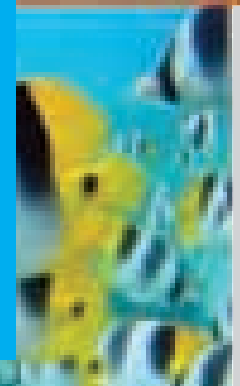




## BUPA ARABIA ANNUAL REPORT AND ACCOUNTS 2010

*Your healthcare partner providing expertise for life*



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Custodian of the Two Holy Mosques  
**King Abdullah bin Abdul Aziz Al Saud**



**HRH Crown Prince Sultan bin Abdul Aziz Al Saud**  
First Deputy Prime Minister and  
Minister of Defense and Aviation

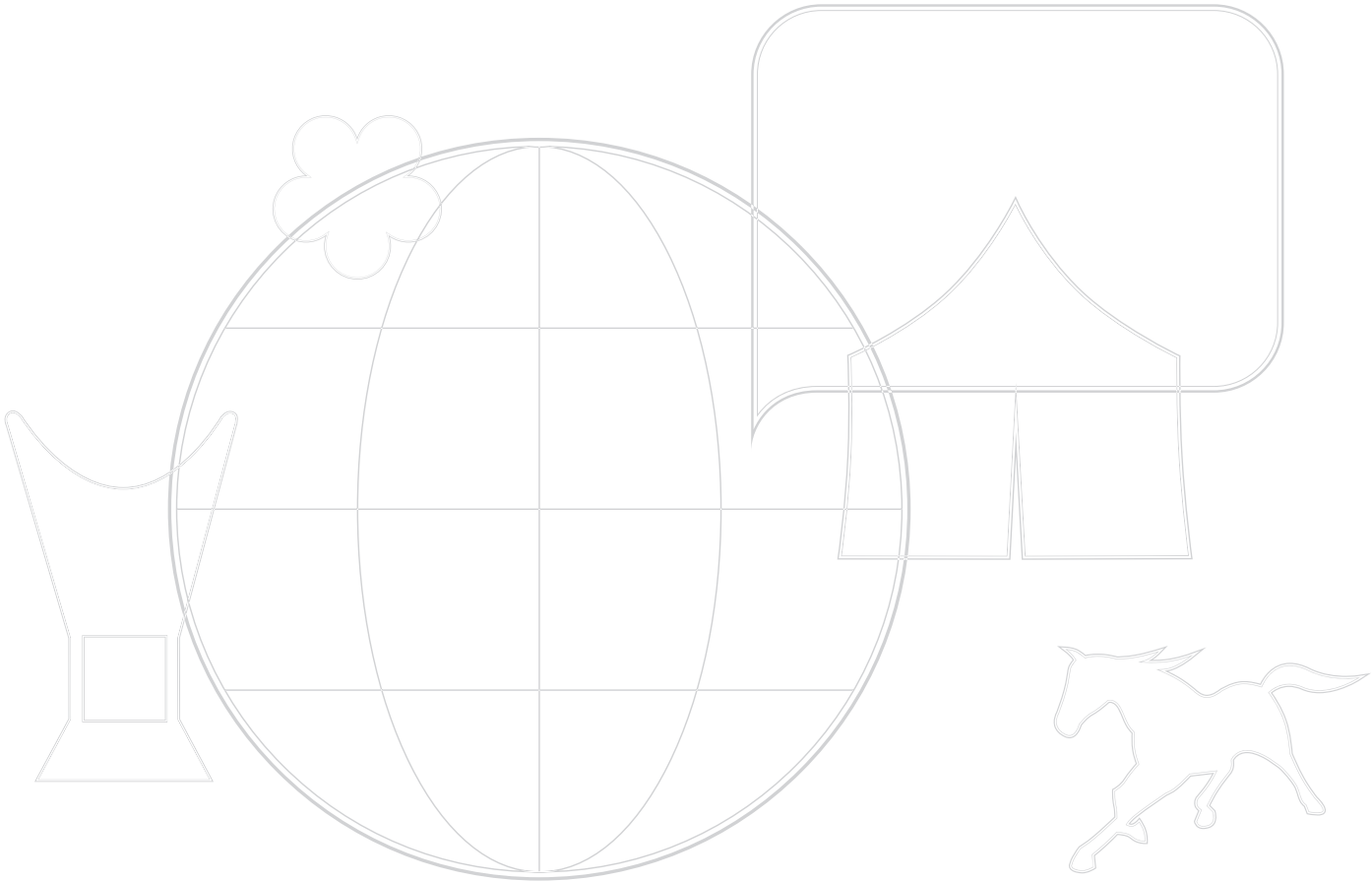


**HRH Prince Nayef bin Abdul Aziz Al Saud**  
Second Deputy Prime Minister  
and Minister of Interior



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## OUR MISSION

TO BE THE HEALTH & CARE  
LEADER IN SAUDI ARABIA BY  
TAKING CARE OF THE LIVES  
IN OUR HANDS.

## OUR VALUES

### Caring

We genuinely care about  
people's health and wellbeing.  
We exist for no other reason.

### Respectful

We respect people's  
individuality, privacy  
and dignity and try to respond  
to their individual needs.

### Ethical

We are committed  
to acting responsibly  
and in the best interests  
of people and the  
environment.

### Enabling

We empower people  
with our knowledge and  
experience to help them  
choose the most appropriate  
solutions.

### Dedicated

We are dedicated to providing  
a professional, reassuring  
service and seek opportunities  
to go the extra mile to exceed  
people's expectations.

### Accountable

We are accountable for  
the quality, efficiency and  
value of our services,  
and act in the best interests  
of our customers.





## CHAIRMAN'S MESSAGE

LOAY HISHAM NAZER

### To the Shareholders of Bupa Arabia,

I am delighted to present the company's annual report and accounts for the year 2010.

This was a year in which we embedded the governance framework for a first class listed business, maintained our pursuit of medical differentiation and delivered highly encouraging results in the face of stiff competition.

We have remained true to our founding ambitions and values, established in 1997 when the Bupa and Nazer Groups joined forces to create a customer focused, innovative medical insurance business. We firmly believe that society's health is of great importance in the Kingdom, and through our insurance and medical expertise we are committed to adding further real value to this sector and our customers' well being. Our intent is to continue the delivery of solutions and capabilities that increasingly help our members to live a "longer, healthier and happier life".

The company has grown its revenue from strength to strength in recent years and also passing through the million member milestone as well. Profits not only grew 23% year on year but we strengthened the balance sheet significantly in 2010. We introduced a new customer relationship management system in 2010, ran many wellness campaigns and seminars to support our members' wellbeing and widened our distribution channels to improve accessibility.

Whilst it remains a challenging and competitive market place, with an insufficient supply of medical facilities, plus tough price competition in the face of rising medical inflation, we remain optimistic about the prospects of this market. Similarly, with an increasing number of people mandated to purchase and use private medical insurance, the need to serve them with a choice of quality health and care services has become paramount for our continued success. Other factors that would support the growth of this sector are a strong economy, a growing population and rising chronic conditions with their associated need of advice and support. We will look to attract more members with the strength of our proposition, medical differentiation and service mindset, as well as support further enforcement that has the consumers' interest at heart

We strengthened the executive team in 2010, increased resources and capabilities significantly and also moved to a new headquarters. In addition, we will continue to invest in providing the right skills and services to attract and retain even more customers. We believe there is opportunity and need to add even more value in partnering with our members' health care journey through the often difficult choices at all life stages.

The Board of Directors actively participated in ensuring our compliance with all regulatory and government bodies such as SAMA, CMA and CCHI, and instigated a new governance framework to underpin our ongoing compliance. We have formalized the terms of references and initiated a number of sub-committees (Audit, Nomination and Remuneration, Investment, Executive and Risk & Compliance) bringing high quality external expertise to ensure best practice is embedded in the business and informing the Board of all relevant issues and escalating decisions required.

I would like to thank the Board and all our people for their continued commitment and contribution; in particular I am pleased that we launched our Corporate Social Responsibility (CSR) initiative in late 2010. This aims to cover 1,000 orphans in the Kingdom with a regulated private medical insurance scheme as well as other support mechanisms from Bupa Arabia and its people. It is heartening to see our values and ambitions support the community as well as deliver commercial success for the business.

Signed on Behalf of the Board

**Eng. Loay Hisham Nazer**  
Chairman

## CEO'S MESSAGE

TAL HISHAM NAZER



## To the Shareholders,

It is with great pleasure that I share Bupa Arabia's second annual report, covering the period of 1 January to 31 December 2010.

Bupa Arabia sustained its remarkable growth trajectory in 2010, with regards to achieving greater customer acquisition and retention, improving service levels, as well as growing financial earnings, making 2010 a gratifying year.

Against a backdrop of medical inflation due to rising costs of hospitals and limited capacity in the private sector, heavy price competition amongst over 30 insurance companies that are all looking to grow and a challenging investment environment with low interest rates, Bupa Arabia delivered a strong performance.

It is against this backdrop that Bupa Arabia has successfully differentiated itself versus its competition, through adopting a culture which fosters innovative solutions and which delivers premium service offerings that are customer-centric.

### 2010 Achievements in Review:

**SR 1.6 billion**

in Earned Premium, showing a 33 per cent growth

**SR 71 million**

in Profit, showing a 20 per cent growth

Membership growth of **19%**

Customer retention exceeded **80%**

Cash and Investments grew

**SR 164 million**

representing a 22 per cent growth

### Customer experience:

With the increased number of insurance providers in the Kingdom, Bupa Arabia has had to move beyond merely providing insurance products, by providing exceptional services and customer experiences, which has enhanced loyalty and increased the amount of customers who insist on using Bupa Arabia as their only medical health insurer. In short, Bupa Arabia is well along the path to become the leading health and care provider in the kingdom

Bupa Arabia has clearly differentiated itself, by empowering customers with proprietary award winning service solutions and being recognized as a leading medical insurer. It continued to do so in 2010 by:

1. Implementing a comprehensive Customer Relationship Management (CRM) program with elaborate customer options, recognizing the need for faster response rates and enabling greater flexibility. Our CRM system also allows for enhanced communication with customers, as well as an overall improvement in efficiency.

2. Opening its first retail outlet. With the increasing requirement of customer engagement, Bupa Arabia has resolved to increase its accessibility to the public, by signing off on an ambitious five year distribution plan. This will enable it to spread its reach to a larger and more diverse customer base.
3. Sustaining the expansion of our 'Basmah' fingerprint and swipe card terminals, whereby real-time in-facility treatment requests are approved. From 300 terminals in 2009, we now cover a network of 480 terminals as at the end of 2010.

Through creating a distinctive customer experience, delivering innovative solutions and responding to changing needs, Bupa Arabia has proved true to its mission of being a 'health and care leader'. Perhaps, nothing is more a testament to this fact, than crossing the monumental one million member mark in 2010.

## Operations:

In 2010 Bupa Arabia heavily invested in the company's core infrastructure, enhancing its prospects for long-term growth by developing a solid business foundation. Bupa Arabia's focus on technology and process allowed for the pursuit of an aggressive growth strategy, both by minimizing costs as well as increasing resilience, in an increasingly competitive market. This was done through:

1. Investing in the technological systems infrastructure, enabling a larger customer base to be serviced. The insurance operating system capacity is now equipped to handle over two million members.
2. Continued proactive engagement with all key regulators and government agencies. All the legalities are in place and our product and service offering remains fully compliant.

3. Holding regular evaluations and quarterly reviews with the Board, as per best practice corporate governance. Individual, functionality specific board committees also met a minimum of two times throughout the year.
4. Outsourcing our investment management to NCB Capital to protect and enhance our investments and their returns.

## People:

Our target of market leadership and growth, which maximizes value to all stakeholders, is only possible by the leadership exhibited first, by our people. Bupa Arabia recognizes people are our most critical asset and seeks to provide a level of autonomy and comfort, unparalleled by its competitors. Towards this end, Bupa Arabia achieved the below in 2010:

- Further increased our Saudization ratio to 52%, providing excellent employment opportunities and career paths for professional development. To maintain service standards to our growing customer base, we increased our workforce by more than 50%.
- Increased our female to male gender ratio, females, accounting for approximately 28% of our workforce.
- Invested SR 2.46 m in training for our people.

## Community:

Bupa Arabia understands the importance of giving back to society and acting as a responsible corporate citizen in the Kingdom of Saudi Arabia. In 2010 we concentrated our efforts to develop a plan that will embark us on a continuous journey to bringing happiness and health to the lives around us - not forgetting the underprivileged members of our society. In 2011 we will witness the implementation of our Corporate Social Responsibility strategy to support orphans in the Kingdom.

## Future outlook:

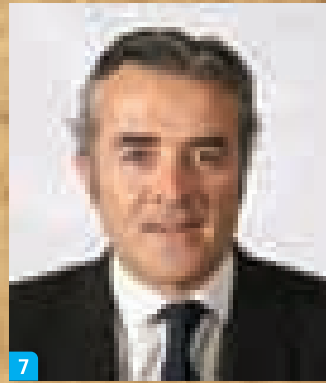
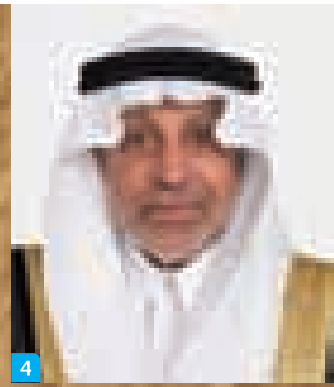
Our focus will continue to bring differentiation and investment in services that distinguish us as the health and care leader. Seeing through the implementation of corporate governance, fine-tuning efficiencies in our Customer Relationship Management and other operating systems, creating a larger distribution network and strengthening relations with government agencies, as well as hospital partners, will be the prime areas we will be focusing on to embark from the strong foundations that we have built for Bupa Arabia.

I would like to thank the Board and team Bupa Arabia for their support, drive, dedication and relentless efforts to position Bupa Arabia as the healthcare leader providing expertise for life in the Kingdom.

**Tal Hisham Nazer**  
Chief Executive Officer

“We have seen robust financial growth, as we continue to expand our services portfolio and streamline our internal processes.”





## BUPA ARABIA BOARD MEMBERS



### 1. Eng. Loay Hisham Nazer, Chairman

Eng. Loay Hisham Nazer is the Chairman of Bupa Arabia.

In 2007, Eng. Loay Nazer was appointed by the Saudi Council of Ministers as a Board member of the Cooperative Council for Health Insurance (CCHI), the official regulatory body for health insurance in Saudi Arabia, representing the private sector. He is a leading member of various governmental institutions for the development of the insurance industry in Saudi Arabia. He was re-appointed again in 2010 to serve as a member of CCHI Board. He is also the founder and chairman of the Nazer Group that operates several companies in a variety of business including private equity, health insurance, manufacturing, events and conferences, medical equipment and marketing and distribution.

