



Bupa بوبا

ANNUAL REPORT 2011

WORKING TOGETHER  
FOR HEALTHIER AND  
HAPPIER LIVES

[www.bupa.com.sa](http://www.bupa.com.sa)

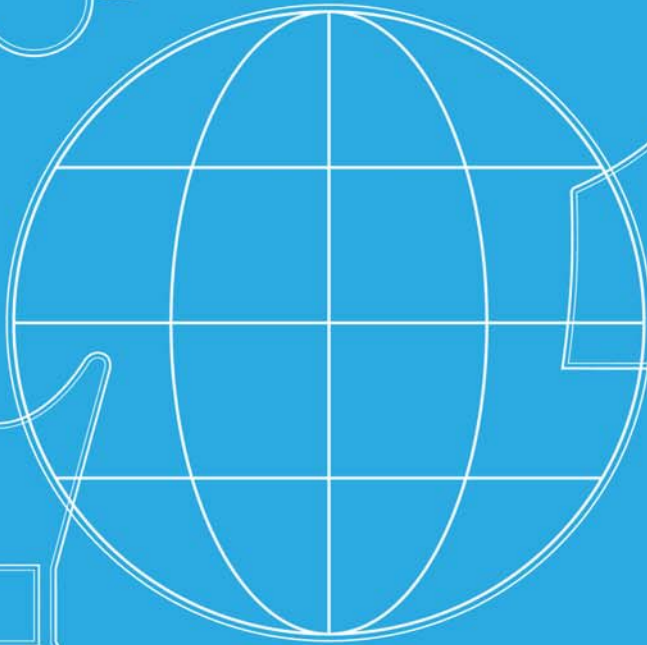
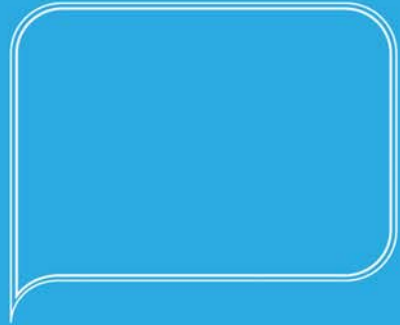




Custodian of the Two Holy Mosques  
**King Abdullah bin Abdul Aziz Al Saud**



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





# BUPA ARABIA ANNUAL REPORT 2011

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## OUR MISSION

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

## OUR VALUES

### CARING

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

### ENABLING

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

### RESPECTFUL

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

### DEDICATED

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

### ETHICAL

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

### ACCOUNTABLE

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



## CHAIRMAN'S MESSAGE

## WORKING TOGETHER TO IMPROVE HEALTH



Loay Nazer  
Chairman

### A Growing Sector

In 2011, the world economy has been under great pressure driven by the sovereign debt crisis and slow growth. By contrast, the Saudi market has maintained steady growth despite fluctuating world markets and regional turbulence.

Globally, there has been a continued and unsustainable rise in healthcare costs, threatening people's ability to access quality affordable healthcare. Combined with increased occurrence levels of chronic disease and adoption of overall unhealthy life styles, the pressure on the healthcare industry is forever mounting.

Saudi Arabia is no different to the developed markets' focus on the importance of driving the healthcare reform agenda. Saudi Arabia suffers a relatively low supply of hospitals and clinicians to service the severe and growing healthcare needs of the local and expatriate population. The government is investing in more hospitals and infra-structure and also encouraging private investment into healthcare. The challenge is not only to quickly support the Saudi healthcare industry but to also rethink the delivery of health services and shift the focus on keeping people well to address escalating costs and to encourage changing customer lifestyles and habits.

At Bupa Arabia we are convinced that the solution lies in working together: empowering individuals to make the right choices for their health, and in partnership with businesses, our regulators, the public health system and healthcare professionals.

### Our Unique Position

Bupa Arabia prides itself on being the preferred healthcare partner in the Kingdom due to its medical expertise and in-depth understanding of the needs of its clients and the dynamics of the Saudi health insurance sector.

The company delivered encouraging financial results in 2011 and managed to expand its corporate, retail and individual customer base, in spite of intense competition in the second half of the year. This led to a 20% growth in earned premium, a 25% increase in underwriting contribution and an 8% increase in the "underlying" profits of the business (after excluding one-offs and regulatory driven movements in bad debt provisions).

Our interests are directly aligned with our shareholders, members, clients and the entire health insurance market through our focus on leading edge customer service as well as generating greater operational efficiency. In 2011, we furthered our mission of taking care of the lives in our hands; by helping our members stay healthy, make informed decisions and obtaining the appropriate care from our partners in the provision sector.

Given intense competition and changing regulations, the Board of Directors maintained its vigilant focus in 2011 on the risk environment and on positioning Bupa Arabia for the future. This included monitoring and managing the economic risks in an evolving insurance industry, in addition to building partnerships and winning relationships with providers and industry stakeholders by finding common grounds for collaboration and benefit. It was also important to protect and maintain an adequate return on our investments without taking unacceptable risks where money market yields are low and equity markets were highly volatile.

### Challenging Industry Dynamics

During the year, the Saudi Arabian Monetary Agency (SAMA) enforced Article 69, which strongly encouraged the removal of extended payment terms for

Highlights of Bupa Arabia's 2011 financial results



customers. This initially reflected adversely on the private medical insurance industry's solvency and levels of bad debt, but these are being addressed as we progressively remove the option of long term credit from our customers. Throughout 2011, we engaged actively with management to ensure that the organisation remains resilient and responsive to these challenges. The Board of Directors drew from its collective business experience to oversee risk management, adopting and embedding comprehensive frameworks to identify principal risks to the business and the controls implemented to manage them. In line with the guidelines of the CMA, SAMA and CCHI, we set the tone at the top to foster a culture of shared values and integrity that is critical to the long-term success of the healthcare sector in Saudi Arabia. Our reputation for leading corporate governance and compliance practices continues to be the best in class.

### True to Our Purpose

Bupa's purpose is to help people live healthier and happier lives. Fundamental to this is our belief that healthy people need a healthy planet, which is why we have committed to empower people to make positive changes to be healthier in a sustainable way. We take our responsibility as a major healthcare company seriously and are increasingly involved in giving back to the communities in which we operate by contributing to a more health conscious population through our various health and wellbeing communications and by providing customer specific health solutions. Bupa Arabia was also active on the Corporate Social Responsibility (CSR) front in 2011. An agreement was signed with the Ministry of Social Affairs to provide free health insurance covering all children at orphanages under the Ministry's supervision. I am humbled to share with you that so far we have enrolled nearly 400 children from various institutes under this initiative, with an ambition to cover the remainder of the existing 3,000 orphans as we expand the program over the next few years.

### Recognizing Our Most Valued Assets

More than ever, Bupa Arabia recognizes the value of a healthier, engaged workforce, and initiated many programs for employee health and safety. We proactively connected with our employees in programs such as the "Bupa Global Challenge" to help raise health awareness at the work place. It is also important to feel the pulse of our employees and keep them motivated. The annual staff opinion poll reached all employees across the Kingdom which will help us to continuously update policies and remuneration packages to ensure we maximize employee satisfaction and retention.

I would like to especially thank all our clients, partners, staff, Board and Committee members for their continued commitment and contribution.

On behalf of the Board of Directors, I am pleased to present our annual report and accounts for 2011. I am delighted that Bupa Arabia for Cooperative Insurance Company has successfully held its leading position in the Saudi health insurance market and achieved the majority of its objectives in what has been a year full of challenges and accomplishments.

At Bupa Arabia we are convinced that the solution lies in working together: empowering individuals to make the right choices for their health, and in partnership with businesses, our regulators, the public health system and healthcare professionals.

“  
AT BUPA ARABIA  
WE ARE CONVINCED  
THAT THE SOLUTION  
LIES IN WORKING  
TOGETHER.”

Loay Nazer  
Chairman



## CEO'S MESSAGE:

IT'S A PRIVILEGE TO SHARE WITH YOU THE BUPA ARABIA ANNUAL REPORT FOR 2011, A YEAR IN WHICH WE CONTINUED TO GROW THE BUSINESS DESPITE VERY TOUGH MARKET CONDITIONS.



Tal Nazer  
CEO

In 2011 Bupa Arabia achieved strong results by delivering on its financial targets, realizing SR 1,928 million (20% increase on 2010) in earned revenue, due to customer numbers up 10%, with an underwriting contribution of SR 377 million (25% increase).

Reported profits have fallen from SR 71 m to SR 42 m, due to a significant increase in bad debt provisions, because of the enforcement of Article 69 by SAMA. Aside from this and some other one-offs, like for like underlying profits were up 8%, from SR 76 m to SR 82 m. We also strengthened our balance sheet in 2011, with an increase in cash/investments of SR 268 m (29% increase) to SR 1,185 m. This success has been underpinned by our customer centric approach with an increased focus on broadening our sales and marketing capabilities as well as driving excellence in operations (improving customer satisfaction levels) and launching new healthcare initiatives.

2011 however presented some tough challenges: the management of rising medical costs continues to remain a key challenge mainly driven by the shortage in clinical providers and the consequent rise in prices due to poor contestability. The latter half of 2011 also saw a fierce price war build in momentum and scale, with customer prices dropping up to 30% in some segments. This has damaged the profitability of the health market but will undoubtedly drive consolidation and we will emerge stronger from the challenge. 2011 also witnessed an increasing government oversight and enforcement of the SAMA implementing regulations, in particular Article 69 which constrained us from offering extended credit and forced us to consequently re-build our billing capability and change customers credit terms from 1<sup>st</sup> July 2011.

We have continued to be proactive in helping our customers, offering new and innovative solutions that deliver on their needs and enabling us to compete on a broader distribution front in such a fierce environment. Whilst we have reduced

prices on some of our products we have also ensured that we continued to deliver better products and services that reflect the Bupa Arabia standards. As always we have differentiated ourselves by providing new innovative programs that empower our customers and enable them to make better health decisions. Such as, our Corporate Health Lounge, "Cancer Safe" complimentary cancer screening, School Health Playground and the application of new technology to simplify the end-to-end healthcare experience for both consumers and care providers, and also the expansion of our provider network.

These outcomes are part of the consistent delivery as shaped by our long term strategy, to maintain and further strengthen the Bupa Arabia leadership in the healthcare market of Saudi Arabia. Our strategy stands on seven pillars, which are to broaden and deepen our distribution reach, improve branding Kingdom wide, continuously improve our service differentiation, establish healthcare leadership through new products and services, appropriately manage medical costs, build on our organisational capabilities and strengthen partnerships to play an active role in the implementation of market favourable regulations.

I am pleased to state that our forward momentum is strong and we are optimistic and prepared for continued growth in 2012 and beyond. We believe that Bupa Arabia is well positioned to meet that challenge as we emerge stronger from 2011.

Finally, I would like to thank the people of Bupa Arabia for their outstanding performance this year in serving our customers. We offer our thanks to you and our shareholders, for your continuing support.

Tal Nazer  
CEO

Net Earned Revenue  
(up 20%)

**SR 1,928 m**

CUSTOMER  
NUMBERS  
**UP 10%**

+29%

**SR 1,185 Million**

2011  
BALANCE  
SHEET

A decorative background featuring a ceramic pot with a yellow lid and black floral patterns, resting on a red table with intricate yellow and blue floral designs. The pot is positioned in the lower-left quadrant of the page.

# BUPA ARABIA BOARD MEMBERS

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

Eng. Loay Hisham Nazer is the Chairman of Bupa Arabia. He is also the founder and Chairman of the Nazer Group.

In 2007, Eng. Loay was appointed by the Saudi Council of Ministers as a Board member of the Cooperative Council for Health Insurance (CCHI), the official regulatory body for health insurance in Saudi Arabia, representing the private sector. He is a leading negotiator with various governmental institutions for the development of the insurance industry in Saudi Arabia. He was re-appointed again in 2010 to serve as a member of CCHI Board.

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

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

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

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

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

Chief Operating Officer, since 2006, for Bupa's International Markets. Bupa International Markets include; Australia, Hong Kong, Thailand, India, Saudi Arabia, China and Latin America; whilst the Bupa International brand trades globally.

Bill is a Director of 16 companies, Chairman of Bupa Asia, Chairman of Bupa Insurance Florida, sits on the Board of Bupa Arabia PLC and the Board of Bupa's joint venture in India, Max Bupa.

### 4. Mr. Abdulhadi A. Shayif, Director-Independent

Mr. Abdulhadi A. Shayif is a Board member and the Chairman of the Audit Committee at Bupa Arabia. After graduating in Economics from the American University of Beirut he started his distinguished career with the National Commercial Bank and was later appointed the General Manager and member of the Board of directors and executive committee. In addition to Bupa Arabia.

Mr. Abdulhadi A. Shayif also sits on a number of Boards within and outside the Kingdom of Saudi Arabia.

In Saudi Arabia, Mr. Abdulhadi A. Shayif serves as a Board member and the Chairman of various committees at the Saudi Hollandi Bank, Arab Cement Company and the Deutsche Securities Saudi Arabia.

Outside Saudi Arabia, he is a Board member at Byblos Bank in Beirut and the Chairman of FWU International advisory Board, Munich.

Previously, he has also served as a Board member at the Saudi Railways Organization, the General Organization for Social Insurance, and a number of other Boards.

He Received the Grand Cordon of the Order of Al-Istiqlal (Independence) from King Abdullah the Second of the Hashemite Kingdom of Jordan.

