

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

**FINANCIAL STATEMENTS
AND INDEPENDENT JOINT AUDITORS' REPORT
31 DECEMBER 2013**

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

FINANCIAL STATEMENTS

As at 31 December 2013

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INDEPENDENT JOINT AUDITORS' REPORT

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

Scope of audit

We have audited the accompanying statement of financial position of Bupa Arabia For Cooperative Insurance Company – a Saudi Joint Stock Company ('the Company') as at 31 December 2013, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and related notes from 1 to 32 which form an integral part of these 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 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required.

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. Those 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 2013 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.

Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356



Deloitte & Touche Bakr Abulkhair & Co.

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Certified Public Accountant
Licence No. 378



Jeddah, Kingdom of Saudi Arabia
19 Rabi Al Thani 1435 H
19 February 2014

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	<i>Notes</i>	<i>2013 SR'000</i>	<i>2012 SR'000</i>
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	232,267	204,533
Murabaha deposits	5	956,230	732,340
FVIS investments	6	186,107	87,821
Prepayments and other assets	8	42,370	23,786
Premiums receivable - net	7	410,095	235,259
Reinsurer's share of unearned premiums	14	43,011	-
Reinsurer's share of outstanding claims	15	13,708	-
Deferred policy acquisition costs	9	32,200	22,535
Total insurance operations' assets		1,915,988	1,306,274
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	101,260	13,631
Murabaha deposits	5	126,993	-
FVIS investments	6	446,338	497,158
Other receivables	8	1,319	735
Furniture, fittings and equipment	10	43,059	48,918
Goodwill	3	98,000	98,000
Statutory deposit	11	40,000	40,000
Total shareholders' assets		856,969	698,442
TOTAL ASSETS		2,772,957	2,004,716

Chairman

Chief Financial Officer

Director and Chief Executive Officer

The accompanying notes 1 to 32 form an integral part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2013

	<i>Notes</i>	<i>2013 SR'000</i>	<i>2012 SR'000</i>
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance operations' liabilities			
Unearned premiums	14	1,323,069	786,669
Outstanding claims	15	450,096	413,509
Reinsurance balances payable	13	505	443
		<u>1,773,670</u>	<u>1,200,621</u>
Accrued expenses and other liabilities	16	79,113	63,619
Obligation under Long-Term Incentive Plan (LTIP)		14,751	8,099
		<u>1,867,534</u>	<u>1,272,339</u>
Policyholders' share of surplus from insurance operations		48,454	33,935
Total insurance operations' liabilities and surplus		<u>1,915,988</u>	<u>1,306,274</u>
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued expenses and other liabilities	16	31,419	26,532
Accrued zakat and income tax	18	35,000	30,306
Amount due to a related party in respect of goodwill	3	-	3,355
Amount due to related parties	12	59,490	4,041
Total shareholders' liabilities		<u>125,909</u>	<u>64,234</u>
Shareholders' equity			
Share capital	19	400,000	400,000
Shares held under employees' share scheme	20	(7,052)	(4,988)
Statutory reserve	21	88,491	59,024
Retained earnings		249,621	180,172
Total shareholders' equity		<u>731,060</u>	<u>634,208</u>
Total shareholders' liabilities and equity		<u>856,969</u>	<u>698,442</u>
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		<u>2,772,957</u>	<u>2,004,716</u>

Chairman

Chief Financial Officer

Director and Chief Executive Officer

The accompanying notes 1 to 32 form an integral part of these financial statements.

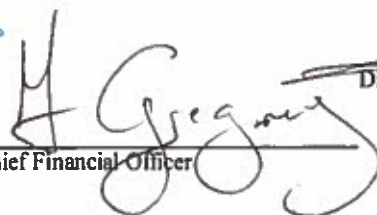
**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2013

	<i>Notes</i>	<i>2013 SR'000</i>	<i>2012 SR'000</i>
REVENUE			
Gross written premiums		3,177,480	2,194,301
Premiums ceded		(79,633)	(2,343)
Net written premiums		<u>3,097,847</u>	<u>2,191,958</u>
Movement in net unearned premiums	14	(493,389)	(63,930)
Net earned premiums		<u>2,604,458</u>	<u>2,128,028</u>
CLAIMS			
Gross claims paid		2,074,049	1,671,622
Claims recovered		(2,574)	(2,815)
Net claims paid		<u>2,071,475</u>	<u>1,668,807</u>
Movement in net outstanding claims	15	22,879	32,244
Net claims incurred		<u>2,094,354</u>	<u>1,701,051</u>
Net underwriting result		510,104	426,977
Investment and commission income		15,485	12,635
Other income		317	429
EXPENSES			
Selling and marketing	22	(209,845)	(138,663)
General and administration	23	(170,875)	(157,564)
SURPLUS FROM INSURANCE OPERATIONS		<u>145,186</u>	<u>143,814</u>
Shareholders' share of surplus from insurance operations	2(b)	(130,667)	(129,433)
Policyholders' share of surplus from insurance operations	2(b)	14,519	14,381
Policyholders' share of surplus from insurance operations at beginning of the year		<u>33,935</u>	<u>19,554</u>
Policyholders' share of accumulated surplus from insurance operations at end of the year		<u>48,454</u>	<u>33,935</u>


Chairman


Chief Financial Officer


Director and Chief Executive Officer

The accompanying notes 1 to 32 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 2013

	<i>Notes</i>	<i>2013 SR'000</i>	<i>2012 SR'000</i>
REVENUE			
Shareholders' share of surplus from insurance operations	2(b)	130,667	129,433
EXPENSES			
General and administration	23	(3,374)	(5,095)
		<u>127,293</u>	<u>124,338</u>
Investment and commission income		19,989	10,068
Other income		52	-
		<u>147,334</u>	<u>134,406</u>
Net income for the year			
		<u><u>147,334</u></u>	<u><u>134,406</u></u>
Weighted average number of ordinary shares outstanding (in thousands)		<u>39,741</u>	<u>39,843</u>
Basic and diluted income per share (in Saudi Arabian Riyals)	30	<u>3.71</u>	<u>3.37</u>