Eng. Loay Nazer has a BSc in Mechanical Engineering from the University of California in Los Angeles (UCLA, 1987) and received his Masters Degree in Business Administration (MBA) from the Anderson Graduate School of Management at UCLA (1989). In June 2005, he was awarded an Honorary Doctorate of Humane Letters from Goodwin College in Connecticut, USA.

### 2. Mr. Dean Allen Holden, Director

Mr. Dean Holden has worked for Bupa, the international healthcare group, for over 20 years. He has been Managing Director of Bupa's International Markets Division since November 2009, with responsibility for Bupa's operations in Australia, Latin America, Saudi Arabia, Hong Kong and Thailand. Mr. Dean Holden has also led Bupa's development into major new markets, such as China and India.

Previously, he was Managing Director of Bupa's Asia Pacific Division for two years. He led Bupa's entry into the Australian and Latin American health insurance markets and managed Bupa's expatriate health insurance as well as the Group's operations in Spain, Hong Kong, Thailand, Saudi Arabia and Singapore. Before this Mr. Holden was the Bupa Group Financial Controller.

### 3. Mr. William Stephen Ward, Director

Mr. William Ward joined the Bupa Arabia Board in April 2008 as a non-executive Director. He holds the role of Chairman or Director on 23 Bupa companies around the world.

Mr. William Ward is the Chief Operating Officer for Bupa's International Markets. He is a health care specialist having worked in either provision or health insurance his entire career.

### 4. Dr. Zuhair Hamed Fayeze, Director-Independent

Dr. Zuhair Fayeze is the President of Zuhair Fayeze Partnership, Consultants, Architecture, Engineering and Information Systems. Dr. Fayeze served the Provincial Council of Makkah Region as its member for four years (until 2009). He is the chairman of the Board of Trustees of Dar Al-Hekma private college for girls in Jeddah, Saudi Arabia. He is also a member of the New Advisory Board, College of Architecture & Planning, University of Colorado, USA, a member of the Foundation Board of Trustees of the University of Colorado, USA. A Board member of Jeddah Holding Company for Development, Jeddah, he is also a member of Saudi Council of Engineers and a member of U.S.-Saudi Arabian Business Council, Riyadh.

Dr. Zuhair Fayeze received his bachelor's and master's degrees in architecture from the University of Colorado in 1970 and 1971 respectively. In April 2010, The Regents of the University of Colorado conferred on Dr. Zuhair H. Fayeze the Honorary Degree of Doctor of Humane Letters Honoris Causa.

### 5. Mr. Aamer Abdullah Alireza, Director-Independent

Mr. Aamer Alireza joined the Bupa Arabia Board in March 2008. He is also a Board member of the Xenel Group of Companies, the Managing Director of its services division, and a Board member of a number of Xenel affiliated companies.

In addition, he is the Chief Executive Officer of Red Sea Gateway Terminal (RSGT) and its affiliate, Saudi Trade & Export Development Company (Tusdeer), and a Board member of its parent company, Saudi Industrial Services Company (SISCO), a publicly listed company. He also serves on the Board of Directors of Friends of Jeddah Parks, a non-profit organization.

Mr. Aamer Alireza graduated from Pitzer College in California with a B.A. in Economics and Political Science in 1994. He also joined various management executive programs at the University of California - Berkeley, Harvard, and Stanford Universities in 1996, 2000 and 2003 respectively.

### 6. Mr. Saleh Al-Jasser, Director-Independent

Mr. Saleh Al-Jasser is a Board member of Bupa Arabia, as well as Itihad Itisalat and the Saudi Research and Marketing Group. He is also the Chief Executive Officer of the National Shipping Company of Saudi Arabia.

Before joining NSCSA he was the Managing Director of Abdul Latif Jameel Company (2003-2008), General Manager of STC and Assistant General Manager of Al Jomaih Bottling and Can-making Company (1996 to 2000).

He has an MBA from the King Saud University in Riyadh and BSc in Industrial Engineering from the King Abdul-Aziz University in Jeddah. He has received additional education and training from various prestigious business schools such as Harvard Business School and Cranfield University in the UK.

### 7. Mr. Iñaki Ereño, Director

Mr. Iñaki Ereño, since his graduation in corporate law from the ICADE, obtained an MBA from the IESE and an AMP (Advance Management Program) from Wharton Business School, joined Sanitas in early 2005 and has held a variety of senior positions at Acerinox, the Telefónica group and Continent.

Mr. Iñaki Ereño is the CEO of the Bupa Sanitas Group, as well as its health insurance business, including Sanitas Hospitals, Sanitas Servicios de Salud, Health Dialog España and the Sanitas Manises Hospital in Valencia.

Prior to becoming CEO, in December 2008, Mr. Iñaki Ereño was the Sanitas General Manager of Clients, Marketing and Communication. He is also the president of the Sanitas Foundation.

### 8. Mr. Tal Hisham Nazer, Executive Director

Mr. Tal Hisham Nazer has been the Chief Executive Officer of Bupa Arabia since 2008. Leading this top and fast growing specialized health insurer to higher standards, he is involved with regulators, healthcare providers and the insured. He is a Board member of Arabian Medical Marketing Co. Ltd. He is the Chairman of the General Committee of Insurance Companies' Managing Directors that is supervised by Saudi Arabia Monetary Agency (SAMA). He is also the Chairman of the Young Presidents Organization (YPO) in Jeddah.

Mr. Tal Nazer holds an MBA from The Wharton School, Pennsylvania, USA (in Finance and Buyouts, 2001) and a BA in Economics from the University of California at Los Angeles (Dec 1996).



## 64 years of health, care and wellness

The Bupa Group was established in 1947 in the United Kingdom with one core purpose, 'to prevent, relieve and cure sickness and ill health of every kind'. More than 60 years hence, with over 11 million customers in 190 countries, Bupa remains true to this core principle across all its businesses and geographies, from Europe, Asia, the Americas, Africa and the Middle East.

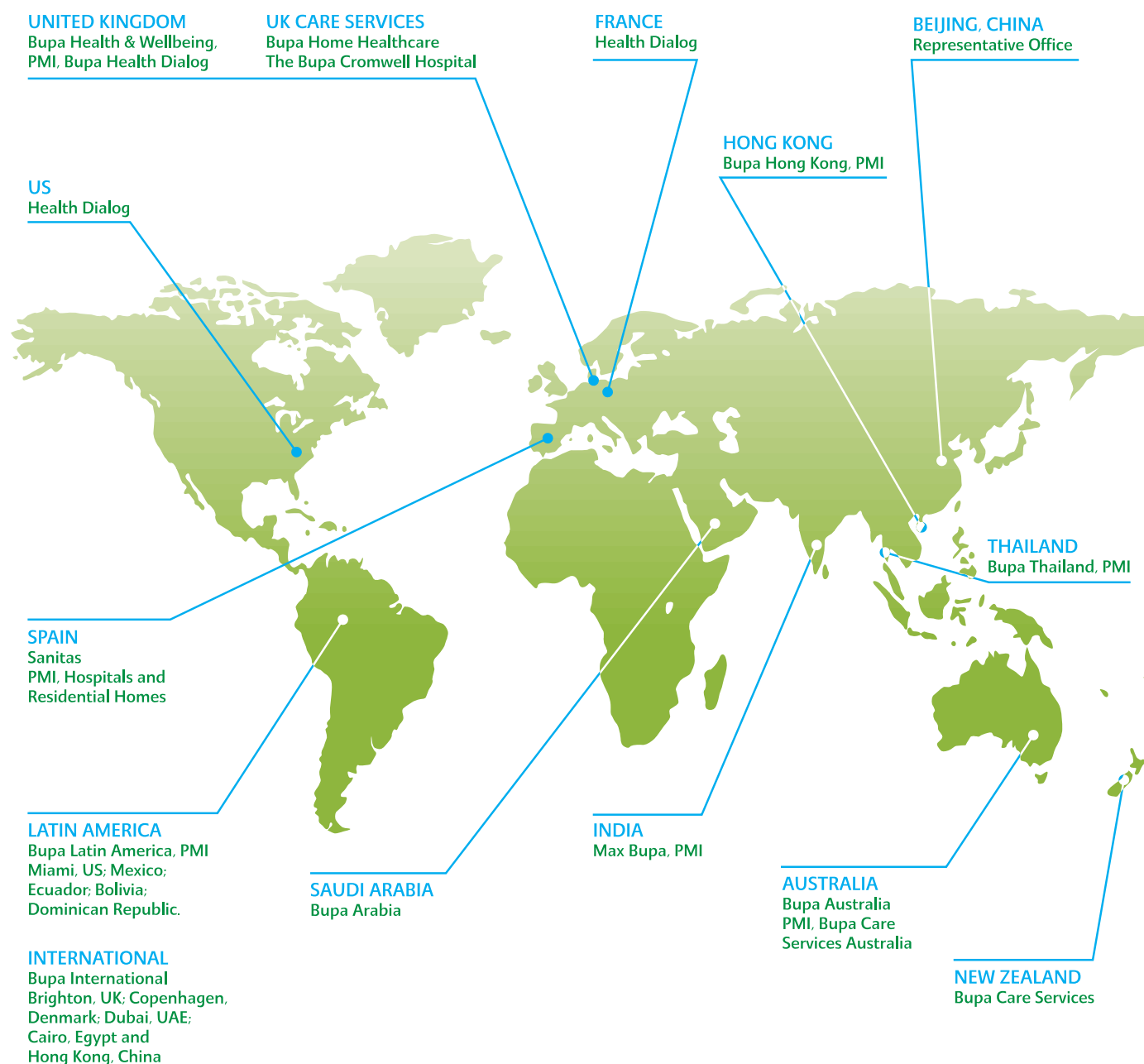
From private medical insurance, Bupa has grown to become an integrated health services provider with the single-minded aim of providing customers with high quality health and care products and services.

Focused solely on its customers, Bupa is a private company with no shareholders. As such, all profits are reinvested in the company to provide more and better health and care to its customers around the world.

With more than 50,000 employees worldwide, Bupa lives up its mission of 'to help people live longer, healthier and happier lives'. And it does so in a manner that treats and cares for its customers as individuals.

- **Runs medical insurance operations in 8 countries.**
- **Leads Chronic Disease Management through Health Dialogue in the US.**
- **Runs 47 Wellness Centres in the UK.**
- **Manages quality standards for public hospital accreditation in China.**
- **Operates hospitals and primary care centres in UK and Spain.**
- **Operates more than 400 care homes and retirement villages in the UK, Spain, Australia and New Zealand.**

# A WORLD OF HEALTH CARE AND WELLNESS





2010:  
THE KEYS  
TO OUR  
SUCCESS

Bupa Arabia's major strength underpinning its success is its Customer Championship. To serve and keep the customer first has been an integral part of its mindset. It is expressed through several innovative new services that have led the industry and set new standards.

In 2010, the company increased the capacity of its 24/7 call centre while expanding the reach of its Basmah fingerprint and swipe card service to fully cover its network. It also enhanced online services by introducing real time account statement access to its clients.

The true value of any business lies in its human capital. It becomes a powerful force with unbeatable commitment when the teams and leadership of Bupa Arabia start sharing a collective vision.

As it looks to the future, Bupa Arabia is confident that no matter the challenges that lie ahead, it will be able to surmount them and become even better.

## Meeting customer expectations

Bupa Arabia continued its relentless focus on improving the existing services it provides exclusively to its members. To reach customers even more pro-actively, Bupa Arabia started harnessing the power of Customer Relationship Management system, rolling out in 2010 a specially designed and robust customer relationship management application. Additionally, Bupa Arabia's claims operating system was further upgraded, doubling its capacity to better handle future growth.

## A challenging market dynamic

The health insurance industry is nearing full regulation. In 2006, mandatory health cover was phased-in for companies with 100 or more employees. Four years hence, organic growth for the sector has gradually slowed down. This reality, coupled with the fact that more than 30 private medical insurance providers are now operating in this market have made client retention key to maintaining market leadership.

To this end, Bupa's relationship management and service teams re-doubled its efforts to serve and satisfy clients' needs and the year ended with an impressive retention rate of over 80% while increasing the customer loyalty and trustworthiness for Bupa Arabia.

The SME sector, which came under regulation at a later stage, provided new opportunities in a tightening market. To succeed Bupa Arabia has to reach deeper into markets

where SMEs are located. In 2010, Bupa Arabia opened 3 new branches - one each in Jeddah, Riyadh and Khams Mushyat. Sales performance of the new branches exceeded their targets in 2010. By yearend, Bupa Arabia reached another milestone in 2010 - crossing the one million member threshold.

## Reigning in on medical inflation

Medical costs continued to spiral in 2010. A large part of this increase is due to market dynamics - a large pool with mandatory health insurance coupled with an expanding population requiring medical care against an inadequate supply of medical facilities.

To provide Bupa Arabia members with an even wider selection of medical facilities, the business led by a dedicated Provider Relations team expanded its network of hospitals and clinics by 21% in 2010.

## 2010 in perspective

While challenging, 2010 was a crossroads for Bupa Arabia. Gauging an even more challenging environment in the coming years, the business, using best practices and expertise from the over 60-years experience of the Bupa Group to which Bupa Arabia is associated, approved a long-term strategic plan designed to build on the current market leadership of Bupa Arabia.

Bupa Arabia successfully navigated the challenges of 2010 in large part due to its people - from those who tirelessly meet customers to present our products and services to those who diligently worked on processes and customer services to ensure that calls are answered within 3 rings, that reimbursement claims are settled within 10 days or that systems and outside linkages are running smoothly.

To manage business growth effectively, Bupa Arabia introduced a flatter structure, providing growth paths for its people as well as recruiting the best in the market.

To further develop its people, project Bupa Academy was created in 2010. This new innovation ensures that Bupa Arabia staff are given the proper training and development opportunities to take on more and higher responsibilities in the future. To completely comply with all regulatory requirements, the business established a clear corporate governance strategy.

As 2010 closed, Bupa Arabia's man at the helm was chosen as The Preferred CEO of 2010 by Naseba- Kingdom HR Gathering.

