

# Bupa Arabia for Cooperative Insurance Company

## Board of Directors Report

### for the period ended 31/12/2012:

The Board of Directors of Bupa Arabia for Cooperative Insurance Company is pleased to present the annual report covering the Company's financial results and achievements, followed by the audited financial statements and notes for the twelve month period ended 31 December 2012. This Board report includes the most important developments, financial results, operational activities and disclosures in compliance with the rules and regulations of the Kingdom of Saudi Arabia.

#### **1. Main activities:**

Bupa Arabia for Cooperative Insurance Company (the Company, or Bupa Arabia) is a publicly listed Saudi joint stock company (listed on 11/05/1429 H, 17/05/2008 G) registered in Saudi Arabia under Commercial Registration number 4030178881 (issued on 05/05/1429 H, 10/05/2008 G).

The company specializes in cooperative health insurance activities and operates in accordance with the relevant rules of all the relevant regulatory bodies in the Kingdom of Saudi Arabia.

According to the Company's charter and articles of association, the first fiscal year of the Company commences from the date of issuance of the ministerial declaration to establish the Company (issued on 24/04/1429 H, 01/05/2008 G) and ends on 31 December of the following year.

The current year financial statements, for the twelve month period ended 18/02/1434 H, 31/12/2012 G, represent the fourth statutory financial statements of the Company.

#### **2. Asset purchase agreement and transfer of insurance portfolio:**

The Company completed its IPO process on 07/03/1429 H, 15/03/2008 G and a request was submitted to His Excellency the Minister of Trade and Industry to announce the Company. This request was approved by the ministry on 24/04/1429 H, 01/05/2008 G. The licence to establish the Company was approved by Royal Decree No. M/74 dated 29/08/1428 H, 11/09/2007 G, and by the declaration from the Council of Ministers No. 279 dated 28/08/1428 H, 10/09/2007 G.

The Saudi Arabian Monetary Agency (SAMA) permitted Bupa Arabia to conduct the business of cooperative health insurance in Saudi Arabia on the basis of Articles II and III of the law of Supervision of Cooperative Insurance Companies issued by Royal Decree No. M/32 on 02/06/1424 H, 01/08/2003 G, and Article IV of the law's executive summary issued by the decree of the Minister of Finance No. 1/596 dated 01/03/1425 H, 21/04/2004 G, and the pronouncement of the Governor of SAMA No. 111/429 dated 08/08/1429 H, 10/08/2008 G.

An Ordinary General Assembly meeting took place on 30/12/1429 H, 28/12/2008 G, in which meeting it was approved unanimously to purchase the insurance portfolio of Bupa Middle East Limited E.C. in accordance with the assessment by SAMA and the prescribed SAMA guidelines. The Shareholders authorised the Board of Directors to complete the acquisition and agree on the terms and conditions of the purchase.

The Shareholders approved unanimously, during an Ordinary General Assembly meeting on 19/09/1430 H, 09/09/2009 G, that the Company enter into a licensing agreement for the use of Bupa's trademark (the word Bupa, with or without logo).

Bupa Arabia received SAMA's approval to finalise the transfer of the insurance portfolio, from Bupa Middle East Limited E.C., through SAMA's letter no IS928 dated 07/07/1430 H, 30/06/2009 G and the insurance portfolio transfer agreement and formalities were completed during 2009. The insurance portfolio purchase/sale agreement provided for the payment of fees relating to the outstanding Goodwill consideration amounts and fees in accordance with this were included in the 2011 results in the general and administrative expenses of shareholders' operations. These fees will be paid after receipt of the SAMA payment approval.

### **3. Approval of the Company's renewal license from the Saudi Arabian Monetary Agency (SAMA):**

During 2011, on 26/07/1432 H, 28/06/2011 G, the company successfully renewed its SAMA license qualification for a further three year period to 08/08/1435 H, 06/06/2014 G.

### **4. Approval of the Company's renewal license from the Council of Cooperative Health Insurance (CCHI):**

During 2011, on 03/11/1432 H, 01/10/2011 G, the company successfully renewed its three year CCHI license qualification for the further three year period to 19/05/1435 H, 19/03/2014 G and during 2012, on 19/05/1433 H, 11/04/2012 G, the company successfully renewed its one-year CCHI license qualification for the further one year period to 19/05/1434 H, 31/03/2013 G (the two renewals, one for three years and one for one year, being separate requirements of the CCHI).

### **5. Bupa Arabia significant plans, decisions and developments during the year:**

#### **• 5.1 Strategy review – execution progress:**

Bupa Arabia continued to progress the execution of its strategy review, as approved by the Board in 2010. The "7 Pillar" strategy included enhancements to its core business activities covering Distribution, Brand, Healthcare Partner, Medical claims management, Customer service excellence, People capability building and Partnership relations. Progress was reviewed by the Board through the year as well as consideration to the next phase of strategy covering expansion outside of current core activities.

#### **• 5.2 Corporate governance enhancements:**

The Company embedded the prior year expansion of its Finance and Risk Management resources and implemented some new key frameworks and policy updates during the year including; Conflict of Interest Policies and Procedures, a Risk Management Framework, a Risk Management Policy, Risk Appetite Statements, a Financial Crime Policy (incorporating Anti-Money Laundering, Combatting the Financing of Terrorism and Anti-Bribery), and also completed a detailed review and update of the Terms of References of each of the Board Committees.

#### **• 5.3 Long term incentive plan (LTIP):**

The Company implemented an approved Long term incentive plan, for certain senior executives, during 2010 and the custodian obtained approval for the Bupa Arabia LTIP from the CMA and communicated its details to SAMA as required in terms of Article 57. An outcome of the LTIP is that some of the Company's own shares are held by the custodian on behalf of the senior executive(s) and as a result these have been classified as "Shares held under Long-term incentive plan by the custodian". At 18/02/1434 H, 31/12/2012 G, the shares held by the custodian on behalf of the senior executives numbered 212,161 shares.

#### **• 5.4 New sales outlets:**

In accordance with the 2010 approval received for twenty-three new Sales outlets (per SAMA's letter numbered 51747/MT/1987 dated 05/11/1431 H, 19/04/2010 G), the Company successfully opened a further five outlets during 2012 to expand to fourteen operational outlets. The implementation of the remaining approved outlets will be progressed having established the economic viability of further sites.

#### **• 5.5 Chief Executive Team (CET):**

The business appointed a new Chief Human Resources Officer (CHRO) in April 2012 to fill the vacancy carried over from 2011. It also appointed a new Chief Commercial Officer (CCO) in December 2012, with the previous incumbent moving to Chief Strategy Officer (CSO). The other roles which comprise the CET are the Chief Executive Officer (CEO), the Chief Financial Officer (CFO – appointed July 2010) and the Chief Operations Officer (COO – appointed April 2010).

#### • 5.6 Business continuity plan (BCP) and Disaster recovery (DR) developments:

The Company further embedded its Business Continuity Plans (BCP) and Disaster Recovery (DR) plans through successfully testing the prior year implementations of the Document Management System (DMS) and the alternate data centre in an offsite Riyadh office.

Bupa Arabia will seek to further enhance its BCP, DR and Crisis Management plans during 2013 through the appointment of a dedicated Business Continuity Manager and the implementation of robust testing scenarios to ensure a limited impact to operations in the event of a disaster.

#### • 5.7 Corporate social responsibility (CSR):

Bupa Arabia does not stand alone from its environment nor the society in which it operates and makes its living. Bupa Arabia is committed to sustainability, being a socially responsible partner and promoting good health in the Kingdom, at all levels in the organisation (Board, Executives and Employees).

In 2012 the Company maintained momentum on its CSR program, which has the ambition of covering all the orphans resident in the Kingdom with free quality health insurance. In 2012 the coverage was expanded from 400 orphans (in six sites) to 1,125 orphans (in sixteen sites). Bupa Arabia also looked to promote employee engagement in providing health education (i.e. oral hygiene), donation drives (clothes and toys), homecare services and check-up visits at the covered orphanages.

The Company and the Ministry of Health also collaborated by encouraging 4,000 people to walk inside Jeddah's largest mall in a "Walk your Heart" campaign during October 2012, to inspire people to walk towards a healthier lifestyle. Over 2,000 of the participants completed a 1,400 metre route in the mall and Bupa Arabia also donated SR50k to a charity as part of the campaign.