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

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

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

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

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

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

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

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

### 7. Mr. Iñaki Ereño, Director

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

Mr. Iñaki Ereño is the CEO of the Bupa Sanitas Group, as well as the health insurance business, including Sanitas Hospital, Sanitas Servicios de Salud, Health Dialog España and Manises Hospital in Valencia. Prior to becoming CEO in December 2008, Mr. Iñaki Ereño was the Sanitas General Manager of Clients, Marketing and Communication. He is also the president of the Sanitas Foundation.

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

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

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

## 64 YEARS OF HEALTHCARE AND WELLNESS

The Bupa Group was established in 1947 in the United Kingdom with one core purpose, 'to prevent, relieve and cure sickness and ill health of every kind'. More than 60 years hence, with over 10.8 million customers in 191 countries, Bupa remains true to this core principle across all its businesses and geographies, from Europe, Asia, the Americas, Africa and the Middle East.

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

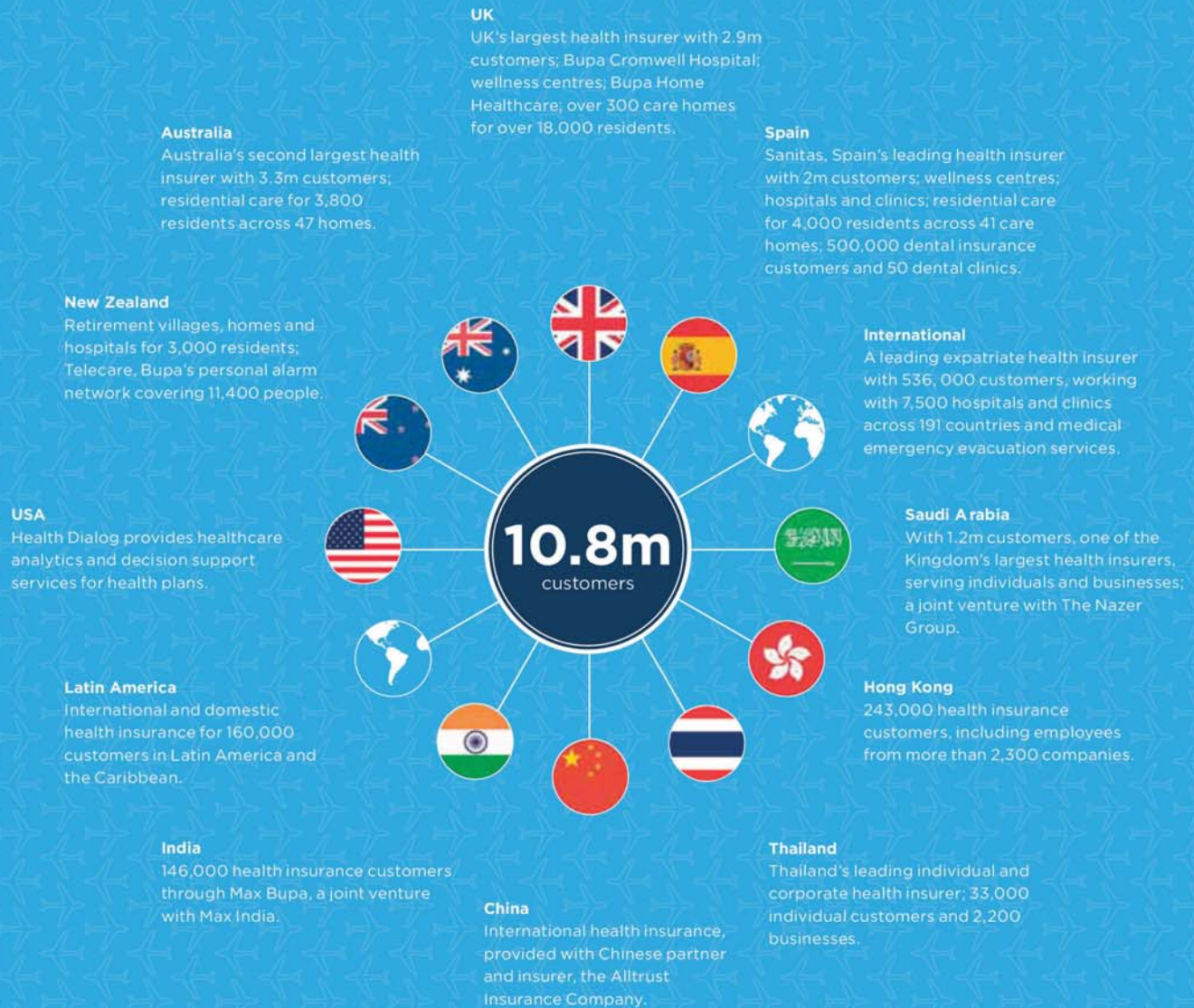
Focused solely on its customers, Bupa Group is a private company with no shareholders. As such, all profits are reinvested in the company to provide more and better health and care to its customers around the world.

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

## BUPA GROUP

- Runs health insurance operations in 8 countries. Covering 10.8 million people internationally.
- SR 47.6 bn turnover in 2011.
- 1000 medical emergency evacuations for Bupa customers in 2011.
- Works with 7,500 hospitals and clinics worldwide.
- Operates hospitals and primary care centres in UK and Spain.
- Operates more than 400 care homes and retirement villages in the UK, Spain, Australia and New Zealand.

# BUPA AROUND THE WORLD



## COUNTRIES

**191**

We provide health insurance to customers all around the world.

## RESIDENTS

**29,000**

Bupa is a world leader in aged care, providing dementia nursing and residential care in Spain, the UK, Australia and New Zealand.

## HOSPITALS

**7,500**

We offer access to a network of hospitals and clinics and more than 200,000 medical providers worldwide.

## YEARS

**64**

Bupa was formed over six decades ago. Our history goes back even further to the 1930s in Australia.

BUPA ARABIA  
COMPETITIVE  
ADVANTAGES

# COMPETITIVE ADVANTAGES

As we navigated through the challenges of 2011, we continued to focus on delivering enduring value for our stakeholders and society through both what we do and how we do it.

To this end we kept our focus on the following key enablers, which are the foundation of our success and upon which we strived to build throughout 2011:

### Experienced Management Team and Staff:

Bupa Arabia has an experienced and able leadership team specialized in the health insurance sector. Three of the Executive team together have over 40 years experience in the health sector, in insurance and provision, within and outside of the Kingdom. Our retention levels, number of long term employees and staff opinion polls tell us we have the skills, appetite and ambition to continue to lead this sector.

### International Healthcare experience:

Our members benefit from the assurance of being part of a secure, worldwide organisation – the Bupa Group – one which is entirely focused on health and care, employing over 50 thousand staff and servicing over 10m insured members in 190 countries. Bupa Arabia benefits from our ability to draw upon a world of healthcare expertise and experience from where we can “steal with pride” new services, products, systems and capabilities to quickly add further value to our clients.

### Specialization in Private Medical Insurance:

We take pride in being the first specialized medical insurer of the Kingdom of Saudi Arabia, and with 14 years of local Saudi market experience, underpinned by our global network of Bupa businesses we are best placed to provide our clients with a unique and specialized range of healthcare services.

### Fully integrated information technology system:

We continuously invest in the functionality, scalability and robustness of our IT infrastructure. In 2011, we introduced a new document management system to automate and streamline

processes, plus we re-built our business continuity plans and created a disaster recovery capability. We also opened 9 retail branches in 2011 and supported this expansion with further enhancements to our sales and operations systems.

### Customer service culture:

Delivering great customer services is a company-wide passion at Bupa Arabia. We constantly review our services and take positive steps to provide better service to our members. We believe that the delivery of great customer service is carried out by enthusiastic, dedicated teams throughout the organisation, and every employee needs to embrace the customer services mindset.

Many customer led initiatives were launched in 2011, such as “Up Your Service Passion” to upgrade customer services and “Bupa Connections” to better understand our customers by Bupa Arabia employees visiting partner hospitals to witness the customer experience on the ground and talk to our customers directly.



## Our services, setting the standards in care

- 
**Relationship Management**  
 a dedicated team of professionals focused exclusively on building relationships with Bupa Arabia clients
- 
**24/7**  
 award-winning, dedicated toll free number for Bupa Arabia members available 24 hours a day
- 
**Bupa Active**  
 cutting-edge online services exclusively for Bupa Arabia members
- 
**Msg.Bupa**  
 free SMS service that provides instant updates to members
- 
**Automated pre-authorization**  
 on time, real time request approval process for Bupa Arabia members
- 
**Basmah**  
 trendsetting biometric security service with unmatched record safety
- 
**Doctor on Phone**  
 helpline for exclusive use of Bupa Arabia members who require medical advice by telephone
- 
**Roving Doctor**  
 a dedicated team of medical professionals that ensure the health and wellbeing of Bupa Arabia members at hospitals
- 
**International SOS**  
 a worldwide emergency service that Bupa Arabia members can utilize during life threatening medical emergencies while outside of Saudi Arabia

# RECOGNIZING OUR CARE

## SHOWCASING OUR AWARDS

### 2010



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

### 2009



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

### 2008



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

### 2007



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

### 2006



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





BOARD  
REPORT

# BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY

# BOARD OF DIRECTORS REPORT

## FOR THE PERIOD ENDED 31/12/2011:

The Board of Directors of Bupa Arabia for Cooperative Insurance Company is pleased to present the annual report covering the Company's financial results and achievements, followed by the audited financial statements and notes for the twelve month period ended 31 December 2011. This Board report includes the most important developments, financial results, operational activities and disclosures in compliance with the rules and regulations of the Kingdom of Saudi Arabia.

### 1. Main activities:

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

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

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

The prior year financial statements, for the twelve month period ended 25/03/1432 H, 31/12/2010 G, represented the second statutory financial statements of the Company.

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

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

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

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

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

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

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

During 2011, on 261432/07/ H, 282011/06/ G, the company successfully renewed its SAMA license qualification for a further three year period to 081435/08/ H, 062014/06/ G.

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

During 2011, on 031432/11/ H, 012011/10/ G, the company successfully renewed its CCHI license qualification for a further three year period to 191435/05/ H, 192014/03/ G.

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

#### • 5.1 Strategy review phase implementation progress:

The Company progressed the first phase of its strategy implementation which had arisen from the completed, and Board approved, prior year strategy review of its prime business activities. Elements of the strategy include further enhancements to core business processes in support of the further development of the Company's customer service/healthcare leadership and the development of new distribution channels and services to small and medium sized enterprises (SMEs).

#### • 5.2 Corporate governance enhancements:

The Company restructured and expanded its resources in Finance and also increased resources in some of the related control assurance functions through increased Internal Audit Services (IAS) resources and also the appointment of a Risk Officer.

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

The Company implemented an approved Long term incentive plan, for certain senior executives, during 2010 and a custodian was appointed for the independent management of the shares acquisition if such election was made by the senior executive(s). The custodian obtained approval for the Bupa Arabia LTIP from the CMA during 2010 and at 06/02/1433 H, 31/12/2011 G, the shares numbered 147,332 (purchase value SR2,910k). The Company communicated the details of the LTIP during 2010 to SAMA as required in terms of Article 57. An outcome of the LTIP is that some of the Company's own shares are held by the custodian on behalf of the senior executive(s) and as a result these have been classified as "Shares held under Long-term incentive plan by the custodian". An amount of SR1,553k has additionally been accrued for the LTIP entitled employees' 2011 year entitlements for which the election decision has not yet been made. More details are disclosed within the notes to the financial statements.

#### • 5.4 New sales outlets:

In accordance with the 2010 approval received for twenty-three new Sales outlets (per SAMA's letter numbered 51747/MT/1987 dated 05/11/1431 H, 19/04/2010 G), the Company successfully opened a further seven outlets during 2011 and will be opening further outlets during 2012.

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

The Chief Human Resources Officer (CHRO), a member of the CET, left the business during the year and the relevant regulatory authorities were informed. A replacement CHRO has been identified and will commence employment in the second quarter of 2012, subject to regulatory approval having been received. The CET comprises the Chief Executive Officer, the Chief Financial Officer (appointed July 2010), the Chief Commercial Officer, the Chief Operations Officer (appointed April 2010) and the Chief Human Resources Officer (currently vacant).

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

The Company further enhanced Business Continuity Plans (BCP) and Disaster Recovery (DR) plans through the implementation of a Document Management System (DMS) and the establishment of an alternate data centre in an offsite Riyadh office.

The Company reviewed and updated its BCP and DR processes through a business continuity management planning process under which critical activities, resources and processes of Bupa Arabia were identified and developed to ensure a limited impact to operations in the event of a disaster.

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

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

During 2011, in collaboration with its executives and with Board approval, the Company embarked on delivering free quality health insurance coverage to all orphans residing in the Kingdom. The selected orphanages are located in all regions of the Kingdom and registered under the Ministry of Social Services. During 2011 Bupa Arabia succeeded in providing cover for nearly four hundred orphans in six orphanages and aims to increase the reach of this program during 2012.

#### • 5.8 Shariah compliance developments:

During 2011 Bupa Arabia developed its Shariah compliance agenda through the appointment of the Shariyah Review Bureau to evaluate the Company's operations in terms of Shariah compliance. The Shariyah Review Bureau has completed an examination of the Bupa Arabia bank accounts and financial investments and have confirmed the Shariah status of the same.

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

#### • 6.1 Competition and market dynamics:

The economic backdrop for the health insurance market in the Kingdom continues to be encouraging. A budget surplus of SR306b (14% of GDP) was recorded in 2011, with a non-oil GDP growth of 6.8%. Government spending grew by 25% with manufacturing, construction, transport and communications all expanding at double digit rates. Health and social affairs was awarded a 26% rise in its budget for 2012, with 17 new hospitals to be started in addition to the 130 under construction. The country still has a growing population with a high incidence of chronic health outcomes, which will only compound as the population ages. Furthermore, with rising consumerism, the government and the private sector will have a major challenge in satisfactorily addressing this growing healthcare demand.