## Our services, setting the standards in care



### Relationship Management

a dedicated team of professionals focused exclusively on building relationships with Bupa Arabia clients



### 24/7

award-winning, dedicated toll free number for Bupa Arabia members available 24 hours a day



### Bupa Active

cutting-edge online services exclusively for Bupa Arabia members



### Msg.Bupa

free SMS service that provides instant updates to members



### Automated pre-authorization

on time, real time request approval process for Bupa Arabia members



### Basmah

trendsetting biometric security service with unmatched record safety



### Doctor on Phone

helpline for exclusive use of Bupa Arabia members who require medical advice by telephone



### Roving Doctor

a dedicated team of medical professionals that ensure the health and wellbeing of Bupa Arabia members at hospitals



### International SOS

a worldwide emergency service that Bupa Arabia members can utilize during life threatening medical emergencies while outside of Saudi Arabia



# RECOGNIZING OUR CARE



## 2010

Preferred CEO  
of the Year Award,  
Naseba & Kingdom HR  
Gathering



## 2009

- E-Business Award, Middle East Insurance Awards, Basmah
- 8th Fastest Growing Company Award (SME sector), Saudi Fast Growth Award



## 2008

- E-Business Award, Middle East Insurance Award, Msg.Bupa
- Best Company to Work For, Saudi Best Company Award
- Best Working Environment for Women, Saudi Best Company Award
- Best Call Centre Quality Award, INSIGHTS Middle East Call Centre Awards



## 2007

- 8th Best Company to Work For, Saudi Best Company Award
- Best Call Centre Quality Award, INSIGHTS Middle East Call Centre Awards
- Best Medical Insurer, Jeddah Chamber of Commerce



## 2006

- Best Medical Insurer, Jeddah Chamber of Commerce
- E-Business Award, Middle East Insurance Awards, Bupa Active service



## BOARD REPORT



# Bupa Arabia for Cooperative Insurance Company

## Board of Directors Report for the period ended 31/12/2010:

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 2010. 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 prior year financial statements, for the twenty months ended 14/01/1431 H, 31/12/2009 G, represented the first statutory financial statements of the company. For ease of comparative reference the figures contained within this Board report compare the results for each of the twelve month periods ended 14/01/1431 H, 31/12/2009 G and 25/01/1432 H, 31/12/2010 G.

### 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.

The Company entered into an agreement to purchase the insurance portfolio and the net assets of Bupa Middle East Limited E.C., a company registered in the Kingdom of Bahrain. A due diligence exercise was completed and the business valuation results, as independently verified by external third party auditors, actuary and loss adjuster, as required per the SAMA regulations, was presented to SAMA.

According to SAMA letter no. 2173/MZ/MT, dated 12/11/1429 H, 10/11/2008 G, SAMA returned an assessment summary for the insurance portfolio of Bupa Middle East Limited E.C.. An Ordinary General Assembly was thereafter called by the Company to inform the shareholders of the final outcome of the SAMA assessment process and to decide whether to purchase the insurance portfolio or not.

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 insurance portfolio acquisition agreement was entered into between Bupa Arabia (the purchaser), Bupa Middle East Limited E.C. (the seller) and ASAS Healthcare Company Limited (the agent of Bupa Middle East Limited E.C. in Saudi Arabia). The acquisition agreement was effective 04/01/1430 H, 01/01/2009 G.

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). At the same meeting the Shareholders approved that the company enter into agreements for utilising information systems and services with Bupa Asia, with the agreements providing for the possible technical and financial services of Bupa Finance. The Shareholders authorised the Board of Directors to agree on the terms and conditions of these agreements.

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. The 2009 first quarter interim financial statements were re-issued on 28/07/1430 H, 21/07/2009 G. The re-issue of the 2009 first quarter interim financial statements was required as the first quarter results were originally issued without the insurance operations as the final SAMA assessment, and other insurance portfolio transfer formalities, were in progress.

### 3. Approval of the company's products from the Saudi Arabian Monetary Agency (SAMA):

The Company received final official SAMA approval for its initial products through SAMA's letter numbered AS229, dated 19/02/1430 H, 15/02/2009 G. The Company's products are in compliance with the executive summary of the Supervision of Cooperative Insurance Law.

### 4. Final eligibility from the Council of Cooperative Health Insurance (CCHI):

The Company received final official CCHI eligibility through CCHI's letter numbered 5821/30/2/T, dated 11/03/1430 H, 08/03/2009 G.

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

#### • 5.1 Strategy review phase completed:

The Company completed a strategy review of its prime business activities and obtained the Board's approval for its implementation during 2011. Elements of the strategy include further enhancements to core business processes in support of the further development of the Company's customer service/healthcare leadership and the development of new distribution channels and services to small and medium sized enterprises (SMEs).

#### • 5.2 Corporate governance structure review:

The Company completed a thorough review of its corporate governance structure, and obtained Board approval for it in October 2010. This included the introduction of a Risk and Compliance Committee (R&CC), as a sub-committee of the Audit Committee, and updated Terms of Reference (TOR) for each of the Board committees. More details are disclosed in the Board and committees section of this report.

#### • 5.3 Jeddah head office relocation completed:

The Company successfully completed its Jeddah head office relocation to larger, purpose built premises situated in Al-Rawdah Street, Al-Khaledeyah District during the first half of the year. The new premises will support the Company's growth plans in enhancing the customer experience of its members and providing first class facilities for its staff.

#### • 5.4 New sales outlets approval received from SAMA:

During 2010 the Company received SAMA's initial approval for the opening of 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 its first outlets in the Western (third quarter) and Central and Southern (fourth quarter) regions and will be opening further outlets during 2011.

#### • 5.5 Trade mark sub license agreement concluded:

Further to the Shareholder approval granted through the Ordinary General Assembly meeting, of 19/09/1430 H, 09/09/2009 G, the Company entered into a Trade mark sub license agreement, with Bupa Middle East Holdings Two W.L.L., a Bahrain based company, to use Bupa Trade marks (the word Bupa, with or without logo). More details are disclosed within the notes to the financial statements.

#### • 5.6 Long term incentive plan (LTIP) implemented:

The Company implemented an approved Long term incentive plan, for certain senior executives, during the twelve month period. A custodian was appointed for the independent management of the shares acquisition if such election was made by the senior executive(s). The custodian obtained approval for the Bupa Arabia LTIP from the CMA and at 25/01/1432 H, 31/12/2010 G, the shares numbered 140,017 (purchase value SR2.7m). The Company communicated the details of the LTIP 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". More details are disclosed within the notes to the financial statements.

#### • 5.7 Chief executive team (CET):

New senior executive management team members were introduced during the year, following regulatory approval, in the form of a Chief executive team (CET) to build the capability and strengthen the development of the business. The CET comprises the Chief Executive Officer, the Chief Financial Officer (appointed July 2010), the Chief Commercial Officer, the Chief Operations Officer (appointed April 2010) and the Chief Human Resources Officer (appointed July 2010).

#### • 5.8 Business continuity plan (BCP) developments:

The Company invested resources into the further development of its BCP and Disaster Recovery plans, subsequent to the office relocation, and the enhanced process and procedures will be implemented during 2011.

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

Being socially ethical and committed to encouraging a more health conscious society is one of the many goals that inspired Bupa Arabia to commit to a CSR programme. Taking action on CSR begins with recognizing that it is a strategic issue that permeates all aspects of corporate behaviour and is a core value of Bupa Arabia. The Company encourages a mindset that is in tune with the society and community in which the Company operates and make its living.

Bupa Arabia has identified the first phase CSR practices for implementation in 2011. In collaboration with its executives and with Board approval the Company will embark on delivering free quality health insurance coverage to orphans residing in orphanages across Saudi Arabia. The selected orphanages are geographically located in all regions of the Kingdom and registered under the Ministry of Social Services. In this campaign the Company will utilize the expertise of Bupa and use it as a leverage in delivering health coverage by not only providing medical insurance but by also making it the Company's social responsibility to educate, provide awareness sessions and to deliver homecare services as well as check-up visits to the selected orphanages and their resident orphans.

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

### • 6.1 Competition and market dynamics:

The economic backdrop for the health insurance market place continues to be encouraging. The economy is sound and well funded, particularly if oil remains near \$80 a barrel. The country still has a growing population that has a high risk of poor health outcomes, which will only compound as the population ages. The government and the private sector will have a major responsibility to shoulder this growing burden.

The competitive landscape continues to be challenging. With the majority of corporate businesses now having health insurance, the regulatory driven pursuit for market share through new business is over and the focus will grow on retention through high quality service and competitive pricing. We believe though that there is still scope for good growth, but this will be more evident in the SME and family sectors.

### • 6.2 Provider capacity:

The shortage of quality providers continues to be a concern, as well as the risk of "over-treatment" of our members in a "fee for service" environment. The recent, dramatic, expansion of the insured market place has left the incumbent care providers at full capacity and this means that there is little remaining capacity and also little incentive for providers to ensure that a high quality, cost effective, delivery mechanism exists. Without further capacity and/or new regulations it is our customers who will continue to face high medical inflation, poor health outcomes and who will also be disadvantaged as a result.

### • 6.3 Financial strength:

The Company strengthened its profitability and balance sheet significantly in 2010. The Company's objective is to provide the most cost effective and appropriate care treatment for its members whilst ensuring it makes an appropriate return, and remains sufficiently liquid and solvent, to always meet its members claim payments.

As is detailed within section 9, revenue increased by 33% and net shareholders income rose 23% in the twelve month period. The Company also increased its cash, cash equivalent and investment balances by SR164m in the twelve month period, an increase of 22%.

### • 6.4 Healthcare specialist:

The Company believes that, as the only single line healthcare specialist insurer in the kingdom, there is much more value it can bring to its customers and members in the health and care arena. The Company will leverage the capabilities and skills of the wider Bupa Group to continue to add services, products that enable its members to feel understood, guided, re-assured and able to access the right treatment, at the right time, in the right setting, by the right specialist and at an appropriate fee for all their healthcare needs.

### • 6.5 Risks:

The key risks that the Company's management have front of mind are:

- Ensuring the availability of suitably skilled personnel for growth and quality of service delivery.
- Following the Company's head office move, to ensure its BCP is up to date and that it secures access to a contingency site.
- Ensuring that the Company's data security standards are in line with best practice.
- Monitoring and managing the risk of cartel behaviour from hospital operators.
- Monitoring the currently high Regulatory levy fees/Zakat and Taxation burden (in total some 44% of operating profits).
- The management of Article 69 (bad debt provisioning) enforcement with respect to its impact on the Company's profitability and solvency.

## 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 25/01/1432 H, 31/12/2010 G as a comparative versus the results for the twelve month period ended 14/01/1431 H, 31/12/2009 G. However as the 2009 results represented the first statutory financial statements for the Company the annual financial statement comparatives, and its accompanying notes, reflect the twenty month period from 24/04/1429 H, 01/05/2008 G to 14/01/1431 H, 31/12/2009 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 financial highlights:

### • 9.1 Summary key performance indicators:

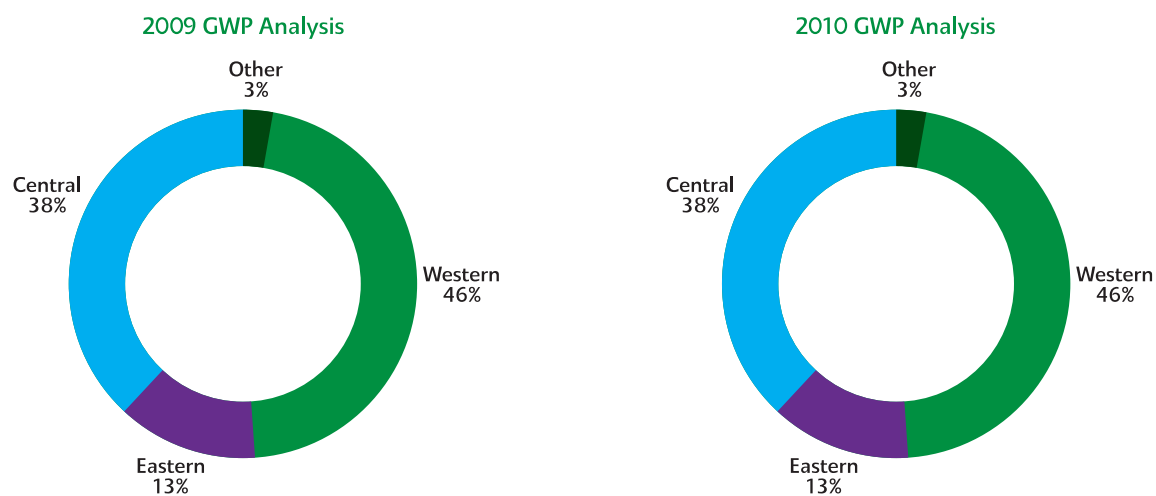
Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
Gross written premiums	1,347,337	1,749,390	402,053	30%
Net premiums	1,205,351	1,608,908	403,557	33%
Net underwriting result	231,929	300,805	68,876	30%
Total operating expense ratio	14.6%	14.3%	-0.3%	-2%
Surplus of insurance operations	59,522	81,118	21,596	36%
Policyholder's share of insurance operations' surplus	5,952	8,112	2,160	36%
Net shareholders' income	57,732	70,798	13,066	23%
Weighted average no. of ordinary shares (thousands)	40,000	39,942	(58)	0%
Basic earnings per share (Saudi Riyals)	1.44	1.77	0.33	23%

In 2010 the Company sustained its momentum with the average number of lives increasing by 20% over 2009. In conjunction with price increases and a beneficial impact of mix, the revenue earned improved by 33%. In ensuring that it maintains value for money, the Company broadly matched the increase in revenue with the increase in claims (up 34%) which gave an increase in the underwriting result of 30%. The overheads of the business increased with the volume of customers and the extra investment due to the move to its new building. With a stable return on investments, the net shareholders income improved by 23% in 2010.

### • 9.2 Gross written premiums and geographical analysis:

Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
Central	511,957	663,395	151,438	30%
Eastern	179,667	227,523	47,856	27%
Western	620,336	813,769	193,433	31%
Other	35,377	44,703	9,326	26%
<b>Total gross written premiums</b>	<b>1,347,337</b>	<b>1,749,390</b>	<b>402,053</b>	<b>30%</b>

The written premium increased by 30% to SR1,749m 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 2010 geographical gross written premium mix is almost identical to that of 2009:



### • 9.3 Net claims incurred:

Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
Net claims incurred	973,422	1,308,103	334,681	34%

The increase in net claims incurred was due to business growth during the year in conjunction with rises in medical inflation.



#### • 9.4 Total operating expenses:

Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
Insurance operations' operating expenses	175,073	223,888	48,815	28%
Shareholder operations' operating expenses (G&A)	1,462	6,275	4,813	329%
<b>Total operating expenses</b>	<b>176,535</b>	<b>230,163</b>	<b>53,628</b>	<b>30%</b>
Total operating expense ratio to earned	14.6%	14.3%	-0.3%	-2%

The total operating expense ratio, to earned, at 14.3% was a slight improvement versus the previous twelve month period at 14.6%. The increase in the Shareholder operations' operating expenses was mainly due to one-off costs associated with the Company's strategy review processes. The increase in the Insurance operations' expenses is described in section 9.5.