#### • 5.8 Shariah compliance developments:

During 2012 Bupa Arabia continued to develop its Shariah compliance agenda with the Shariyah Review Bureau. The Bupa Arabia bank accounts and financial investments have been confirmed to be in compliance with the required Shariah principles and Bupa Arabia is developing its policies and evaluating its contracts in support of achieving overall Shariah compliance in the future.

### 6. Bupa Arabia future prospects, risks and developments:

#### • 6.1 Competition and market dynamics:

The Saudi economy continued its strong performance in 2012 with a GDP growth rate of 6.8% (oil 5.5%, non-oil 7.2%). The Saudi government recently announced the biggest budget in the history of the Kingdom for 2013, up 19%, and continues to pursue diversification and sustainable growth with investments in infrastructure, education, healthcare and economic developments. This increased spending coupled with population growth is likely to have a positive backdrop on the health insurance market, from both increased demand and the expanding workforce subject to private medical insurance (PMI) regulations.

The Government is expected to spend approaching SR 100 billion on health and social affairs projects in 2013, an 18% p.a. growth since 2005. New projects include 19 new hospitals in addition to 102 already under construction. Additional supply for health care services will be crucial for meeting the health care demands of a growing population with such a high and rising incidence of chronic health outcomes.

The private sector share in the provider market remained flat at around 30% of the overall market. Going forward, the government and private sector will need to work closely in order to adequately meet the growing healthcare demand.

The price war in medical insurance which started mid 2011 continued throughout 2012, with some competitors consistently under-pricing to win market share. This has damaged the industry profitability with the overall loss ratio rising 15% for two key competitors. However, we are encouraged by the recent tough stance, taken by regulators, towards unauthorised traders and predatory pricing which should help firm prices

in 2013.

#### • 6.2 Provider capacity and quality:

There remains a genuine concern over the shortage of private capacity for clinical services in the Kingdom. Where there is full capacity, in any market, there is high risk that not all care providers will be sufficiently incentivized to give excellent customer service, appropriate and high quality clinical treatment, transparency of outcomes and value for money. In 2012 the Bupa Arabia network was enhanced by the addition of 142 new providers (mostly small clinics) offset by the closure/withdrawal of 38 providers, for various reasons ranging from license/going concern issues to problems of fraud and abuse in some cases.

Bupa Arabia has been concerned about the medical incidents which have closed, albeit temporarily, a few hospitals and clinics in the Kingdom. Additionally new capacity is either slow to come to market or faces regulatory hurdles in opening. Bupa Arabia is keen to see new Regulations that will encourage extra provider capacity to improve the overall outcome for patients in the Kingdom.

#### • 6.3 Financial strength:

The Company's objective is to provide the highest appropriate quality and cost effective care for its members. In so doing it also seeks to make a sustainable return such that it may invest in the future plus retain a solvent position to ensure that member liabilities are never at risk of default.

In 2012 Bupa Arabia continued to strongly underpin this objective. The Company maintained its loss ratio, giving full and fair coverage where due to its members. The Company also reported a growth in pre-tax/pre-zakat profits, up from SR42m in 2011 to SR134m in 2012, making Bupa Arabia the most profitable player in the health insurance sector. This was driven by a 12% increase in underlying profits, the release of no longer required doubtful debt provisions and a significant improvement in investment income.

Cash/Investments grew SR350m, an increase of 29%, from SR1,225m at the end of 2011 to SR1,575m at the end of 2012, and additionally the solvency position was restored (post Article 69) to a material surplus solvency position at the year-end, with the growth in cash/investments held mainly in admissible assets.

#### • 6.4 Healthcare specialist:

Bupa Arabia believes in principle that delivering for its customers requires focus, commitment and dedication to ensure a sustainable, affordable, quality delivery in alignment with changing customer needs.

As the only viable single line health insurer in the Kingdom Bupa Arabia seeks to bring the expertise of the Bupa Group (an International healthcare operator) to bear in constantly improving the medical outcomes for its members. Bupa Arabia will continue to introduce products and services that enable its members to feel understood, informed, guided and re-assured as to the right treatment, at the right time, in the right setting, by the right specialist and at an appropriate fee for their healthcare needs.

#### • 6.5 Risks:

The key risks that the company's management are actively managing, or planning to mitigate the impact of, are:

- Irrational competitor pricing below claims costs
- Overtreatment and fraudulent claims by providers
- Continuously escalating prices by providers underpinned by the imbalance of supply and demand in the market
- Regulatory delays regarding product approval, increased levies (VAT, Dahman Fund) and other
- Availability of qualified professionals in a tight labour market
- Zakat risk associated with long term Investment portfolios
- Crisis management and disaster recovery capabilities

## 7. Financial statements presentation:

In compliance with the Capital Market Authority's (CMA) regulation dated 25/08/1429 H, 27/08/2008 G, permitting the issuance of financial statements according to International Financial Reporting Standards (IFRS), the statements presented have been prepared in accordance with International Accounting Standards (IAS) and not in accordance with the accounting standards of the Saudi Organisation for Certified Public Accountants (SOCPA). The Company confirms that these financial statements have not been materially affected by this practice.

For comparative purposes the results contained within this Board Report use the twelve month period ended 18/02/1434 H, 31/12/2012 G as a comparative versus the results for the twelve month period ended 6/02/1433 H, 31/12/2011 G.

## 8. Unqualified opinion of the independent external auditors:

The joint independent external auditors' report contains an unqualified opinion that the financial statements, taken as a whole, present fairly in all material aspects the financial position of the company and that the financial statements comply with the requirements of the Regulations for Companies and the Company's by-laws.

## 9. Bupa Arabia business results:

### • 9.1 Summary profit results:

	2009 SR000s 12 months	2010 SR000s 12 months	2011 SR000s 12 months	2012 SR000s 12 months
Gross written premiums	1,347,337	1,749,390	1,993,251	2,194,301
Net earned premiums	1,205,351	1,608,908	1,927,629	2,128,028
Total revenue (insurance operations)	1,208,017	1,613,109	1,930,583	2,141,092
Gross claims paid	889,057	1,232,218	1,523,835	1,671,622
Net claims incurred	973,422	1,308,103	1,551,030	1,701,051
Total expenses (insurance operations)	175,073	223,888	324,649	296,227
Surplus from insurance operations	59,522	81,118	54,904	143,814
Shareholders' net income	57,732	70,798	42,244	134,406

Earned revenue increased by 10% and the net underwriting result by 13%. Excluding investment income, the bad debt provision release of SR20m (versus prior year bad debt provision expense of SR34m), and the 2011 year one-offs (Goodwill consideration fees of SR3.4m and the additional retrospective CCHI levies of SR5.2m) the "underlying" trading results for each of the respective years 2009 to 2012 would have been SR49.4m, SR76.0m, SR82.2m and SR91.7m respectively. The "underlying" trading result for 2012 therefore represents an increase of 12% versus the "underlying" trading result of 2011.

• 9.2 Summary balance sheets:

<b>INSURANCE OPERATIONS' ASSETS</b>	<b>2009 SR000s</b>	<b>2010 SR000s</b>	<b>2011 SR000s</b>	<b>2012 SR000s</b>
Cash and cash equivalents	444,162	346,908	551,914	204,533
Murabaha deposits	-	-	58,000	732,340
FVIS investments	-	257,178	187,699	87,821
Prepayments and other assets	28,823	20,881	30,069	23,786
Premiums receivable - gross	427,197	520,004	403,936	279,807
Allowance for doubtful premiums receivable	(19,799)	(30,164)	(64,106)	(44,548)
Premiums receivable - net	407,398	489,840	339,830	235,259
Deferred policy acquisition costs	14,764	15,470	21,097	22,535
<b>Total insurance operations' assets</b>	<b>895,147</b>	<b>1,130,277</b>	<b>1,188,609</b>	<b>1,306,274</b>
<b>SHAREHOLDERS' ASSETS</b>	<b>2009 SR000s</b>	<b>2010 SR000s</b>	<b>2011 SR000s</b>	<b>2012 SR000s</b>
Cash and cash equivalents	308,789	13,631	13,631	13,631
FVIS investments	-	299,462	373,534	497,158
Other receivables	613	-	244	735
Amount due from insurance operations	39,580	48,761	-	-
Goodwill	98,000	98,000	98,000	98,000
Furniture, fittings and equipment	21,025	38,703	41,565	48,918
Statutory deposit	40,000	40,000	40,000	40,000
<b>Total shareholders' assets</b>	<b>508,007</b>	<b>538,557</b>	<b>566,974</b>	<b>698,442</b>
<b>TOTAL ASSETS</b>	<b>1,403,154</b>	<b>1,668,834</b>	<b>1,755,583</b>	<b>2,004,716</b>