The prevailing competitive landscape became even more challenging during 2011. An aggressive price war was initiated by a few competitors to capture market share and this has subsequently depressed prices by some 20-30% in some product categories. In addition, SAMA has enforced Article 69, necessitating the removal of

flexible payment terms for customers, or otherwise Bupa Arabia will suffer high bad debt provisions and solvency issues over inadmissibility of assets. The CCHI has also removed some of our credit management intermediate steps which is another constraint on standard business practices. Collectively these market and regulatory pressures are likely to lead to some market consolidation in the medium term. With the majority of corporate businesses now having health insurance, the regulatory driven pursuit for market share through new business is over and the focus will grow on retention through high quality service and competitive pricing. Bupa Arabia believes though that there is still scope for good growth, but this will be more evident in the SME and family sectors where there is the opportunity for stricter enforcement as well as better products and high quality service to satisfy need.

#### • 6.2 Provider capacity:

The shortage of providers continues to be a concern, as well as the risk of “over-treatment” of our members in a “fee for service” environment. Over recent years, the dramatic expansion of the insured private medical market has left the incumbent care providers at near full capacity and thus with little commercial incentive for them to ensure that a high quality, cost effective and timely service exists. Without further capacity and/or new regulations it is our customers who will continue to suffer the consequences of high medical inflation, “overtreatment”, inadequate customer service at the point of hospital provider treatment, and the risk of a wide variation in health outcomes.

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#### • 6.3 Financial strength:

The Company strengthened its profitability and balance sheet significantly in 2011. The Company's objective is to provide the most appropriate and cost effective healthcare treatment for its members whilst ensuring it makes a sustainable commercial return and remains sufficiently solvent (to always honour its members cover and meet their claim payments).

As is detailed within section 10, earned revenue increased by 20%, the net underwriting result increased 25% and “underlying” trading results increased by 8.2% (aside from one offs – bad debt provision increase, additional CCHI levy, Goodwill consideration fees and investment income). The Company also increased its cash, cash equivalent and investment balances by SR268m in the twelve month period, an increase of 28%.

#### • 6.4 Healthcare specialist:

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

#### • 6.5 Risks:

The key risks that the Company's management are actively managing or planning for are:

- Monitoring and managing in 2012 the economic risk of a sustained price war, as well as suspected cartel behaviour from hospital operators.
- Monitoring the possible addition to the high regulatory fees, that consume north of 40% of operating profits, the potential risk of additional regulatory charges (value added tax (VAT) and a new Dhamaan Fund (to cover losses in excess of annual limits)) which could add costs to insurers and in turn also raise prices to consumers.
- Ensuring the availability and retention of suitably skilled personnel for continued growth and the essential quality of service delivery.
- Maintaining an adequate return on the Company's cash/investments without taking unacceptable risks in a world where money market yields are low and equity markets are highly volatile.
- Ensuring that the Company's data security standards are in line with best practice.
- Monitoring and managing the collection of debtors amidst the significantly changed insurance market collection dynamics (the 2011 SAMA Article 69 application increased solvency requirements and in response to which, Bupa Arabia implemented new, more challenging, customer payment terms). Additionally, the CCHI required the removal of credit control suspension processes from the Company's debtor management tools, the impact of which, from 01/01/2012, will also need to be monitored and fully understood. There is a risk that the overall debtor days will deteriorate as a consequence.

### 7. Financial statements presentation:

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

For comparative purposes the results contained within this Board report use the twelve month period ended 6/02/1433 H, 31/12/2011 G as a comparative versus the results for the twelve month period ended 25/01/1432 H, 31/12/2010 G.

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

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

## 9. Bupa Arabia business results:

### • 9.1 Summary profit results:

	2009 SR000s 12 months	2010 SR000s 12 months	2011 SR000s 12 months
Gross written premiums	1,347,337	1,749,390	1,993,251
Net earned premiums	1,205,351	1,608,908	1,927,629
Total revenue	1,208,017	1,613,109	1,930,583
Gross claims paid	889,057	1,232,218	1,523,835
Net claims incurred	973,422	1,308,103	1,551,030
Total expenses	175,073	223,888	324,649
Surplus from insurance operations	59,522	81,118	54,904
Shareholders' net income	57,732	70,798	42,244

Excluding investment income, the bad debt provision movement (SR34.0m), and one-offs (the outstanding Goodwill consideration fees (SR3.4m) and the additional retrospective 2009 CCHI levies (SR5.2m)) the "underlying" trading results for each of the respective years would have been SR49.4m, SR76.0m and SR82.2m respectively. The "underlying" trading result for 2011 therefore represents an increase of 8.2% versus the "underlying" trading result of 2010.

### • 9.1 Summary profit results:

Insurance Operations' Assets	2009 SR '000	2010 SR '000	2011 SR '000
Cash and cash equivalents	444,162	346,908	551,914
Murabaha deposits	-	-	58,000
FVIS investments	-	257,178	187,699
Prepayments and other assets	28,823	20,881	30,069
Premiums receivable - gross	427,197	520,004	403,936
Allowance for doubtful premium receivable	(19,799)	(30,164)	(64,106)
Premiums receivable - net	407,398	489,840	339,830
Deferred policy acquisition costs	14,764	15,470	21,097
<b>Total Insurance Operations' Assets</b>	<b>895,147</b>	<b>1,130,277</b>	<b>1,188,609</b>

Shareholders' Assets	2009 SR '000	2010 SR '000	2011 SR '000
Cash and cash equivalents	308,789	13,631	13,631
FVIS investments	-	299,462	373,534
Other receivables	613	-	244
Amount due from insurance operations	39,580	48,761	-
Goodwill	98,000	98,000	98,000
Furniture, fittings and equipment	21,025	38,703	41,565
Statutory deposit	40,000	40,000	40,000
<b>Total Shareholders' Assets</b>	<b>508,007</b>	<b>538,557</b>	<b>566,974</b>

Total Assets	2009 SR '000	2010 SR '000	2011 SR '000
<b>Total Assets</b>	<b>1,403,154</b>	<b>1,668,834</b>	<b>1,755,583</b>

Insurance Operations' Liabilities And Surplus	2009 SR '000	2010 SR '000	2011 SR '000
<b>Insurance Operations' Liabilities:</b>			
Unearned premiums	522,517	659,819	722,739
Outstanding claims	275,259	352,379	381,265
Reinsurance balance payable	89	1,269	702
	797,865	1,013,467	1,104,706
Accrued expenses and other liabilities	51,750	50,508	59,503
Obligation under Long-Term Incentive Plan (LTIP)	-	3,477	4,846
	849,615	1,067,452	1,169,055
Amount due to shareholders' operations	39,580	48,761	-
Policyholders' share of surplus from insurance operations	5,952	14,064	19,554
<b>Total Insurance Operations' Liabilities And Surplus</b>	<b>895,147</b>	<b>1,130,277</b>	<b>1,188,609</b>

<b>Shareholders' Liabilities And Equity</b>			
<b>Shareholders' Liabilities</b>	<b>2009 SR '000</b>	<b>2010 SR '000</b>	<b>2011 SR '000</b>
Accrued expenses and other liabilities	11,336	13,855	21,352
Accrued Zakat and income tax	10,318	7,905	15,437
Amount due to a related party in respect of goodwill	49,000	20,990	3,355
Amount due to related parties	-	2,818	4,400
<b>Total Shareholders' Liabilities</b>	<b>70,654</b>	<b>45,568</b>	<b>44,544</b>
<b>Shareholders' Equity</b>			
<b>Shareholders' Equity</b>	<b>2009 SR '000</b>	<b>2010 SR '000</b>	<b>2011 SR '000</b>
Share capital	400,000	400,000	400,000
Shares held under Employees's Share Scheme	-	(2,709)	(2,910)
Statutory reserve	9,534	23,694	32,143
Retained earnings	27,819	72,004	93,197
<b>Total Shareholders' Equity</b>	<b>437,353</b>	<b>492,989</b>	<b>522,430</b>
<b>Total Shareholders' Liabilities And Equity</b>	<b>508,007</b>	<b>538,557</b>	<b>566,974</b>
<b>Total Liabilities Insurance Operators' Surplus And Shareholders' Equity</b>	<b>1,403,154</b>	<b>1,668,834</b>	<b>1,755,583</b>

Investments and cash have grown significantly over the period and during 2011 increased to SR1,225m from SR957m at the end of 2010 (an increase of SR268m, +28%). The growth in cash, during the year, has been achieved despite one-off cash flow items such as the remaining initial goodwill settlement payment (SR28m) and the additional CCHI 2009 levy payment (SR5m).

## 10. Bupa Arabia financial highlights:

### • 10.1 Summary key performance indicators:

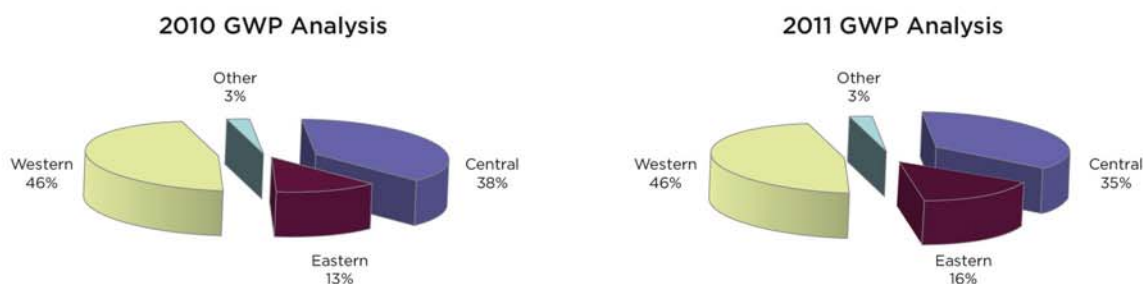
<b>Description</b>	<b>2010 SR000s (12 Months)</b>	<b>2011 SR000s (12 Months)</b>	<b>2011 Change SR000s</b>	<b>2011 Change %</b>
Gross written premiums	1,749,390	1,993,251	243,861	14%
Net earned premiums	1,608,908	1,927,629	318,721	20%
Total expenses	230,163	331,565	101,402	44%
Total operating expense ratio	14.3%	17.2%	2.9%	20%
Surplus of insurance operations	81,118	54,904	(26,214)	-32%
Policyholders' share of insurance operations' surplus	8,112	5,490	(2,622)	-32%
Net shareholders' income	70,798	42,244	(28,554)	-40%
Weighted average no of ordinary shares (thousands)	39,942	39,865	(77)	0%
Basic earnings per share (Saudi Riyals)	1.77	1.06	(1)	-40%

In 2011 the Company sustained its momentum with the number of lives increasing by 10% over 2010. In conjunction with price increases the revenue earned improved by 20% despite difficult market conditions arising from unfavourable competitor activity on price in the second half of the year. The increased earned combined with the improved loss ratio (claims to earned) resulted in an increase in the underwriting result of 25%. The overheads of the business increased as a result of an additional required allowance for doubtful debts (regulatory driven) and additional costs associated with the volume of customers and the extra investment in capability (distribution, brand, infrastructure, operations etc).

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

<b>Description</b>	<b>2010 SR000s (12 Months)</b>	<b>2011 SR000s (12 Months)</b>	<b>2011 Change SR000s</b>	<b>2011 Change %</b>
Central	663,395	25,801	689,196	4%
Eastern	227,523	100,019	327,542	44%
Western	813,769	107,895	921,665	13%
Other	44,703	10,145	54,848	23%
<b>Total Gross Written Premiums</b>	<b>1,749,390</b>	<b>243,860</b>	<b>1,993,251</b>	<b>14%</b>

The written premium increased by 14% to SR1,993m as a result of continued strong sales performance in both new and renewal business. The Company writes only health insurance business in Saudi Arabia and its revenue is currently concentrated predominantly in the main Central, Western and Eastern regions of the country. As illustrated by the results the 2011 geographical gross written premium mix is almost identical to that of 2010:



#### • 10.3 Net Claims Incurred:

Description	2010 SR000s (12 Months)	2011 SR000s (12 Months)	2011 Change SR000s	2011 Change %
Net claims incurred	1,308,103	1,551,030	242,927	19%

#### • 10.4 Total operating expenses:

Description	2010 SR000s (12 Months)	2011 SR000s (12 Months)	2011 Change SR000s	2011 Change %
Insurance operations' operating expenses	223,888	324,649	100,761	45%
Shareholder operations' operating expenses (G&A)	6,275	6,916	641	10%
<b>Total operating expenses</b>	<b>230,163</b>	<b>331,565</b>	<b>101,402</b>	<b>44%</b>
<b>Total operating expense ratio to earned</b>	<b>14.3%</b>	<b>17.2%</b>	<b>2.9%</b>	<b>20%</b>

The total operating expense ratio, to earned, at 17.2%, was a deterioration versus the previous twelve month period at 14.3% and was mainly driven by the additional required allowance for doubtful debts. The increase in the Shareholder operations' operating expenses was mainly due to a one-off cost associated with the goodwill consideration compensation fees, of SR3,355k, offset by reduced costs, versus the prior year, relating to the Company's 2010 strategy review process. The increase in the Insurance operations' expenses is further described in section 10.5.