#### • 9.5 Total insurance operations' operating expenses:

Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
CCHI and SAMA levies	23,600	25,991	2,391	10%
Bad debt provision (release) / expense	(1,001)	10,365	11,366	1135%
Other sales and marketing expenses	75,999	87,333	11,334	15%
<b>Total S&amp;M expenses—Insurance operations</b>	<b>98,598</b>	<b>123,689</b>	<b>25,091</b>	<b>25%</b>
Total G&A expenses—Insurance operations	76,475	100,199	23,724	31%
<b>Total Insurance operations operating expenses</b>	<b>175,073</b>	<b>223,888</b>	<b>48,815</b>	<b>28%</b>

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

The more significant increase in the Insurance operations' sales and marketing expenses were the levies and the bad debt provision as detailed below:

The CCHI and SAMA levies expense for the twelve month period ended 31/12/2009 included a levy of SR3,413k relating to 2008 written premiums (as per SAMA regulations). The underlying increase in levies for the twelve month periods from 2009 to 2010 is therefore SR5,804k.

The bad debt provision release for the twelve month period ended 31/12/2009 was due mainly to the release of the bad debt provision against premiums written not yet invoiced (PWNII) as was not required. The increase in the bad debt provision for the twelve month period ended 31/12/2010 was mainly due to an increase in provisioning above the minimum SAMA aged bad debt provision requirements (as per the SAMA regulations).

The increase in the other Sales and marketing expenses was due mainly to an increase in commissions and staff costs.

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

The more significant increase in the Insurance operation's general and administration expenses during the year related to staff costs, incurred due to enhancing the organisational capability in support of the Company's customers, and other costs in the form of some one-off costs associated with the Company's Jeddah head office relocation.

#### • 9.6 Surplus from insurance operations:

Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
Surplus from insurance operations	59,522	81,118	21,596	36%

The increase in the surplus from insurance operations was mainly due to an increase in the underwriting result of SR68,876k versus the previous twelve month period but offset by an increase in operating expenses (as described per 9.4 and 9.5).

### • 9.7 Investment income:

Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
Insurance operations' investment income	2,660	3,820	1,160	44%
Shareholder operations' investment income	5,624	4,067	(1,557)	-28%
<b>Total investment income</b>	<b>8,284</b>	<b>7,887</b>	<b>(397)</b>	<b>-5%</b>

Investment income during the twelve month period reduced versus the previous twelve month period due to falling interest rates, due to excess liquidity, in the market place. Investment income was also impacted during 2010 by the initial processes related to the appointment of an external, third party, investment fund portfolio manager.

### • 9.8 Net shareholders' income:

Description	2009 SR 000s (12 months)	2010 SR 000s (12 months)	2010 Change SR 000s	2010 Change %
Net shareholders' incomes	57,732	70,798	13,066	23%

The increase in the net shareholders' income for the twelve month period was driven mainly by the increase in the underwriting result of SR68,876k.

### • 9.9 Summary statement of financial position:

Description	2009 SR 000s at 31/12/09	2010 SR 000s at 31/12/10	2010 Change SR 000s	2010 Change %
Insurance operations' assets	895,147	1,130,277	235,130	26%
Shareholder operations' assets	508,007	538,557	30,550	6%
<b>Total assets</b>	<b>1,403,154</b>	<b>1,668,834</b>	<b>265,680</b>	<b>19%</b>
Insurance operations' liabilities and surplus	895,147	1,130,277	235,130	26%
Shareholders' liability	70,654	45,568	(25,086)	-36%
Shareholders' equity	437,353	492,989	55,636	13%
<b>Total liabilities, surplus and shareholders' equity</b>	<b>1,403,154</b>	<b>1,668,834</b>	<b>265,680</b>	<b>19%</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. The technical reserves increased by SR214,422k during 2010.

The reduction in the shareholders' liability was driven mainly by the settlement during the twelve month period of SR28,010k of the Goodwill amount payable. The Company received SAMA approval for the settlement of this amount through its letter numbered 20184/MT/816 dated 16/04/1431 H, 31/03/2010 G.

During 2010 the Company generated SR217,591k of net cash from its operating activities (SR156,711k and SR60,880k from insurance operations and shareholder operations respectively).

### • 9.10 Total assets:

Description	2009 SR 000s at 31/12/09	2010 SR 000s at 31/12/10	2010 Change SR 000s	2010 Change %
Total assets	1,403,154	1,668,834	265,680	19%

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 SR164,228k) and an increase in net premiums receivable of SR82,442k.

### • 9.11 Cash and cash equivalents:

Description	2009 SR 000s at 31/12/09	2010 SR 000s at 31/12/10	2010 Change SR 000s	2010 Change %
Insurance operations' cash and cash equivalents	444,162	346,908	(97,254)	-22%
Shareholder operations' cash and cash equivalents	308,789	13,631	(295,158)	-96%
<b>Total cash and cash equivalents</b>	<b>752,951</b>	<b>360,539</b>	<b>(392,412)</b>	<b>-52%</b>

The decrease in cash and cash equivalents was due to the purchase of investments during the twelve month period. Investments of SR253,965k and SR296,065k were purchased by insurance operations and shareholder operations respectively.

### • 9.12 Investments:

Description	2009 SR 000s at 31/12/09	2010 SR 000s at 31/12/10	2010 Change SR 000s	2010 Change %
Insurance operations' investments	—	257,178	257,178	N/A
Shareholder operations' investments	—	299,462	299,462	N/A
Total investments	—	556,640	556,640	N/A

During the twelve month period the Company appointed an external third party as investment fund portfolio manager and transferred SR550 million for investment on behalf of the Company. This followed a thorough selection process and approval by the Board and the Investment Committee.

### • 9.13 Total premiums receivable, net:

Description	2009 SR 000s at 31/12/09	2010 SR 000s at 31/12/10	2010 Change SR 000s	2010 Change %
Total premiums receivable, net	407,398	489,840	82,442	20%

The growth in total net premiums receivable is due to the growth in written premiums during the twelve month period. The percentage change in net premiums receivable (at 20%) is below the growth in written premiums (at 30%), due to the continued strong collection and credit control activities of the Company.

### • 9.14 Technical reserves:

Description	2009 SR 000s at 31/12/09	2010 SR 000s at 31/12/10	2010 Change SR 000s	2010 Change %
Unearned premium reserves	522,517	659,819	137,302	26%
Claim reserves	275,259	352,379	77,120	28%
<b>Technical reserves</b>	<b>797,776</b>	<b>1,012,198</b>	<b>214,422</b>	<b>27%</b>

The growth in the technical reserves is due to the growth in written premium (at 30%), during the twelve month period. The unearned premium reserves at 31/12/2010 represent 37.7% of the annual gross written premium (versus 31/12/2009 at 38.8%) and the claims reserves represent 26.9% of the annual net claims incurred (versus 2009 at 28.3%).

## 10. 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.

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

### • 11.1 Sales and marketing:

To make its products and services more accessible to its customers, Bupa Arabia continued to improve and enhance its sales activities and distribution channels through the continued building of qualified and well-trained sales teams and Bupa Arabia also opened three new sales outlets during 2010. It also installed, and trained staff to use, its customer relationship management software.

Bupa Arabia has carried out marketing and advertising campaigns throughout the year with the objective of promoting its pioneering health insurance products and services. This assisted with the notable growth in the average number of customers, increased by 20%, exceeding a million members and with a renewal ratio exceeding 80%. The Company also conducted a wellness campaign for its clients which helped many members to deal with common health issues and maintain a healthy lifestyle. This was done through conducting several seminars on important health topics (such as swine-flu, anti/quit smoking, diabetes prevention and control of complications, respiratory allergies, first aid and CPR seminars/training).

### • 11.2 Operations management and customer service:

Bupa Arabia continues to provide its customers with cutting-edge services including a medical helpline, instant treatment approvals, SMS messaging, an internet service portal and quick uploads to the CCHI system.

Bupa Arabia has also continued to invest in its processes, systems & people capabilities to optimise its medical quality decision making process, high performance culture and service mindset, relationship with its providers and efficient customer service delivery with a new call centre structure.

Bupa Arabia will continue to support all initiatives with a new medical department, a new customer service strategy and a total quality management approach to safeguard a high standard of quality healthcare and provide an environment in which service excellence flourishes.

### • 11.3 Human resources:

During 2010, the Human Resources department focussed on meeting the resource demands of a growing business (headcount increased over the year by nearly 30%) as well as raising selection standards and training quality. The Company also increased the Saudisation rate by 7%, to reach 49% by the end of 2010. Training has been a main focus; the Company conducted thirteen different training programmes (including certified training such as SHL and IFCE), as well as the standardization of procedures and the updating of job descriptions in accordance with Saudi Labour Office requirements.

In April, the Company moved to new Jeddah head office premises and a health & safety consultant conducted a thorough review of the facility, bench-marking the building against international best practices. The Company's new premises met the vast majority of requirements, with some more improvements scheduled for 2011.

The Human Resource department held regular CET (Chief Executive Team) breakfast meetings with staff, to ensure a positive and productive two way exchange of views was present, and will to go through a complete analysis of feedback for the Company to take action on.

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

The Company continued to invest in its IT systems and capabilities to ensure it has the most robust systems to deal with future growth and in parallel, invested in technology as a driver for future customer service enhancements. In 2010, the Company completed its Business Continuity Plans and will implement these in 2011. In addition, it enhanced its online services, implemented a project management system and unified its communication system. The Company will continue to employ the latest customer service technologies to maintain its pioneering position in a highly competitive market. This is augmented by a new Project Management Office (PMO) team that supports Operations to deliver projects on time and within budget.

## 12 - 18 Additional disclosures (in accordance with laws and regulations):

## 12. Board and annual general assembly meeting related:

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

The Board of directors consists of the following members and their membership in the Boards of other joint stock companies is as detailed within the table:

Membership	Director name	Membership of other joint stock company Boards
Non-Executive	Eng. Loay Hisham Nazer Mr. William Stephen Ward Mr. Dean Allan Holden Mr. Ignacio Ereno Iribarren	Not applicable Not applicable Not applicable Not applicable
Independent	Mr. Aamer Abdullah Ali Reza	Saudi Industrial Services Company (SISCO)
	Eng. Zuhair Hamid Fayeze	Not applicable
	Mr. Saleh Nasser Al Jasser	Etihaad Etisalat Company, Saudi Research and Marketing Group
Executive	Tal Hisham Nazer	Not applicable



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

The following changes in the Board of directors took place during the year:

Outgoing and date	Incoming and date	Representing
Mr. Pablo Juantegui 23/11/2009	Mr. Dean Allan Holden 02/05/2010	Bupa Investments Overseas Limited
Mr. Anthony Frank Cabrelli 04/09/2010	Mr. Ignacio Ereno Iribarren 12/10/2010	Bupa Investments Overseas Limited
Dr. Mohammed Akef Al Maghrabi 03/10/2010	Mr. Saleh Nasser Al-Jasser 12/10/2010	Independent

### • 12.3 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 01/01/2010 to 31/12/2010:

Description	Executive Member	Non-Executive Member/ Independents	Five Senior Executives including CEO and CFO
Salaries and emoluments	137	756	5714
Board Allowances	12	63	0
Bonuses	0	0	1947
LTIP and EOS	0	0	2210
<b>Total SR000s</b>	<b>149</b>	<b>819</b>	<b>9871</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.

### • 12.4 Description of the equities of the board members:

The Bupa Arabia equities held by the Board members of Bupa Arabia are detailed below:

Director name	Position	Opening Shares (13/12/09)	Opening share ratio	Change in shares	Change in shares ratio	Closing shares (31/12/10)
Eng. Loay Hisham Nazer	Chairman	272,800	0.68200%	(271,800)	-0.67950%	1,000
Mr. Tal Hisham Nazer	Member	1,000	0.00250%		0.00000%	1,000
Mr. William Stephen Ward	Member					Refer below
Mr. Aamer Abdullah Ali Reza	Member	6,000	0.01500%		0.00000%	6,000
Eng. Zuhair Hamid Fayez	Member	1,000	0.00250%		0.00000%	1,000
Mr. Dean Allan Holden	Member					Refer below
Mr. Saleh Nasser Al Jasser	Member		0.00000%	106,000	0.26500%	106,000
Mr. Ignacio Ereno Iribarren	Member					Refer below

Bupa Investments Overseas Limited has registered 1,000 shares with the CMA for each Board member as guarantee shares for its representatives on the Bupa Arabia Board (as required by the CMA regulations).

### • 12.5 Description of the equities of the senior executives:

The Bupa Arabia equities held by the senior executives of Bupa Arabia are detailed below:

Director name	Position	Opening Shares (13/12/09)	Opening share ratio	Change in shares	Change in shares ratio	Closing shares (31/12/10)
Mr. Hisham Fayez Ali Radwan	Chief Commercial Officer	23,000	0.05750%	500	0.00125%	23,500

## • 12.6 Board meetings and attendances:

Director name and period	Position	Membership	Board 1 23/3/10	Board 2 14/6/10	Board 3 05/10/10	Board 4 14/12/10
Eng. Loay Hisham Nazer (full year)	Chairman	Non-Executive	Y	Y	Y	Y
Mr. Tal Hisham Nazer (full year)	CEO/ Member	Executive	Y	Y	Y	Y
Mr. William Stephen Ward (full year)	Member	Non-Executive	Y	Y	N	Y
Mr. Aamer Abdullah Ali Reza (full year)	Member	Independent	Y	Y	Y	Y
Eng. Zuhair Hamid Fayez (full year)	Member	Independent	N	N	N	N
Mr. Anthony Frank Cabrelli (1/01/10 to 4/09/10)	Resigned	N/A	N	N	N/A	N/A
Dr. Mohammed Akef Al Maghrabi (1/01/10 to 3/10/10)	Resigned	N/A	N	N	N/A	N/A
Mr. Dean Allan Holden (2/05/10 to 31/12/10)	Member	Non-Executive	N/A	Y	Y	Y
Mr. Ignacio Ereno Iribarren (12/10/10 to 31/12/10)	Member	Non-Executive	N/A	N/A	N/A	Y
Mr. Saleh Nasser Al Jasser (12/10/10 to 31/12/10)	Member	Independent	N/A	N/A	N/A	Y

## • 12.7 Major board resolutions during the year:

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

- Approval of the Company's strategy first phase.
- Approval of the appointment of the third party investment fund manager, as per the recommendation of the Investment committee.
- Approval of the opening of four sales outlets in the Kingdom of Saudi Arabia.
- Approval of the following corporate governance and compliance related:
  - Corporate Governance framework and Board committees' terms of reference.
  - Disclosure and transparency policy
  - Anti-Fraud/Fraud Awareness policy
  - Anti money laundering and combating the financing of terrorism policy

## • 12.8 General assembly meetings during the year:

The third ordinary general assembly meeting of Bupa Arabia convened on 08/04/1431 H, 24/03/2010 G during which the following outcomes were concluded:

- The approval of the Board of Directors report for the twenty months ended 14/01/1431 H, 31/12/2009 G,
- The ratification of the Financial Statements, and external auditors report, for the twenty months ended 14/01/1431 H, 31/12/2009 G,
- The absolving of the Board of Directors of their legal and financial responsibility for managing the company during the twenty months ended 14/01/1431 H, 31/12/2009 G,
- The approval of the appointment of the external auditors for the company's financial statements for the twelve month period ended 25/01/1432 H, 31/12/2010, in line with the recommendation of the Audit Committee,
- The approval of the changes in the Board of Directors.