<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>	<b>2009 SR000s</b>	<b>2010 SR000s</b>	<b>2011 SR000s</b>	<b>2012 SR000s</b>
Unearned premiums	522,517	659,819	722,739	786,669
Outstanding claims	275,259	352,379	381,265	413,509
Reinsurance balance payable	89	1,269	702	443
	<b>797,865</b>	<b>1,013,467</b>	<b>1,104,706</b>	<b>1,200,621</b>
Accrued expenses and other liabilities	51,750	50,508	59,503	63,619
Obligation under Long-Term Incentive Plan (LTIP)	-	3,477	4,846	8,099
	<b>849,615</b>	<b>1,067,452</b>	<b>1,169,055</b>	<b>1,272,339</b>
Amount due to shareholders' operations	39,580	48,761	-	-
Policyholders' share of surplus from insurance operations	5,952	14,064	19,554	33,935
<b>Total insurance operations' liabilities and surplus</b>	<b>895,147</b>	<b>1,130,277</b>	<b>1,188,609</b>	<b>1,306,274</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>	<b>2009 SR000s</b>	<b>2010 SR000s</b>	<b>2011 SR000s</b>	<b>2012 SR000s</b>
Accrued expenses and other liabilities	11,336	13,855	21,352	26,532
Accrued Zakat and income tax	10,318	7,905	15,437	30,306
Amount due to a related party in respect of goodwill	49,000	20,990	3,355	3,355
Amount due to related parties	-	2,818	4,400	4,041
<b>Total shareholders' liabilities</b>	<b>70,654</b>	<b>45,568</b>	<b>44,544</b>	<b>64,234</b>
Share capital	400,000	400,000	400,000	400,000
Shares held under Employees' Share Scheme	-	(2,709)	(2,910)	(4,988)
Statutory reserve	9,534	23,694	32,143	59,024
Retained earnings	27,819	72,004	93,197	180,172
<b>Total shareholders' equity</b>	<b>437,353</b>	<b>492,989</b>	<b>522,430</b>	<b>634,208</b>
<b>Total shareholders' liabilities and equity</b>	<b>508,007</b>	<b>538,557</b>	<b>566,974</b>	<b>698,442</b>
<b>TOTAL LIABILITIES INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>	<b>1,403,154</b>	<b>1,668,834</b>	<b>1,755,583</b>	<b>2,004,716</b>

Investments and cash have grown significantly over the period and during 2012 increased to SR1,575m from SR1,225m at the end of 2011 (an increase of SR350m, +29%). The growth in cash, during the year, has been achieved mainly through the successful transition to new customer payment terms, an insurance industry initiative commenced during 2011 in response to regulatory changes relating to bad debt provision requirements.

## 10. Bupa Arabia financial highlights:

### • 10.1 Summary key performance indicators:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Gross written premiums	1,993,251	2,194,301	201,050	10%
Net earned premiums	1,927,629	2,128,028	200,399	10%
Total expenses	331,565	301,322	(30,243)	(9%)
Total operating expense ratio	17.2%	14.2%	(3.0%)	(18%)
Surplus of insurance operations	54,904	143,814	88,910	162%
Policyholders' share of insurance operations' surplus	5,490	14,381	8,891	162%
Net shareholders' income	42,244	134,406	92,162	218%
Weighted average no of ordinary shares (thousands)	39,865	39,843	(22)	0%
Basic earnings per share (Saudi Riyals)	1.06	3.37	2.31	218%

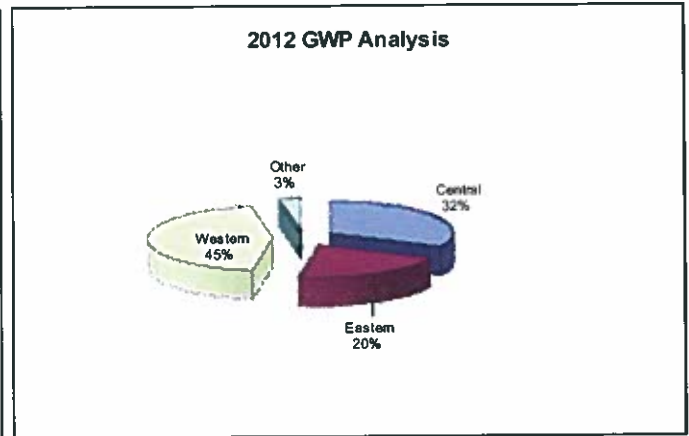
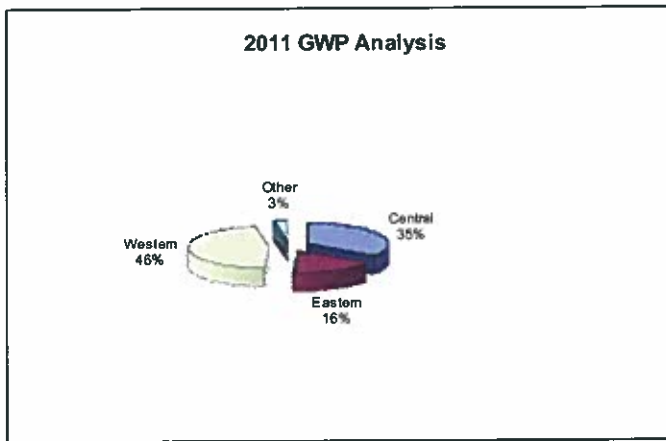
In 2012 the Company sustained its growth momentum and revenue earned improved by 10%, despite difficult market conditions arising from unfavourable competitor activity on price throughout the year. The increased earned combined with the improved loss ratio (claims to earned) resulted in an increase in the underwriting result of SR50m, +13%. The overheads of the business decreased year on year as a result of a release in the required allowance for doubtful debts (regulatory driven increase during 2011). Excluding the doubtful debts' provision movement overheads increased versus the prior year due to the full year costs of the prior year infrastructure and resource capability build and the current year additional costs associated with the increased volume of customers and extra investment in capability (distribution, brand, infrastructure, operations and other key activities).

### • 10.2 Gross written premiums (GWP) and geographical analysis:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Central	689,197	706,301	17,104	2%
Eastern	327,542	446,919	119,377	36%
Western	921,665	980,019	58,354	6%
Other	54,847	61,062	6,215	11%
<b>Total gross written premiums</b>	<b>1,993,251</b>	<b>2,194,301</b>	<b>201,050</b>	<b>10%</b>

The written premium increased by 10% to SR2,194m as a result of continued strong sales performance in both new and renewal business. The Company writes only health insurance business in Saudi Arabia and its revenue is currently concentrated predominantly in the main Central, Western and Eastern regions of the country. As illustrated by the results the 2012 geographical gross written premium mix is very similar to that of 2011 with a slight mix increase in the Eastern region.





• 10.3 Net claims incurred:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Net claims incurred	1,551,030	1,701,051	150,021	10%

The increase in net claims incurred was due to business growth and medical inflation.

• 10.4 Total operating expenses:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Insurance operations' operating expenses	324,649	296,227	(28,422)	(9%)
Shareholder operations' operating expenses (G&A)	6,916	5,095	(1,821)	(26%)
<b>Total operating expenses</b>	<b>331,565</b>	<b>301,322</b>	<b>(30,243)</b>	<b>(9%)</b>
Total operating expense ratio to earned	17.2%	14.2%	(3.0%)	(18%)

The total operating expense ratio, to earned, at 14.2%, was an improvement versus the previous twelve month period at 17.2% and was mainly driven by the partial release of the additional prior year required allowance for doubtful debts. The total operating expense ratio of 14.2% represents an improvement versus the 14.3% of 2010 (prior to the changed regulatory requirement of doubtful debt provisioning). The reduction in the Shareholder operations' operating expenses was mainly due to the 2011 year one-off cost associated with the goodwill consideration fees, of SR3,355k, but compensated by increased costs, versus the prior year, relating to the Company's 2012 strategy review process. The increase in the Insurance Operations' expenses is further described in section 10.5.