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

Description	2010 SR000s (12 Months)	2011 SR000s (12 Months)	2011 Change SR000s	2011 Change %
CCHI and SAMA levies	25,991	29,899	3,908	15%
Bad debt provision (release)/expense	10,365	34,122	23,757	229%
Other sales and marketing expenses	87,333	118,148	30,815	35%
<b>Total S&amp;M Expenses-insurance Operations</b>	<b>123,689</b>	<b>182,169</b>	<b>58,480</b>	<b>47%</b>
<b>Total G&amp;A Expenses-insurance Operations</b>	<b>100,199</b>	<b>142,480</b>	<b>42,281</b>	<b>42%</b>
<b>Total Insurance Operations Operating Expenses</b>	<b>223,888</b>	<b>324,649</b>	<b>100,761</b>	<b>45%</b>

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

- The CCHI and SAMA levies expense for the twelve month period ended 31/12/2011 includes a retrospective CCHI levy for the 2009 year of SR5,225k.
- The increase in the allowance for doubtful premiums receivable, for the twelve month period ended 31/12/2011, was due to the changed Article 69 interpretation enforcement, from an invoiced aged basis to a written inception aged basis (as per the SAMA regulations).
- The increase in the other Sales and marketing expenses was due to increased marketing spend, staff costs and commissions in support of the brand development and extending the Company's retail distribution.

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

The more significant increase in the Insurance operation's general and administration expenses during the year related to staff costs, incurred due to enhancing the organisational capability in support of the Company's customer growth, and other costs in the form of full year annual costs associated with the Company's Jeddah head office.

• 10.6 Surplus from insurance operations:

Description	2010 SR000s (12 Months)	2011 SR000s (12 Months)	2011 Change SR000s	2011 Change %
Surplus from insurance operations	81,118	54,904	(26,214)	-32%

The decrease in the surplus from insurance operations was mainly due to the increase in the allowance for doubtful premiums receivable, and increased expenses, more than offsetting the improved underwriting result. The increase in operating expenses as described per 10.4 and 10.5.

• 10.7 Investment income:

Description	2010 SR000s (12 Months)	2011 SR000s (12 Months)	2011 Change SR000s	2011 Change %
Insurance operations' investment income	3,820	2,341	(1,479)	-39%
Shareholder operations' investment income / (loss)	4,067	(254)	(4,321)	-106%
<b>Total Investment Income</b>	<b>7,887</b>	<b>2,087</b>	<b>(5,800)</b>	<b>-74%</b>

Investment income during the year reduced versus the previous year, due mainly to a one-off SR5m equity exit loss, but returns were also impacted by falling interest rates, due to excess liquidity in the Saudi market place.

• 10.8 Net shareholders' income:

Description	2010 SR000s (12 Months)	2011 SR000s (12 Months)	2011 Change SR000s	2011 Change %
Net shareholders' income	70,798	42,244	(28,554)	-40%

The decrease in the net shareholders' income for the twelve month period was driven mainly by the reduced surplus from insurance operations as a result of the increase in the allowance for doubtful premiums receivable but was also impacted by the increased costs associated with increasing the organisation capabilities including the expansion of distribution channels.

• 10.9 Summary statement of financial position:

Description	2010 SR000s at 31/12/10	2011 SR000s at 31/12/11	2011 Change SR000s	2011 Change %
Insurance operations' assets	1,130,277	1,188,609	3,908	15%
Shareholder operations' assets	538,557	566,974	23,757	229%
<b>Total Assets</b>	<b>1,668,834</b>	<b>1,755,583</b>	<b>86,749</b>	<b>5%</b>
Insurance operations' liabilities and surplus	1,130,277	1,188,609	58,332	5%
Shareholders' liability	45,568	44,544	(1,024)	-2%
Shareholders' equity	492,989	522,430	29,441	6%
<b>Total Liabilities, Surplus And Shareholders' Equity</b>	<b>1,668,834</b>	<b>1,755,583</b>	<b>86,749</b>	<b>5%</b>

The increase in liabilities during the twelve month period was due mainly to an increase in the technical reserves and this was driven by the growth in written premiums during the twelve month period. The technical reserves increased by SR91,806k during 2011. During 2011 the Company generated SR303,953k of net cash from its operating activities (SR269,006k and SR34,947k from insurance operations and shareholder operations respectively).



• 10.10 Total assets:

Description	2010 SR000s at 31/12/10	2011 SR000s at 31/12/11	2011 Change SR000s	2011 Change %
Total assets	1,668,834	1,755,583	86,749	5%

The increase in total assets during the twelve month period was due mainly to the net increase of cash and cash equivalents/investments (a combined net increase of SR263,006k) but offset by a reduction in net premiums receivable of SR150,010k.

• 10.11 Cash and cash equivalents:

Description	2010 SR000s at 31/12/10	2011 SR000s at 31/12/11	2011 Change SR000s	2011 Change %
Insurance operations' cash and cash equivalents	346,908	551,914	205,006	59%
Insurance operations' murabaha deposits	-	58,000	58,000	100%
Shareholder operations' cash and cash equivalents	13,631	13,631	-	0%
<b>Total Cash And Cash Equivalents</b>	<b>360,539</b>	<b>623,545</b>	<b>263,006</b>	<b>73%</b>

The increase in cash and cash equivalents was due mainly to the reduction in net premiums receivable during the year.

• 10.12 Investments:

Description	2010 SR000s at 31/12/10	2011 SR000s at 31/12/11	2011 Change SR000s	2011 Change %
Insurance operations' investments	257,178	187,699	(69,479)	-27%
Shareholder operations' investments	299,462	373,534	74,072	25%
<b>Total investments</b>	<b>556,640</b>	<b>561,233</b>	<b>4,593</b>	<b>1%</b>

The SR550 million investment placement remains under the management of the same external third party as originally approved by the Board and Investment Committee during the prior year. An amount of SR75 million was payable to the shareholders' operations by insurance operations and was settled by transfer of investments of an equivalent amount to shareholders' operations as at 31/12/2011.

• 10.13 Total premiums receivable, net:

Description	2010 SR000s at 31/12/10	2011 SR000s at 31/12/11	2011 Change SR000s	2011 Change %
Total premiums receivable, net	489,840	339,830	(150,010)	-31%

The reduction in total net premiums receivable was due to the implementation of new, more up front based, payment terms introduced into the market place by the insurance industry as a result of the regulatory changed Article 69 interpretation, which was enforced from 01/01/2011.

• 10.14 Technical reserves:

Description	2010 SR000s at 31/12/10	2011 SR000s at 31/12/11	2011 Change SR000s	2011 Change %
Unearned premium reserves	659,819	722,739	62,920	10%
Claims reserves	352,379	381,265	28,886	8%
<b>Total reserves</b>	<b>1,012,198</b>	<b>1,104,004</b>	<b>91,806</b>	<b>9%</b>

The growth in the technical reserves is due to the growth in written premium and the unearned premium reserves at 31/12/2011 represent 36.3% of the annual gross written premium (versus 2010 at 37.7%) and the claims reserves represent 24.6% of the annual net claims incurred (versus 2010 at 26.9%). The claims reserves have been verified as accurate, at 31/12/2011, by an independent actuary.

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

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

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

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

### • 12.1 Sales and marketing:

To make its products and services more accessible to a wider audience, Bupa Arabia has continued in 2011 to enhance its sales activities and strengthen its distribution channels through the enlargement of well-trained sales teams (both Field and Telesales) and the opening of seven new sales outlets across the Kingdom. As a result Bupa Arabia now has a presence in Khamis Mushait, Tabouk, Madinah, Taif, Makkah, Bureidah and Jizan, in addition to Jeddah, Riyadh and Khobar.

Bupa Arabia has carried out marketing and advertising campaigns throughout the year with the objective of promoting its pioneering health insurance products and services. This has underpinned a 10% growth in the number of customers and a 20% increase in earned revenue over the year. The Company also continued its wellness campaigns for clients, which have helped many members to deal with common health issues and maintain a healthy lifestyle. This was done through conducting several seminars on important health topics (such as swine-flu, anti/quit smoking, diabetes prevention and control of complications, respiratory allergies, first aid and CPR seminars/training). In 2011 we also introduced a Cancer Safe initiative, as Bupa Arabia sees diagnosis and prevention as the better option for customer service. Bupa Arabia also created a virtual "Health Lounge" which was placed with several clients and allowed clients' staff members to interact with Bupa Arabia's health experts and further raised our members' awareness about the importance of health and care.

### • 12.2 Operations management and customer service:

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

Bupa Arabia has also continued to invest in its processes, systems and people capabilities to optimise its medical quality decision making process, and maintain a high performance culture and service mindset. This has been driven in 2011 through the company wide launch of an "Up Your Service Passion" staff engagement programme.

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

### • 12.3 Human resources:

During 2011, the Human Resources department focussed on meeting the resource demands of a growing business (headcount increased by over 200 to meet growing customer needs and services) as well as raising selection standards and training quality. The Company also increased the Saudisation rate to reach just over 50% (Platinum) and we are proud to support gender equality with a female staff amounting to 27%. Training has been a main focus; the Company conducted thirteen different training programmes (including the SAMA required certified IFCE training (327 people trained)), as well as the launch of the Bupa Academy and a Continuous Professional Development (CPD) program.

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

The Company continued to invest in its IT systems and capabilities to ensure it has the most robust systems to deal with future growth and in parallel, invested in technology as a driver for future customer service enhancements. In 2011, the Company implemented its Business Continuity and Disaster Recovery Plans. In addition, it introduced a document management system to both improve efficiency and resilience in case of a fire/disaster. The Company will continue to employ the latest customer service technologies to maintain its pioneering position in a highly competitive market. This is augmented by a new Project Management Office (PMO) team that supports Operations to deliver projects on time and within budget.

### • 12.5 Finance:

During the year the Company invested efforts in re-structuring the Finance department in order to facilitate its enhanced support to the business in the regulated, publicly listed, company environment. The Finance recruitment effort resulted in a significant 2011 growth in Finance resource capacity and the new structures will be finalised and embedded during 2012 after the commencement of employment of some of the additional senior Finance resources.

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

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

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

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

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

During the fourth Ordinary General Assembly Meeting of the shareholders (on 16/04/1432 H, 21/03/2011 G) the election of the Board members for the new three year cycle resulted in the following being appointed to the Board; Eng. Loay Nazer, Mr. William Ward, Mr. Dean Holden, Mr. Ignacio Iribarren, Mr. Aamer Ali Reza, Mr. Abdulhadi Shayif, Mr. Saleh Al-Jasser and Mr. Tal Nazer.

As a result of the new three year cycle appointments the following changes in the Board of Directors took place:

Outgoing and date	Incoming and data	Representing
Eng. Zuhair Hamid Fayez 29/03/2011	Mr. Abdulhadi Ali Saif Shayif 29/03/2011	Independent

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

The table below details salaries, emoluments, allowances and bonuses received by board members and the top five senior executives, which includes the CEO and CFO, from 01/01/2011 to 31/12/2011:

Description	Executive Member	Non-Executive Members/ Independants	Five Senior Executives including CEO and CFO
Salaries and emoluments	120	750	6,979
Board Allowances	23	128	-
Bonuses	-	-	1,793
LTIP and EOS	-	-	2,343
<b>Total SR000s</b>	<b>143</b>	<b>878</b>	<b>11,115</b>

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

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

The Bupa Arabia equities held by the Board members, and their immediate family members, of Bupa Arabia are as detailed below at 31/12/2011:

Interest of the Company's Board members and their spouses and minor children in the shares or debt instruments of the Company or any of its subsidiaries						
Name of Director	Opening 31/12/2010		Closing 31/12/2011		Change	
	No of shares	Debt Instruments	No of shares	Debt Instruments	In shares	%
Eng. Loay Hisham Nazer	10,850	-	10,850	-	-	-
Mr. Tal Hisham Nazer	1,000	-	91,500	-	90,500	9050%
Mr. Aamer Abdullah Ali Reza	6,000	-	6,000	-	-	-
Mr. Abdulhadi Ali Saif Shayif	75,025	-	75,025	-	-	-
Mr. Saleh Nasser Al-Jasser	106,000	-	100,000	-	(6,000)	-6%

Name of Director	Opening 31/12/2010		Closing 31/12/2011		Change	
	No of shares	Debt Instruments	No of shares	Debt Instruments	In shares	%
Mr. Dean Allan Holden (Representative of Bupa Investments Overseas Limited)	-	-	-	-		
Mr. William Stephen Ward (Representative of Bupa Investments Overseas Limited)	-	-	-	-		
Mr Ignacio Ereno Iribarren (Representative of Bupa Investments Overseas Limited)	-	-	-	-		

Bupa Investments Overseas Limited has registered 1,000 shares with the CMA for each Board member as guaranteed shares for its representatives on the Bupa Arabia Board (as required by the CMA regulations). The opening shares position of Eng. Loay Nazer has been re-stated to include the shares owned by his immediate family members. The shares reflected as opening shares for Mr. Abdulhadi Shayif are shares which were already owned by Mr. Abdulhadi Shayif prior to his commencement of term period as director of Bupa Arabia.