Chairman

Chief Financial Officer

Director and Chief Executive Officer

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

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

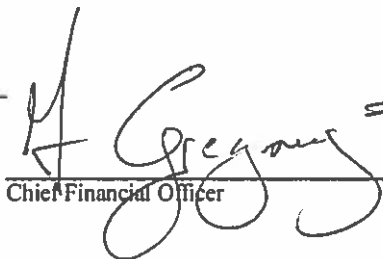
For the year ended 31 December 2013

	<i>Notes</i>	<i>2013 SR'000</i>	<i>2012 SR'000</i>
Net income for the year		147,334	134,406
Other comprehensive expense			
Zakat for the year	18	(6,083)	(14,769)
Income tax for the year	18	(8,347)	(5,781)
Total comprehensive income for the year		<u>132,904</u>	<u>113,856</u>

Chairman



Chief Financial Officer



Director and Chief Executive Officer



The accompanying notes 1 to 32 form an integral 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 2013

		<i>Share capital SR '000</i>	<i>Shares held under employees' share scheme SR '000</i>	<i>Statutory reserve SR '000</i>	<i>Retained earnings SR '000</i>	<i>Total SR '000</i>
Balance at 31 December 2012		400,000	(4,988)	59,024	180,172	634,208
Net income for the year		-	-	-	147,334	147,334
Other comprehensive expense						
Zakat for the year	18	-	-	-	(6,083)	(6,083)
Income tax for year	18	-	-	-	(8,347)	(8,347)
Total comprehensive income for the year					132,904	132,904
Transfer to statutory reserve	21	-	-	29,467	(29,467)	-
Dividends	27	-	-	-	(40,000)	(40,000)
Tax recovered from non-Saudi shareholders	2(e)	-	-	-	6,012	6,012
Purchase of additional shares held under LTIP	20	-	(2,064)	-	-	(2,064)
Balance at 31 December 2013		400,000	(7,052)	88,491	249,621	731,060

		<i>Share capital SR '000</i>	<i>Shares held under employees' share scheme SR '000</i>	<i>Statutory reserve SR '000</i>	<i>Retained earnings SR '000</i>	<i>Total SR '000</i>
Balance at 31 December 2011		400,000	(2,910)	32,143	93,197	522,430
Net income for the year		-	-	-	134,406	134,406
Other comprehensive expense						
Zakat for the year	18	-	-	-	(14,769)	(14,769)
Income tax for year	18	-	-	-	(5,781)	(5,781)
Total comprehensive income for the year					113,856	113,856
Transfer to statutory reserve	21	-	-	26,881	(26,881)	-
Partial disposal of shares held under LTIP	20	-	1,911	-	-	1,911
Purchase of additional shares held under LTIP	20	-	(3,989)	-	-	(3,989)
Balance at 31 December 2012		400,000	(4,988)	59,024	180,172	634,208


Chairman


Chief Financial Officer


Director and Chief Executive Officer

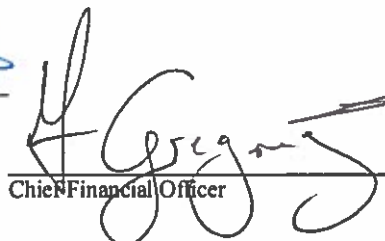
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**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For the year ended 31 December 2013

	<i>Notes</i>	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
OPERATING ACTIVITIES			
Policyholders' share of surplus for the year		14,519	14,381
Adjustments for:			
Depreciation	23	12,863	14,386
Net movement in unearned premiums	14	536,400	63,930
Reinsurer's share of unearned premiums		(43,011)	-
Allowance/(reversal of allowance) for doubtful premiums receivable - net	7	8,002	(19,558)
Deferred policy acquisition costs		(9,665)	(1,438)
Realised gain on disposal of investments	6	(373)	-
Unrealised gain on investments	6	(4,394)	(5,153)
		<u>514,341</u>	<u>66,548</u>
Changes in assets and liabilities:			
Premiums receivable		(182,838)	124,129
Prepayments and other assets		(18,584)	6,283
Outstanding claims	15	36,587	32,244
Reinsurer's share of outstanding claims	15	(13,708)	-
Due from shareholders' operations		(83,722)	98,805
Reinsurance balances payable		62	(259)
Accrued expenses and other liabilities		15,494	4,116
Obligation under LTIP		6,652	3,253
Net cash from operating activities		<u>274,284</u>	<u>335,119</u>
INVESTING ACTIVITIES			
Purchase of investments	6	(249,490)	(8,160)
Disposal of investments	6	226,830	-
Murabaha deposits, net	5	(223,890)	(674,340)
Net cash used in investing activities		<u>(246,550)</u>	<u>(682,500)</u>
Increase/(decrease) in cash and cash equivalents		27,734	(347,381)
Cash and cash equivalents at beginning of the year		<u>204,533</u>	<u>551,914</u>
Cash and cash equivalents at end of the year	4	<u>232,267</u>	<u>204,533</u>


Chairman


Chief Financial Officer


Director and Chief Executive Officer

The accompanying notes 1 to 32 form part of these financial statements.

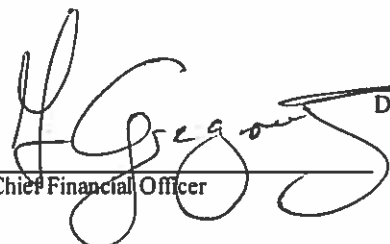
**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**


STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2013

	<i>Notes</i>	<i>2013 SR '000</i>	<i>2012 SR '000</i>
OPERATING ACTIVITIES			
Net income for the year		147,334	134,406
Adjustment for:			
Unrealised gain on investments	6	(20,039)	(10,433)
		<u>127,295</u>	<u>123,973</u>
Changes in assets and liabilities:			
Accrued expenses and other liabilities		4,887	5,180
Amount due to related parties		55,449	(359)
Due to insurance operations		83,722	(98,805)
Other receivables		(584)	(491)
		<u>270,769</u>	<u>29,498</u>
Zakat and income tax paid	18	(9,736)	(5,681)
Net cash from operating activities		<u>261,033</u>	<u>23,817</u>
INVESTING ACTIVITIES			
Purchase of furniture, fittings and equipment		(7,004)	(21,739)
Murabaha deposits	5	(126,993)	-
Purchase of shares held under LTIP		(2,064)	(3,989)
Disposal of shares held under LTIP		-	1,911
Amount paid to a related party in respect of goodwill	3	(3,355)	-
Net cash used in investing activities		<u>(139,416)</u>	<u>(23,817)</u>
FINANCING ACTIVITIES			
Dividends paid	27	(40,000)	-
Tax recovered from non-Saudi shareholders	2(e)	6,012	-
Net cash used in financing activities		<u>(33,988)</u>	<u>-</u>
Net movement in cash and cash equivalents		87,629	-
Cash and cash equivalents at beginning of the year		13,631	13,631
Cash and cash equivalents at end of the year	4	<u>101,260</u>	<u>13,631</u>


Chairman


Chief Financial Officer


Director and Chief Executive Officer

The accompanying notes 1 to 32 form part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

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 1429H (corresponding to 1 May 2008). The Commercial Registration number of the Company is 4030178881 dated 5 Jumad Awwal 1429H (corresponding to 11 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.