• 10.5 Total insurance operations' operating expenses:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
CCHI and SAMA levies	35,124	32,915	(2,209)	(6%)
Bad debt provision (release)/expense	34,122	(19,551)	(53,673)	N/A
Other sales and marketing expenses	112,923	125,299	12,376	11%
<b>Total S&amp;M expenses-Insurance operations</b>	<b>182,169</b>	<b>138,663</b>	<b>(43,506)</b>	<b>(24%)</b>
Total G&A expenses-Insurance operations	142,480	157,564	15,084	11%
<b>Total Insurance operations operating expenses</b>	<b>324,649</b>	<b>296,227</b>	<b>(28,422)</b>	<b>(9%)</b>

• 10.5.1 Insurance operations' sales and marketing expenses (S&M):

- The 2012 CCHI and SAMA levies reduced versus the prior year as the expense for the twelve month period ended 31/12/2011 included a retrospective CCHI levy, for the 2009 year, of SR5,225k. The reduction during 2012 is less than the SR5,225k due to the additional levy arising from the higher written premium of 2012.
- The decrease in the allowance for doubtful premiums receivable, for the twelve month period ended 31/12/2012, was due to 2012 completion of the changed customer payment terms transition, driven by the 2011 changed Article 69 interpretation enforcement, from an invoiced aged basis to a written inception aged basis (as per the SAMA regulations).
- The increase in the other Sales and Marketing expenses was due to increased marketing spend, staff costs and commissions in support of the brand development and extending the Company's retail distribution.

• 10.5.2 Insurance operations' general and administrative expenses (G&A):

The Insurance operation's general and administration expense increase during the year related mainly to the full year staff and infrastructure costs relating to the prior year capability build, and the current year additional expenditure incurred due to enhancing the organisational capability in support of the Company's customer growth and strategic initiatives.

• 10.6 Surplus from insurance operations:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Surplus from insurance operations	54,904	143,814	88,910	162%

The increase in the surplus from insurance operations was mainly due to the release of the no longer required allowance for doubtful premiums receivable (a year on year improvement impact of SR54m), an increase in underwriting contribution of SR50m and an increase in insurance operation's investment income of SR10m. These gains were partially offset by an increase in operating expenses as described in sections 10.4 and 10.5.

• 10.7 Investment income:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Insurance operations' investment income	2,341	12,635	10,294	440%
Shareholder operations' investment income / (loss)	(254)	10,068	10,322	4,064%
<b>Total investment income</b>	<b>2,087</b>	<b>22,703</b>	<b>20,616</b>	<b>988%</b>

Investment income during the year increased versus the previous year as a result of an increased average cash balance due to the more up-front payments. Additionally there was increased market stability and improved interest rates. The prior year investment results also contained a one-off SR5m equity exit loss.

• 10.8 Net shareholders' income:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Net shareholders' income	42,244	134,406	92,162	218%

The increase in the net shareholders' income for the twelve month period was driven mainly by the increased surplus from insurance operations as a result of the decrease in the allowance for doubtful premiums receivable and the improvement in net underwriting result but partially offset by the increased costs associated with increasing the organisation capabilities, including the expansion of distribution channels. In addition, as a result of the higher surplus from insurance operations, the Policyholders share of the surplus from insurance operations (the Cooperative Distribution expense) increased by SR9m versus the previous year.

• 10.9 Summary statement of financial position:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Insurance operations' assets	1,188,609	1,306,274	117,665	10%
Shareholder operations' assets	566,974	698,442	131,468	23%
<b>Total assets</b>	<b>1,755,583</b>	<b>2,004,716</b>	<b>249,133</b>	<b>14%</b>
Insurance operations' liabilities and surplus	1,188,609	1,306,274	117,665	10%
Shareholders' liability	44,544	64,234	19,690	44%
Shareholders' equity	522,430	634,208	111,778	21%
<b>Total liabilities, surplus and shareholders' equity</b>	<b>1,755,583</b>	<b>2,004,716</b>	<b>249,133</b>	<b>14%</b>

The increase in liabilities during the twelve month period was due mainly to an increase in the technical reserves and this was driven by the growth in written premiums during the twelve month period.

During 2012 the Company generated SR358,936k (2011: SR303,953k) of net cash from its operating activities,

SR335,119k and SR23,817k from insurance operations and shareholder operations respectively, (2011: SR269,006k and SR34,947k respectively).

• 10.10 Total assets:

Description	2011 SR000s at 31/12/11	2011 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Total assets	1,755,583	2,004,716	249,133	14%

The increase in total assets during the twelve month period was due mainly to the net increase of cash and cash equivalents/investments (a combined net increase of SR350,705k) but offset by a reduction in net premiums receivable of SR104,571k.

• 10.11 Cash and cash equivalents:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Insurance operations' cash and cash equivalents	551,914	204,533	(347,381)	(63%)
Insurance operations' murabaha deposits	58,000	732,340	674,340	1,163%
Shareholder operations' cash and cash equivalents	13,631	13,631	-	0%
<b>Total cash and cash equivalents</b>	<b>623,545</b>	<b>950,504</b>	<b>326,959</b>	<b>52%</b>

The increase in cash and cash equivalents was due mainly to the completion of the transition to the more up front customer payments, driven by the prior year changed regulatory requirements, resulting in a reduction in net premiums receivable during the year.

• 10.12 Investments:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Insurance operations' investments	187,699	87,821	99,878	(53%)
Shareholder operations' investments	373,534	497,158	123,624	33%
<b>Total investments</b>	<b>561,233</b>	<b>584,979</b>	<b>23,746</b>	<b>4%</b>

The original SR550 million investment placement remains under the management of the same external third party as originally approved by the Board and Investment Committee during 2010. An amount of SR113 million (2011: 75 million) was payable to the shareholders' operations by insurance operations and was settled by transfer of investments of an equivalent amount to shareholders' operations as at 31/12/2012.

• 10.13 Total premiums receivable, net:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Total premiums receivable, net	339,830	235,259	(104,571)	(31%)

The reduction in total net premiums receivable was due to the completion of the transition to the more up front based, customer payment terms introduced into the market place by the insurance industry, during the third quarter of 2011, as a result of the regulatory changed Article 69 interpretation, which was enforced from 01/01/2011. The reduction of the total net premiums receivable was achieved despite the regulatory required removal of suspension processes, from credit control/cash collection processes, during the year.

• 10.14 Technical reserves:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Unearned premium reserves	722,739	786,669	63,930	9%
Claims reserves	381,265	413,509	32,244	8%
<b>Technical reserves</b>	<b>1,104,004</b>	<b>1,200,178</b>	<b>96,174</b>	<b>9%</b>

The growth in the technical reserves is mainly due to the growth in the written premium of 10%. The unearned premium reserves at 31/12/2012 represent 35.9% of the annual gross written premium (versus 2011 at 36.3%) and the claims reserves represent 24.3% of the annual net claims incurred (versus 2011 at 24.6%). The claims reserves have been verified as accurate, at 31/12/2012, by an independent actuary.

**11. Company's policy for the distribution of profits:**

Article 44 of the Company's code of business conduct states the following with respect to the calculation and distribution of profits:

- The exclusion of Zakat and Income Tax.
- That 20% of net profits are allocated to form a statutory reserve. The general assembly has the authority to cease this transfer once the statutory reserve is equivalent to the paid up capital of the company.
- Based on the Board's recommendation, the general assembly can also hold a particular percentage of the annual net profit to form a reserve and it may allocate it to purposes of its choosing.
- The balance shall be distributed as a first payment in the amount not less than 5% of paid-up capital to the shareholders.
- The remaining balance shall be distributed to the shareholders as a share in the profits or to be transferred to the retained profits account.
- The Board may issue a decision to distribute periodical profits to be deducted from annual profits as specified in paragraph 4 above in accordance with the relevant regulating rules issued by the concerned

authorities.

## 12. Key sales, operations and other functional activities:

### • 12.1 Sales and marketing:

Bupa Arabia continued to strengthen its distribution capability in 2012, mainly through the growth of field salesmen and the number of retail outlets. Revenue growth (written and earned) was 10% up on the prior year, against an overall market growth estimated at approximately 13%. So, despite the intense price discounting in the market place, Bupa Arabia was successful in capturing a healthy share of this without destroying its margin.

The Company continues to focus on creating valued products and services that yield a positive healthcare outcome for its members. In 2012 Bupa Arabia started the following services:

- i. Providing access to any members who want to speak to a specialized Doctor,
- ii. Pro-actively calling inpatient members and reviewing with them the quality of care they are receiving while still in the hospital,
- iii. Profiling hospitals based on quality of service and medical care standards,
- iv. A Medical helpline to coach members on specific conditions at their request.