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

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

Interest of the Company's Senior Executives and their spouses and minor children in the shares or debt instruments of the Company or any of its subsidiaries						
Name of Senior Executive	Opening 31/12/2010		Closing 31/12/2011		Change	
	No of shares	Debt Instruments	No of shares	Debt Instruments	In shares	%
Mr. Hisham Fayeze Ali Radwan	23,500	-		-	(23,500)	-100%
Mr. Fraser David Gregory	-	-	7,000	-	7,000	100%

• 13.6 Board meetings and attendances:

Director name and period	Position	Membership	Board 1 22/03/2011	Board 2 21/06/2011	Board 3 03/10/2011	Board 4 16/11/2011
Eng. Loay Hisham Nazer (full year)	Member	Non-Executive	Y	Y	Y	Y
Mr. Tal Hisham Nazer (full year)	Member	Executive	Y	Y	Y	Y
Mr. Aamer Abdullah Ali Reza (full year)	Member	Independent	Y	Y	Y	Y
Mr. Saleh Nasser Al-Jassar (full year)	Member	Independent	Y	Y	Y	Y
Mr. Abdulhadi Ali Saif Shayif (from 29/03/2011)	Member	Independent	N/A	Y	Y	Y
Eng. Zuhair Hamid Fayeze (to 29/03/2011)	Former Member	Independent	N	N/A	N/A	N/A
Mr. Dean Allan Holden (full year)	Member	Non-Executive	Y	Y	Y	Y
Mr. William Stephen Ward (full year)	Member	Non-Executive	N	N	Y	N
Mr. Ignacio Ereno Iribarren (full year)	Member	Non-Executive	N	Y	Y	N

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

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

- The appointment of Eng. Loay Nazer as Chairman of the Board of Directors of Bupa Arabia for the new term,
- The appointment of Mr. Tal Nazer as Chief Executive Officer (CEO) of Bupa Arabia for the new term,
- The appointment of the members of the Committees of Bupa Arabia for the new terms,
- The appointment of Mr. Abdulhadi Shayif as Chairman of the Audit Committee, in place of Mr. Saleh Al-Jasser, for the new term,
- The allocation of SR1 million of the company's approved 2011 AOP operating expenses for marketing/claims expenditure to the CSR orphans program,
- The approval of the Board (independent members) of the rates and calculations of the additional charges on the outstanding goodwill amounts (a charge of SR3,355k) and that Bupa Arabia seek the approval of SAMA for the processing and settlement of the same,

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

Bupa Arabia's Annual Ordinary General Assembly Meeting (the fourth Ordinary General Assembly Meeting) of the shareholders convened on 16/04/1432 H, 21/03/2011 G, during which the following outcomes were concluded:

- The approval of the Board of Directors report for the year ended 25/01/1432 H, 31/12/2010 G (12 months),
- The approval of the Financial Statements, and the report of the external auditors, for the year ended 25/01/1432 H, 31/12/2010 G (12 months),
- The absolving of the Board of Directors of their legal and financial responsibility for managing the company for the year ended 25/01/1432 H, 31/12/2010 G (12 months),
- The approval of the selection and appointment of the joint external auditors (Ernst & Young and KPMG Al Fozan & Al Sadhan), and the audit fees, for the company's financial statements for the year ending 6/01/1433 H, 31/12/2011 G, in line with the recommendation of the Audit Committee,
- The approval of the changes in the Board of Directors,
- The approval of the Board of Directors' recommendation to approve Bupa Arabia's Corporate Governance framework, the rules for appointing members of Committees, and the terms of reference for the Committees,
- The election of the new board members for the new Board of Directors for the new three year cycle starting from 24/04/1432 H, 29/03/2011 G.

#### • 13.9 Insurance contracts with companies related to Board members:

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

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

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

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

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

#### • 14.1 Provision of corporate governance:

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

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

• 14.2 Corporate governance and risk management:

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

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

During 2011 the membership of the Executive, Investment, and Nomination and Remuneration Committees was unchanged, compared to 2010, and the 2011 activities of the different Board Committees, and independent control functions, are summarised below:

• 14.3 Audit Committee and internal controls:

Audit Committee Purpose	Member Names	Meetings
<p>The purpose of the Audit Committee is to ensure the integrity of the Company’s financial statements, to review and, where appropriate, make recommendations to the Board on internal financial controls, internal audit, compliance, and to review the external audit process and external auditors’ performance. The Audit Committee approves the annual internal audit and compliance inspection plans. The Audit Committee will also have oversight, through the company’s Risk and Compliance Committee (R&amp;CC), for ensuring that the company’s risk management processes, and procedures, are adequate and effective, particularly with regard to the impact on the company’s financial reporting and its code of business conduct. In performing its duties the Audit Committee will maintain effective working relationships with the Board of Directors, management, the Risk and Compliance Committee and the external and internal auditors.</p>	<p>Mr. Abdulhadi Shayif (Chairman)</p> <p>Mr. James Wheaton</p> <p>Mr. Simon Granville</p>	<p>The Audit Committee met five (5) times during 2011</p>

During 2011 the Audit Committee membership changed through Mr. Abdulhadi Shayif (independent Board member) replacing Mr. Saleh Al-Jasser, as Chairman of the Audit Committee, and Mr. Simon Granville replacing Mr. Robert Jones, as a member.

- The Risk and Compliance Committee (R&CC) is a sub-committee of the Audit Committee and its members are the chief executive team of the business. The Chief Financial Officer is the Chairman of the R&CC. The purpose of the committee is to ensure that Bupa Arabia adopts a robust, consistent, proportionate and cost effective approach towards to identification, analysis and control of the key risks that could threaten the Company. This committee supports the Audit Committee by giving a dedicated focus to embedding effective policies and procedures into the organisation regarding Internal Audit, Risk Management and Regulatory Compliance. Additionally this committee has oversight of Business Continuity and Disaster Recovery Planning, Health and Safety, Financial Crime and Anti-Bribery/corruption. The Compliance Officer and the Internal Audit Services Manager both formally report to the Chairman of the Audit committee to ensure appropriate independence. The R&CC met four times during 2011.
- Internal Audit Services (IAS) - The IAS department completed a number of varied internal audits during the year, covering the majority of operational processes/controls and recommendations arising from the same were thereafter monitored by the IAS department for implementation and its reports were communicated and reviewed by the Audit Committee, and the R&CC, and also discussed at the Committee meetings. Recommendations arising from the same were thereafter monitored by the IAS department for implementation.
- Compliance - The Compliance department completed a number of varied internal inspections during the year, covering key processes/controls and recommendations arising from the same were thereafter monitored by the Compliance department for implementation.
- Risk Management - the Company (through its Risk Officer (appointed during 2011)) undertakes a formal structured risk review process which comprises a Quarterly Risk Assessment (QRA) of the business risks for reviewing the risk items, the risk materiality, the appropriateness of existing mitigating controls and for setting risk action plans where risk mitigation controls are considered inadequate. The QRA process followed by the Company is part of the Bupa Group worldwide standard and four QRAs were completed during 2011 with risk recommendations arising from the same progressed. The key risks that management are currently reviewing and managing closely are itemised in section 6.5.
- The reports, findings and recommendations arising from the activities of each of the internal audit, compliance and risk management processes are communicated to the external Audit Committee as well as the R&CC. Key issues and actions arising from the same are formally discussed during the Audit Committee, and R&CC, meetings and progress against required completion of recommendations monitored.

- 14.3.1 Results of the annual audit of the effectiveness of the internal control procedures:
- The IAS department successfully concluded a variety of internal audit assignments, in accordance with the approved 2011 IAS schedule, and amongst which the more significant areas covered were:
  - o Treasury and cash management/collections processes and procedures,
  - o Provider relations and claims related processes and procedures,
  - o Payroll and employee incentive scheme related processes and procedures,
  - o Infrastructure and data protection security related,
  - o Follow up assignments on previously completed audits.
 The overall findings of the IAS department, based on its internal audits completed during 2011, were that the internal control procedures were effective.
- The results of the annual external audit, as performed by the joint external auditors, of the effectiveness of the internal control procedures of the Company, found that Bupa Arabia's internal control procedures and independent control functions are effective. There were no significant audit adjustments required and no material weaknesses in internal controls identified. This outcome illustrates that the internal control and risk management procedures followed by the Company are appropriate and effectively executed in a manner so as to ensure the accuracy of financial reporting, and also compliance with regulations.

- 14.4 Executive Committee:

Executive Committee Purpose	Member Names	Meetings
The purpose of the Executive Committee is to set the annual income target of Bupa Arabia which is thereafter ratified by the Board. The Executive Committee supports the Board with the management of the business through the review, and monitoring, of all aspects of the operational performance of the company on a monthly basis (to ensure that there are no barriers to achieving the objectives set). It also reviews and approves, as required per its terms of reference, certain aspects of a commercial nature, and ensures the company is fully compliant with all regulatory requirements.	Eng. Loay Nazer (Chairman) Mr. Dean Holden Mr. William Ward Mr. Tal Nazer	The Executive Committee met seven (7) times during 2011

- 14.5 Nomination and Remuneration Committee:

Nomination and Remuneration Committee Purpose	Member Names	Meetings
The purpose of the Nomination and Remuneration Committee is to provide approvals for the remuneration packages (including bonuses, long term incentives and salary inflation related increases) of the CEO and other senior executives. The committee also reviews and approves the rules of the company bonus/incentives/long term incentive plans and payments. Additionally, the committee supervises the recruitment of key managerial positions, approves the human resources policies and procedures and makes recommendations regarding Board and Committee appointments.	Eng. Loay Nazer (Chairman) Mr. William Ward Mr. Aamer Ali Reza Mr. John Handley	The Nomination and Remuneration Committee met twice (2) during 2011

- 14.6 Investment Committee:

Investment Committee Purpose	Member Names	Meetings
The purpose of the Investment Committee is to assist the business in developing its investment policy and to thereafter supervise its adherence to the same. To manage the company's investments to achieve the best return for the business, within the given risk parameter as approved by the Board, taking into account liquidity requirements and solvency constraints. The Committee will also monitor investment performance and act as the liaison between third party investment managers and Bupa Arabia to ensure investments are in line with SAMA's regulations and are fully Shariah compliant. Among other duties, the committee also provides investment advice to the business and the Board of Directors and will approve institutions to be used for significant investment placements.	Mr. Hossam Radwan (Chairman) Mr. Hassan Aljabri Mr. Simon Warren	The Investment Committee met twice (2) during 2011

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

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

#### 16. Maintenance of proper records:

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

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

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

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

During 2011 the Company made payments, and has amounts payable, to the various Saudi Arabian regulatory bodies as detailed within the table, and thereafter explained in the narrative, below:

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

	Paid SR000s	Payable SR000s
Zakat and income taxes	5,070	15,437
Levies and license fees	32,845	21,467
GOSI	6,707	614
<b>Total</b>	<b>44,622</b>	<b>37,518</b>

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

The total paid to the DZIT during the year, for Zakat and Income Tax, was SR5,070K (SR1,981K for the 2010 DZIT return (SR 1,446K for Zakat and SR535k for Income Tax) and SR3,089k as a 2011 advance Income Tax payment. The SR15,437K payable includes a SR12,602K provision for the 2011 DZIT return (SR8,217K for Zakat and SR4,385K for Income Tax) and this will be paid to the DZIT before 26/05/1433 H, 30/04/2012 G (as per the DZIT regulations). In addition to the Zakat and Income Tax payments an amount of SR979k was paid to the DZIT during the 2011 year for withholding tax (SR394K is provided in the results for 2011 related withholding tax, and which is payable to the DZIT in 2012).

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

The total paid to SAMA during the year was SR9,976K. This includes payments for levies of SR9,976K (SR8,432K relating to levies for the first three quarters of the 2011 year and SR1,544K for the last quarter of the 2010 year). All prior year payments were fully provided in the 2010 results. The results include a provision for the 2011 fourth quarter SAMA levy of SR1,534K (which was paid to SAMA in January 2012 in accordance with the SAMA regulations).

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

The total paid to the CCHI during the year was SR22,869k. This includes payment of SR17,494K for CCHI levies for the 2010 year and an additional 2009 year retrospective CCHI levy adjustment, of SR5,225K, as required by the CCHI. An amount of SR150K was paid to the CCHI for CCHI license fees for three years 19/05/1432 to 18/05/1435 H, 04/05/2011 to 22/04/2014 G. The results include a provision for the 2011 CCHI levies of SR19,933K.

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

The total paid to GOSI during the year ended was SR6,707K and includes payment of SR413K for 2010. An amount of SR614K is provided in the results for the 2011 related GOSI amounts payable in 2012.

##### • 18.6 Tadawul:

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

#### 19. Regulatory penalty:

The Company paid a penalty of SR50k to the Capital Market Authority (CMA), relating to the resignation of the Provider Relations Director, based on the CMA letter numbered 2609/7, dated 14/06/1432 H, 17/05/2011 G, in violation of the CMA's regulations Article 46(a) and the CMA listing rules Article 25, which had not been formally communicated as required.

#### 20. External auditors:

The joint external auditors of the Company, as approved per the Ordinary General Assembly meeting held on 16/04/1432 H, 21/03/2011 G, for the financial statements for the fiscal year ended 06/02/1433 H, 31/12/2011 G were Ernst & Young and KPMG Al Fozan & Al Sadhan. The Board of Directors did not recommend any change to the joint external auditors from those appointed for the previous financial period so the joint external auditors remained the same as per the previous financial period.



**21. No subsidiaries:**

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

**22. No borrowings or loans:**

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

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

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

- That it has not issued any convertible debt instruments, options, warrants or similar rights during the financial year and accordingly has not received any consideration for the same,
- That it has not converted nor issued nor granted any subscription rights under any convertible debt instruments, options, warrants or similar rights during the financial year,
- That it has not redeemed, purchased or cancelled any redeemable debt instruments during the financial year,
- That there have been no instances of any arrangements or agreements under which any director or senior executive has waived any emolument or compensation,
- That there have been no instances of any arrangements or agreements under which any shareholder has waived any rights to any dividends.