Following are the details of the Company's Branches and Commercial Registration numbers:

Branch	Commercial Registration Numbers:
Riyadh	1010274696
Khobar	2051041274
Khamis Mushayt	5855036547
Tabuk	3550026191
Makkah	4031068486

The Company is licensed to conduct insurance business in the Kingdom of 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 the Kingdom of Saudi Arabia. The Company underwrites medical insurance only.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. STATEMENT OF COMPLIANCE

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

b. BASIS OF PREPARATION

These financial statements are prepared under the historical cost convention except for the measurement of FVIS investments at fair value. The Company presents its statements of financial position broadly in order of liquidity. All financial assets and liabilities except for statutory deposit, are expected to be recovered and settled respectively within twelve months after the reporting date.

As required by Saudi Arabian Insurance Regulations, the Company maintains separate books of account 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 books of account. The basis of allocation of expenses from joint operations is determined by the management and the Board of Directors.

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

Shareholders	90%
Policyholders	10%
	<u>100%</u>

If the insurance operations result in a deficit, the entire deficit is borne by the shareholders' operations.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

b. BASIS OF PREPARATION (continued)

In accordance with Article 70 of the Saudi Arabian Monetary Agency (SAMA) Implementing Regulations, the Company proposes to distribute, subject to approval of SAMA, 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.

c. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Saudi Arabian Riyals (SAR), which is the Company's functional currency. All financial information presented in SAR has been rounded to the nearest thousand except where indicated otherwise.

d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following 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 year ended 31 December 2012 except for the change in accounting policy of Zakat and income tax as explained in note 2(e) below. The new standards, amendments to standards and interpretation which are effective for annual periods beginning after 1 January 2013 have not had a significant effect on the financial statements of the Company. The significant accounting policies used in preparing these financial statements are set out below:

Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, murabaha deposits, premiums receivable, investments and other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, obligation under Long-Term Incentive Plan ("LTIP"), policyholders' share of surplus from insurance operations, amounts due to related parties and certain other liabilities.

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument.

Initial measurement of financial instruments

All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

Cash and cash equivalents

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

Murabaha deposits

Murabaha deposits, with original maturity of more than three months, are initially recognized in the statement of financial position at fair value and are subsequently measured at amortised cost using the effective yield method, less any impairment in value.

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 fair value, being the value of consideration given. Subsequently, such investments are re-measured 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premiums receivable

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. 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:

	<u>Years</u>
Furniture, fittings and office equipment	3 to 5
Computer applications	4 to 7
Motor vehicles	4

Residual values, useful lives and the method of 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 year 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 repairs 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 it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

The Company provides end of service benefits to its employees. The entitlement to these benefits is 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 LTIP, 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.

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 the 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 LTIP by a custodian

Certain of the Company's own shares are held by a custodian under the terms of the employees' LTIP. Such shares may or may not vest to the employees at the vesting date. The values 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.

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing a significant financial difficulty, default or delinquency in repayments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairment is determined as follows:

- (a) 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
- (b) 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU), fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of insurance operations and accumulated surplus and statement of shareholders' operations in expense categories consistent with the function of the impaired asset, except for a property previously revalued and where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets, excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of insurance operations and accumulated surplus and statement of shareholders' operations unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses relating to goodwill, if any, are not reversed in future periods.

Derecognition

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition (continued)

Financial liability

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Revenue recognition

Premiums earned

The Company only issues short-term insurance contracts for providing health care services ('medical insurance') in Saudi Arabia. Premiums are taken to 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.

Investment and commission income

Investment income or loss comprises of unrealised and realised gains and losses on investments. Commission income on Murabaha deposits is recognised using the effective yield method.

Reinsurance premiums

Reinsurance premiums ceded are recognised 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.

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 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.

Reinsurance contracts held

In order to minimise financial exposure from large claims the Company enters into 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 contracts. 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 advertisements as well as any allowance for doubtful debts and regulatory levies. All other expenses are classified as general and administration expenses.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 spot rate at the reporting date. All differences are taken to either the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.

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. No offsetting has been made in these financial statements.

Cash dividend to shareholders

The Company recognises a liability to make cash distributions to shareholders of the Company when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders and SAMA. A corresponding amount is recognised directly in equity.

e. CHANGE IN ACCOUNTING POLICY

Zakat and income tax

During the year, the Company amended its zakat and income tax policy through the introduction of the objective to maintain an equal retained earnings per share between the Saudi and foreign shareholders, by equalizing the different zakat and income tax charges.

"Under Saudi Arabian Zakat and Income Tax laws, zakat and income tax are the liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity and / or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholders' share of net income for the year.

Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders. Zakat and income tax are charged in full to the retained earnings. Income tax charged to the retained earnings, in excess to the proportion of the Saudi Shareholders' zakat per share, is recovered from the foreign shareholders and credited to retained earnings."

The adoption of the amended policy does not result in any differences in the assets, liabilities or surplus of the insurance operations, nor any material differences in the shareholders' operations assets or liabilities or the shareholders' equity.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

f. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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.

Allowance for doubtful receivable

A provision for impairment of premiums receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the premiums receivable is impaired.

Deferred acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs and are amortised in the statement of insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus.