To communicate the Bupa Arabia healthcare proposition effectively Bupa Arabia developed a new television commercial which reflects the unique Bupa Arabia positioning. This commercial aired on regional and local channels in Saudi Arabia during December 2012. It can also be viewed on the Bupa Arabia website or on the You Tube channel.

2012 witnessed the real start of the Bupa Arabia Social Media presence and journey to expand the channels of communication with all its customers. Bupa Arabia is now actively present on Facebook, Twitter and You Tube and is providing a daily interaction and engagement with all customers. In September 2012 Bupa Arabia also revamped its website to offer customers a significantly improved on-line experience and offering.

### • 12.2 Operations management and customer service:

Bupa Arabia continues to invest in its service delivery by enhancing its capabilities, systems and service proposition, aligned with a high performance culture and service excellence mindset (with the continuation of the “Up Your Service Passion” program launched in 2011).

The Company has designed and built six major voice-of-the-customer channels in order to listen pro-actively to members, customers and providers to address each of their issues. Bupa Arabia also provided a service education program to more than 200 front line staff, introduced better IVR call routing, enhanced its provider network (by over a hundred for Retail customers) and improved its issues resolution capability.

Bupa Arabia continues to regularly benchmark against the competition at all the touch points of the customer journey to identify innovation and differentiation opportunities. The Company has expanded the number of Service Delegates based in hospitals to seventeen, introduced Roving Service agents and has conducted structured forums with major providers to discuss Pre-authorization and claims issues.

### • 12.3 Bupa Arabia's people:

Bupa Arabia believes in the value of a healthier and more engaged workforce, and the “service profit chain”. The Company believes that engaged, positive employees will better serve our customers and drive business growth and success.

To ensure Bupa Arabia attracts, retains, motivates and develops its people effectively, Bupa Arabia implemented a number of initiatives during 2012. The Company implemented a new talent management process, received Board approval for a new and competitive remuneration structure (after a comprehensive review by Mercer) and also implemented an updated Human Resources Policy to streamline processes and enhance alignment with market norms. Bupa Arabia also conducted its Global People Survey in the fourth quarter of 2012, to measure employee engagement, and action plans arising from these insights will be formalised in early 2013.

From surveys that were conducted in late 2011, Bupa Arabia won the following awards early in 2012:

- Best Call Centre in the Middle East Award
- Best Saudi Company to Work For – female category
- 3<sup>rd</sup> Best Saudi Company to Work For - Insurance and Financial Services Sector.

Bupa Arabia's employment levels, during 2012, remained flat, broadly in line with 2011, at just below 900 employees, having grown significantly in the preceding years to support business growth and enhance capability. Despite an increase in membership levels during 2012, Bupa Arabia managed to be more effective without having to increase the number of its employees during the year.

### • 12.4 Projects and information technology (IT):

The company continues to invest in its IT systems and capabilities to ensure it has the services and scale-ability to meet future customer needs.

- Core systems - Early in 2012, the Company reviewed its IT strategy and set a direction for the coming three years for its IT systems. Bupa Arabia will continue to continuously assess its IT capabilities and will upgrade/scale up in accordance with business growth projections and capability requirements.
- Digital services – Bupa Arabia launched several initiatives during the year and which included:
  - SADAD – New functionality for customers to pay online
  - Yaqeen – The ability for the Bupa Arabia team to improve service by verifying information submitted from customers to avoid rejected transactions from CCHI.
  - Mobile applications - implemented 3 mobile applications, Bupa Access V2, Step Counter and Diabetes management.
  - On-line services – improved the look and feel and the usability of the on-line services. Enhancements included the ability for VIP members to book a hospital appointment and for members to chat with a Bupa Doctor over the web.

### 13 – 23 Additional disclosures (in accordance with laws and regulations):

#### • 13.1 Board of directors and membership in other joint stock companies' Boards:

During the year the Board of Directors consisted of the following members and their membership in the Boards of other joint stock companies was as detailed within the table below. The Non-Executive Board members representing Bupa Investments Overseas Limited resigned during the year and the approval of the proposed replacements is currently pending SAMA approval (refer section 13.2 for further details).

Membership	Director name	Membership of other joint stock company Boards
Non-Executive	Eng. Loay Hisham Nazer	Not applicable
	Mr. William Stephen Ward (resigned 11/12/2012)	Not applicable
	Mr. Dean Allan Holden (resigned 11/12/2012)	Not applicable
	Mr. Ignacio Ereno Iribarren (resigned 11/12/2012)	Not applicable
Independent	Mr. Aamer Abdullah Ali Reza	Saudi Industrial Services Company (SISCO)
	Mr. Abdulhadi Ali Saif Shayif	Saudi Hollandi Bank, The Arabian Cement Company
	Mr. Saleh Nasser Al-Jasser	Etihad Etisalat Company, Saudi Research and Marketing Group
Executive	Mr. Tal Hisham Nazer	Not applicable

#### • 13.2 Board of director changes during the year:

The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the foreign shareholder's (Bupa Investment Overseas Limited) request to change its representatives on the Board and accepted the resignations of its existing Board representatives effective from 27/01/1434 H, 11/12/2012 G. The Board approved the proposed replacement Board members, subject to the approval of SAMA, and subject to the approval of the Annual General Assembly meeting. Once appointed the new Board members will complete the three year Board cycle which commenced during 2011.

#### • 13.3 Benefits and emoluments of board members and senior executives:

The table below details salaries, emoluments, allowances and bonuses received by board members and the top five senior executives, which includes the CEO and CFO, from 01/01/2012 to 31/12/2012:

Description	Executive Member	Non-Executive Members / Independents	Five senior Executives including CEO and CFO
Salaries and emoluments	120	924	7,417
Board Allowances	27	150	-



Bonuses	-	-	2,190
LTIP and EOS	-	-	2,913
<b>Total SR000s</b>	<b>147</b>	<b>1,074</b>	<b>12,520</b>

The amounts reflected for the Executive Member, who is also the CEO, are the attendance fees and allowances for the Board and Committee meetings attended. The CEO bonus, LTIP and EOS amounts are contained within the five senior executives section of the table. There were no bonuses, LTIP or EOS benefits paid or provided for in relation to any other Board members.

• **13.4 Description of the Bupa Arabia equities of the board members and their immediate family members:**

The Bupa Arabia equities held by the Board members, and their immediate family members, of Bupa Arabia are as detailed below at 31/12/2012:

Interest of the Company's Board members and their spouses and minor children in the shares or debt instruments of the Company or any of its subsidiaries						
Name of Director	Opening 31/12/2011		Closing 31/12/2012		Change	
	No of shares	Debt Instruments	No of shares	Debt Instruments	In shares	%
Eng. Loay Hisham Nazer	10,850	-	10,850	-	-	-
Mr. Tal Hisham Nazer	91,500	-	1,000	-	(90,500)	-99%
Mr. Aamer Abdullah Ali Reza	6,000	-	6,000	-	-	-
Mr. Abdulhadi Ali Saif Shayif	75,025	-	75,025	-	-	-
Mr. Saleh Nasser Al-Jasser	100,000	-	41,450	-	(58,550)	-59%
Mr. Dean Allan Holden (to 11/12/2012) (Representative of Bupa Investments Overseas Limited)	-	-	-	-	-	-
Mr. William Stephen Ward (to 11/12/2012) (Representative of Bupa Investments Overseas Limited)	-	-	-	-	-	-
Mr Ignacio Ereno Iribarren (to 11/12/2012) (Representative of Bupa Investments Overseas Limited)	-	-	-	-	-	-

Bupa Investments Overseas Limited has registered 1,000 shares with the CMA for each Board member as guaranteed shares for its representatives on the Bupa Arabia Board (as required by the CMA regulations). The shares reflected as opening shares for Mr. Abdulhadi Shayif are shares which were already owned by Mr. Abdulhadi Shayif prior to his commencement of term period as Director of Bupa Arabia.

• **13.5 Description of the Bupa Arabia equities of the senior executives and their immediate family members:**

The Bupa Arabia equities held by the senior executives, and their immediate family members, of Bupa Arabia are detailed below:

Interest of the Company's Senior Executives and their spouses and minor children in the shares or debt instruments of the Company or any of its subsidiaries						
Name of Senior Executive	Opening 31/12/2011		Closing 31/12/2012		Change	
	No of shares	Debt Instruments	No of shares	Debt Instruments	In shares	%
Mr. Fraser David Gregory	7,000	-	7,000	-	-	100%

• 13.6 Description of any interest in a class of voting shares held by other persons:

Other than the equities and interests of the Board members and their immediate family members, and the equities and interests of the senior executives and their immediate family members, as detailed within the preceding sections 13.4 and 13.5, Bupa Arabia is not aware of any other interest in a class of voting shares held by persons that have notified Bupa Arabia of their holdings pursuant to Article 45 of these rules.