**Conclusion:**

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



FINANCIAL  
STATEMENTS

## 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 2011, and the related statements of insurance operations and accumulated surplus, shareholders' operations, comprehensive income, insurance operations' cash flows, shareholders' cash flows and changes in shareholders' equity for the year then ended and the attached notes 1 through 32 which form an integral part of the financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 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

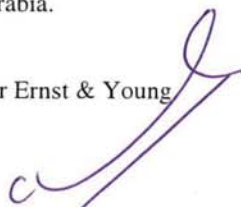
In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

#### Emphasis of a matter

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

for Ernst & Young



**Ahmed I. Reda**  
Certified Public Accountant  
Licence No. 356



for KPMG Al Fozan & Al Sadhan



**Ebrahim Oboud Baeshen**  
Certified Public Accountant  
Licence No. 382



Jeddah, Kingdom of Saudi Arabia  
29 Rabi Awal 1433 H  
21 February 2012

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

**STATEMENT OF FINANCIAL POSITION**

At 31 December 2011

	Notes	2011 SR'000	2010 SR'000
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	4	551,914	346,908
Murabaha deposits		58,000	-
FVIS investments	5	187,699	257,178
Prepayments and other assets	6	30,069	20,881
Premiums receivable - gross		403,936	520,004
Allowance for doubtful premiums receivable		(64,106)	(30,164)
Premiums receivable - net	7	339,830	489,840
Deferred policy acquisition costs	8	21,097	15,470
<b>Total insurance operations' assets</b>		<b>1,188,609</b>	<b>1,130,277</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	4	13,631	13,631
FVIS investments	5	373,534	299,462
Other receivables	6	244	-
Amount due from insurance operations	5	-	48,761
Goodwill	1	98,000	98,000
Furniture, fittings and equipment	9	41,565	38,703
Statutory deposit	10	40,000	40,000
<b>Total shareholders' assets</b>		<b>566,974</b>	<b>538,557</b>
<b>TOTAL ASSETS</b>		<b>1,755,583</b>	<b>1,668,834</b>

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)**

At 31 December 2011

	Notes	2011 SR'000	2010 SR'000
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
Insurance operations' liabilities:			
Unearned premiums	13	722,739	659,819
Outstanding claims	14	381,265	352,379
Reinsurance balance payable		702	1,269
		1,104,706	1,013,467
Accrued expenses and other liabilities	15	59,503	50,508
Obligation under Long-Term Incentive Plan (LTIP)	19	4,846	3,477
		1,169,055	1,067,452
Amount due to shareholders' operations	5	-	48,761
Policyholders' share of surplus from insurance operations		19,554	14,064
<b>Total insurance operations' liabilities and surplus</b>		<b>1,188,609</b>	<b>1,130,277</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Shareholders' liabilities</b>			
Accrued expenses and other liabilities	15	21,352	13,855
Accrued Zakat and income tax	17	15,437	7,905
Amount due to a related party in respect of goodwill	1&3	3,355	20,990
Amount due to related parties	11	4,400	2,818
<b>Total shareholders' liabilities</b>		<b>44,544</b>	<b>45,568</b>
<b>Shareholders' equity</b>			
Share capital	18	400,000	400,000
Shares held under Employees' Share Scheme	19	(2,910)	(2,709)
Statutory reserve	20	32,143	23,694
Retained earnings		93,197	72,004
<b>Total shareholders' equity</b>		<b>522,430</b>	<b>492,989</b>
<b>Total shareholders' liabilities and equity</b>		<b>566,974</b>	<b>538,557</b>
<b>TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>1,755,583</b>	<b>1,668,834</b>

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 2011

	Notes	2011 SR'000	2010 SR'000
<b>REVENUE</b>			
Gross written premiums		1,993,251	1,749,390
Premiums ceded		(2,702)	(3,180)
Net written premiums		1,990,549	1,746,210
Net movement in unearned premium	13	(62,920)	(137,302)
Net earned premiums		1,927,629	1,608,908
<b>CLAIMS</b>			
Gross claims paid		1,523,835	1,232,218
Claims recovered		(1,691)	(1,235)
Net claims paid		1,522,144	1,230,983
Net movement in outstanding claims	14	28,886	77,120
Net claims incurred		1,551,030	1,308,103
<b>Net underwriting result</b>		<b>376,599</b>	<b>300,805</b>
Investment and commission income		2,341	3,820
<b>OTHER INCOME</b>		<b>613</b>	<b>381</b>
<b>EXPENSES</b>			
Selling and marketing	22	(182,169)	(123,689)
General and administration	23	(142,480)	(100,199)
<b>Surplus from insurance operations</b>		<b>54,904</b>	<b>81,118</b>
Shareholders' share of surplus from insurance operations		(49,414)	(73,006)
<b>Policyholders' share of surplus from insurance operations</b>		<b>5,490</b>	<b>8,112</b>
Policyholders' share of surplus from insurance operations at the beginning of the year		14,064	5,952
<b>Policyholders' share of accumulated surplus from insurance operations at the end of the year</b>		<b>19,554</b>	<b>14,064</b>

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 2011

	Notes	2011 SR'000	2010 SR'000
<b>REVENUE</b>			
Shareholders' share of surplus from insurance operations	2b	49,414	73,006
<b>EXPENSES</b>			
General and administration	3, 11b, 23	(6,916)	(6,275)
		42,498	66,731
Investment (loss)/income		(254)	4,067
<b>Net income for the year</b>		<b>42,244</b>	<b>70,798</b>
Weighted average number of ordinary shares outstanding (in thousands)		39,865	39,942
Basic and diluted income per share (in Saudi Arabian Riyals)	29	1.06	1.77

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 COMPREHENSIVE INCOME**

For the year ended 31 December 2011

	2011 SR'000	2010 SR'000
<b>Net income for the year</b>	<b>42,244</b>	<b>70,798</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>42,244</b>	<b>70,798</b>

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' CASH FLOWS**

For the year ended 31 December 2011

	Notes	2011 SR'000	2010 SR'000
<b>OPERATING ACTIVITIES</b>			
Policyholders' share of surplus for the year		5,490	8,112
Adjustment for:			
Depreciation		10,894	11,606
Net movement in unearned premiums		62,920	137,302
Allowance for doubtful premiums receivable		33,942	30,164
Deferred policy acquisition costs	8	(5,627)	(706)
Unrealised loss/(gain) on investments	5	645	(3,213)
		108,264	183,265
Changes in assets and liabilities:			
Premiums receivable		116,068	(112,606)
Prepayments and other assets		(9,188)	7,942
Outstanding claims	14	28,886	77,120
Due to shareholders' operations		15,179	(2,425)
Reinsurance balance payable		(567)	1,180
Accrued expenses and other liabilities		8,995	(1,242)
Obligation under LTIP		1,369	3,477
Net cash from operating activities		269,006	156,711
<b>INVESTING ACTIVITIES</b>			
Purchase of investments	5	(6,000)	(253,965)
Mubaraha deposits		(58,000)	-
Net cash used in investing activity		(64,000)	(253,965)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>205,006</b>	<b>(97,254)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>346,908</b>	<b>444,162</b>
<b>Cash and cash equivalents at the end of the year</b>	4	<b>551,914</b>	<b>346,908</b>

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' CASH FLOWS**

For the year ended 31 December 2011

	Notes	2011 SR'000	2010 SR'000
<b>OPERATING ACTIVITIES</b>			
Net comprehensive income for the year		42,244	70,798
Adjustment for:			
Unrealised loss/(gain) on investments	5	762	(3,427)
		43,006	67,371
Changes in assets and liabilities:			
Accrued income		-	613
Accrued expenses and other liabilities		7,497	2,519
Amount due to related parties		1,582	2,818
Amount due to related party in respect of goodwill		3,355	-
Due from insurance operations		(15,179)	2,425
Other receivables		(244)	-
		40,017	75,746
Zakat and income tax paid	17	(5,070)	(14,866)
Net cash from operating activities		34,947	60,880
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and equipment		(13,756)	(29,284)
Purchase of shares held under LTIP		(1,401)	(2,709)
Disposal of shares held under LTIP		1,200	-
Purchase of investments	5	-	(296,035)
Amount paid to related party in respect of goodwill	3	(20,990)	(28,010)
Net cash used in investing activities		(34,947)	(356,038)
<b>Net movement in cash and cash equivalents</b>		<b>-</b>	<b>(295,158)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>13,631</b>	<b>308,789</b>
<b>Cash and cash equivalents at the end of the year</b>	4	<b>13,631</b>	<b>13,631</b>

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 2011

		Share capital SR'000	Shares held under Employees' Share Scheme SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Balance at 31 December 2010			(2,709)	23,694	72,004	492,989
Net income for the year		-	-	-	42,244	42,244
Other comprehensive income		-	-	-	-	-
		-	-	-	42,244	42,244
Transfer to statutory reserve	20	-	-	8,449	(8,449)	-
Zakat for the year	17	-	-	-	(8,217)	(8,217)
Income tax for year	17	-	-	-	(4,385)	(4,385)
Partial disposal of shares held under LTIP	19	-	1,200	-	-	1,200
Purchase of additional shares held under LTIP	19	-	(1,401)	-	-	(1,401)
<b>Balance at 31 December 2011</b>			<b>(2,910)</b>	<b>32,143</b>	<b>93,197</b>	<b>522,430</b>

	Notes	Share capital SR'000	Shares held under Employees' Share Scheme SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Balance at 31 December 2009		400,000	-	9,534	27,819	437,353
Net income for the year		-	-	-	70,798	70,798
Other comprehensive income		-	-	-	-	-
		-	-	-	70,798	70,798
Transfer to statutory reserve	20	-	-	14,160	(14,160)	-
Zakat for the year	17	-	-	-	(7,985)	(7,985)
Income tax for year	17	-	-	-	(4,468)	(4,468)
Shares held under long-term incentive plan by the custodian	19	-	(2,709)	-	-	(2,709)
<b>Balance at 31 December 2010</b>		<b>400,000</b>	<b>(2,709)</b>	<b>23,694</b>	<b>72,004</b>	<b>492,989</b>

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)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

### 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-Khaleidiyah District,  
P.O. Box 23807,  
Jeddah 21436,  
Kingdom of Saudi Arabia.

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.

On 31 December 2008, the Company entered into an agreement with Bupa Middle East Limited E.C. (the "Seller") pursuant to which it acquired the Seller's insurance operations in the Kingdom of Saudi Arabia, effective from 1 January 2009, at a goodwill amount of SR 98 million, as approved by the Saudi Arabian Monetary Agency (SAMA), along with related insurance assets and liabilities of an equivalent amount. 50% of the amount in respect of the goodwill was paid to the seller during 2009. In accordance with the instructions of SAMA, the remaining 50% was to be paid subsequent to 2009, out of the Company's future profits, after obtaining SAMA's approval. The Company paid the initial goodwill amount of SR 49 million in 2009, and paid the initial goodwill balance amount in two instalments of SR 28.01 million and SR 20.99 million in 2010 and 2011 respectively, after obtaining approval from SAMA. In accordance with the agreement between the Seller and the Company, the Seller is entitled to additional compensation, not exceeding 5% per annum, on the outstanding amounts payable to them, which has been accrued during the year (see note 3).

### 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.

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%
	<hr/>
	100%
	<hr/>

In accordance with Article 70 of the SAMA Implementing Regulations, the Company proposes to distribute its annual net policyholders' surplus directly to policyholders at a time, and according to criteria, as set by its Board of Directors, provided the customer contract is active and paid up to date at the time of settlement of the cooperative distribution amount.

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

### c. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Saudi Arabian Riyals (SR), which is the Company's functional currency. All financial information presented in SR 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 2010. The new standards, amendments to standards and interpretation, which are effective for annual periods beginning after 1 January 2011 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:

#### Cash and cash equivalents

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

#### Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investments classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are 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.

#### 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:

Furniture, fittings and office equipment	3 to 5 years
Computer applications	4 to 7 years

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 period is recognised in the statement of insurance operations and accumulated surplus on an actual basis. Similarly, impairment losses, if any, are recognised in the statement of insurance operations and accumulated surplus.

Expenditure for 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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

supplier or not.

### Provisions

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

### Employees' end of service benefits

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

### Obligation under the Long-Term Incentive Plan

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

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 Long-Term Incentive Plan by a custodian

Certain of the Company's own shares are held by a custodian under the terms of the employees' Long-Term Incentive Plan ("LTIP"). Such shares may or may not vest to the employees at the vesting date (see note 19). The value of the shares held by the custodian are accounted for at cost and are deducted from the equity of the Company. Any consideration paid or received, on the purchase, sale, or issue of the Company's own equity instruments is recognized directly in equity. No gain or loss is recognized in the statement of shareholders' operations on the purchase, sale or issue of own equity instruments.

### Zakat and income tax

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

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

### Impairment and uncollectibility of financial assets

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

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

### 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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

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 for publicly traded subsidiaries 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 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.

### Derecognition

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.

### Revenue recognition

#### Premiums earned

The Company only issues short-term insurance contracts for providing healthcare 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.

#### Commission income

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

#### Dividend income

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

### 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 recov-

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

eries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

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

### Reinsurance contracts held

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

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

### Expenses

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

### Segmental reporting

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

### Leases

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

### Foreign currencies

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

### Fair values of financial instruments

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

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

### Offsetting

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

## e. USE OF ESTIMATES AND JUDGEMENTS

### Estimation uncertainty

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

#### Provision for outstanding claims

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising



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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

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.

## f. NEW IFRS, IFRIC AND AMENDMENTS THEREOF, ADOPTED BY THE COMPANY

The Company has adopted the following amendments and revisions to existing standards, which has had no financial impact on the financial statements of the Company. The International Accounting Standards Board (IASB) has issued the following new and amended IFRS and IFRIC that are effective for the periods starting on or after the dates mentioned below:

Standard/ Interpretation	Description
IAS 24	Related Party Transactions (Revised)
IAS 32	Amendments to IAS 32 Classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instrument
IFRS 7	Amendment to IFRS 7 Financial Instruments: Disclosures (including disclosures for transfer of financial assets)
IAS 1	Presentation of Financial Statements

## g. 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 and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Standard/ Interpretation	Description	Effective from periods beginning on or after the following date
IFRS 9	Financial Instruments - Classification and Measurement	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 1	Amendments to IAS 1 Presentation of financial statements	1 July 2012

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

At 31 December 2011

**4 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprised the following:

	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>		
Cash in banks	194,556	121,763
Murabaha deposits	357,358	225,145
	<b>551,914</b>	<b>346,908</b>
<b>Shareholders' Operations</b>		
Cash in bank	13,631	13,631

At 31 December 2011, all the bank balances are held in the name of the Company (31 December 2010: SR 8.6 million was held by the Company in the name of a related party).