Useful lives of furniture, fittings and equipment

The Company's management determines the estimated useful lives of its furniture, fittings and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Fair values of financial instruments

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

Going concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

g. NEW IFRS AND AMENDMENTS THEREOF, ADOPTED BY THE COMPANY

The Company has adopted the following amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

<i>Standard</i>	<i>Description</i>
IFRS 1	Amendments to IFRS 1 Government Loans
IFRS 7	Amendments IFRS 7 Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1	Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
IAS 19	Revision to IAS 19 Employee Benefits
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Amendment to IAS 32 Tax Effects of Distributions to Holders of Equity Instruments
IAS 34	Amendment to IAS 34 Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The adoption of the above standards did not have any impact on the accounting policies, financial position or performance of the Company

h. NEW IFRS, IFRIC AND AMENDMENTS THEREOF, ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company financial statements are listed below. The listing is of standards issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
IFRS 9	Financial Instruments – Classification and Measurement	To be announced
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	1 January 2014
IAS 19	Defined Benefit Plans – Employee Contributions	1 July 2014
IAS 32	Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36	Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39	Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC 21	Levies	1 January 2014

The Company is currently assessing the implications of adopting the above mentioned standards, amendments or interpretations on the Company's financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

3 AMOUNT DUE TO A RELATED PARTY IN RESPECT OF GOODWILL

On 31 December 2008, the Company entered into an agreement with Bupa Middle East Limited E.C. (the "Seller"), a related party, pursuant to which it acquired the Seller's insurance operations in the Kingdom of Saudi Arabia, effective from 1 January 2009. The acquisition transaction was approved by the Saudi Arabian Monetary Agency ("SAMA") and resulted in goodwill of SR 98 Million. The entire amount was paid in the previous years, to the Seller after obtaining required regulatory approval.

As per the terms of the agreement with the Seller, the Seller is also eligible for additional goodwill consideration of SR 3,355 thousand. During the year, the Company received SAMA's letter, approving the settlement of the final goodwill consideration of SR 3,355 thousand and accordingly settled the amount with the Seller.

The movement in the amount payable to the Seller in respect of goodwill during the years ended 31 December 2013 and 31 December 2012 are as follows:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Balance at beginning of the year	3,355	3,355
Paid during the year	(3,355)	-
Balance at end of the year	<u>-</u>	<u>3,355</u>

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Insurance Operations</i>		
Cash in banks (see note 6 (b))	232,267	83,267
Murabaha deposits (see note 5)	-	121,266
	<u>232,267</u>	<u>204,533</u>
<i>Shareholders' Operations</i>		
Cash in banks (see note 6 (b))	<u>101,260</u>	<u>13,631</u>

The Murabaha deposits were held with commercial banks. These Murabaha deposits were denominated in Saudi Arabian Riyals and had an original maturity not exceeding three months.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

5 MURABAHA DEPOSITS

Murabaha deposits comprised the following:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Insurance Operations</i>		
Murabaha deposits	1,082,935	853,606
Less: Transferred to shareholders' operations (see note (a) below)	(126,705)	-
Less: Murabaha deposits with maturity less than three months (see note 4)	-	(121,266)
	<u>956,230</u>	<u>732,340</u>
	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Shareholders' Operations perations</i>		
Murabaha deposits – transferred from insurance operations (see note (a) below)	126,705	-
Murabaha deposit matured during the year	(126,705)	-
Murabaha deposit placed during the year	126,993	-
	<u>126,993</u>	<u>-</u>

- a) Amounts payable to shareholders operations are settled, at each reporting date, by transfer of cash or murabaha deposits (see note 6(b)) of an equivalent amount representing fair value between the operations at the respective date.

6 FVIS INVESTMENTS

The carrying amount of the investments classified as fair value through statement of income (FVIS) was as follows:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Insurance operations	186,107	87,821
Shareholders' operations	446,338	497,158
	<u>632,445</u>	<u>584,979</u>

The above investments primarily represent units of investments in a discretionary portfolio, denominated in Saudi Arabian Riyals.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

6 FVIS INVESTMENTS (continued)

The movements in the investments, during the years ended 31 December 2013 and 31 December 2012, were as follows:

	<i>2013</i>	<i>2012</i>
	<i>SR'000</i>	<i>SR'000</i>
<i>Insurance operations</i>		
Balance at beginning of the year	87,821	187,699
Purchased during the year	249,490	8,160
Disposed during the year	(226,830)	-
Transferred from/(to) shareholders' operations (see note (a) below)	70,859	(113,191)
Realised gain during the year	373	-
Unrealised gain during the year	4,394	5,153
	<u>186,107</u>	<u>87,821</u>
<i>Shareholders' operations</i>		
	<i>2013</i>	<i>2012</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at beginning of the year	497,158	373,534
Transferred (to)/from insurance operations (see note (a) below)	(70,859)	113,191
Unrealised gain during the year	20,039	10,433
	<u>446,338</u>	<u>497,158</u>

- a) Up to 30 June 2013, amount payable to/receivable from shareholders operations were settled by transfer of FVIS investments of an equivalent amount representing fair value between the operations at the respective dates.
- b) Subsequent to 30 June 2013, the Company decided to settle the amount payable to / receivable from shareholders operations by transfer of cash or murabaha deposits, as the case may be, of an equivalent amount representing fair value between the operations at the respective date. At 31 December 2013, the insurance operations transferred murabaha deposits of SR 126,705 thousand (31 December 2012: nil) and cash of SR 73,808 thousand (31 December 2012: nil) to the shareholders' operations.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

7 PREMIUMS RECEIVABLE - NET

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Gross premiums receivable	462,645	279,807
Allowance for doubtful premiums receivable	(52,550)	(44,548)
Premiums receivable - net	<u>410,095</u>	<u>235,259</u>

The movements in the allowance for doubtful premiums receivable were as follows:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Balance at beginning of the year	44,548	64,106
Provision made during the year (note 22)	8,789	-
Utilisation	(787)	-
Reversal during the year	-	(19,558)
Balance at end of the year	<u>52,550</u>	<u>44,548</u>

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

	<i>Neither past due nor impaired SR'000</i>	<i>Up to three months SR'000</i>	<i>Above three and up to six months SR'000</i>	<i>Above six and up to twelve months SR'000</i>	<i>Above twelve months SR'000</i>	<i>Total SR'000</i>
31 December 2013	17,727	235,216	119,006	31,084	7,062	410,095
31 December 2012	18,123	125,195	62,291	22,765	6,885	235,259

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.