## • 12.9 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.

#### • 12.10 Other contracts with companies related to Board members:

In the fiscal year 2009, Bupa Arabia appointed Zuhair Fayeze Partnerships (ZFP) in which Mr. Fayeze (a director) is a major shareholder, to carry out the construction and interior design works for the new Jeddah head office premises. This contract was concluded during 2010 with the Company moving to its new premises during the second quarter of 2010. Although Mr. Zuhair Fayeze is a board member of Bupa Arabia, the Company conducted a full and independent contractor search and ultimately chose ZFP based on extensive criteria such as quality, pricing and reputation. The Chairman of the Board made note of this contract to the shareholders during the Ordinary General Assembly meeting of 08/04/1431H, 24/3/2010 G. This contract required none of the Board members to agree to waive any compensation of any type.

### 13. Other disclosure in accordance with laws and regulations:

#### • 13.1 Provision of corporate governance:

Bupa Arabia is committed to 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 exception:

- Clause B of Article 6: The "cumulative vote" system is the CMA method to nominate board members in the general assembly. However, 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 General Ordinary Assembly and the Extraordinary Assembly based on a vote for each share."

#### • 13.2 Board committees:

The company's corporate governance code was agreed and approved by the Board in October 2010.

#### • 13.3 Audit committee:

Throughout 2010, the Audit committee consisted of Mr. Saleh Al-Jasser (Chairman), Mr. Robert Jones and Mr. Duncan Walsh (independent members). Mr. Walsh resigned his position in late 2010 and his replacement is Mr. James Wheaton. The Audit committee's purpose 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 and to review the external audit process and external auditors performance. The committee will also have oversight, through the company's Risk and Compliance committee, for ensuring that the company's risk management processes, and regulations, 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 committee will maintain effective working relationships with the Board of Directors, management, the Risk and Compliance Committee and the external and internal auditors. The committee held three meetings during 2010.

- Risk and Compliance Committee (R&CC) - The Risk and Compliance Committee is a sub-committee of the Audit Committee and its members are the senior 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 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 the committee has oversight of Business Continuity Planning, Health and Safety and Financial Crime. The Compliance Officer and the Internal Audit Manager both formally report to the Chairman of the Audit committee to ensure appropriate independence. The Risk and Compliance Committee met twice in late 2010 after the approval of its terms of reference during October 2010.
- Key Risks - the management of the Company has introduced a quarterly assessment process for reviewing risks, their materiality, the appropriateness of existing mitigating controls and for setting actions plans where inadequate. The key risks that management are currently reviewing and managing closely are itemised in section 6.5.

#### • 13.4 Executive committee:

The Executive committee consists of Eng. Loay Nazer (Chairman), Mr. Tal Nazer, Mr. Dean Holden and Mr. William Ward (members) with invited participants from the management team. The committee sets the annual income target of Bupa Arabia which is thereafter ratified by the Board. The committee also monitors 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 needed, any requests from non-authenticated parties and ensures the company is fully compliant with all regulatory requirements. The committee held ten meetings during 2010.

#### • 13.5 Nomination and remuneration committee:

The Nomination and remuneration committee consists of Eng. Loay Nazer (Chairman), Mr. William Ward, Mr. John Handley and Mr. Aamer Ali Reza (independent member). This committee agrees on the remuneration packages (including bonuses and long term incentives) for the CEO and senior executives. The committee reviews the sales commission schemes and targets and defines corporate and individual goals. Additionally, the committee supervises the recruitment of key managerial positions and approves the human resources policies and procedures. The committee held five meetings during 2010.

#### • 13.6 Investment committee:

The Investment committee consists of Mr. Hossam Radwan (Chairman), Mr. Hassan Al Jabri and Mr. Simon Warren (all independent members). The committee's remit is the management of the company's investment portfolio to achieve the best return for the business within a given risk parameter. The Committee acts 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. The Investment committee appointed NCB Capital as the investment manager based on its experience and following a thorough review process and based on a minimum grade A external rating. Among other duties, the committee provides investment advice to the Board of Directors in regard to liquidity and risk of interest rate. The committee held two meetings during 2010.

## 14. Maintenance of proper records, internal controls and continuation as a going concern:

As required by Saudi Arabian insurance regulations the Company maintains separate accounts for Insurance Operations and Shareholder Operations and can confirm it has maintained proper accounting records, that the system of internal control is robust in design and has been effectively implemented, and that there are no doubts about the Company's ability to continue its operations.

## 15. Payments and payable to regulatory bodies:

During 2010 the Company made payments, and has amounts payable, to the various Saudi Arabian regulatory bodies as detailed below:

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

The total payment made by the Company to the DZIT during the twelve month period was SR15,211k. This payment includes an amount of SR11,283k for the 2009 DZIT return (SR6,506k in respect of Zakat and SR4,777k for Income Tax) and a 2010 advance Income Tax payment of SR3,583k (made in accordance with the DZIT regulations). An amount of SR7,906k is provided in the results for the 2010 DZIT return (SR7,317k for Zakat and SR589k for Income Tax) and this will be paid to the DZIT before 26/05/1432 H, 30/04/2011 G (as per the DZIT regulations). Included in the total payment amount is an amount of SR345k paid to the DZIT for with-holding tax. An amount of SR84k is provided in the results for 2010 related with-holding tax payable to the DZIT in 2011.

### • 15.2 The Saudi Arabian Monetary Agency (SAMA):

The total payment made by the Company to SAMA during the twelve month period was SR14,114k. This payment included payments for levies of SR13,034k (SR7,203k relating to levies for the 2010 year and SR5,831k to prior years' levies). The company paid SR1,080k to SAMA as a penalty for prior years' payments on an earned basis and included an element related to the delay in settlement arising from the same. All prior year payments were fully provided in the 2009 results. The results include a provision for the 2010 fourth quarter SAMA levy of SR1,544k (which was paid to SAMA in January 2011 in accordance with the SAMA regulations).

### • 15.3 The Council for Cooperative Health Insurance (CCHI):

The total payment made by the Company to the CCHI during the twelve month period was SR12,025k. This included payment of SR11,975k for the CCHI levies for the 2009 year and SR50k for CCHI license fees (for the period 19/05/1431 to 18/05/1432 H, 04/05/2010 to 22/04/2011 G). The results include a provision for the 2010 CCHI levies of SR17,494k and this will be settled in the first quarter of 2011 in accordance with the CCHI regulations.

### • 15.4 The General Organisation for Social Insurance (GOSI):

The total payment made by the Company to the GOSI during the twelve month period was SR4,136k and comprised the amounts required to be paid per the GOSI regulations for Saudi and expatriate labour utilised during the year. An amount of SR357k is provided in the results for the 2010 related GOSI amounts payable in 2011 (in accordance with the regulations of the GOSI).

### • 15.5 Tadawul:

The total payment made by the Company to Tadawul during the twelve month period, for service fees in support of its public reporting regulatory requirements and activities, was SR300k and no further amount was payable to Tadawul for the period ended 25/01/1432 H, 31/12/2010 G.

## 16. External auditors:

The joint external auditors of the Company, as approved per the Ordinary General Assembly meeting held on 08/04/1431 H, 24/03/2010 G, for the financial statements for the fiscal year ended 25/01/1432 H, 31/12/10 G were Ernst & Young and KPMG Al Fozan & Al Sadhan. This represented a change to the previous year's external auditors (Ernst & Young and Sindi & Batterjee) as the Company sought to enhance its audit review processes.

## 17. 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.

## 18. 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.

## 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 gratitude to the Company's management and employees for their dedication and strong leadership throughout this period.

A close-up photograph of a wooden door with intricate carvings and two ornate metal knockers. The door is made of light-colored wood, possibly oak, and features a central vertical panel flanked by two large, arched panels with complex geometric and floral carvings. Two ornate metal knockers, likely brass or bronze, are mounted on the central panel. The lighting is warm, highlighting the texture of the wood and the details of the carvings.

# FINANCIAL INFORMATION

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF BUPA ARABIA FOR CO-OPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit**

We have audited the accompanying statement of financial position of Bupa Arabia For Co-operative Insurance Company - A Saudi Joint Stock Company (the Company) as at 31 December 2010, and the related statements of insurance operations and accumulated surplus, shareholders' operations, comprehensive income, insurance operations cash flows, shareholders' cash flows and changes in shareholders' equity for the year then ended and the attached notes 1 through 23 which form integral part of the financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 133 of the Regulations for Companies and submitted to us together with all the information and explanations which we requested.

The comparative figures shown in these financial statements were audited by Ernst & Young and another auditor, whose audit report contained an unqualified opinion with an emphasis of matter paragraph similar to that set out below.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Unqualified opinion**

In our opinion, the financial statements taken as a whole:

- (i) present fairly, in all material respects, the financial position of the Company as at 31 December 2010 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- (ii) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

**Emphasis of a matter**

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

For Ernst & Young



Ahmed I. Badi  
Certified Public Accountant  
Registration No. 328

For KPMG-Al Fozan & Al Saffar



Fawzy Al-Mutasharraf Al-Saffar  
Certified Public Accountant  
Registration No. 329

12/ Radd Almad 1432 H  
12 February 2011





**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

At 31 December 2010

		2010	2009
	Note	SR'000	SR'000
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	4	346,908	444,162
Investments	5	257,178	-
Prepayments and other assets	6	20,881	28,823
Premiums receivable, net	7	55,972	64,732
Premiums written not invoiced	8	433,868	342,666
Deferred policy acquisition costs	9	15,470	14,764
<b>Total insurance operations' assets</b>		<b>1,130,277</b>	<b>895,147</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	4	13,631	308,789
Investments	5	299,462	-
Accrued income	6	-	613
Amount due from insurance operations		48,761	39,580
Goodwill	1 & 3	98,000	98,000
Furniture, fittings and equipment	10	38,703	21,025
Statutory deposit	11	40,000	40,000
<b>Total shareholders' assets</b>		<b>538,557</b>	<b>508,007</b>
<b>TOTAL ASSETS</b>		<b>1,668,834</b>	<b>1,403,154</b>

The accompanying notes 1 to 33 form an integral part of these financial statements.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION (continued)**

At 31 December 2010

	Note	2010 SR'000	2009 SR'000
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
Insurance operations' liabilities:			
Unearned premiums	14	659,819	522,517
Outstanding claims	15	352,379	275,259
Reinsurance balance payable	13	1,269	89
		1,013,467	797,865
Accruals and other liabilities	16	50,508	51,750
Obligation under long-term incentive plan (LTIP)	20	3,477	-
		1,067,452	849,615
Amount due to shareholders' operations		48,761	39,580
Policyholders' share of surplus from insurance operations		14,064	5,952
<b>Total insurance operations' liabilities and surplus</b>		<b>1,130,277</b>	<b>895,147</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Shareholders' liabilities</b>			
Accruals and other liabilities	16	13,855	11,336
Accrued zakat and income tax	18(c)	7,905	10,318
Amount due to a related party in respect of goodwill	3(b)	20,990	49,000
Amount due to related parties	17	2,818	-
<b>Total shareholders' liabilities</b>		<b>45,568</b>	<b>70,654</b>
<b>Shareholders' equity</b>			
Share capital	19	400,000	400,000
Shares held under long-term incentive plan	20	(2,709)	-
Statutory reserve	21	23,694	9,534
Retained earnings		72,004	27,819
<b>Total shareholders' equity</b>		<b>492,989</b>	<b>437,353</b>
<b>Total shareholders' liabilities and equity</b>		<b>538,557</b>	<b>508,007</b>
<b>TOTAL LIABILITIES, SURPLUS FROM INSURANCE OPERATIONS AND SHAREHOLDERS' EQUITY</b>		<b>1,668,834</b>	<b>1,403,154</b>

The accompanying notes 1 to 33 form an integral part of these financial statements.



**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**

For the year ended 31 December 2010

		2010	For the period from 1 May 2008 to 31 December 2009
	Note	SR'000	SR'000
<b>REVENUE</b>			
Gross written premiums	14	1,749,390	1,347,337
Premiums ceded	14	(3,180)	(89)
Net written premiums	14	1,746,210	1,347,248
Movement in net unearned premiums	14	(137,302)	(141,897)
Net earned premiums	14	1,608,908	1,205,351
<b>CLAIMS</b>			
Net claims incurred	15	1,308,103	973,422
<b>NET UNDERWRITING RESULT</b>		<b>300,805</b>	<b>231,929</b>
<b>INVESTMENT INCOME</b>		<b>3,820</b>	<b>2,660</b>
<b>OTHER INCOME</b>		<b>381</b>	<b>6</b>
<b>EXPENSES</b>			
Selling and marketing	22	(123,689)	(98,598)
General and administration	23	(100,199)	(76,475)
<b>SURPLUS FROM INSURANCE OPERATIONS</b>		<b>81,118</b>	<b>59,522</b>
Shareholders' share of surplus from insurance operations	2(b)	(73,006)	(53,570)
Policyholders' share of surplus from insurance operations		8,112	5,952
Policyholders' share of accumulated surplus at the beginning of the year/period		5,952	-
Policyholders' share of accumulated surplus at the end of the year/period		14,064	5,952

The accompanying notes 1 to 33 form an integral part of these financial statements.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' OPERATIONS**

For the year ended 31 December 2010

		2010	For the period from 1 May 2008 to 31 December 2009
	Note	SR'000	SR'000
<b>REVENUE</b>			
Shareholders' share of surplus from insurance operations	2(b)	73,006	53,570
<b>EXPENSES</b>			
General and administration	23	(6,275)	(3,985)
Pre-incorporation expenses written off	25	-	(8,983)
		66,731	40,602
Commission income		-	15,418
Investment income		4,067	-
<b>NET INCOME FOR THE YEAR/PERIOD</b>		<b>70,798</b>	<b>56,020</b>
Weighted average number of ordinary shares outstanding (in thousands)		39,942	40,000
<b>Basic earnings per share for the year/period - Saudi Riyals</b>	30	<b>1.77</b>	<b>1.40</b>

The accompanying notes 1 to 33 form an integral part of these financial statements.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2010

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
<b>NET INCOME FOR THE YEAR/PERIOD</b>	<b>70,798</b>	<b>56,020</b>
Other comprehensive income/(expense)	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD</b>	<b>70,798</b>	<b>56,020</b>

The accompanying notes 1 to 33 form an integral part of these financial statements.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

