

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

**FINANCIAL STATEMENTS
WITH AUDITORS' REPORT
31 DECEMBER 2010**



ERNST & YOUNG
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia



Al Fozan & Al Sadhan
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF 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 2010, and the related statements of insurance operations and accumulated surplus, shareholders' operations, comprehensive income, insurance operations' cash flows, shareholders' cash flows and changes in shareholders' equity for the year then ended and the attached notes 1 through 33 which form integral part of the financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required.

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. 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 2010 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

Emphasis of a matter

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

For Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Registration No. 356

for KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
Certified Public Accountant
Registration No. 352

12 Rabi Awal 1432 H
15 February 2012



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

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

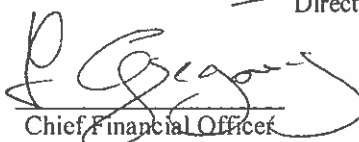
	Note	2010 SR'000	2009 SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	346,908	444,162
Investments	5	257,178	-
Prepayments and other assets	6	20,881	28,823
Premiums receivable, net	7	55,972	64,732
Premiums written not invoiced	8	433,868	342,666
Deferred policy acquisition costs	9	15,470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



Chairman



Director and Chief Executive Officer



Chief Financial Officer

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

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


STATEMENT OF FINANCIAL POSITION (continued)

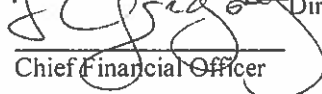
At 31 December 2010

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



Chairman


Director and Chief Executive Officer


Chief Financial Officer

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

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

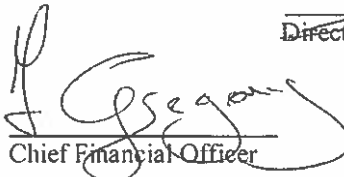
STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2010

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


Chairman


Director and Chief Executive Officer


Chief Financial Officer

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

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

STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2010

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


Chairman


Director and Chief Executive Officer


Chief Financial Officer

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

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

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


Chairman


Director and Chief Executive Officer


Chief Financial Officer


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

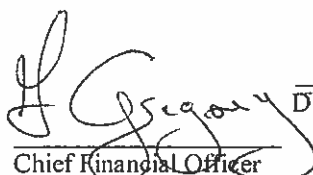
**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**


STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2010

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


Chairman


Chief Financial Officer


Director and Chief Executive Officer


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

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

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2010

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


Chairman


Chief Financial Officer


Director and Chief Executive Officer

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


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

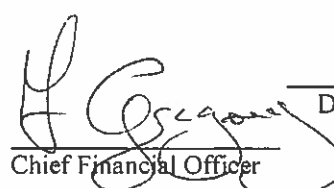
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY


For the year ended 31 December 2010

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

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


 Chairman


 Chief Financial Officer


 Director and Chief Executive Officer

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

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

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2a STATEMENT OF COMPLIANCE

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

2b BASIS OF PREPARATION

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

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

2b BASIS OF PREPARATION (continued)

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

2c SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

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

Investments

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

Premiums receivable

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

Policy acquisition costs

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

Goodwill

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

Furniture, fittings and equipment

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

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

2c SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liability adequacy test

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

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

Accounts payable and accruals

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

Provisions

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

Employees' end of service benefits

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

Obligation under the Long-Term Incentive Plan

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

Annually the obligation under the LTIP is reassessed, to account for the maximum obligation of the Company based on the annual election made by the employees on the LTIP, up to the reporting date. The LTIP balance is presented in the statement of financial position.

Should, in the last annual election, some, or all, of the employees on the LTIP have not opted for the purchase of shares, then the liability reserve under the LTIP is based on a fixed percentage of the relevant employees' salaries and commission thereon and is accrued uniformly over the vesting period.

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

Shares held under long-term incentive plan by a custodian

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

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

2c SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax

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

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

Impairment and uncollectibility of financial assets

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

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

Dividend income

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

Derecognition of financial instruments

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

Premiums earned

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

Reinsurance premiums

Reinsurance premiums ceded are recognized as an expense when payable.

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

Commission income

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

Claims

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

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

2c SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance contracts held

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

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

Expenses

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

Transaction costs

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

Segmental reporting

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

Leases

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

Foreign currencies

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

Fair values of financial instruments

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

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

Offsetting

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

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

2d SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

Estimation uncertainty

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

Provision for outstanding claims

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

Allowance for doubtful receivables

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

2e PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

IAS 24 Related Party Disclosures (Amendment)

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

IFRS 9 Financial Instruments: Classification and Measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

3 TRANSFER OF PORTFOLIO

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

4 CASH AND CASH EQUIVALENTS

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

- a) At 31 December 2010, bank balances, relating to insurance operations, amounting to SR 8.6 million (2009: SR 190.4 million) are held in the name of a related party of the Company, on behalf of the Company.
- b) The short-term deposits are held with commercial banks. These bank deposits are denominated in Saudi Riyals and have an original maturity not exceeding three months.