In respect of premiums receivable, 5 major customers accounted for 11.5% (2012: 16.6%) of this balance as at 31 December 2013.

8 PREPAYMENTS AND OTHER ASSETS

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Insurance Operations</i>		
Prepayments	34,443	19,642
Accrued income	2,212	1,988
Other receivables	5,715	2,156
	<u>42,370</u>	<u>23,786</u>
<i>Shareholders' Operations</i>		
Other receivables	<u>1,319</u>	<u>735</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

9 DEFERRED POLICY ACQUISITION COSTS

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Balance at beginning of the year	22,535	21,097
Expenses incurred	72,277	62,860
Amortisation for the year	(62,612)	(61,422)
Balance at end of the year	<u>32,200</u>	<u>22,535</u>

10 FURNITURE, FITTINGS AND EQUIPMENT

	<i>Furniture, fittings and office equipment SR'000</i>	<i>Computer applications SR'000</i>	<i>Motor vehicles SR'000</i>	<i>Total SR'000</i>
Shareholders' Operations				
Cost:				
At 1 January 2012	43,158	53,889	-	97,047
Additions during the year 2012	6,209	15,318	212	21,739
At 1 January 2013	49,367	69,207	212	118,786
Additions during the year 2013	2,404	4,600	-	7,004
Disposals	-	(11,048)	-	(11,048)
At 31 December 2013	<u>51,771</u>	<u>62,759</u>	<u>212</u>	<u>114,742</u>
Accumulated depreciation:				
At 1 January 2012	16,430	39,052	-	55,482
Charge for the year 2012	3,885	10,469	32	14,386
At 1 January 2013	20,315	49,521	32	69,868
Charge for the year 2013 (see note (a) below)	4,344	8,466	53	12,863
Relating to disposals	-	(11,048)	-	(11,048)
At 31 December 2013	<u>24,659</u>	<u>46,939</u>	<u>85</u>	<u>71,683</u>
Carrying amount:				
At 31 December 2013	<u>27,112</u>	<u>15,820</u>	<u>127</u>	<u>43,059</u>
At 31 December 2012	<u>29,052</u>	<u>19,686</u>	<u>180</u>	<u>48,918</u>

a) 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
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

11 STATUTORY DEPOSIT

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Shareholders' Operations</i>		
Statutory deposit	<u>40,000</u>	<u>40,000</u>

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 SAMA. Commission accruing on this deposit is payable to SAMA and this deposit cannot be withdrawn without approval from SAMA.

12 TRANSACTIONS WITH RELATED PARTIES

In addition to transactions disclosed in notes 3, 6 and 24, following are the details of related party transactions during the year and the related balance at the end of the year:

<i>Related party</i>	<i>Nature of transaction</i>	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Insurance Operations</i>			
Shareholders	Premiums written	46,045	38,988
Shareholders	Premiums ceded (see note (c) below)	76,661	-
Shareholders	Claims paid	25,180	17,330
Shareholders	Medical cost payments to a provider (see note (a) below)	181,812	117,304
Bupa Middle East Holdings Two W.L.L. (Related party)	Trade mark fee (see note 17)	9,714	2,130
<i>Shareholders' Operations</i>			
Bupa Middle East Limited E.C. (Related party)	Payment in respect of goodwill consideration (note 3)	3,355	-

- a) The related party is a hospital provider where any of the Company'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 on an arm's length basis. As at 31 December 2013, the estimated payable to the related party, for medical cost payments, amounted to SR 29.2 million (31 December 2012: SR 15.8 million).
- b) Amount due to related parties is disclosed in the statement of financial position. Premiums receivable - net, includes premiums receivable from related parties amounting to SR nil (31 December 2012: SR 2,467 thousand).
- c) The premiums ceded are to a related party reinsurer for a significant portion of the premiums written of one of the Company's major customers. The agreement has been submitted to SAMA and the reinsurer's share of unearned premiums and outstanding claims are disclosed in the statement of financial position.

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

At 31 December 2013

13 REINSURANCE BALANCES PAYABLE

Reinsurance payable represents amounts payable to two reinsurers (2012: two), based in France and Germany, for the excess of loss (XOL) reinsurance contract.

14 MOVEMENT IN NET UNEARNED PREMIUMS

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Insurance Operations</i>		
Unearned premiums at the beginning of the year	786,669	722,739
Unearned premiums at the end of the year	(1,323,069)	(786,669)
	<u>(536,400)</u>	<u>(63,930)</u>
Reinsurer's share of unearned premium at the end of the year	43,011	-
Reinsurer's share of unearned premium at the beginning of the year	-	-
	<u>43,011</u>	<u>-</u>
Movement in net unearned premiums	<u>(493,389)</u>	<u>(63,930)</u>

15 MOVEMENT IN NET OUTSTANDING CLAIMS

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Insurance Operations</i>		
Outstanding claims at the end of the year	450,096	413,509
Outstanding claims at the beginning of the year	(413,509)	(381,265)
	<u>36,587</u>	<u>32,244</u>
Reinsurer's share of outstanding claims at the end of the year	(13,708)	-
Reinsurer's share of outstanding claims at the beginning of the year	-	-
	<u>(13,708)</u>	<u>-</u>
Movement in net outstanding claims	<u>22,879</u>	<u>32,244</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

16 ACCRUALS AND OTHER LIABILITIES

	<i>2013</i>	<i>2012</i>
	<i>SR'000</i>	<i>SR'000</i>
<i>Insurance Operations</i>		
Accrued expenses	67,104	53,427
Other liabilities	12,009	10,192
	<u>79,113</u>	<u>63,619</u>
<i>Shareholders' Operations</i>		
Accrued expenses	2,203	2,438
Employees' end of service benefits (see note (a) below)	29,216	24,094
	<u>31,419</u>	<u>26,532</u>

(a) The movements in the employees' end of service benefits provision during the year was as follows:

	<i>2013</i>	<i>2012</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at beginning of the year	24,094	19,842
Charged during the year	8,162	5,183
Paid during the year	(3,040)	(931)
Balance at end of the year	<u>29,216</u>	<u>24,094</u>