• 13.7 Board meetings and attendances:

Director name and period	Position	Membership	Board 1 3/04/2012	Board 2 19/06/2012	Board 3 03/10/2012	Board 4 11/12/2012
Eng. Loay Hisham Nazer (full year)	Member	Non-Executive	Y	Y	Y	Y
Mr. Tal Hisham Nazer (full year)	Member	Executive	Y	Y	Y	Y
Mr. Aamer Abdullah Ali Reza (full year)	Member	Independent	N	Y	Y	Y
Mr. Saleh Nasser Al-Jassar (full year)	Member	Independent	Y	N	Y	Y
Mr. Abdulhadi Ali Saif Shayif (full year)	Member	Independent	Y	Y	Y	Y
Mr. Dean Allan Holden (to 11/12/2012)	Former Member	Non-Executive	Y	Y	Y	N
Mr. William Stephen Ward (to 11/12/2012)	Former Member	Non-Executive	Y	Y	Y	N
Mr. Ignacio Ereno Iribarren (to 11/12/2012)	Former Member	Non-Executive	Y	N	N	Y

### • 13.8 Major board resolutions during the year:

Amongst major Board resolution/approvals during the year were the following:

- The Investment Strategy, change in delegation of authority to the Investment Committee, and Investment Policy, subject to the approval of SAMA,
- A variety of policies and/or procedures including:
  - Conflict of Interest Policy and Procedure,
  - Financial Crime Policy,
  - Risk Management Framework, Risk Management Policy and Risk Appetite Statements,
  - A new staff compensation framework.
- The approval of the changes to the Board Committees' Terms of references, as recommended by the individual Committees, subject to the Ordinary General Assembly Meeting approval,
- The approval of the conflicts of interest of the Board members: Eng. Loay Nazer and Mr. Tal Nazer, arising from the ownership of Nazer Group Limited in the shareholding of Bupa Middle East Holdings Two W.L.L., TRACCs and Al Majd Al Rraqi Company for Medical Care and Health Services Limited, of Mr. Abdulhadi Shayif arising from his shareholding in the Shariyah Review Bureau, and of the representatives of Bupa Investments Overseas Limited arising from the Bupa Investments Overseas Limited shareholding in Bupa Middle East Holdings Two. W.L.L., all subject to the Ordinary General Assembly Meeting approval,
- The appointments of Mrs. Elizabeth Alison Platt and Mr. James Gordon Wheaton, to the Executive Committee, in place of Mr. Dean Allen Holden and Mr. William Stephen Ward, for the remainder of the term,
- The appointment of Mr. James Gordon Wheaton, to the Nomination and Remuneration Committee, in place of Mr. William Stephen Ward, for the remainder of the term,
- The appointment of Mr. Saleh Al-Jassar, as Chairman of the Investment Committee, in place of Mr. Hossam Radwan, for the remainder of the term,

### • 13.9 General assembly meetings during the year:

Bupa Arabia's Annual Ordinary General Assembly Meeting (the fifth Ordinary General Assembly Meeting) of the shareholders convened on 12/05/1433 H, 4/04/2012 G, during which the following outcomes were concluded:

- The approval of the Board of Directors report for the year ended 6/01/1433 H, 31/12/2011 G (12 months),

- The approval of the Financial Statements, and the report of the external auditors, for the year ended 6/01/1433 H, 31/12/2011 G (12 months),
- The absolving of the Board of Directors of their legal and financial responsibility for managing the company for the year ended 6/01/1433 H, 31/12/2011 G (12 months),
- The approval of the selection and appointment of the joint external auditors (Ernst & Young and KPMG Al Fozan & Al Sadhan), and the audit fees, for the company's financial statements for the year ending 18/02/1434 H, 31/12/2012 G, in line with the recommendation of the Audit Committee,
- The approval of the ratification of business and contracts where a board member has a direct or an indirect interest, with respect to the TRACCs conflict of interest of the Board members related to the Nazer Group Limited,

• **13.10 Insurance contracts with companies related to Board members:**

The company has entered into health insurance contracts with companies in which certain of the Bupa Arabia Board members have an interest or an association. Bupa Arabia can confirm that these contracts have been priced on an arms-length basis and in line with the Company's agreed targeted pricing and loss ratio requirements. The Company further confirms that these contracts carry no special arrangements with regard to any additional special benefits and nor are they entitled to, nor receive, any services or support different to that which is provided to any of the Company's other customers. The written premium and claims paid in relation to these insurance contracts is included in the transactions with related parties note in the financial statements.

• **13.11 Other contracts with companies related to Board members:**

During the financial period the Company contracted with Trans-Arabian Creative Communications (TRACCs) for public relations services. TRACCs is a company in which the Nazer Group Limited has a stake holding of forty-five percent. The Company confirms that proper arm's length tendering processes for the services took place and that the expense of the Company, with TRACCs, amounted to SR221k during the 2012 financial year (2011 SR177k). The contractual arrangement was approved during the 2011 Annual Ordinary General Assembly meeting which took place during 2012. Its approval will also form part of the 2012 Annual Ordinary General Assembly meeting, which will take place during 2013, for the approval of the shareholders (in accordance with Article 18 of the CMA Corporate Governance regulations) and will be provided to the Bupa Arabia Board of Directors for approval during 2013 (the related party Board members will not vote on this matter). The External Auditors will be requested to provide a full report on this agreement and this will be presented to the 2012 Annual Ordinary General Assembly meeting during 2013.

During the financial period the Company contracted with a Dammam based provider of dialysis services, Al Majd Al Rraqi Company for Medical Care and Health Services Limited (a company providing services associated with Diaverum), and which is owned ninety-eight percent by the Nazer Group Limited and two percent by Eng. Loay Nazer. Al Majd Al Rraqi Company for Medical Care and Health Services Limited provided dialysis services to five Bupa Arabia patients at a cost estimated at SR150k for 2012. Bupa Arabia confirms that the contract was priced on an arms-length basis and in line with the same procedures as the Company's other hospital providers and clinics. The Company further confirms that the contract carries no special arrangements with regard to any additional special benefits and nor are they entitled to, nor receive, any services or support different to that which is provided to any of the Company's other hospital providers and clinics.

Mr. Abdulhadi Shayif, independent Board member, owns a one percent stake holding in the Shariah Review Bureau (SRB), the Shariah review company contracted to by Bupa Arabia and which represented an operating expense to Bupa Arabia in 2012 of SR150k paid to the SRB for the 2012 year.

In accordance with the approval of the Ordinary General Assembly Meeting held on 19/09/1430 H, 9/09/2009 G, which authorised the Company to enter into a Brand Licence Agreement with Bupa or its relevant subsidiary, and authorised the Board to approve the terms and conditions of such agreement, including the financial consideration payable to the licensing company, during 2010 the Company entered into an agreement with the related party, Bupa Middle East Holdings Two W.L.L., a joint venture company owned fifty per cent by each of Nazer Group Limited and Bupa Investments Overseas Limited, for obtaining a license to use the trade marks (the word Bupa with or without logo) of the related party. As per the terms of the agreement the related party receives an amount equal to a fixed percentage of gross premiums earned, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee. During 2012 the trade mark fee payable amounted to SR2,130k, compared to 2011 of SR1,930k.

The above contractual arrangements were approved by the Board of Directors during 2012 (the related party Board members did not vote on these matters) and will be presented to the 2012 Annual Ordinary General Assembly meeting, which will take place during 2013, for approval.

The Company confirms that other than the above specific contracts there are no other contracts to which the Company is a party and in which a Director, the CEO, the CFO or any associate is or was materially interested.

#### • 13.12 Change in the composition of the Bupa Arabia major founding shareholders:

In the interest of enhancing the utilization and returns on its capital Bupa Middle East Holdings W.L.L. (a shareholder in Bupa Arabia and which is owned 50% by Bupa Investments Overseas Limited and 50% by Nazer Group Holding Company Limited) transferred its entire 22.5% shareholding in Bupa Arabia, through a transfer of 11.25% to each of Bupa Investments Overseas Limited and Nazer Group Holding Company Limited, and its wholly owned subsidiaries namely ASAS Healthcare Company Limited and Modern Computer Programs Company Limited (all of which are shareholders in the Company).