5 INVESTMENTS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

5 INVESTMENTS (continued)

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

6 PREPAYMENTS AND OTHER ASSETS

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

7 PREMIUMS RECEIVABLE, NET

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

7 PREMIUMS RECEIVABLE, NET (continued)

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

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

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

8 PREMIUMS WRITTEN NOT INVOICED

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

9 DEFERRED POLICY ACQUISITION COSTS

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

10 FURNITURE, FITTINGS AND EQUIPMENT

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

11 STATUTORY DEPOSIT

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

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

12 TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

12 TRANSACTIONS WITH RELATED PARTIES (continued)

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

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

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

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

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

13. REINSURANCE BALANCE PAYABLE

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

14 NET EARNED PREMIUMS

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

15 NET CLAIMS INCURRED

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

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

16 ACCRUALS AND OTHER LIABILITIES

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

16 ACCRUALS AND OTHER LIABILITIES (continued)

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

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

17 TRADE MARK FEE

During 2010, the Company has entered into an agreement with a related party for obtaining a license to use the trade marks (the word Bupa with or without logo) of the related party. As per the terms of the agreement, the Company is required to pay a lump sum of SR 1.2 million and an amount equal to a fixed percentage of gross earned premium thereafter, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee. Accordingly, a sum of SR 2.8 million (see note 22), including the lump sum amount referred above, payable to a related party has been provided for in these financial statements.

18 ZAKAT AND INCOME TAX

a) Zakat

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

Charge for the year/period

The zakat charge relating to Saudi partners consists of:

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

18 ZAKAT AND INCOME TAX (continued)

a) Zakat (continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

18 ZAKAT AND INCOME TAX (continued)

b) Income tax

Charge for the year

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

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

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

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

c) Zakat and income tax payable

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

d) Status of assessments

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

19 SHARE CAPITAL

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

20 SHARES HELD UNDER LONG-TERM INCENTIVE PLAN

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

21 STATUTORY RESERVE

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

22 SELLING AND MARKETING EXPENSES

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

23 GENERAL AND ADMINISTRATION EXPENSES

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

24 COMPENSATION TO KEY MANAGEMENT PERSONNEL

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

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

25 PRE-INCORPORATION EXPENSES WRITTEN OFF

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

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

26 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

26 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES (continued)

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

27 SEGMENT INFORMATION

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

27 SEGMENT INFORMATION (continued)

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

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

	<i>As at 31 December 2010</i>		
	Major SR'000	Non-major SR'000	Total SR'000
Insurance operations' assets			
Premiums receivable, net	38,687	17,285	55,972
Premiums written not invoiced, net	218,550	215,318	433,868
Deferred policy acquisition costs	7,008	8,462	15,470
Unallocated assets	-	-	624,967
Total			1,130,277
Insurance operations' liabilities and surplus			
Unearned premiums	298,884	360,935	659,819
Outstanding claims	202,680	149,699	352,379
Unallocated liabilities and surplus	-	-	118,079
Total			1,130,277

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

27 SEGMENT INFORMATION (continued)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

28 COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments:

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

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

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

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

29 RISK MANAGEMENT

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

Insurance risk

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

Geographical concentration of risks

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

Frequency and amounts of claims

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

Reinsurance risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

29 RISK MANAGEMENT (continued)

Regulatory framework risk

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

Capital management (solvency) risk

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

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

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

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

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

Financial risk

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

The Company does not enter into derivative transactions.

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

Market price risk

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

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

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

Commission rate risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

29 RISK MANAGEMENT (continued)

Financial risk (continued)

Commission rate risk (continued)

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

Insurance Operations

2010
SR '000

	Less than 3 months	3 months to 1 year	No fixed maturity	Total
Short-term deposits	225,145	-	-	225,145

Insurance Operations

2009
SR '000

	Less than 3 months	3 months to 1 year	No fixed maturity	Total
Short-term deposits	253,500	-	-	253,500

Shareholders' Operations

2010
SR '000

	Less than 3 months	3 months to 1 year	No fixed maturity	Total
Statutory deposit	-	-	40,000	40,000

Shareholders' Operations

2009
SR '000

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

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

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

	2010	2009
Insurance operations		
Saudi Riyal denominated deposits	1.14%	0.88%
Shareholders' operations		
Saudi Riyal denominated deposits	-	1.10%

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

29 RISK MANAGEMENT (continued)

Financial risk (continued)

Commission rate risk (continued)

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

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

Foreign currency risk

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

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

Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

29 RISK MANAGEMENT (continued)

Financial risk (continued)

Credit risk (continued)

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

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

Liquidity risk

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

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

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

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

30 EARNINGS PER SHARE

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2010

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

32 COMPARATIVE FIGURES

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

33 APPROVAL OF THE FINANCIAL STATEMENTS

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