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

17 TRADE MARK FEE

During 2010, the Company 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 trade mark fee is payable at different rates linked to the results of the Company, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee. Consequent to the increase in the results, a higher rate of trade mark fees is payable for the year. Accordingly, trade mark fee of SR 9,714 thousands (2012: SR 2,130 thousands) payable to a related party has been accounted for in these financial statements (see note 22).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

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

The Zakat charge relating to the Saudi shareholders consists of:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Provision for the year	3,160	11,422
Adjustment for the previous year	2,923	3,347
Charge for the year	6,083	14,769

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

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Equity	599,196	525,340
Opening allowances and other adjustments	102,577	121,238
Book value of long-term assets	(770,662)	(142,879)
	(68,889)	503,699
Adjusted income for the year (see note below)	171,365	115,794
Zakat base	171,365	619,493
Attributable to Saudi founding shareholders and the general public @ 73.75%	126,382	456,876

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

The movements in the Zakat provision during the year were as follows:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Balance at beginning of the year	27,376	14,088
Charge for the year	6,083	14,769
Payment made during the year	(2,135)	(1,481)
Balance at end of the year	31,324	27,376

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

18 ZAKAT AND INCOME TAX (continued)

b) Income tax

Charge for the year

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

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Provision for the year	8,235	6,079
Adjustment for the previous year	112	(298)
Charge for the year	8,347	5,781

The movements in the tax provision during the year were as follows:

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Balance at beginning of the year	2,930	1,349
Charge for the year	8,347	5,781
Payment made during the year	(7,601)	(4,200)
Balance at end of the year	3,676	2,930

c) Zakat and income tax payable

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Zakat payable (note (a) above)	31,324	27,376
Income tax payable (note (b) above)	3,676	2,930
	35,000	30,306

d) Status of assessments

During 2012, the Department of Zakat and Income Tax ("DZIT") raised revised assessments for the fiscal periods 2008 through 2010 demanding additional income tax, zakat and withholding tax liability of SR 8.8 million as well as delay fine for each 30 days delay in payment of assessed additional taxes. The Company has filed an appeal against these revised assessments with the Preliminary Appeal Committee.

During 2012, the DZIT issued an initial assessment for the year 2011 with an additional zakat liability of SR 7.5 million. The Company has filed an appeal against this initial assessment and the final assessment for the year 2011 is awaited.

During 2013, the DZIT also issued an initial assessment for the year 2012 with an additional zakat liability of SR 11.5 million. The Company has filed an appeal against this initial assessment and the final assessment for the year 2012 is awaited.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

19 SHARE CAPITAL

The share capital of the Company is SR 400 million divided into 40 million shares of SR 10 each (2012: 40 million shares of SR 10 each) and subscribed by the following:

	Percentage holding	<i>2013</i> <i>SR'000</i>	Percentage holding	<i>2012</i> <i>SR'000</i>
Founding shareholders	60%	240,000	60%	240,000
General public	40%	160,000	40%	160,000
	<u>100%</u>	<u>400,000</u>	<u>100%</u>	<u>400,000</u>

20 LONG-TERM INCENTIVE PLAN (LTIP)

During 2010, the Company introduced a 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 three year 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 realising 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

20 LONG-TERM INCENTIVE PLAN (continued)

The movements in the shares purchased under the LTIP, per the election decisions of the entitled employees, are as follows:

	2013		2012	
	<i>Number of shares</i>	<i>Amount SR'000</i>	<i>Number of shares</i>	<i>Amount SR'000</i>
Opening balance	212,161	4,988	147,332	2,910
Purchased during the year	68,157	2,064	161,575	3,989
Sold during the year	-	-	(96,746)	(1,911)
Closing balance	<u>280,318</u>	<u>7,052</u>	<u>212,161</u>	<u>4,988</u>
Market value per share as at 31 December 2013		<u>42.30</u>		<u>27.30</u>

As at the date of the statement of financial position, a liability based on the fair market value of these shares has been recorded by the Company, to the extent the vesting period has been completed by the LTIP members, who have opted for shares as per their last annual election.

In addition, an amount of SR 2,894 thousand (2012: SR 2,307 thousand) 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 6,851 thousand (2012: SR 5,290 thousand) has been charged to the statement of insurance operations and accumulated surplus 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. Accordingly, during the year, the Company has transferred SR 29,467 thousand (2012: SR 26,881 thousand) to the statutory reserve.

22 SELLING AND MARKETING EXPENSES

	2013 SR'000	2012 SR'000
<i>Insurance Operations</i>		
Employee costs	54,694	45,809
Marketing expenses	17,220	18,278
Fulfilment costs	7,601	6,938
Commission expenses	53,843	44,666
Statutory levies	47,662	32,915
Trade mark fee (see note 17)	9,714	2,130
Allowance/(reversal of allowance) for doubtful premiums receivable (note 7)	8,789	(19,558)
Others	10,322	7,485
	<u>209,845</u>	<u>138,663</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

23 GENERAL AND ADMINISTRATION EXPENSES

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
<i>Insurance Operations</i>		
Employee costs	122,191	110,535
Repairs and maintenance costs	12,950	11,955
Travelling expenses	4,214	3,233
Depreciation (see note 10 (a))	12,863	14,386
Communication expenses	5,598	7,793
Others	13,059	9,662
	<u>170,875</u>	<u>157,564</u>
<i>Shareholders' Operations</i>		
Legal and professional fees	1,524	2,847
Board expenses (see note 25)	937	1,467
Corporate Social Responsibility expenses	614	418
Others	299	363
	<u>3,374</u>	<u>5,095</u>

24 INFORMATION RELATING TO KEY MANAGEMENT PERSONNEL

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Compensation to key management personnel:		
Short-term benefits	9,166	9,607
Long-term benefits	3,195	2,913
	<u>12,361</u>	<u>12,520</u>

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

During 2011, a senior management personnel purchased 7,000 shares of the Company through Tadawul (the Saudi Stock Exchange), for SR 143 thousand, after obtaining the approval from the required regulatory authority. The fair value of the shares as at 31 December 2013 was SR 296 thousand (2012: SR 191 thousand).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

25 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR'000</i>
Board of Directors' remuneration	591	1,044
Board attendance fees	96	78
Other board and sub-committees expenses	250	345
	<u>937</u>	<u>1,467</u>

- a) Board of Directors' remuneration is paid in accordance with by-laws of the Company.
- b) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.
- c) Other board and sub-committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

26 SEGMENT INFORMATION

The Company only issues short-term insurance contracts for providing health care services ('medical insurance'). All of 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 customers are considered as non-major.