The receipt of the 11.25% shareholding of Bupa Arabia, by each of Bupa Investments Overseas Limited and the Nazer Group Holding Company Limited and its wholly owned subsidiaries, leaves the overall shareholding in Bupa Arabia of each of Bupa Investments Overseas Limited and the Nazer Group Holding Company Limited unchanged at the same 26.25% each as was the position prior to the transfer of the Bupa Middle East Holdings W.L.L. shareholding.

The Company's major founding shareholder ownership composition changes, after the transfer of the Bupa Middle East Holdings W.L.L. shareholding, are as follows:

a) Bupa Middle East Holdings W.L.L.: previous shareholding of 22.5% (9,000,000 shares), transferred shareholding of 22.5% (9,000,000 shares), new shareholding of 0% (nil shares),

b) Bupa Investments Overseas Limited: previous shareholding of 15% (6,000,000 shares), additional shareholding of 11.25% (4,500,000 shares), new shareholding of 26.25% (10,500,000 shares),

c) Nazer Group Holding Company Limited: previous shareholding of 5% (2,000,000 shares), additional shareholding of 4% (1,600,000 shares), new shareholding of 9% (3,600,000 shares),

d) ASAS Healthcare Company Limited: previous shareholding of 5% (2,000,000 shares), additional shareholding of 3.25% (1,300,000 shares), new shareholding of 8.25% (3,300,000 shares),

e) Modern Computer Programs Company Limited: previous shareholding of 5% (2,000,000 shares), additional shareholding of 4% (1,600,000 shares), new shareholding of 9% (3,600,000 shares),

f) The increases in shareholdings as detailed within points c, d and e result in an increase in the shareholding of the combined Nazer Group Holding Company Limited shareholding (directly and through its subsidiaries (ASAS Healthcare Company Limited and Modern Computer Programs Company Limited)) of 11.25% (4,500,000

shares), a new combined shareholding of 26.25% (10,500,000 shares),

The summary change, in the composition of the Bupa Arabia major founding shareholders during 2012, is reflected within the table below:

Shareholder	Before	Change	After
Bupa Middle East Holdings W.L.L.	22.50%	(22.50%)	0.00%
<b>Bupa Investments Overseas Limited</b>	<b>15.00%</b>	<b>11.25%</b>	<b>26.25%</b>
Nazer Group Limited	5.00%	4.00%	9.00%
ASAS Healthcare Company Limited	5.00%	3.25%	8.25%
Modern Computer Programs Company Limited	5.00%	4.00%	9.00%
<b>Total Nazer Group Limited and subsidiaries</b>	<b>15.00%</b>	<b>11.25%</b>	<b>26.25%</b>

#### 14. Other disclosures in accordance with laws and regulations:

##### • 14.1 Provision of corporate governance:

Bupa Arabia is committed to, and is in full compliance with, the full adherence to the provisions of the corporate governance regulations as issued by the CMA's council in its bulletin No. 1-1-2009, dated 08/01/1430 H, 05/01/2009 G, with the following minor exceptions:

Article Number	Article section and narrative	Reason for non-compliance
6 - Voting Rights	b) In voting in the General Assembly for the nomination to the Board members, the accumulative voting method should be applied.	The company follows the regulations of Article 93 of the Ministry of Commerce, and Article 34 of the Bupa Arabia company by-laws. Article 34 of the Company's by-laws states: "the company counts the votes in the established assembly of the Ordinary General Assembly and the Extraordinary Assembly based on a vote for each share."

##### • 14.2 Corporate governance and risk management:

The company provides a framework of corporate governance and risk management through a "three lines of defence" strategy which sets out clear responsibilities for the day to day corporate governance and management of risk. The Corporate Governance code was approved by the Board during 2010 and its structure comprises a "first line" of Risk Management from the company's senior management responsible for the different areas of functionality for the day to day operation of the business, a "second line" of Risk Control for the Board and its various sub-Committees, through the Risk and Compliance Committee (R&CC) and other key control functions (such as Finance, Human Resources and Information Technology) and a "third line" of Risk Assurance provided by the independent control functions (the Internal Audit Services (IAS) department and the Compliance Department).

The company has adopted a risk management approach to comply with the regulations as mandated by SAMA and the risk management function is responsible for the identification, assessment and reporting on the status of risks and risk actions. Where risks are not adequately mitigated enhancements of controls, procedures and processes are recommended and monitored for implementation effectiveness and timeliness.

During 2012, predominantly as a result of the changes in the Board of Directors, the membership of the Executive, Investment, and Nomination and Remuneration Committees changed compared to 2011. The 2012 membership changes and the activities of the different Board Committees, and independent control functions, are summarised below:

• 14.3 Audit Committee and internal controls:

Audit Committee Purpose	Member Names	Meetings
<p>The purpose of the Audit Committee is to ensure the integrity of the Company’s financial statements, to review and, where appropriate, make recommendations to the Board on internal financial controls, internal audit, compliance, and to review the external audit process and external auditors’ performance. The Audit Committee approves the annual internal audit and compliance inspection plans. The Audit Committee will also have oversight, through the company’s Risk and Compliance Committee (R&amp;CC), for ensuring that the company’s risk management processes, and procedures, are adequate and effective, particularly with regard to the impact on the company’s financial reporting and its code of business conduct. In performing its duties the Audit Committee will maintain effective working relationships with the Board of Directors, management, the Risk and Compliance Committee and the external and internal auditors.</p>	<p>Mr. Abdulhadi Shayif (Chairman)  Mr. James Wheaton  Mr. Simon Granville</p>	<p>The Audit Committee convened five (5) times during 2012</p>

During 2012 the Audit Committee membership remained the same as per 2011, with Mr. Abdulhadi Shayif (independent Board member) as its Chairman.

- The Risk and Compliance Committee (R&CC) is a sub-committee of the Audit Committee and its members are the chief executive team of the business. The Chief Financial Officer is the Chairman of the R&CC. The purpose of the committee is to ensure that Bupa Arabia adopts a robust, consistent, proportionate and cost effective approach towards the identification, analysis and control of the key risks that could threaten the Company. This committee supports the Audit Committee by giving a dedicated focus to embedding effective policies and procedures into the organisation regarding Internal Audit, Risk Management and Regulatory Compliance. Additionally this committee has oversight of Business Continuity and Disaster Recovery Planning, Health and Safety, Financial Crime and Anti-Bribery/corruption. The Compliance Officer and the Internal Audit Services Manager both formally

report to the Chairman of the Audit Committee to ensure appropriate independence. The R&CC met four times during 2012.

- Internal Audit Services (IAS) - The IAS department completed a number of varied internal audits during the year, covering the majority of operational processes/controls and recommendations arising were thereafter monitored by the IAS department for implementation and its reports were communicated and reviewed by the Audit Committee, and the R&CC, and also discussed at the Committee meetings. Recommendations arising were thereafter monitored by the IAS department for implementation.
- Compliance - The Compliance department completed a number of varied internal inspections during the year, covering key processes/controls and recommendations arising from the same were thereafter monitored by the Compliance department for implementation.
- Risk Management – the Company, through the Finance Reporting & Control Department’s Risk Officer, undertakes a formal structured risk review process which comprises a Quarterly Risk Assessment (QRA) of the business risks for reviewing the risk items, the risk materiality, the appropriateness of existing mitigating controls and for setting risk action plans where risk mitigation controls are considered inadequate. The QRA process followed by the Company is part of the Bupa Group worldwide standard and four QRAs were completed during 2012 with risk recommendations arising progressed. The key risks that management are currently reviewing and managing closely are itemised in section 6.5.
- The reports, findings and recommendations arising from the activities of each of the internal audit, compliance and risk management processes are communicated to the external Audit Committee as well as the R&CC. Key issues and actions arising are formally discussed during the Audit Committee, and R&CC, meetings and progress against required completion of recommendations monitored.

#### •14.3.1 Results of the annual audit of the effectiveness of the internal control procedures:

- The IAS department successfully concluded a variety of internal audit assignments, in accordance with the approved 2012 IAS schedule, and amongst which the more significant areas covered were:
  - Corporate pricing processes for new & renewal business,
  - Premium collection, cash allocation and credit control processes and procedures,
  - Company expense payment and approval processes,
  - Customer calls and complaints handling processes,
  - Corporate sales processes for new business and renewals,
  - Purchase and procurement processes including fixed assets,
  - Recruitment processes,
  - Hospital audit doctor processes and activities (roving doctor).

