia, which is the second largest regional market for the business in Spain, and will drive synergies through improved integrated healthcare and by offering higher levels of quality, greater control over healthcare costs and improved product differentiation for opportunities in the local market The acquisition related costs included in operating expenses within the income statement for the year ended 31 December 2011 are £0 5m (€0 5m) Had CIMA been consolidated from 1 January 2011, the consolidated revenue would be £8,024 6m and consolidated surplus for the period would be £135 7m

	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Intangible assets	0 5	0 4	0 9
Property, plant and equipment	3 6	-	3 6
Deferred taxation asset	6 8	-	6 8
Inventories	0 3	-	0 3
Trade and other receivables	3 5	-	3 5
Cash and cash equivalents	0 1	-	0 1
Other interest bearing liabilities	(6 4)	-	(6 4)
Trade and other payables	(2 7)	-	(2 7)
Deferred taxation liabilities	-	(0 1)	(0 1)
	5 7	0 3	
Net assets acquired			6 0
Goodwill			5 8
Consideration			11 8
Consideration satisfied by			
Cash			11 8
Purchase consideration settled in cash			11 8
Cash acquired on acquisition			0 1
Net cash outflow on acquisition			11 7

2010 acquisitions

On 25th August 2010, the Group acquired the assets of Peak Fitness Management for cash consideration of £2 3m (AU$4 1m), this resulted in goodwill of £3 0m being recognised The primary reason for this acquisition was to complement the existing offerings to customers

On 20 September 2010, the Group acquired the remaining 50% shareholding in the Health Eyewear business from Blink Optical Pty for cash consideration of £1 1m (AU$1 7m) The net assets recognised at 31 December 2010 were based on provisional amounts The fair value accounting was finalised during the year ended 31 December 2011 and the provisional amounts recognised at the acquisition date have been retrospectively adjusted This resulted in goodwill of £6 9m being recognised in the year The reported Group balance sheet as at 31 December 2010 has been restated as shown below

32. Acquisitions - continued

The provisional amounts and the adjustments relating to Health Eyewear are shown below

	As provisionally stated at 31 December 2010	Adjustments to provisional amounts	Restated as at 31 December 2010
	£m	£m	£m
Intangible assets	-	7 6	7 6
Property, plant and equipment	1 1	1 1	2 2
Inventories	0 7	(0 2)	0 5
Trade and other receivables	0 2	(0 1)	0 1
Cash and cash equivalents	-	0 3	0 3
Provisions for liabilities and charges	0 1	(0 2)	(0 1)
Deferred tax liabilities	-	0 3	0 3
Other interest bearing liabilities	-	(5 6)	(5 6)
Current taxation liabilities	-	(0 1)	(0 1)
Trade and other payables	(0 2)	(3 1)	(3 3)

The fair value of the assets and liabilities of Health Eyewear and Peak Fitness Management as at the date of acquisition are as follows

	Carrying value at acquisition	Fair value adjustments	Fair value
	£m	£m	£m
Property, plant and equipment	1 1	1 0	2 1
Inventories	0 6	(0 2)	0 4
Trade and other receivables	0 2	0 1	0 3
Cash and cash equivalents	-	0 3	0 3
Provisions for liabilities and charges	(0 3)	(0 2)	(0 5)
Deferred tax liabilities	-	0 2	0 2
Other interest bearing liabilities	-	(5 1)	(5 1)
Current taxation liabilities	-	(0 1)	(0 1)
Trade and other payables	(0 3)	(2 7)	(3 0)
	1 3	(6 7)	
Net assets acquired			(5 4)
Goodwill			9 9
Consideration			4 5
Consideration satisfied by			
Cash			3 4
Fair value of existing holding			1 1
			4 5
Purchase consideration settled in cash			3 4
Cash acquired on acquisition			0 3
Net cash outflow on acquisition			3 1

33. Commitments and contingencies

(i) Capital commitments
Capital expenditure for the Group contracted as at 31 December 2011 amounted to £27 8m (2010 £9 8m), of which £17 3m (2010 £7 6m) related to property, plant and equipment and £10 5m (2010 £2 2m) related to investment property

(ii) Operating leases
The total value of future non-cancellable operating lease rentals is payable as follows

	2011 £m	2010 £m
Less than one year	45 1	42 3
Between one and five years	173 1	152 9
More than five years	516 5	362 2
	734 7	557 4

The Group leases a number of properties under operating leases The leases typically run for a period of 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 2012 and 2024 Sub-lease receipts of £1 3m (2010 £1 4m) are expected to be received during the next financial year The Group has recognised an unoccupied property provision of £6 9m (2010 £7 8m) in respect of these leases (see note 26)