Operating segments do not include shareholders' operations of the Company.

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

Segment assets do not include cash and cash equivalents, murabaha deposits, FVIS investments and prepayments and other assets.

Segment liabilities do not include reinsurance balances payable, accrued expenses and other liabilities, obligations under LTIP and policyholders' share of surplus from insurance operations.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

26 SEGMENT INFORMATION (continued)

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:

	<i>For the year ended 31 December 2013</i>		
	Major SR'000	Non-major SR'000	Total SR'000
Gross written premiums	1,674,162	1,503,318	3,177,480
Premiums ceded	(78,025)	(1,608)	(79,633)
Net written premiums	1,596,137	1,501,710	3,097,847
Movement in net unearned premiums	(173,767)	(319,622)	(493,389)
Net earned premiums	1,422,370	1,182,088	2,604,458
Gross claims paid	1,108,396	965,653	2,074,049
Claims recovered	(1,515)	(1,059)	(2,574)
Net claims paid	1,106,881	964,594	2,071,475
Movement in net outstanding claims	12,012	10,867	22,879
Net claims incurred	1,118,893	975,461	2,094,354
Net underwriting result	303,477	206,627	510,104
Unallocated income	-	-	15,802
Unallocated expenses	-	-	(380,720)
Surplus from insurance operations			145,186

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

26 SEGMENT INFORMATION (continued)

	<i>For the year ended 31 December 2012</i>		
	<i>Major SR'000</i>	<i>Non-major SR'000</i>	<i>Total SR'000</i>
Gross written premiums	1,031,766	1,162,535	2,194,301
Premiums ceded	(1,079)	(1,264)	(2,343)
Net written premiums	1,030,687	1,161,271	2,191,958
Movement in net unearned premiums	(25,256)	(38,674)	(63,930)
Net earned premiums	1,005,431	1,122,597	2,128,028
Gross claims paid	857,014	814,608	1,671,622
Claims recovered	(1,647)	(1,168)	(2,815)
Net claims paid	855,367	813,440	1,668,807
Movement in net outstanding claims	17,007	15,237	32,244
Net claims incurred	872,374	828,677	1,701,051
Net underwriting result	133,057	293,920	426,977
Unallocated income	-	-	13,064
Unallocated expenses	-	-	(296,227)
Surplus from insurance operations			143,814
	<i>As at 31 December 2013</i>		
	<i>Major SR'000</i>	<i>Non-major SR'000</i>	<i>Total SR'000</i>
Insurance operations' assets			
Premiums receivable - net	240,554	169,541	410,095
Reinsurer's share of unearned premiums	43,011	-	43,011
Reinsurer's share of outstanding claims	13,708	-	13,708
Deferred policy acquisition costs	17,456	14,744	32,200
Unallocated assets	-	-	1,416,974
Total			1,915,988
Insurance operations' liabilities and surplus			
Unearned premiums	717,236	605,833	1,323,069
Outstanding claims	236,300	213,796	450,096
Unallocated liabilities and surplus	-	-	142,823
Total			1,915,988

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

At 31 December 2013

26 SEGMENT INFORMATION (continued)

	<i>As at 31 December 2012</i>		
	<i>Major SR'000</i>	<i>Non-major SR'000</i>	<i>Total SR'000</i>
Insurance operations' assets			
Premiums receivable - net	215,830	19,429	235,259
Deferred policy acquisition costs	10,693	11,842	22,535
Unallocated assets	-	-	1,048,480
Total			1,306,274
Insurance operations' liabilities and surplus			
Unearned premiums	385,007	401,662	786,669
Outstanding claims	225,114	188,395	413,509
Unallocated liabilities and surplus	-	-	106,096
Total			1,306,274

27 DIVIDENDS

On 2 March 2013, the Company's Board of Directors proposed to pay a dividend, for the year ended 31 December 2012, of SR 1 per share totalling SR 40 Million to its shareholders. This dividend proposal was approved by the shareholders in the Ordinary General Assembly Meeting held on 10 April 2013 (Corresponding to 29 Jamadi-Al-Awal 1434H). Accordingly, the dividend payment was made on 7 May 2013. The Saudi shareholders were paid their dividend in full and the non Saudi shareholders were paid their share of the dividend after adjusting for the income tax in excess to the proportion of the Saudi Shareholders' zakat per share (see note 2(e)).

28 COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments:

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

	<i>2013 SR'000</i>	<i>2012 SR'000</i>
Within one year	6,200	4,388
After one year but no more than five years	48,098	25,009
More than five years	27,427	14,478
	81,725	43,875

b) As at 31 December 2013, performance guarantees amounting to SR 13.7 million (2012: SR 6.3 million) were issued to the customers on behalf of the Company. The Company pledged bank balances equivalent to the amount of performance guarantees to the bank for obtaining such guarantees. The bank balances disclosed in note 4 are inclusive of above-mentioned amount.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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29 RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through strategic planning process.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Audit committee

The Audit Committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

Internal audit

All key operational, financial and risk management processes are audited by Internal Audit. Internal Audit examines the adequacy of the relevant policies and procedures, the Company's compliance with internal policies and regulatory guidelines. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

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 primarily 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.

Independent actuarial review of claims and claims reserves

In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the annual closing position claims reserves are adequate.

Key assumptions

The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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29 RISK MANAGEMENT (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and net income.

	Change in assumptions	Impact on net liabilities	Impact on insurance operations and accumulated surplus
Ultimate loss ratio – Insurance Operations			
2013	± 5%	21,819	21,819
2012	± 5%	20,675	20,675

Reinsurance risk

In common with other insurance companies, in order to minimise financial exposure arising from large claims, the Company, in the normal course of business, enters 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 treaty and excess-of-loss (XOL) reinsurance contracts. The Company has reinsured one of its major customer's business with a related party and recoveries are made as per the treaty agreement. In addition, for any claim above SR 200 thousand and contingent on the policyholders' plan limit, the XOL reinsurance covers losses per claim between SR 200 thousand and SR 500 thousand. All other claims are borne and paid by the Company. In compliance with SAMA guidelines on reinsurance, all reinsurance companies are minimally rated A by international rating agencies.