For the year ended 31 December 2010

	Note	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
<b>OPERATING ACTIVITIES</b>			
Policyholders' share of surplus from insurance operations		8,112	5,952
Adjustment for:			
Depreciation	10	11,606	6,798
Movement in net unearned premiums		137,302	141,897
Deferred policy acquisition costs		(706)	(1,062)
Unrealised gain on trading investments	5	(3,213)	-
		153,101	153,585
Changes in assets and liabilities:			
Prepaid expenses and other assets		7,942	(23,162)
Premiums receivable, net		8,760	(332)
Premiums written not invoiced		(91,202)	(95,503)
Outstanding claims		77,120	84,365
Reinsurance balance payable		1,180	89
Accruals and other liabilities		(1,242)	21,552
Amounts due to shareholders' operations		(2,425)	52,168
Obligation under long-term incentive plan		3,477	-
Net cash from operating activities		156,711	192,762
<b>INVESTING ACTIVITIES</b>			
Cash and cash equivalents acquired from the Seller	3	-	251,400
Purchase of investments	5	(253,965)	-
Net cash (used in )/from investing activities		(253,965)	251,400
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(97,254)</b>	<b>444,162</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD</b>		<b>444,162</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD</b>	4	<b>346,908</b>	<b>444,162</b>
<b>MAJOR NON-CASH TRANSACTIONS:</b>			
Assets acquired	3	-	332,400
Liabilities taken over	3	-	601,712

The accompanying notes 1 to 33 form part of these financial statements.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' CASH FLOWS**

For the year ended 31 December 2010

		2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
	Note		
<b>OPERATING ACTIVITIES</b>			
Net income for the year/period		70,798	56,020
Adjustment for:			
Unrealised gain on trading investments	5	(3,427)	-
		67,371	56,020
Changes in assets and liabilities:			
Accrued income		613	(613)
Amount due from insurance operations		2,425	(52,168)
Accruals and other liabilities		2,519	11,336
Amount due to a related party	17	2,818	1,474
Cash from operating activities		75,746	16,049
Zakat and income tax paid	18	(14,866)	-
Net cash from operating activities		60,880	16,049
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and equipment	10	(29,284)	(9,911)
Purchase of investments	5	(296,035)	-
Amount paid to a related party in respect of goodwill	3(b)	(28,010)	(49,000)
Purchase of employees' shares		(2,709)	-
Statutory deposit	11	-	(40,000)
Net cash used in investing activities		(356,038)	(98,911)
<b>FINANCING ACTIVITIES</b>			
Issue of share capital	19	-	400,000
Transaction costs	19	-	(8,349)
Net cash from financing activities		-	391,651
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(295,158)</b>	<b>308,789</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD</b>			
		308,789	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD</b>			
	4	13,631	308,789
<b>MAJOR NON-CASH TRANSACTIONS:</b>			
Assets acquired, net	3	-	17,912

The accompanying notes 1 to 33 form part of these financial statements.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended 31 December 2010

	Note	Share capital SR'000	Shares held under Long-Term Incentive Plan SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Balance at 31 December 2009		400,000	-	9,534	27,819	437,353
Net income for the year		-	-	-	70,798	70,798
Other comprehensive income		-	-	-	-	-
		-	-	-	70,798	70,798
Transfer to statutory reserve	21	-	-	14,160	(14,160)	-
Zakat for the year	18	-	-	-	(7,985)	(7,985)
Income tax for year	18	-	-	-	(4,468)	(4,468)
Shares held under long-term incentive plan by the custodian	20	-	(2,709)	-	-	(2,709)
<b>Balance at 31 December 2010</b>		<b>400,000</b>	<b>(2,709)</b>	<b>23,694</b>	<b>72,004</b>	<b>492,989</b>

	Note	Share capital SR'000	Shares held under Long-Term Incentive Plan SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Issue of share capital	19	400,000	-	-	-	400,000
Transaction costs	19	-	-	-	(8,349)	(8,349)
Net income for the period from 1 May 2008 to 31 December 2009		-	-	-	56,020	56,020
Other comprehensive income		-	-	-	-	-
		-	-	-	56,020	56,020
Transfer to statutory reserve	21	-	-	9,534	(9,534)	-
Zakat for the period	18	-	-	-	(5,838)	(5,838)
Income tax for the period	18	-	-	-	(4,480)	(4,480)
<b>Balance at 31 December 2009</b>		<b>400,000</b>	<b>-</b>	<b>9,534</b>	<b>27,819</b>	<b>437,353</b>

The accompanying notes 1 to 33 form part of these financial statements.

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT

At 31 December 2010

### 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Bupa Arabia For Cooperative Insurance Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 138/K dated 24 Rabi Thani 1429 H (corresponding to 1 May 2008). The Registered Office of the Company is situated at Al-Rawdah Street, Al-Khalediyah District, P.O. Box 23807, Jeddah 21436, Kingdom of Saudi Arabia.

The Company is licensed to conduct insurance business in Saudi Arabia under cooperative principles in accordance with Royal Decree No. M/74 dated 29 Shabaan 1428 H (corresponding to 11 September 2007) pursuant to the Council of Ministers' Resolution No 279 dated 28 Shabaan 1428 H (corresponding to 10 September 2007). The Company is 73.75% owned by Saudi founding shareholders and the general public and 26.25% owned by non-Saudi founding shareholders. The Company was listed on the Saudi Stock Exchange Tadawul on 17 May 2008.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia in accordance with its articles of association, and applicable regulations in Saudi Arabia. The Company underwrites medical insurance only.

On 31 December 2008, the Company entered into an agreement with Bupa Middle East Limited E.C. (the Seller) pursuant to which it acquired the Seller's insurance operations in the Kingdom of Saudi Arabia, effective from 1 January 2009, at a goodwill amount of SR 98 million, as approved by the Saudi Arabian Monetary Agency (SAMA), along with related insurance assets and liabilities of an equivalent amount (see note 3). 50% of the amount in respect of the goodwill was paid to the seller during 2009. In accordance with the instructions of SAMA, the remaining 50% was to be paid subsequent to 2009, out of the Company's profits for those years, after obtaining SAMA's approval. During 2010, the Company paid an additional payment of SR 28 million, after obtaining approval from SAMA (see note 3(b)).

As per the Company's by-laws and articles of association, the Company's first fiscal year commenced on 1 May 2008 (being the date of Ministerial Resolution declaring the incorporation of the Company) and ended on 31 December 2009. Accordingly the comparative information in the statements of Insurance Operations and accumulated surplus, Shareholders' Operations, comprehensive income, Insurance Operations' cash flows changes and Shareholders' cash flows, shareholders' equity and related notes thereon is for the period from 1 May 2008 to 31 December 2009.

### 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2a. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards.

#### 2b. BASIS OF PREPARATION

These financial statements are prepared under the historical cost convention except for the measurement of investment at fair value. The financial statements are expressed in Saudi Riyals, being the functional currency of the Company and have been rounded off to the nearest thousand.

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management.

As per the by-laws of the Company, the surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' operations	90%
Transfer to Policyholders' payable	<u>10%</u>
	<u>100%</u>

In accordance with Article 70 of the SAMA Implementing Regulations, the Company will distribute its annual net policyholders' surplus directly to policyholders at a time, and according to criteria, as set by its Board of Directors, provided the customer contract is active and paid up to date at the time of settlement of the cooperative distribution amount. The management of the Company is in process with SAMA on proposed cooperative distribution proposals which have, in principle, been approved by the Board.

#### 2c. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's financial statements for the period ended 31 December 2009, and are as follows:

##### Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short-term deposits that have original maturity periods not exceeding three months.

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

### Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investments classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are remeasured at fair value, with all changes in fair value being recorded in the statement of insurance operations and accumulated surplus or statement of shareholders' operations.

### Premiums receivable

Premiums receivable are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### Policy acquisition costs

Commission paid to internal sales staff and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised as an intangible asset. The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned.

### Goodwill

Goodwill is initially measured at cost being the excess of the net fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

### Furniture, fittings and equipment

Furniture, fittings and equipment are initially recorded in the statement of financial position at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Furniture, fittings and office equipment	3 to 5 years
Computer applications	4 to 6.67 years

Residual values, useful lives and the method of the depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the period is recognised in the statement of insurance operations and accumulated surplus on an actual basis. Similarly, impairment losses, if any, are recognised in the statement of insurance operations and accumulated surplus.

Expenditure for repair and maintenance is charged to the statement of insurance operations and accumulated surplus. Improvements that increase the value or materially extend the life of the related assets are capitalised.

### Liability adequacy test

At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and accumulated surplus and an unexpired risk provision created.

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

### Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

### Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) as a result of a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

### Employees' end of service benefits

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employee's length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the statement of financial position date. The charge for the period is transferred to the statement of insurance operations and accumulated surplus on an actual basis.

### Obligation under the Long-Term Incentive Plan

The Company accounts for a Long-Term Incentive Plan ("LTIP"), under International Accounting Standard (IAS) - 19 - Employee Benefits, as the final benefit at the vesting date may or may not be in the form of Company shares, or equivalent market value, depending on the annual election made by the employees who are members of the LTIP (see note 20).



# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

Annually the obligation under the LTIP is reassessed, to account for the maximum obligation of the Company based on the annual election made by the employees on the LTIP, up to the reporting date. The LTIP balance is presented in the statement of financial position. Should, in the last annual election, some, or all, of the employees on the LTIP have not opted for the purchase of shares, then the liability reserve under the LTIP is based on a fixed percentage of the relevant employees' salaries and commission thereon and is accrued uniformly over the vesting period.

Should, in the last annual election, some, or all, of the employees on the LTIP have opted for the purchase of shares, such shares are purchased by a custodian, on the instruction of the Company, and the liability at the reporting date is calculated based on fair value of those shares at the reporting date, to the extent that the vesting period has been completed by the employees on the LTIP.

### Shares held under long-term incentive plan by a custodian

Certain of the Company's own shares are held by a custodian under the terms of the employees' long-term incentive plan ('LTIP'). Such shares may or may not vest to the employees at the vesting date (see note 20). The value of the shares held by the custodian are accounted for at cost and are deducted from the equity of the Company. Any consideration paid or received, on the purchase, sale, or issue of the Company's own equity instruments is recognized directly in equity. No gain or loss is recognized in the statement of shareholders' operations on the purchase, sale or issue of own equity instruments.

### Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. Zakat is debited to the Saudi founding shareholders and general public equity accounts while Income tax is debited to the non-Saudi founding shareholders' equity account.

As all Zakat and tax charges will be recovered from the shareholders, no adjustments are made in the financial statements to account for the effects of deferred income taxes.

### Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations. Impairment is determined as follows:

- (a) for assets carried at fair value, impairment is the difference between cost and fair value;
- (b) for assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) for assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

### Dividend income

Dividend income is recognised when the right to receive payment is established.

### Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

### Premiums earned

The Company only issues short-term insurance contracts for providing health care services ('medical insurance') in Saudi Arabia. Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the statement of insurance operations and accumulated surplus in order that revenue is recognised over the period of risk.

### Reinsurance premiums

Reinsurance premiums ceded are recognized as an expense when payable.

Reinsurance premiums are charged to income over the terms of the policies to which they relate on a pro-rata basis.

### Commission income

Commission income on short-term deposits is recognised using the effective yield method.

### Claims

Claims, comprising amounts payable to contract holders and third parties, net of volume rebates and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company scientifically estimates its claims based on previous experience. In addition a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

### Reinsurance contracts held

In order to minimise financial exposure from large claims the Company enters into excess-of-loss (XOL) reinsurance agreements with internationally reputable reinsurers. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts, if any, are shown as "Reinsurers' share of outstanding claims" in the statement of financial position until the claim is agreed and paid by the Company. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to amounts due from/(to) reinsurers.

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

### Expenses

Selling and marketing expenses are those which specifically relate to salesmen, sales promotion and advertisement as well as any allowance for doubtful debts and regulatory levies. All other expenses are classified as general and administration.

### Transaction costs

Transaction costs are incremental costs that are directly attributable to the issue of share capital. The transaction costs of an equity transaction are accounted for as a deduction from equity.

### Segmental reporting

A segment is a distinguishable component of the Company portfolio that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments.

### Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of insurance operations and accumulated surplus on a straight-line basis over the lease term.

### Foreign currencies

The accounting records of the Company are maintained in Saudi Riyals. Transactions in foreign currencies are recorded in Saudi Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to either the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.

### Fair values of financial instruments

Financial instruments include cash and cash equivalents, receivables, investments, outstanding claims, payables and certain other assets and liabilities.

The fair value of commission-bearing items is estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics. Except for the fair value of investments which are based on quoted market price for marketable securities, the fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

### Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of insurance operations and accumulated surplus or in the statement of shareholders' operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

## 2d SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### Provision for outstanding claims

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its previous experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by an independent actuary.

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

### *Allowance for doubtful receivables*

Specific allowances are made for those customers whose policies have lapsed or have been suspended by the Company. In addition to these specific provisions, the Company also makes an additional portfolio provision, estimated on a group basis, based on the ageing profile of the overdue premium receivables. Such estimates involve various degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

### 2e PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

#### IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011; early adoption is allowed. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance.

#### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 "classification and measurement of financial assets" has been published in its final form and is mandatory for compliance for the accounting year beginning 1 January 2013; early adoption is allowed. It replaces part of IAS 39 Financial Instruments: Recognition and Measurement. It substitutes the current IAS 39 classification of financial assets (Trading, FVIF, Available for sale, Held to maturity and Held at amortized cost) into two main classifications (Held at amortized cost and Held at fair value either through statement of income or through statement of comprehensive income).

### 3. TRANSFER OF PORTFOLIO

- a) As stated in note 1, the value of assets and liabilities acquired from the Seller, as at 1 January 2009, as per the valuation approved by SAMA, were as follows:

	SR'000
<b>ASSETS</b>	
Short-term deposits	242,771
Bank balances and cash	8,629
Cash and cash equivalents	251,400
Prepayments and other assets	5,661
Premiums receivable, net	64,400
(Premiums written not invoiced, net (see note 8	247,163
(Deferred policy acquisition costs (see note 9	13,702
Amounts due from a related party	1,474
(Furniture, fittings and equipment, net (see note 10	17,912
<b>Total assets transferred</b>	<b>601,712</b>
<b>LIABILITIES</b>	
(Unearned premiums (see note 14	380,620
(Outstanding claims (see note 15	190,894
Accruals and other liabilities	30,198
<b>Total liabilities transferred</b>	<b>601,712</b>
<b>NET ASSET TRANSFERRED</b>	<b>-</b>

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

b) Amount payable to the Seller (related party) in respect of goodwill:

	31 December 2010 SR'000	Period from 1 May 2008 to 31 December 2009 SR'000
Balance at the beginning of the year/period	49,000	-
Value of goodwill	-	98,000
Paid during the year/period	(28,010)	(49,000)
Balance at the end of the year/period	20,990	49,000

**4. CASH AND CASH EQUIVALENTS**

	2010 SR'000	2009 SR'000
<b>Insurance Operations</b>		
Cash in bank (see note (a) below)	121,763	190,662
Short-term deposits (see note (b) below)	225,145	253,500
	346,908	444,162
<b>Shareholders' Operations</b>		
Cash in bank	13,631	13,615
Short-term deposits (see note (b) below)	-	295,174
	13,631	308,789

a) At 31 December 2010, bank balances, relating to insurance operations, amounting to SR 8.6 million (2009: SR 190.4 million) are held in the name of a related party of the Company, on behalf of the Company.

b) The short-term deposits are held with commercial banks. These bank deposits are denominated in Saudi Riyals and have an original maturity not exceeding three months.