Leases as lessor
The Group leases out its investment properties under operating leases (see note 12) The future lease receipts under non-cancellable leases are as follows

	2011 £m	2010 £m
Less than one year	1 2	1 1
Between one and five years	2 3	3 5
More than five years	-	-
	3 5	4 6

During the year ended 31 December 2011, £1 1m (2010 £1 1m) was recognised as rental income in the income statement

(iii) Pension contributions
Bupa Finance plc has entered into a legally binding and irrevocable guarantee for the benefit of the Trustees of The Bupa Pension Scheme in respect of these payments

(iv) Contingent assets and liabilities
The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, from which it is anticipated that the likelihood of any material unprovided liabilities arising is remote

34 Related party transactions

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

The ultimate parent company of the Group is Bupa Finance plc

Intra Group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group

Transactions with key management personnel
The key management personnel are the Group's Executive and Non-Executive Directors and the Managing Directors of the Group's business segments The remuneration of the business segment Managing Directors is as follows

	2011 £m	2010 £m
Short-term employee benefits	**3 3**	4 3
Long-term incentive plan	**1 3**	1 5
Post employment benefits	**1 5**	2 5
Total remuneration paid to key management personnel	**6 1**	8 3

The total remuneration of key management personnel is included in staff costs (see note 4)

No Director had any material interest in any contracts with Group companies at 31 December 2011 (2010 £nil) or at any time during the year

Transactions with the Chargor of the Secured Employer Funded Retirement Benefit Scheme (SEFRBS)
The Company has made pension promises to certain current and former Executive Directors and key management personnel through a non-registered pension arrangement which mirrors the terms of The Bupa Pension Scheme (see note 25) These unfunded benefits are secured by a charge, governed by The Law Debenture Pension Trust Corporation plc who are the Trustees of the non-registered pension arrangement, over £39 4m (2010 £29 5m) of cash deposits (see note 20) The increase in the charge of £9 9m during 2011 reflects the increase in the value of the liabilities resulting from additional accrual of benefits during the year, changes in the underlying actuarial assumptions and changes in market conditions

There were no material transactions during the year with any other related parties, as defined by IAS 24

34. Related party transactions - continued

Transactions and balances with ultimate parent company

Transactıons wıth the ultımate parent company of Bupa Group, The Brıtısh Unıted Provıdent Assocıatıon Lımıted, are as follows

	Transactıons during the year		Balance at 31 December	
	2011	2010	2011	2010
	£m	£m	£m	£m
Income statement				
Management charges paıd	(137 3)	(132 2)		
Interest expense	(1 5)	(4 0)		
Interest ıncome	6 8	6 7		
Expenses paıd (ıncludıng rental expense of £0 1m (2010 £0 2m))	(2 7)	(2 3)		
Income receıved (ıncludıng rental ıncome of £6 4m (2010 £6 4m))	6 6	6 9		
Dıvıdends paıd	(200 0)	-		
Balance sheet				
Amounts owed to ultımate parent company	325 6	(67 1)	(90 2)	(415 8)
Amounts owed by ultımate parent company	(471 2)	(89 1)	49 5	520 7
Loans from ultımate parent company	50 4	194 3	-	(50 4)
Loans to ultımate parent company	(22 0)	33 7	210 6	232 6

The above outstandıng balances arose durıng the ordınary course of busıness and are on substantıally the same terms, ıncludıng ınterest rates, as for comparable transactıons wıth thırd partıes

Appendix I
Bupa Finance plc Company Accounts

Bupa Finance plc **Appendix I**

Company Number 2779134

Company balance sheet

as at 31 December 2011

	Note	2011 £m	2011 £m	2010 £m	2010 £m
Fixed assets					
Financial investments	4	-		0 2	
Investment in subsidiary undertakings	5	4,415 3		5,160 3	
Investment in associate undertakings	6	0 1		0 1	
Debtors amounts falling due after more than one year	7	76 7		-	
			4,492 1		5,160 6
Current assets					
Financial investments	4	-		0 1	
Debtors amounts falling due within one year	7	39 6		15 1	
Cash and cash equivalents		187 3		29 3	
			226 9		44 5
Creditors amounts falling due within one year	8		(29 8)		(36 9)
Net current assets			**197 1**		**7 6**
Total assets less current liabilities			**4,689 2**		**5,168 2**
Creditors amounts falling due after more than one year	8		(3,311 4)		(3,476 2)
Net assets			**1,377 8**		**1,692 0**
Shareholder's funds					
Called up share capital	10		200 1		200 1
Profit and loss account	11		1,177 7		1,491 9
Shareholder's funds			**1,377 8**		**1,692 0**