The overall findings of the IAS department, based on its internal audits completed during 2012, were that the internal control procedures were effective.

- The results of the annual external audit, as performed by the joint external auditors, of the effectiveness of the internal control procedures of the Company, found that Bupa Arabia’s internal control procedures and independent control functions are effective. There were no significant audit adjustments required and no material weaknesses in internal controls identified. This outcome illustrates that the internal control and risk management procedures followed by the Company are appropriate and effectively executed in a manner so as to ensure the accuracy of financial reporting, and also compliance with regulations.

#### • 14.4 Executive Committee:



Executive Committee Purpose	Member Names	Meetings
The purpose of the Executive Committee is to set the annual income target of Bupa Arabia which is thereafter ratified by the Board. The Executive Committee supports the Board with the management of the business through the review, and monitoring, of all aspects of the operational performance of the company on a monthly basis (to ensure that there are no barriers to achieving the objectives set). It also reviews and approves, as required per its terms of reference, certain aspects of a commercial nature, and ensures the company is fully compliant with all regulatory requirements.	Eng. Loay Nazer (Chairman) Mrs. Elizabeth Alison Platt Mr. James Gordon Wheaton Mr. Tal Nazer	The Executive Committee convened ten (10) times during 2012

The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the appointments of Mrs. Elizabeth Alison Platt and Mr. James Gordon Wheaton, to the Executive Committee, in place of Mr. Dean Allen Holden and Mr. William Stephen Ward, for the remainder of the term,

• 14.5 **Nomination and Remuneration Committee:**

Nomination and Remuneration Committee Purpose	Member Names	Meetings
The purpose of the Nomination and Remuneration Committee is to provide approvals for the remuneration packages (including bonuses, long term incentives and salary inflation related increases) of the CEO and other senior executives. The committee also reviews and approves the rules of the company bonus/incentives/long term incentive plans and payments. Additionally, the committee supervises the recruitment of key managerial positions, approves the human resources policies and procedures and makes recommendations regarding Board and Committee appointments.	Eng. Loay Nazer (Chairman) Mr. James Gordon Wheaton Mr. Aamer Ali Reza Mr. John Handley	The Nomination and Remuneration Committee convened three (3) times during 2012

The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the appointment of Mr. James Gordon Wheaton, to the Nomination and Remuneration Committee, in place of Mr. William Stephen Ward, for the remainder of the term,

• 14.6 **Investment Committee:**

Investment Committee Purpose	Member Names	Meetings
The purpose of the Investment Committee is to assist the business in developing its investment policy and to thereafter supervise its adherence to the same. To manage the company's investments to achieve the best return for the business, within the given risk parameter as approved by the Board, taking into account liquidity requirements and solvency constraints. The Committee will also monitor	Mr. Saleh Nasser Al-Jassar (Chairman) Mr. Simon Warren	The Investment Committee convened four (4) times during 2012

investment performance and act as the liaison between third party investment managers and Bupa Arabia to ensure investments are in line with SAMA's regulations and are fully Shariah compliant. Among other duties, the committee also provides investment advice to the business and the Board of Directors and will approve institutions to be used for significant investment placements.		
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The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the appointment of Mr. Saleh Nasser Al-Jassar, independent Board member, as Chairman of the Investment Committee, as replacement for Mr. Hossam Radwan who resigned from the Investment Committee during late 2012. Additionally Bupa Arabia is currently seeking a replacement Investment Committee member for Mr. Hassan Aljabri who resigned from the Investment Committee during late 2012.

#### 15. Internal control system and effectiveness:

The Company confirms that its systems of internal control are sound and robust in design and have been effectively implemented.

#### 16. Maintenance of proper records:

As required by Saudi Arabian insurance regulations the Company confirms that it maintains separate accounts for each of Insurance Operations and Shareholder Operations, within its accounting records, and can confirm that it has maintained proper accounting records during the financial year.

#### 17. Continuation as a going concern:

The Company can confirm that there are no doubts about the Company's ability to continue its operations as a going concern.

#### 18. Payments and payable to regulatory bodies:

During 2012 the Company made payments, and has amounts payable, to the various Saudi Arabian regulatory bodies as detailed within the table, and thereafter explained in the narrative, below:

##### •18.1 Table of payments and payable to regulatory bodies:

	Paid SR000s	Payable SR000s
Zakat and income taxes	5,681	30,306
Levies and license fees	30,680	23,701
GOSI	7,914	653
<b>Total</b>	<b>44,275</b>	<b>54,660</b>

##### •18.2 The Department of Zakat and Income Tax (DZIT):

The total paid to the DZIT during the year, for Zakat and Income Tax, was SR5,681k (SR2,644k for the 2011 DZIT return (SR 1,481k for Zakat and SR1,163k for Income Tax) and SR3,037k as a 2012 advance Income Tax payment. The SR30,306k payable includes a SR20,550k provision for the 2012 DZIT return (SR14,769k for Zakat and SR5,781k for Income Tax) and this will be paid to the DZIT before 20/06/1434 H, 30/04/2013 G (as per the DZIT regulations). In addition to the Zakat and Income Tax payments an amount of SR799k was paid to

the DZIT during the 2012 year for withholding tax (SR577k is provided in the results for 2012 related withholding tax, which is payable to the DZIT in 2013).

•**18.3 The Saudi Arabian Monetary Agency (SAMA):**

The total paid to SAMA during the year was SR10,748k. This includes payments for levies of SR10,748k (SR9,214k relating to levies for the first three quarters of the 2012 year and SR1,534k for the last quarter of the 2011 year). All prior year payments were fully provided in the 2011 results. The results include a provision for the 2012 fourth quarter SAMA levy of SR1,758k (which was paid to SAMA in January 2013 in accordance with the SAMA regulations).

•**18.4 The Council for Cooperative Health Insurance (CCHI):**

The total paid to the CCHI during the year was SR19,932k. This includes payment of SR19,932k for CCHI levies for the 2011 year. The results include a provision for the 2012 CCHI levies of SR21,943k.

•**18.5 The General Organisation for Social Insurance (GOSI):**

The total paid to GOSI during the year ended was SR7,914k and includes payment of SR613k for 2011. An amount of SR653k is provided in the results for the 2012 related GOSI amounts payable in 2013.

•**18.6 Tadawul:**

The Company paid SR300k to Tadawul for service fees in support of the stock exchange related administrative services/public reporting regulatory requirements and activities.

**19. Regulatory penalty:**

The Company paid a penalty of SR18k to SAMA during the fourth quarter of 2012 due to the late payment of the third quarter SAMA levy, which was paid after the Eid-Haj holiday as opposed to before.

**20. External auditors:**

The joint external auditors of the Company, as approved per the Ordinary General Assembly meeting held on 12/05/1433 H, 04/04/2012 G, for the financial statements for the fiscal year ended 18/02/1434 H, 31/12/2012 G were Ernst & Young and KPMG Al Fozan & Al Sadhan. The Board of Directors did not recommend any change to the joint external auditors from those appointed for the previous financial period so the joint external auditors remained the same as per the previous financial period.

**21. No subsidiaries:**

As required in terms of the CMA disclosure requirement of Article 27, paragraphs 7 and 8, the Company confirms it has no subsidiaries and therefore no issued shares nor any debt instruments for any subsidiary.

**22. No borrowings or loans:**

As required in terms of the CMA disclosure requirement of Article 27, paragraph 12, the Company confirms it has no borrowings or loans outstanding at the end of the current twelve month period and nor has it been required to make any payments against borrowings or loans during this twelve month period.

**23. Additional declarations according to the regulations:**

As required in terms of the CMA disclosure requirements of Article 27 the Company confirms the below declarations:

- That it has not issued any convertible debt instruments, options, warrants or similar rights during the financial year and accordingly has not received any consideration for the same,
- That it has not converted nor issued nor granted any subscription rights under any convertible debt instruments, options, warrants or similar rights during the financial year,
- That it has not redeemed, purchased or cancelled any redeemable debt instruments during the financial year,

- That there have been no instances of any arrangements or agreements under which any director or senior executive has waived any emolument or compensation,
- That there have been no instances of any arrangements or agreements under which any shareholder has waived any rights to any dividends.

**Conclusion:**

The Board of Directors would like to thank Bupa Arabia's customers for demonstrating high levels of loyalty, as well as its investors, for contributing to the company's success and leadership within the Saudi Arabian health insurance market. The Board would also like to express their appreciation and gratitude to the Company's management and employees for their dedication, strong leadership and efforts throughout the reporting period.