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

**5 FVIS INVESTMENTS**

The carrying amount of the investments, classified as fair value through statement of income (FVIS), at 31 December 2011 was as follows:

	2011 SR'000	2010 SR'000
<b>Units in open ended mutual fund</b>		
Insurance operations	187,699	257,178
Shareholders' operations	373,534	299,462
	<b>561,233</b>	<b>556,640</b>

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

The movement in the investments, during the year ended 31 December 2011 and 2010, were as follows:

	2011 SR'000	2010 SR'000
<b>Insurance operations</b>		
Balance at the beginning of the year	257,178	-
Purchased during the year	6,000	253,965
Transferred to shareholders' operations (see note below)	(74,834)	-
Unrealised (loss)/gain during the year	(645)	3,213
Balance at the end of the year	<b>187,699</b>	<b>257,178</b>

	2011 SR'000	2010 SR'000
<b>Shareholders' operations</b>		
Balance at the beginning of the year	299,462	-
Purchased during the year	-	296,035
Transferred from insurance operations (see note below)	74,834	-
Unrealised (loss)/gain during the year	(762)	3,427
Balance at the end of the year	<b>373,534</b>	<b>299,462</b>

As at 31 December 2011, a sum of SR 74,834 thousands was payable to the shareholders' operations by the insurance operations. This amount was settled by transfer of investments of an equivalent amount to shareholders' operations as at that date.

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

At 31 December 2011

**6 PREPAYMENTS AND OTHER ASSETS**

	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>		
Prepayments	27,247	18,800
Accrued income	877	445
Other receivables	1,945	1,636
	<b>30,069</b>	<b>20,881</b>
<b>Shareholders' Operations</b>		
Other receivables	244	-
	<b>244</b>	<b>-</b>

**7 PREMIUMS RECEIVABLE, NET**

	2011 SR'000	2010 SR'000
Gross premiums receivable	403,936	520,004
Allowance for doubtful premiums receivable	(64,106)	(30,164)
Net premiums receivable	<b>339,830</b>	<b>489,840</b>

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

	2011 SR'000	2010 SR'000
Balance at the beginning of the year	30,164	19,799
Additional allowance during the year (note 22)	33,942	10,365
Balance at end of the year	<b>64,106</b>	<b>30,164</b>

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

	Neither past due nor impaired SR'000	Up to three months SR'000	Above three and up to six months SR'000	Above six and less than twelve months SR'000	Above twelve months SR'000	Total SR'000
<b>31 December 2011</b>	<b>11,038</b>	<b>124,806</b>	<b>114,351</b>	<b>84,361</b>	<b>5,274</b>	<b>339,830</b>
31 December 2010	81,918	211,760	164,029	32,133	-	489,840

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 15.9% (2010: 10.5 %) of this balance as at 31 December 2011.

**8 DEFERRED POLICY ACQUISITION COSTS**

	2011 SR'000	2010 SR'000
Balance at the beginning of the year	15,470	14,764
Expenses deferred	21,097	15,470
Amortisation for the year	(15,470)	(14,764)
Balance at the end of the year	<b>21,097</b>	<b>15,470</b>

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

At 31 December 2011

**9 FURNITURE, FITTINGS AND EQUIPMENT**

	Furniture, fittings and office equipment	Computer applications	Total
	SR'000	SR'000	SR'000
<b>Shareholders' Operations</b>			
<b>Cost:</b>			
At 1 January 2010	12,793	41,214	54,007
Additions during the year 2010	26,219	3,065	29,284
At 31 December 2010	39,012	44,279	83,291
Additions during the year 2011	4,146	9,610	13,756
<b>At 31 December 2011</b>	<b>43,158</b>	<b>53,889</b>	<b>97,047</b>
<b>Accumulated depreciation:</b>			
At 1 January 2010	5,632	27,350	32,982
Charge for the year 2010	7,772	3,834	11,606
At 31 December 2010	13,404	31,184	44,588
Charge for the year 2011	3,026	7,868	10,894
<b>At 31 December 2011</b>	<b>16,430</b>	<b>39,052</b>	<b>55,482</b>
<b>Carrying amount:</b>			
<b>At 31 December 2011</b>	<b>26,728</b>	<b>14,837</b>	<b>41,565</b>
At 31 December 2010	25,608	13,095	38,703

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.

**10 STATUTORY DEPOSIT**

	2011 SR'000	2010 SR'000
<b>Shareholders' Operations</b>		
Statutory deposit	40,000	40,000

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

### 11 TRANSACTIONS WITH RELATED PARTIES

In addition to the note 1, 3 and 5, following are the details of major related party transactions and the related balances at the end of the year:

Related party	Nature of transaction	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>			
Shareholders	Premiums written	25,791	27,829
Shareholders	Claims paid	13,962	10,309
Bupa Middle East Holdings Two WLL (Related party)	Trade mark fee payable (note 16)	1,930	2,818
Shareholder	Medical cost payments to a provider (see note (a) below)	100,950	65,461
<b>Shareholders' Operations</b>			
Bupa Middle East Limited E.C. (Related party)	Payment in respect of goodwill (note 3)	20,990	28,010
	Compensation for outstanding goodwill consideration (note 3 and note (b) below)	3,355	-
ASAS Healthcare Company Limited (Related party)	Payments made on behalf of the Company and recharged to the Company	-	513

- a) The related party is a hospital provider where any of Bupa Arabia's entitled customers, and their qualified members, can use the facilities of the related party. The Company makes payments for all medical costs of all its contracts, to this provider related party, in accordance with the contractual terms of agreement with the provider related party on an arm's length basis. As at 31 December 2011, the estimated payable to the related party, for medical cost payments, amounted to SR 14.1 million (2010: SR 11.6 million).
- b) In accordance with the agreement between the Seller and the Company, the Seller is entitled to an additional compensation, which has been accrued for during the year ended 31 December 2011 (see note 1 and 3). The amount payable to the related party in respect of goodwill is disclosed in the statement of financial position.
- c) Information relating to key management personnel is provided in note 24.

Amount due to related parties is disclosed in the statement of financial position. Net premiums receivable include premiums receivable from related parties amounting to SR 1,248 thousands (31 December 2010: SR 2,559 thousands).

Zakat and income tax recoverable from the shareholders, amounting to SR 8,217 thousands (2010: SR 7,985 thousands) and SR 4,385 thousands (2010: SR 4,468 thousands) respectively, are disclosed in note 17.

### 12 REINSURANCE BALANCE PAYABLE

Reinsurance payable represents amount payable to three reinsurers (2010: three), based in Germany and France for the excess of loss (XOL) reinsurance contract.

### 13 NET MOVEMENT IN UNEARNED PREMIUMS

	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>		
Unearned premiums at the beginning of the year	659,819	522,517
Unearned premiums at the end of the year	(722,739)	(659,819)

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

At 31 December 2011

Net movement in unearned premiums	(62,920)	(137,302)
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**14 NET MOVEMENT IN OUTSTANDING CLAIMS**

	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>		
Outstanding claims at the end of the year	381,265	352,379
Outstanding claims at the beginning of the year	(352,379)	(275,259)
Net movement in the outstanding claims	28,886	77,120

As at 31 December 2011 and 2010, all the outstanding claims which are covered by XOL reinsurance are lower than the XOL limit and therefore no reinsurance recovery has been booked in these reserves in these financial statements.

**15 ACCRUALS AND OTHER LIABILITIES**

	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>		
Accrued expenses	50,387	45,822
Other liabilities	9,116	4,686
	59,503	50,508
<b>Shareholders' Operations</b>		
Accrued expenses	1,510	509
End of service benefits (see note below)	19,842	13,346
	21,352	13,855

The movement in the end of service benefits provision during the year was as follows:

	2011 SR'000	2010 SR'000
Balance at the beginning of the year	13,346	11,293
Charged during the year	6,888	3,376
Paid during the year	(392)	(1,323)
Balance at the end of the year	19,842	13,346

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

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

**16 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 Company is required to pay an initial one-off lump sum of SR 1.2 million and an amount equal to a fixed percentage of gross earned premiums thereafter, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee.

Accordingly, a sum of SR 1,930 thousands (2010: SR 2,818 thousands, which included the initial one-off lump sum amount referred to above), payable to a related party has been provided for in these financial statements (see note 22).

**17 ZAKAT AND INCOME TAX**

**a) Zakat**

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

At 31 December 2011

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 partners consists of:

	2011 SR'000	2010 SR'000
Provision for the year	8,217	7,317
Adjustment for the previous year	-	668
Charge for the year	8,217	7,985

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

	2011 SR'000	2010 SR'000
Equity	495,698	437,353
Opening allowances and other adjustments	46,865	51,997
Book value of long-term assets	(180,408)	(171,927)
	362,155	317,423
Adjusted income for the year (see note below)	83,526	79,456
Zakat base	445,681	396,879
Attributable to Saudi founding shareholders and the general public @ 73.75%	328,690	292,698

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

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

	2011 SR'000	2010 SR'000
Balance at the beginning of the year	7,317	5,838
Charge for the year	8,217	7,985
Payment made during the year	(1,446)	(6,506)
Balance at the end of the year	14,088	7,317

**b) Income tax**

**Charge for the year**

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

	2011 SR'000	2010 SR'000
Provision for the year	4,385	4,171
Adjustment for the previous year	-	297
Charge for the year	4,385	4,468

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

At 31 December 2011

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

	2011 SR'000	2010 SR'000
Balance at the beginning of the year	588	4,480
Charge for the year	4,385	4,468
Payment made during the year- relating to the previous year	(535)	(4,777)
Payment made during the year- relating to the current year	(3,089)	(3,583)
Balance at the end of the year	1,349	588

**c) Zakat and income tax payable**

	2011 SR'000	2010 SR'000
Zakat payable ( note (a) above )	14,088	7,317
Income tax payable ( note (b) above )	1,349	588
	15,437	7,905

**d) Status of assessments**

As required by Saudi Arabian fiscal regulations, Zakat and income tax returns have been filed with the Department of Zakat and Income Tax ("DZIT") for the period from 1 May 2008 to 31 December 2008 and for the years ended 31 December 2009 and 2010. However, Zakat and income tax assessments for the period from 1 May 2008 to 31 December 2008 and years ended 31 December 2009 and 2010 have not yet been raised by the DZIT.

**18 SHARE CAPITAL**

The share capital of the Company is SR 400 million divided into forty million shares of SR 10 each (2010: forty million shares of SR 10 each) and subscribed by the following:

	Percentage holding	2011 SR'000	Percentage holding	2010 SR'000
Founding shareholders	60%	240,000	60%	240,000
General public	40%	160,000	40%	160,000
	100%	400,000	100%	400,000



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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

### 19 SHARES HELD UNDER THE LONG-TERM INCENTIVE PLAN

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

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

	2011		2010	
	Number of shares	Amount SR'000	Number of shares	Amount SR'000
Opening balance	140,017	2,709	-	-
Purchased during the year	69,342	1,200	140,017	2,709
Sold during the year	(62,027)	(1,401)	-	-
	147,332	2,910	14,017	2,709
Market value of the shares as at 31 December 2011		22.35		19.35

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 1,553 thousands (2010: SR 768 thousands) 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 1,369 thousands (2010: SR 3,477 thousands) has been charged to the statement of insurance operations under the above plan.

### 20 STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, twenty percent of the shareholders' income shall be set aside as

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At 31 December 2011

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 8,449 thousands (2010: SR 14,160 thousands) to the statutory reserve.

**21 REGULATORY REQUIREMENT**

As required by Saudi Arabian Insurance Regulations (Article 66 of the Implementation Regulations), the Company is required to maintain a minimum Solvency Margin at the rate of 16% of net premium written. As a result of a clarification issued by the regulator relating to Article 69, the allowance for doubtful premiums receivable is now calculated, on a written based aging profile, previously on an invoiced based aging profile, the admissibility of debtors' assets, as at 31 December 2011, is reduced. As a result, the Company's solvency level is less than the minimum solvency margin required by the Saudi Arabian Insurance Regulations. The Company, during the year, has communicated this matter to SAMA, and also provided an action plan to achieve the solvency margin requirement in the near future. The management of Bupa Arabia are confident that their action plan will be considered favourably by SAMA.

**22 SELLING AND MARKETING EXPENSES**

	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>		
Employee costs	45,478	31,691
Marketing expenses	18,907	7,852
Fulfilment costs	6,553	5,178
Commission expenses	31,622	34,039
Statutory levies (see note (a) below)	35,124	25,991
Trade mark fees (see note 16)	1,930	2,818
Allowance for doubtful premiums receivables (note 7)	33,942	10,365
Others	8,613	5,755
	<b>182,169</b>	<b>123,689</b>

a) The statutory levies for the year ended 31 December 2011 include an additional CCHI levy, for the year 2009, of SR 5,225 thousands.