These financial statements were approved by the Board of Directors on 20 April 2012 and were signed on its behalf by

G M Evans
Director

Registered number 2779134

The notes on the pages 101 to 108 form part of these financial statements

Bupa Finance plc **Appendix I**

Company Number 2779134

Reconciliation of movement in shareholder's funds

for the year ended 31 December 2011

	2011 £m	2010 £m
(Loss) / Profit for the year	(114 2)	846 0
Dividend paid	(200 0)	-
Net (reduction) / addition to shareholder's funds	**(314 2)**	**846 0**
Opening shareholder's funds	1,692 0	846 0
Closing shareholder's funds	**1,377 8**	**1,692 0**

There were no recognised gains and losses other than the (loss) / profit for the financial year

The notes on the pages 101 to 108 form part of these financial statements

Company accounting policies

The principal accounting policies are summarised below They have been applied consistently throughout the financial years disclosed

Basis of preparation
The financial statements have been prepared in accordance with applicable UK accounting standards, under the historical cost convention, modified to include the revaluation of financial investments

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

The Company has continued to present individual financial statements prepared on a UK Generally Accepted Accounting Practice basis as permitted by section 396 to the Companies Act 2006 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

Under Financial Reporting Standard No 1 'Cash flow statements' (revised 1996) (FRS 1) the Company is exempt from the requirement to prepare a cash flow statement on the grounds it is a wholly owned subsidiary undertaking of The British United Provident Association Limited (Bupa), a company that prepares a consolidated cash flow statement for the Bupa Group

As the Company is a wholly owned subsidiary of Bupa, a company registered in England and Wales, which publishes consolidated accounts, the Company has, pursuant to paragraph 17 of Financial Reporting Standard No 8 Related Party Disclosures (FRS 8), not included details of transactions with other companies which are subsidiary undertakings of the Bupa Group There are no other related party transactions

In addition, the Company has taken advantage of the exemption in paragraph 2D of FRS 29, 'Financial Instruments Disclosure' (FRS 29) not to present separate financial instrument disclosures on the basis that the Company is included in the publicly available consolidated financial statements of the Group which include disclosures required by IFRS 7, 'Financial Instruments Disclosure', which would comply with the disclosures required by FRS 29

Financial income and expenses
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 the profit and loss account

Interest income, except in relation to assets classified as at fair value through the profit and loss account, is recognised in the profit and loss account as it accrues, using the effective interest method

Changes in the value of financial investments designated as 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 expenses include interest payable on borrowings, calculated using the amortised cost method, and other financial expenses

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

Derivative financial instruments

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in the profit and loss account when incurred Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit and loss account

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

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 profit and loss account The hedged item is fair valued for the hedge risk with any adjustment being recognised in the profit and loss account

Investment in subsidiary companies

Subsidiary companies include all entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities

Investments in subsidiary undertakings are stated at cost less provision for any impairment

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's net realisable value and value in use Impairment losses are recognised in the profit and loss account

The carrying amounts of assets are reviewed at least annually For the purpose of assessing impairments, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units)

Dividends received from subsidiaries are recognised in the profit and loss account 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

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Taxation including deferred taxation
The charge for taxation is based on the result for the year and takes into account deferred taxation

Deferred tax is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

(i) Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

(ii) Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on current tax rates and laws

Foreign currency transactions
In the Company accounts, transactions denominated in foreign currencies are translated into Sterling, the functional currency, using the exchange rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the balance sheet date, the resulting foreign exchange gain or loss is recognised in the profit and loss account

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, no exchange differences therefore arise

Non-monetary assets and liabilities measured in 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 the profit and loss account

Notes to the Company accounts
for the year ended 31 December 2011

1. Immediate and ultimate parent undertakings

The ımmedıate and ultımate parent undertakıng of Bupa Fınance plc ıs The Brıtısh Unıted Provıdent Assocıatıon Lımıted (Bupa), a company ıncorporated ın England and Wales whıch prepares consolıdated Group accounts Copıes of the accounts of The Brıtısh Unıted Provıdent Assocıatıon Lımıted can be obtaıned from The Regıstrar of Companıes, Cardıff, CF14 3UZ

2. (Loss) / profıt attributable to the Company

The loss wıthın the accounts of the Company ıs £114 2m (2010 Profit of £846 0m) In accordance wıth the exemptıon granted under Sectıon 408 of the Companıes Act 2006, a separate profıt and loss account for the Company has not been presented