The credit risk exposure in respect of reinsurers' share of outstanding claims is SR 13,708 K (2012: nil) (see note 15) and in respect of reinsurance balances receivable is SR 596 K (2012: SR 587 K)

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 SAMA. 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 following information summarizes the minimum regulatory capital of the Company:

	2013 SR'000	2012 SR'000
Minimum regulatory capital	<u>495,655</u>	<u>364,815</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

29 RISK MANAGEMENT (continued)

Financial risk

The Company's principal financial instruments are receivables arising from insurance contracts, the statutory deposit, investments, cash and cash equivalents, Murabaha deposits, 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 of Directors reviews and agrees policies for managing each of these risks, as 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 classified as FVIS.

A 5% change in the value of investments with all other variables held constant, would impact the Insurance Operations and Shareholders' Operations by SR 9,305 thousand (2012: SR 4,391 thousand) and SR 22,317 thousand (2012: SR 24,858 thousand) 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 Murabaha deposits.

The Company places deposits which are realisable within three months and more than three months, with the exception of restricted deposits which are required to be maintained in accordance with regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk by monitoring changes in commission rates in the currencies in which its deposits are denominated.

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

Insurance Operations

	2013			Total
	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>No fixed maturity</i>	
Murabaha deposits	-	956,230	-	956,230
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2012			Total
	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>No fixed maturity</i>	
Murabaha deposits	121,266	732,340	-	853,606
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

29 RISK MANAGEMENT (continued)

Commission rate risk (continued)

Shareholders' Operations

	2013			Total
	SR '000			
	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>No fixed maturity</i>	
Murabaha deposits	-	126,993	-	126,993

The Shareholders' operations did not have any commission bearing assets as at 31 December 2012.

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:

	2013	2012
Insurance operations		
Saudi Riyal denominated Murabaha deposits	1.11%	1.06%
Shareholders' operations		
Saudi Riyal denominated Murabaha deposits	1.38%	-

The Company had no deposits in currencies other than SAR.

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

	2013	2012
	SR'000	SR'000
Insurance operations		
<i>Saudi Riyals:</i>		
Increase in commission rates by 100 basis points	9,562	8,536
Decrease in commission rates by 100 basis points	(9,562)	(8,536)
Shareholders' operations		
<i>Saudi Riyals:</i>		
Increase in commission rates by 100 basis points	1,270	-
Decrease in commission rates by 100 basis points	(1,270)	-

The Shareholders' operations did not have any commission bearing assets or liabilities as at 31 December 2012.

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 and United States Dollars, which is pegged to Saudi Riyals.

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

At 31 December 2013

29 RISK MANAGEMENT (continued)

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.

The Company seeks to limit its credit risk with respect to customers by following the Company's 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 premiums receivable. 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).

The following table shows the maximum exposure to credit risk by class of financial asset.

	<i>2013</i> <i>SR'000</i>	<i>2012</i> <i>SR' 000</i>
<i>Insurance' Operations</i>		
Cash and cash equivalents	232,267	204,533
Murabaha deposits	956,230	732,340
Premiums receivable – net	410,095	235,259
Reinsurer's share of outstanding claims	13,708	-
Other receivables	5,715	2,156
	<u>1,618,015</u>	<u>1,174,288</u>
<i>Shareholders' Operations</i>		
Cash and cash equivalents	101,260	13,631
Murabaha deposits	126,993	-
Other receivables	1,319	735
	<u>229,572</u>	<u>14,366</u>

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired.

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

At 31 December 2013

29 RISK MANAGEMENT (continued)

Credit risk (continued)

Insurance operations' financial assets

	<i>Investment grade</i>	<u>Non-investment grade</u>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
Cash and cash equivalents	232,267	-	-	232,267
Murabaha deposits	956,230	-	-	956,230
FVIS investments	186,107	-	-	186,107
Premiums receivable – net	-	252,943	157,152	410,095
Reinsurer's share of unearned premiums	43,011	-	-	43,011
Reinsurer's share of outstanding claims	13,708	-	-	13,708
December 31, 2013	1,431,323	252,943	157,152	1,841,418
Cash and cash equivalents	204,533	-	-	204,533
Murabaha deposits	732,340	-	-	732,340
FVIS investments	87,821	-	-	87,821
Premiums receivable - net	-	143,318	91,941	235,259
December 31, 2012	1,259,953	143,318	91,941	1,259,953

Shareholders' operations' financial assets

	<i>Investment grade</i>	<u>Non-investment grade</u>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
Cash and cash equivalents	101,260	-	-	101,260
Murabaha deposits	126,993	-	-	126,993
FVIS investments	446,338	-	-	446,338
Statutory deposit	40,000	-	-	40,000
December 31, 2013	714,591	-	-	714,591
	<i>Investment grade</i>	<i>Satisfactory</i>	<i>Past due but not impaired</i>	<i>Total</i>
Cash and cash equivalents	13,631	-	-	13,631
Murabaha deposits	-	-	-	-
FVIS investments	497,158	-	-	497,158
Statutory deposit	40,000	-	-	40,000
December 31, 2012	550,789	-	-	550,789

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

29 RISK MANAGEMENT (continued)

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 balances 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 the statutory deposit, which are non-current in nature.

30 EARNINGS PER SHARE

The earnings per share have been calculated by dividing the net profit for the year by the weighted average number of ordinary shares issued and outstanding at the year end. Diluted earnings per share are not applicable for the Company.

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

- a) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
 - In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The Company's financial assets consist of cash and cash equivalents, murabaha deposits, premiums receivable, investments and other receivables and its financial liabilities consist of outstanding claims, reinsurance balances payable, LTIP, policyholders' share of surplus from insurance operations, amount due to related parties and certain other liabilities. The fair values of financial instruments are not materially different from their carrying values. At 31 December 2013 and 31 December 2012, apart from the investments which are carried at fair value (note 6), there were no other financial instruments held by the Company that were measured at fair value.

- 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 2013 and 31 December 2012, all financial instruments which are fair valued are Level 2 instruments. There were no transfers between levels during the years ended 31 December 2013 and 31 December 2012.

32 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorized for issue by the Board of Directors on 19 February 2014, corresponding to 19 Rabi Al Thani 1435 H.