**5. INVESTMENTS**

The carrying amount of the investments, classified as FVIS, at 31 December 2010 was as follows:

	2010 SR'000	2009 SR'000
<b>Units in an open ended mutual fund</b>		
Insurance operations	257,178	-
Shareholders' operations	299,462	-
	556,640	

The above investments represent units of an open ended mutual fund, denominated in Saudi Riyals.

The movement in the investments during the year ended 31 December 2010 was as follows:

	2010 SR'000	Period from 1 May 2008 to 31 December 2009 SR'000
<b>Insurance operations</b>		
Purchased during the year/period	253,965	-
Unrealised gain during the year/period	3,213	-
Balance at the end of the year/period	257,178	-

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

**Shareholders' operations**

	2010 SR'000	Period from 1 May 2008 to 31 December 2009 SR'000
Purchased during the year/period	296,035	-
Unrealised gain during the year/period	3,427	-
Balance at end of the year/period	299,462	-

**6. PREPAYMENTS AND OTHER ASSETS**

	2010 SR'000	2009 SR'000
<b>Insurance Operations</b>		
Prepayments	18,800	27,802
Accrued income	445	311
Other receivables	1,636	710
	20,881	28,823
<b>Shareholders' Operations</b>		
Accrued income	-	613
	-	613

**7. PREMIUMS RECEIVABLE, NET**

	2010 SR'000	2009 SR'000
<b>Insurance Operations</b>		
Balance as at 31 December	86,136	84,531
Allowance for impairment (see note below)	(30,164)	(19,799)
	55,972	64,732

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

Movements in the allowance for impairment of premiums receivable were as follows:

	2010 SR'000	Period from 1 May 2008 to 31 December 2009 SR'000
Balance at the beginning of the year/period	19,799	-
Balance acquired from the seller	-	13,046
Transferred from PWNl provision account (see note 8)	-	7,754
Additional allowance during the year/period (note 22)	10,365	-
Provision no longer required	-	(1,001)
Balance at end of the year/period	30,164	19,799

The age analysis of unimpaired premiums receivable arising from insurance contracts was as follows:

	Neither past due nor im- paired SR'000	Up to three months SR'000	Past due but not impaired			Total SR'000
			Above three and up to six months SR'000	Above six and less than twelve months SR'000	Above twelve months SR'000	
31 December 2010	25,550	24,640	5,782	-	-	55,972
31 December 2009	36,382	16,926	11,424	-	-	64,732

All invoices are issued a month in advance of payment due date and the period of past due is calculated from the invoice payment due date. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

**8. PREMIUMS WRITTEN NOT INVOICED**

Premiums written not invoiced (PWNl), which are not yet contractually due, represent the difference between the premiums written and the premium amounts invoiced. The movement in this account during the period was as follows:

	2010 SR'000	Period from 1 May 2008 to 31 December 2009 SR'000
Balance at the beginning of the year/period	342,666	-
(Balance acquired from the seller (note 3	-	247,163
(Gross premiums written (note 14	1,749,390	1,347,337
Invoices raised during the year/period	(1,658,188)	(1,251,834)
Balance at end of the year/period	433,868	342,666

In respect of premiums written not invoiced, 4 major customers accounted for 10.3% (2009: 13.5%) of this balance as at 31 December 2010.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

Movements in the allowance for impairment of PWNl were as follows:

	2010 SR'000	Period from 1 May 2008 to 31 December 2009 SR'000
(Balance acquired from the seller (note 3	-	7,754
Provision no longer required transferred to Premiums receivable allowance account (see note 7)	-	(7,754)
<b>Balance at end of the year/period</b>	<b>-</b>	<b>-</b>

**9. DEFERRED POLICY ACQUISITION COSTS**

	2010 SR'000	Period from 1 May 2008 to 31 December 2009 SR'000
Balance at the beginning of the year/period	14,764	-
(Balance acquired from the Seller (see note 3	-	13,702
Expenses deferred	15,470	14,764
Amortisation for the year/period	(14,764)	(13,702)
<b>Balance at end of the year/period</b>	<b>15,470</b>	<b>14,764</b>

**10. FURNITURE, FITTINGS AND EQUIPMENT**

	Furniture, fittings and office equipment SR'000	Computer applications SR'000	Total SR'000
<b>Shareholders' Operations</b>			
<b>Cost:</b>			
Acquired from the Seller (note 3)	10,255	33,841	44,096
Additions during the period from 1 May 2008 to 31 December 2009	2,538	7,373	9,911
At 31 December 2009	12,793	41,214	54,007
Additions during the year	26,219	3,065	29,284
<b>At 31 December 2010</b>	<b>39,012</b>	<b>44,279</b>	<b>83,291</b>
<b>Accumulated depreciation:</b>			
Acquired from the Seller (note 3)	3,744	22,440	26,184
Charge for the period from 1 May 2008 to 31 December 2009	1,888	4,910	6,798
At 31 December 2009	5,632	27,350	32,982
Charge for the year	7,772	3,834	11,606
<b>At 31 December 2010</b>	<b>13,404</b>	<b>31,184</b>	<b>44,588</b>
<b>Carrying amount:</b>			
<b>At 31 December 2010</b>	<b>25,608</b>	<b>13,095</b>	<b>38,703</b>
At 31 December 2009	7,161	13,864	21,025

As the furniture, fittings and equipment are used for the benefit of insurance operations, the depreciation is charged to the statement of insurance operations and accumulated surplus.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

**11. STATUTORY DEPOSIT**

	2010 SR'000	2009 SR'000
<b>Shareholders' Operations</b>		
Statutory deposit	40,000	40,000

As required by Saudi Arabian Insurance Regulations, the Company deposited an amount equivalent to 10% of its paid up share capital, amounting to SR 40 million in a bank designated by the Saudi Arabian Monetary Agency ("SAMA").

**12. TRANSACTIONS WITH RELATED PARTIES**

The following are the details of major related party transactions and the related balances at the end of the year/period:

Related party	Nature of transaction	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
<b>Insurance Operations</b>			
Related parties	Premiums written	27,829	10,495
	Claims paid	10,309	8,762
	Trade mark fee payable (note 17)	2,818	-
	Medical cost payments to a provider (see note (a) below)	65,461	27,804
<b>Shareholders' Operations</b>			
Bupa Middle East Limited E.C. (Related party)	Assets acquired (note 3)	-	601,712
	Liabilities taken over (note 3)	-	601,712
	Goodwill acquired (note 3)	-	98,000
	Payment in respect of goodwill (note 3)	28,010	49,000
	Payments made on behalf of the related party and recharged to the related party	-	1,615
	Transaction costs paid on behalf of the Company (IPO) and recharged to the Company (note 19 and see below)	-	8,349
	General and administrative expenses paid on behalf of the Company and recharged to the Company	-	1,474
ASAS Health Care Company Lim- ited (Related party)	Payments made on behalf of the Company and recharged to the Company	513	1,831

(a) The related party is a hospital provider where any of the Bupa Arabia's entitled customers, and their qualified members, can use the facilities of the related party. The Company makes payments for all medical costs of all its contracts, to this provider related party, in accordance with the contractual terms of agreement with the provider related party, and which contract is on an arms' length basis.



# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

(b) Information relating to short-term and long term benefits paid/payable to key management personnel is provided in note 24.

Amount due to the related parties is disclosed in the statement of financial position. As at 31 December 2010, premiums receivable, net include premiums receivable from related parties amounting to SR 2.6 million (2009: 1.8 million).

As at 31 December 2010, the estimated payable to related parties amounted to SR 11.6 million ( 2009: SR 6.7 million). The amount payable to related parties and amount due to a related party in respect of goodwill are disclosed in the statement of financial position.

In the Constituent General Assembly Meeting held on 15 April 2008, the shareholders approved reimbursement of transaction costs and pre-incorporation costs, amounting to SR 17.3 million, to a related party, Bupa Middle East Limited E.C.

Zakat and income tax recoverable from the shareholders, amounting to SR 8.0 million (2009: SR 5.8 million) and SR 4.5 million (2009: SR 4.5 million) respectively, are disclosed in note 18.

During 2009, the Company entered into a service contract for office interior design and project management, for the Company's future premises, with a company owned by one of the Directors of the Company. The total contracted amount was SR 2.2 million and was awarded after a transparent supplier evaluation process and the approval of the Board. The contract was completed in 2010 with the move to the new premises.

### 13. REINSURANCE BALANCE PAYABLE

Reinsurance payable represents amount payable to three reinsurers (2009: three), based in Germany and France for excess of loss (XOL) reinsurance contract (see note 15).

### 14. NET EARNED PREMIUMS

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
<b>Insurance Operations</b>		
Gross written premiums (note 3)	1,749,390	1,347,337
Reinsurance premiums ceded (XOL)	(3,180)	(89)
	1,746,210	1,347,248
Unearned premiums acquired from the Seller (note 8)	-	380,620
Unearned premiums at the beginning of the year/period	522,517	-
	2,268,727	1,727,868
Unearned premiums at the end of the year/period	(659,819)	(522,517)
Net earned premiums for the year/period	1,608,908	1,205,351

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

**15. NET CLAIMS INCURRED**

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
<b>Insurance Operations</b>		
Gross claims paid	1,232,218	889,057
Less: reinsurance recoveries	(1,235)	-
Outstanding claims at the end of the year/period	352,379	275,259
	1,583,362	1,164,316
Outstanding claims acquired from the Seller (note 3)	-	(190,894)
Outstanding claims at the beginning of the year/period	(275,259)	-
Net claims incurred for the year/period	1,308,103	973,422

With effect from 15 December 2009, the Company entered into an excess of loss (XOL) reinsurance contract with its reinsurers. As at the date of statement of financial position, apart from the claims reported above, all the outstanding claims which are covered by XOL reinsurance, were lower than the XOL limits.

**16. ACCRUALS AND OTHER LIABILITIES**

	2010 SR'000	2009 SR'000
<b>Insurance Operations</b>		
Accrued expenses	45,822	29,806
Other liabilities	4,686	21,944
	50,508	51,750
<b>Shareholders' Operations</b>		
Accrued expenses	509	43
End of service benefits (see note below)	13,346	11,293
	13,855	11,336

Movement in end of service benefits provision during the year/period was as follows:

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Balance at the beginning of the year/period	11,293	-
Balance transferred from the Seller	-	8,360
Charged during the year/period	3,376	3,369
Paid during the year/period	(1,323)	(436)
Balance at the end of the year/period	13,346	11,293

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

As the services of the employees are with respect to the insurance operations, the charge for the period is charged to the statement of insurance operations and accumulated surplus.

### 17. TRADE MARK FEE

During 2010, the Company has entered into an agreement with a related party 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 Company is required to pay a lump sum of SR 1.2 million and an amount equal to a fixed percentage of gross earned premium thereafter, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee. Accordingly, a sum of SR 2.8 million (see note 22), including the lump sum amount referred above, payable to a related party has been provided for in these financial statements.

### 18. ZAKAT AND INCOME TAX

#### a) Zakat

The Zakat payable by the Company has been calculated in accordance with Zakat regulations in Saudi Arabia.

#### Charge for the year/period

The zakat charge relating to Saudi partners consists of:

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Provision for the year/period	7,317	5,848
Adjustment for the previous period	668	-
Charge for the year/period	7,985	5,838

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

The Zakat provision for the year/period is based on the following:

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Equity	437,353	400,000
Opening allowances and other adjustments	51,997	
Book value of long-term assets	(171,927)	(169,086)
	317,423	230,914
Adjusted income for the year/period (see note below)	79,456	88,824
Zakat base	396,879	319,738
Attributable to Saudi founding shareholders and the general public @ 73.75%	292,698	235,806

The differences between the financial and the Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

The movement in the Zakat provision for the year/period is as follows:

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Balance at the beginning of the year/period	5,838	-
Charge for the year/period	7,985	5,838
Payment made during the year/period	(6,506)	-
Balance at the end of the year/period	7,317	5,838

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

**b) Income tax**

**Charge for the year**

The income tax charge relating to the non-Saudi partners consists of:

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Provision for the year/period	4,171	4,480
Adjustment for the previous period	297	-
<b>Charge for the year/period</b>	<b>4,468</b>	<b>4,480</b>

The movement in the tax provision for the year/period was as follows:

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Balance at the beginning of the year/period	4,480	-
Charge for the year/period	4,468	4,480
Payment made during the year/period - relating to the previous period	(4,777)	-
Payment made during the year/period - relating to the current year	(3,583)	-
<b>Balance at the end of the year/period</b>	<b>588</b>	<b>4,480</b>

**c) Zakat and income tax payable**

	2010 SR'000	2009 SR'000
Zakat payable	7,317	5,838
Income tax payable	588	4,480
	<b>7,905</b>	<b>10,318</b>

**d) Status of assessments**

As required by Saudi Arabian fiscal regulations, Zakat and income tax returns have been filed with the Department of Zakat and Income Tax ("DZIT") for the period from 1 May 2008 to 31 December 2008 and for the year ended 31 December 2009. However, Zakat and income tax assessments for the period from 1 May 2008 to 31 December 2008 and year ended 31 December 2009 have not yet been raised by the DZIT.

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

### 19. SHARE CAPITAL

- a) The share capital of the Company is SR 400 million divided into forty million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for twenty four million shares with a nominal value of SR 10 each, which represents 60% of the shares of the Company and the remaining sixteen million shares with a nominal value of SR 10 each, which represents 40% of the shares of the Company, have been subscribed by the public.
- b) The Company incurred a sum of SR 8.3 million as transaction costs to raise capital of SR 160 million through an Initial Public Offering (IPO) and this amount has been charged directly to equity in the previous period (see also note 12).

### 20. SHARES HELD UNDER LONG-TERM INCENTIVE PLAN

During 2010, the Company introduced a Long-Term Incentive Plan (LTIP), for its senior executives, which is designed to reward them for their role in the achievement of the Company's long-term objectives and three year plan targets. The vesting conditions include minimum service period, annual performance ratings up to a certain specified level, and achievements of the specified profit targets of the Company for the minimum service period.

Under the terms of the LTIP, a reserve, representing a fixed percentage of entitled employees' salaries and accumulated commission thereon, is required to be maintained by the Company annually, over the three year period.