3. Directors and employees

	2011 £m	2010 £m
Staff costs consısts of		
Wages and salarıes	**0 3**	0 2
	0 3	0 2

The emoluments of the Dırectors are borne entırely by other Group companıes and are dısclosed ın the financıal statements of those companıes

Employee numbers

The average number of employees, excludıng dırectors, of the Company durıng the year was 5 (2010 6)

4. Financial investments

	2011 £m	**2010 £m**
Non-current		
Faır value through profit or loss		
Shares and other varıable yıeld securıtıes	-	0 2
	-	**0 2**
Current		
Faır value through profit or loss		
Shares and other varıable yıeld securıtıes	-	0 1
	-	**0 1**
Total financıal assets	**-**	**0 3**

5. Investment in subsidiary undertakings

	1 January 2011 £m	Additions £m	Disposals/ Repayments £m	Provisions for impairment adjustments £m	Foreign exchange revaluation £m	31 December 2011 £m
Group undertakings						
Shares in subsidiary undertakings	4,842 4	132 2	(778 3)	-	1 8	4,198 1
Loans to Group companies	1,716 9	0 8	(804 8)	-	-	912 9
	6,559 3	133 0	(1,583 1)	-	1 8	5,111 0
Provisions for impairment	(1,399 0)	-	728 3	(25 0)	-	(695 7)
	5,160 3	133 0	(854 7)	(25 0)	1 8	4,415 3

Loans to subsidiary undertakings comprise loan facilities of a fixed amount and a long-term maturity date

The principal subsidiary undertakings of the Company as at 31 December 2011 are listed below

	Direct Holding (%)	Class of shares	Country of incorporation
ANS 2003 Limited	100%	£0 01 Ordinary	England and Wales
BHS (Holdings) 2006 Limited	100%	£1 Ordinary	England and Wales
Bupa Care Homes (ANS) Limited	100%	£1 Ordinary	England and Wales
Bupa Care Services Limited	100%	£0 20 Ordinary	England and Wales
Bupa Denmark Services a/s	100%	DKK100 Ordinary	Denmark
Bupa Health Dialog Limited	100%	£1 Ordinary	England and Wales
Bupa Home Healthcare Group Limited	100%	£0 01 Ordinary A	England and Wales
Bupa Home Healthcare Limited	100%	£1 00 Ordinary	England and Wales
Bupa Insurance Limited	87%	£1 Ordinary	England and Wales
Bupa Insurance Services Limited	100%	£1 Ordinary	England and Wales
Bupa Investments Limited	100%	£1 Ordinary	England and Wales
Bupa Investments Overseas Limited	100%	£1 Ordinary and US$1 Redeemable Preference and AUD1 Ordinary	England and Wales
Bupa Wellness Group Limited	100%	£0 01 Ordinary	England and Wales
Bupa Pension Scheme Trustees Limited	100%	£1 Ordinary	England and Wales
Cromwell Health Group Limited	100%	£1 Preference, £1 Ordinary A and £1 Ordinary B	England and Wales

6. Investment in associate undertakings

	2011 £m	2010 £m
Investment in associate undertakings	0 1	0 1

Bupa Finance plc **Appendix I**

Company Number 2779134

Notes to the Company accounts - continued

for the year ended 31 December 2011

7. Debtors

	2011 £m	2010 £m
Debtors amounts falling due within one year		
Amounts owed by subsidiary undertakings	30 2	12 9
Fair value of derivative assets	4 4	1 2
Trade and other debtors	5 0	1 0
	39 6	**15 1**
Debtors amounts falling due after one year		
Fair value of derivative assets	76 7	-
	76 7	**-**
	116 3	**15 1**

The fair value derivative assets of £76 7m relate to interest rate swaps which are recognised at fair value The interest rate swaps, previously held by Bupa Financial Securities (1992) Limited and Bupa Investments Limited were novated at fair value to Bupa Finance plc on 20 October 2011 The Interest rate swaps are held to hedge the £330 0m subordinated bond held by the Company

8 Creditors

	2011 £m	2010 £m
Creditors amounts falling due within one year		
Subordinated liabilities (note 9)	5 9	5 9
Senior unsecured bonds	12 3	12 3
Fair value of derivative liabilities	3 6	13 2
Amounts owed to ultimate parent company (note 1)	3 7	2 4
Amounts owed to subsidiary undertakings	0 9	0 9
Other creditors	3 4	2 2
	29 8	**36 9**
Creditors amounts falling due after one year		
Subordinated liabilities (note 9)	410 6	333 9
Senior unsecured bonds	348 2	347 7
Fair value of derivative liabilities	1 2	-
Amounts owed to credit institutions	(1 3)	193 5
Amounts owed to subsidiary undertakings	2,552 7	2,601 1
	3,311 4	**3,476 2**
	3,341 2	**3,513 1**