**23 GENERAL AND ADMINISTRATION EXPENSES**

	2011 SR'000	2010 SR'000
<b>Insurance Operations</b>		
Employee costs	101,513	66,952
Repairs and maintenance costs	11,119	8,563
Travelling expenses	3,567	1,571
Depreciation	10,894	11,606
Communication expenses	6,803	3,584
Other operating costs	8,584	7,923
	<b>142,480</b>	<b>100,199</b>
<b>Shareholders' Operations</b>		
Statutory expenses	953	287
Legal and professional fees	619	4,604
Board expenses (see note 25)	1,343	1,081
Additional compensation to Seller (see note 3)	3,355	-
Other (see note below)	646	303
	<b>6,916</b>	<b>6,275</b>

During 2011, the Company initiated a Corporate Social Responsibility (CSR) program involving the provision of health

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

cover to orphans in the Kingdom of Saudi Arabia. The health insurance premiums and associated medical claims costs of the contracts of these orphans are borne by the Company. In 2011, the costs associated with the orphans health cover was SR 19 thousands and is charged to statement of shareholders' operations as part of other general and administration expenses.

### 24 INFORMATION RELATING TO KEY MANAGEMENT PERSONNEL

	2011 SR'000	2010 SR'000
<b>a) Compensation to key management personnel:</b>		
Short-term benefits	8,772	7,661
Long-term benefits	2,343	2,210
	<b>11,115</b>	<b>9,871</b>

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

On 3 December 2011, a senior management personnel purchased 7,000 shares of the Company through Tadawul (the Saudi Stock Exchange), for SR 143 thousands, after obtaining the approval from the required regulatory authority. The fair value of the shares as at 31 December 2011 was SR 156 thousands.

### 25 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

	2011 SR'000	2010 SR'000
Board of directors' remuneration	870	893
Board attendance fees	81	75
Other Board and sub-committees expenses	392	113
	<b>1,343</b>	<b>1,081</b>

- Board of Directors' remuneration is paid in accordance with by-laws of the Company.
- Board attendance fees represent allowances for attending board meetings and sub-committee meetings.
- 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 healthcare services ('medical insurance'). All the insurance operations of the Company are carried out in the Kingdom of Saudi Arabia. For management purposes, the operations are monitored in two customer categories, based on the number of members covered. Major customers represent large corporate, and all other customers are considered as non-major.

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

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

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

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

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

At 31 December 2011

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

	For the year ended 31 December 2011		
	Major SR'000	Non-major SR'000	Total SR'000
Gross written premiums	977,696	1,015,555	1,993,251
Premium ceded	(1,378)	(1,324)	(2,702)
Net written premiums	976,318	1,014,231	1,990,549
Net movement in net unearned premiums	(52,283)	(10,637)	(62,920)
Net earned premiums	924,035	1,003,594	1,927,629
Gross claims paid	829,576	694,259	1,523,835
Claims recovered	(984)	(707)	(1,691)
Net claims paid	828,592	693,552	1,522,144
Net movement in outstanding claims	15,726	13,160	28,886
Net claims incurred	844,318	706,712	1,551,030
Net underwriting result	79,717	296,882	376,599
Unallocated income	-	-	2,954
Unallocated expenses	-	-	(324,649)
<b>Surplus from insurance operations</b>			<b>54,904</b>

	For the year ended 31 December 2010		
	Major SR'000	Non-major SR'000	Total SR'000
Gross written premiums	934,666	814,724	1,749,390
Premium ceded	(1,699)	(1,481)	(3,180)
Net written premiums	932,967	813,243	1,746,210
Net movement in net unearned premiums	(66,952)	(70,350)	(137,302)
Net earned premiums	866,015	742,893	1,608,908
Gross claims paid	702,396	529,822	1,232,218
Claims recovered	(720)	(515)	(1,235)
Net claims paid	701,676	529,307	1,230,983
Net movement in outstanding claims	50,715	26,405	77,120
Net claims incurred	(752,391)	(555,712)	(1,308,103)
Net underwriting result	113,624	187,181	300,805
Unallocated income	-	-	4,201
Unallocated expenses	-	-	(223,888)

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

At 31 December 2011

<b>Surplus from insurance operations</b>	<b>81,118</b>
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	As at 31 December 2011		
	Major	Non-major	Total
	SR'000	SR'000	SR'000
<b>Insurance operations' assets</b>			
Premiums receivable - gross	217,196	186,740	403,936
Allowance for doubtful premiums receivable	(35,245)	(28,861)	(64,106)
Premiums receivable - net	181,951	157,879	339,830
Deferred policy acquisition costs	10,348	10,749	21,097
Unallocated assets	-	-	827,682
<b>Total</b>			<b>1,188,609</b>
<b>Insurance operations' liabilities and surplus</b>			
Unearned premiums	368,233	354,506	722,739
Outstanding claims	207,561	173,704	381,265
Unallocated liabilities and surplus	-	-	84,605
<b>Total</b>			<b>1,188,609</b>

	As at 31 December 2010		
	Major	Non-major	Total
	SR'000	SR'000	SR'000
<b>Insurance operations' assets</b>			
Premiums receivable - gross	256,351	263,653	520,004
Allowance for doubtful premiums receivable	(1,482)	(28,682)	(30,164)
Premiums receivable, net	254,869	234,971	489,840
Deferred policy acquisition costs	7,008	8,462	15,470
Unallocated assets	-	-	624,967
<b>Total</b>			<b>1,130,277</b>
<b>Insurance operations' liabilities and surplus</b>			
Unearned premiums	298,884	360,935	659,819
Outstanding claims	202,680	149,699	352,379
Unallocated liabilities and surplus	-	-	118,079
<b>Total</b>			<b>1,130,277</b>

**27 COMMITMENTS AND CONTINGENCIES**

a) Operating lease commitments:

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

	2011 SR'000	2010 SR'000
Within one year	4,388	4,388
After one year but no more than five years	24,424	23,838
More than five years	20,913	27,349
	<b>49,725</b>	<b>55,575</b>

b) There were no capital commitments outstanding as at 31 December 2011 (31 December 2010: Nil)

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

- c) As at 31 December 2010, performance guarantees, limited to SR 0.17 million, in respect of insurance premiums written by the Company and a payment guarantee, limited to SR 0.3 million were given on behalf of the Company. The Company pledged short-term deposits amounting to SR 0.49 million to the bank for obtaining such guarantees. During 2011, the above guarantees were withdrawn and pledge was cancelled. As at 31 December 2011, no guarantees were issued by the Company.

### 28 RISK MANAGEMENT

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

#### Insurance risk

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

#### Geographical concentration of risks

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

#### Frequency and amounts of claims

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

#### 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 as adequate.

#### 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, has entered into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. All of the reinsurance is effected under an excess-of-loss (XOL) reinsurance contract. For any claim above SR 200 thousand and contingent on the policyholders' plan limit, the reinsurance covers losses per claim between SR 200 thousand and SR 500 thousand. 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.

#### 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. As a result of the clarification issued by the regulator relating to Article 69, the allowance for doubtful premiums receivable is now calculated, on a written based aging profile, previously on an invoiced based aging profile, for the purposes of calculating the Company's capital for minimum capital requirements as set out below, the admissibility of debtors' assets, as at 31 December 2011, is reduced. As a result, the Company's solvency level is less than the minimum solvency margin required by the Saudi Arabian Insurance Regulations. To mitigate the impact of the above, during the second half of 2011, the Company implemented new, reduced, customer payment terms.

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:

	2011 SR'000	2010 SR'000
Minimum regulatory capital (Written premium based solvency margin method)	318,488	279,394

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

As at 31 December 2011, the Company's capital was less than the minimum regulatory capital requirement, and the Company has communicated this matter to SAMA (refer note 21).

### Financial risk

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

The Company does not enter into derivative transactions.

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

### Market price risk

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

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

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the Insurance Operations and Shareholders' Operations by SR 9,385 thousands (2010: 12,859 thousands) and SR 18,677 thousands (2010: 14,973 thousands) respectively.

### Commission rate risk

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

The Company places deposits which are realisable within three months, with the exception of restricted deposits which are required to be maintained in accordance with regulations in Saudi Arabia 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	2011 SR '000			Total
	Less than 3 months	3 months to 1 year	No fixed maturity	
Short-term deposits	415,358	-	-	415,358

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

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:

	2011	2010
<b>Insurance operations</b>		
Saudi Riyal denominated deposits	0.73%	1.14%

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

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

At 31 December 2011

other variables held constant.

	2011 SR'000 Effect on profit	2010 SR'000 Effect on profit
<b>Insurance operations</b>		
Saudi Riyals:		
Increase in commission rates by 100 basis points	4,154	2,251
Decrease in commission rates by 100 basis points	(4,154)	(2,251)

The Shareholders operations do not have any commission bearing assets or liabilities.

**Foreign currency risk**

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

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

**Credit risk**

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

The Company seeks to limit its credit risk with respect to customers by following the Company credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the premium 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 information shows the maximum exposure to credit risk for the components of the statement of financial position:

	2011 SR'000	2010 SR' 000
<b>Insurance' Operations</b>		
Cash and cash equivalents	609,914	346,908
Investments	187,699	257,178
Premiums receivable - net	339,830	489,840
	<b>1,137,443</b>	<b>1,093,926</b>

**Shareholders' Operations**

Cash and cash equivalents	13,631	13,631
Investments	373,534	299,462
Other receivables	244	-
Amount due from insurance operations	-	48,761
	<b>387,409</b>	<b>361,854</b>

**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



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## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2011

available to meet any commitments as they arise.

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

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

### 29 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.

### 30 FAIR VALUES OF FINANCIAL INSTRUMENTS

a) Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, investments, receivables, and accrued income and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to a related party in respect of goodwill, amount due to related parties and other liabilities. The fair values of financial instruments are not materially different from their carrying values. At 31 December 2011, apart from the investments which are carried at fair value (note 5), there were no other financial instruments held by the Company that were measured at fair value (2010: nil).

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

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

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

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

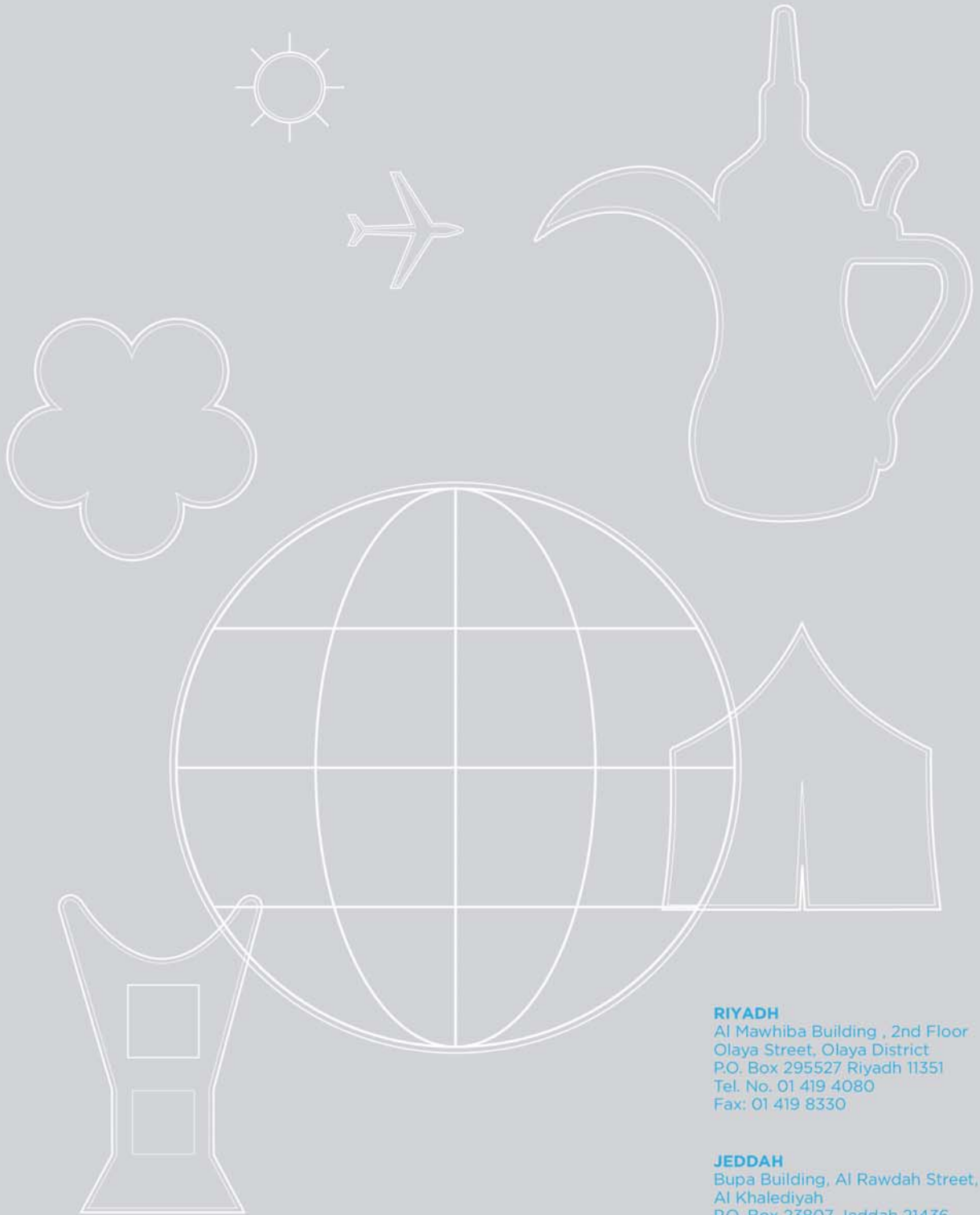
As at 31 December 2011 and 2010, all financial instruments which are fair valued are Level 1 instruments.

### 31 COMPARATIVE FIGURES

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

### 32 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorized for issue by the Board of Directors on 9 February 2012, corresponding to 17 Rabi Awal 1433 H.



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