The employees in the LTIP have an annual option to request the Company to request the custodian to purchase the Company's own shares from the accumulated balance in the reserve. The purchase of such shares is funded by the Company by realized the accumulated balance in the reserve, and the shares are purchased by the custodian appointed by the Company for this purpose. After the date of purchase, the employees under the LTIP carry the market price risk associated with those shares, and their entitlement under the plan would not be higher than the fair market value of those shares if the employees opt to continue to keep the shares until the vesting date.

In the subsequent years of the LTIP, the relevant employees can again opt (annually) to convert these shares back into cash at the fair market value of those shares at that date. The cash thus realized will be credited to the employees' LTIP reserve, which will then be built up with a fixed percentage of the employees' salaries and commission thereon as per the terms of the LTIP for the remaining vesting period. Such reserve can again be converted into shares depending upon whether the employees still have an annual option remaining with them before the vesting date.

Depending on the election made by the employees, they are entitled to get any one of the following benefits at the end of the vesting period:

- cash amount equivalent to amount accumulated in the reserve based on fixed percentage of salaries and accumulated commission thereon, or
- a specified number of shares, purchased by the custodian and held, per the employees' instructions, until the vesting date, or
- cash amount equivalent to the fair market value (as at the vesting date) of the shares held by the custodian, on behalf of the Company for the employees, as per the employees' instructions up to the vesting date.

As at 31 December 2010, the number of shares purchased under the LTIP, per the election of the entitled employees, amounted to 140,017 shares (purchase value SR 2.7 million), and a liability based on the fair market value of these shares, as at 31 December 2010, has been recorded by the Company, to the extent the vesting period has been completed by the LTIP members, as of 31 December 2010.

In addition, an amount of SR 0.8 million has been accrued by the Company representing the fixed percentage of entitled employees' salaries and commission thereon, for which the entitled employees have not yet made the election to purchase the Company's shares.

During the year, an amount of SR 3.5 million has been charged to the statement of insurance operations under the above plan.

### 21. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, twenty percent of the shareholders' income shall be set aside as a statutory reserve until this reserve amounts to one hundred percent of the paid up share capital. During the year, the Company has transferred SR 14.2 million, being 20% of the Shareholders' income to statutory reserve. During the period ended 31 December 2009, an amount of SR 9.5 million being 20% of the shareholders' income, net of transactions costs directly charged to the retained earnings, was transferred to statutory reserve.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

**22. SELLING AND MARKETING EXPENSES**

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
<b>Insurance Operations</b>		
Employee costs	31,691	26,285
Marketing expenses	7,852	8,482
Fulfilment costs	5,178	6,672
Commission expenses	34,039	30,531
Statutory levies	25,991	23,600
Trade mark fees (see note 17)	2,818	-
Allowance for impairment of receivables (note 7)	10,365	-
Other	5,755	3,028
	<b>123,689</b>	<b>98,598</b>

**23. GENERAL AND ADMINISTRATION EXPENSES**

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
<b>Insurance Operations</b>		
Employee costs	66,952	52,382
Repair and maintenance costs	8,563	4,084
Travelling expenses	1,571	2,563
Depreciation	11,606	6,798
Communication expenses	3,584	4,852
Other operating costs	7,923	5,796
	<b>100,199</b>	<b>76,475</b>
<b>Shareholders' Operations</b>		
Statutory expenses	287	645
Legal and professional fees	4,604	1,893
Board expenses (see note 26)	1,081	1,365
Other	303	82
	<b>6,275</b>	<b>3,985</b>

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

**24. COMPENSATION TO KEY MANAGEMENT PERSONNEL**

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Short-term benefits	7,661	9,500
Long-term benefits	2,210	430
	9,871	9,930

Short-term benefits include salaries, allowances, commissions, annual bonuses and incentives whilst long-term benefits include employees' end of service benefits and long-term incentive plan.

**25. PRE-INCORPORATION EXPENSES WRITTEN OFF**

	For the period from 1 May 2008 to 31 December 2009 SR'000
Legal and professional fees	7,345
Statutory expenses	1,304
Advertisement expenses	276
Other	58
	8,983

Pre-incorporation expenses represented costs incurred by a related party, Bupa Middle East Limited E.C., on behalf of the Company, and subsequently recharged to the Company, for the period up to 1 May 2008, being the date of the issuance of the Ministerial Resolution declaring the incorporation of the Company.

**26. BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES**

	2010 SR'000	For the period from 1 May 2008 to 31 December 2009 SR'000
Board of directors' remuneration	893	1,200
Board attendance fees	75	69
Other sub-committees expenses	113	96
	1,081	1,365



# **BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)**

## **NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

- a) Board of Directors' remuneration represents remuneration for board members for attending board meetings and sub-committee meetings.
- b) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.
- c) Other sub-committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

### **27. SEGMENT INFORMATION**

The Company only issues short-term insurance contracts for providing health care services ('medical insurance'). All the insurance operations of the Company are carried out in the Kingdom of Saudi Arabia. For management purposes, the operations are monitored in two customer categories, based on the number of members covered. Major customers represent large corporate, and all other are considered as non-major.

Segment results do not include other income, selling and marketing expenses and general and administration expenses.

Segment assets do not include cash and cash equivalents and prepayments and other assets.

Segment liabilities do not include accruals and other liabilities, amount due to shareholders' operations and policyholders' share of surplus from insurance operations.

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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

Consistent with the Company's internal reporting process, operating segments have been approved by the management in respect of the Company's activities, assets and liabilities as stated below:

	For the year ended 31 December 2010		
	Major SR'000	Non-major SR'000	Total SR'000
Gross written premiums	934,666	814,724	1,749,390
Premiums ceded	(1,699)	(1,481)	(3,180)
Net written premiums	932,967	813,243	1,746,210
Movement in net unearned premiums	(66,952)	(70,350)	(137,302)
Net earned premiums	866,015	742,893	1,608,908
Net claims incurred	(752,391)	(555,712)	(1,308,103)
Unallocated income	-	-	4,201
Unallocated expenses	-	-	(223,888)
<b>Surplus from insurance operations</b>			<b>81,118</b>

	As at 31 December 2010		
	Major SR'000	Non-major SR'000	Total SR'000
<b>Insurance operations' assets</b>			
Premiums receivable, net	38,687	17,285	55,972
Premiums written not invoiced, net	218,550	215,318	433,868
Deferred policy acquisition costs	7,008	8,462	15,470
Unallocated assets	-	-	624,967
<b>Total</b>			<b>1,130,277</b>

**Insurance operations' liabilities and surplus**

Unearned premiums	298,884	360,935	659,819
Outstanding claims	202,680	149,699	352,379
Unallocated liabilities and surplus	-	-	118,079
<b>Total</b>			<b>1,130,277</b>

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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

	For the period from 1 May 2008 to 31 December 2009		
	Major	Non-major	Total
	SR'000	SR'000	SR'000
Gross written premiums	659,622	687,715	1,347,337
Premiums ceded	(44)	(45)	(89)
Net written premiums	659,578	687,670	1,347,248
Movement in net unearned premiums	(38,397)	(103,500)	(141,897)
Net earned premiums	621,181	584,170	1,205,351
Net claims incurred	(544,813)	(428,609)	(973,422)
Unallocated income	-	-	2,666
Unallocated expenses	-	-	(175,073)
<b>Surplus from insurance operations</b>			<b>59,522</b>

	As at 31 December 2009		
	Major	Non-major	Total
	SR'000	SR'000	SR'000
<b>Insurance operations' assets</b>			
Premiums receivable, net	41,093	23,639	64,732
Premiums written not invoiced	161,992	180,674	342,666
Deferred policy acquisition costs	6,553	8,211	14,764
Unallocated assets	-	-	472,985
<b>Total</b>			<b>895,147</b>
<b>Insurance operations' liabilities and surplus</b>			
Unearned premiums	231,932	290,585	522,517
Outstanding claims	154,055	121,204	275,259
Reinsurance balance payable	46	43	89
Unallocated liabilities and surplus	-	-	97,282
<b>Total</b>			<b>895,147</b>

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

### 28. COMMITMENTS AND CONTINGENCIES

#### a) Operating lease commitments:

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2010 SR'000	2009 SR'000
Within one year	4,388	4,408
After one year but no more than five years	23,838	23,400
More than five years	27,349	33,617
	55,575	61,425

#### b) There were no capital commitments outstanding as at 31 December 2010 (31 December 2009: SR 16.6 million).

#### c) A bank of the Company's related party has given performance guarantees, limited to SR 0.17 million (2009: SR 2.8 million), in respect of insurance premiums written by the Company, and a payment guarantee, limited to SR 0.3 million (2009: SR 0.3 million), on behalf of the Company. In addition, the bank of the related party had also given another guarantee to regulatory authorities, limited to SR 25 million, as at 31 December 2009, which was cancelled during the year. The Company has pledged short term deposits, amounting to SR 0.49 million (2009: SR 30 million), to the bank for obtaining such guarantees.

### 29. RISK MANAGEMENT

The risks faced by the Company and the way these risks are mitigated by management are summarised below.

#### Insurance risk

Insurance risk is the risk that actual claims payable to policyholders in respect of past insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected. The Company only issues short-term contracts in connection with medical risks.

#### *Geographical concentration of risks*

The Company's insurance risk exposure relating to contract holders is concentrated in Saudi Arabia.

#### *Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Company only underwrites medical risks. Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers and a large population is covered under the policy. Claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

#### Reinsurance risk

With effect from 15 December 2009, in common with other insurance companies, in order to minimise financial exposure arising from large claims, the Company, in the normal course of business, has entered into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. All of the reinsurance is effected under an excess-of-loss (XOL) reinsurance contract. For any claim above SR 200 thousand and contingent on the policyholders' plan limit, the reinsurance covers losses per claim between SR 200 thousand and SR 500 thousand. In compliance with SAMA guidelines on reinsurance, all reinsurance companies are minimally rated A by international rating agencies.

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

### Regulatory framework risk

The operations of the Company are also subject to regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise.

### Capital management (solvency) risk

Capital requirements are set and regulated by the Saudi Arabian Monetary Agency. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing the risk of shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust any possible amount of dividends paid to shareholders or raise new capital through the Saudi stock market.

The table below summarizes the minimum regulatory capital of the Company:

	2010 SR'000	2009 SR'000
Minimum regulatory capital (Written premium based solvency margin method)	279,394	215,560

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year/period.

### Financial risk

The Company's principal financial instruments are receivables arising from insurance contracts, due from related parties, statutory deposit, investments, cash and cash equivalents, outstanding claims and certain other assets and liabilities.

The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are market price risk, commission rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

### Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Insurance Operations and Shareholders' Operations are exposed to market risk with respect to their investments in units of open-ended mutual funds, classified as FVIS.

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the Insurance Operations and Shareholders' Operations by SR 12.9 million (2009: nil) and SR 15.0 million (2009: nil) respectively.

### Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its deposits.

The Company places deposits which are realisable within three months, with the exception of restricted deposits which are required to be maintained in accordance with regulations in Saudi Arabia. Management limits commission rate risk by monitoring changes in commission rates in the currencies in which its deposits are denominated.

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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

Details of maturities of the major classes of commission bearing securities as at 31 December are as follows:

Insurance Operations	2010 SR '000			Total
	Less than 3 months	3 months to 1 year	No fixed maturity	
Short-term deposits	225,145	-	-	225,145

Insurance Operations	2009 SR '000			Total
	Less than 3 months	3 months to 1 year	No fixed maturity	
Short-term deposits	253,500	-	-	253,500

Shareholders' Operations	2010 SR '000			Total
	Less than 3 months	3 months to 1 year	No fixed maturity	
Statutory deposit	-	-	40,000	40,000

Shareholders' Operations	2009 SR '000			Total
	Less than 3 months	3 months to 1 year	No fixed maturity	
Short-term deposits	295,174	-	-	295,174
Statutory deposit	-	-	40,000	40,000
	295,174	-	40,000	335,174

The maturities of deposits have been determined on the basis of the remaining period, at the statement of financial position date, to the contractual maturity date.

The effective commission rates for the commission bearing financial instruments, at 31 December, were as follows:

	2010	2009
<b>Insurance operations</b>		
Saudi Riyal denominated deposits	1.14%	0.88%
<b>Shareholders' operations</b>		
Saudi Riyal denominated deposits	-	1.10%

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

The following table demonstrates the sensitivity of statement of insurance operations and accumulated surplus and statement of shareholders' operations to reasonably possible changes in commission rates, with all other variables held constant.

	2010 SR'000 Effect on profit	2009 SR'000 Effect on profit
<b>Insurance operations</b>		
Saudi Riyals:		
Increase in commission rates by 100 basis points	2,251	2,535
Decrease in commission rates by 100 basis points	(2,251)	(2,535)
<b>Shareholders' operations</b>		
Saudi Riyals:		
Increase in commission rates by 100 basis points	-	2,952
Decrease in commission rates by 100 basis points	-	(2,952)

### Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations, as the Company primarily deals in Saudi Riyals.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position. The Company's credit risk exposure relating to customers and deposits is concentrated in Saudi Arabia.

The Company seeks to limit its credit risk with respect to customers by following the Company credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premium receivables. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks. The Company enters into reinsurance contracts with recognised, creditworthy third parties (rated A or above).



# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENT (continued)

At 31 December 2010

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	2010 SR'000	2009 SR' 000
<b>Insurance' Operations</b>		
Cash and cash equivalents	346,908	444,162
Investments	257,178	-
Premiums receivable	55,972	64,732
	660,058	508,894
<b>Shareholders' Operations</b>		
Cash and cash equivalents	13,631	308,789
Investments	299,462	-
Accrued income	-	613
Amount due from insurance operations	48,761	39,580
	361,854	348,982

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The Company's financial liabilities consist of outstanding claims, amount due to related parties, reinsurance balance payable and certain other liabilities. All financial liabilities, except for end of service benefits and obligation under LTIP which are non-current in nature, are non-commission bearing and expected to be settled within 12 months from the statement of financial position date.

All assets of the Company are current, except for goodwill, furniture, fittings and equipment and statutory deposit, which are non-current in nature.

## 30. EARNINGS PER SHARE

Earnings per share has been calculated by dividing the net profit for the year/period by the weighted average number of ordinary shares issued and outstanding at the year/period end. Diluted earnings per share is not applicable for the Company.

## 31. FAIR VALUES OF FINANCIAL INSTRUMENTS

a) Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, investments, receivables, and accrued income and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to a related party in respect of goodwill and other liabilities. The fair values of financial instruments are not materially different from their carrying values. At 31 December 2010, apart from the investments which are carried at fair value (note 5), there were no other financial instruments held by the Company that were measured at fair value (2009: nil).

b) The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

As at 31 December 2010 all financial instruments which are fair valued are Level 1 instruments.

**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENT (continued)**

At 31 December 2010

**32. COMPARATIVE FIGURES**

Certain of the prior period amounts have been reclassified to conform with the presentation in the current year.

**33. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 15 February 2011, corresponding to 12 Rabi Awal 1432 H.