On 2 July 2009, Bupa Finance plc issued £350 0m of 7 5% senior unsecured bonds The bonds are repayable in July 2016 They are guaranteed by Bupa and other Group subsidiary companies The £360 5m balance (2010 £360 0m) is net of initial issue costs, discount on issue and accrued interest

The amounts owed to credit institutions bear interest at commercial rates linked to LIBOR

Notes to the Company accounts - continued
for the year ended 31 December 2011

9. Subordinated liabilities

	2011 £m	2010 £m
Current		
Callable subordinated perpetual guaranteed bonds	5 9	5 9
	5 9	5 9
Non-current		
Callable subordinated perpetual guaranteed bonds	330 0	330 0
Fair value adjustment in respect of hedged interest rate risk	76 7	-
Callable subordinated perpetual guaranteed bonds at carrying value	406 7	330 0
10 5% subordinated guaranteed bonds due 2018	3 9	3 9
	410 6	333 9
	416 5	339 8

Callable subordinated perpetual guaranteed bonds

In December 2004, Bupa Finance plc issued £330 0m 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 Bupa Finance plc to redeem the bonds on 16 September 2020 In the event of the winding up of Bupa Finance plc or Bupa Insurance Limited the claims of the bondholders are subordinated to the claims of other creditors of these companies

On 20 October 2011, interest rate swaps previously held by Bupa Financial Securities (1992) Limited and Bupa Investments Limited were novated to Bupa Finance plc at fair value The interest rate swaps are designated as a fair value hedge of the underlying interest rate risk on the £330 0m callable subordinated perpetual guaranteed bonds held by Bupa Finance plc The total fair value of the bonds, including accrued interest, is £412 6m (2010 £335 9m) 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

10.5% subordinated guaranteed bonds

The 10 5% subordinated guaranteed bonds, which are repayable on 3 December 2018, were issued by Bupa Finance plc and are guaranteed by Bupa A call option is exercisable by Bupa Finance plc to redeem the bonds on 3 December 2013 In the event of the winding up of Bupa Finance plc or Bupa, the claims of the bondholders are subordinated in right of payment to the claims of the Company Interest is payable at 10 5% per annum

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2011 or 2010

10. Called up share capital

	2011 £m	2010 £m
Allotted, called up and fully paid		
200,050,000 ordinary shares of £1 each	200 1	200 1

11. Reserves

	Profit and loss account £m
At beginning of year	1,491 9
Loss for the year	(114 2)
Dividend paid	(200 0)
At end of year	**1,177 7**

12. Commitments and contingencies

Pension contributions
The Company has given a legally binding and irrevocable guarantee for the benefit of the Trustees of The Bupa Pension Scheme, in respect of payments that Bupa is obliged to make between 31 December 2011 and 31 December 2012 to 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 Bupa Finance Group

Guarantees
At 31 December 2011, the Company was party to a £900 0m multi-currency revolving credit facility The Company has joint and several liability for all obligations under the agreement

The Company has given a guarantee and 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

Bupa Finance plc

Glossary of International Financial Reporting Standards

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

International Accounting Standards (IAS)

IAS 1 Presentation of financial statements
IAS 2 Inventories
IAS 7 Cash flow statements
IAS 8 Accounting policies, changes in accounting estimates and errors
IAS 10 Events after the balance sheet date
IAS 12 Income taxes
IAS 16 Property, plant and equipment
IAS 17 Leases
IAS 18 Revenue
IAS 19 Employee benefits
IAS 21 The effects of changes in foreign exchange rates
IAS 23 Borrowing costs
IAS 24 Related party disclosures
IAS 27 Consolidated and separate financial statements
IAS 28 Investments in associates
IAS 31 Interests in 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 39 Financial instruments Recognition and measurement
IAS 40 Investment property

Interpretations

IFRIC 4 Determining whether an arrangement contains a lease
IFRIC 9 Embedded derivatives
IFRIC 12 Service concession arrangements
IFRIC 13 Customer loyalty programmes
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 17 Distributions of non-cash assets to owners
IFRIC 18 Transfer of assets from customers
SIC 12 Consolidation Special purpose entities
SIC 15 Operating leases - incentives
SIC 27 Evaluating the substance of transactions involving the legal form of a lease
SIC 32 Intangible assets – website costs