

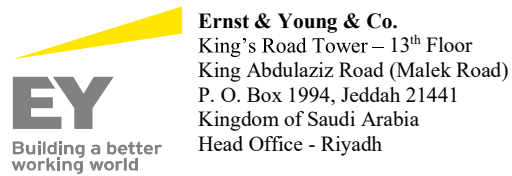
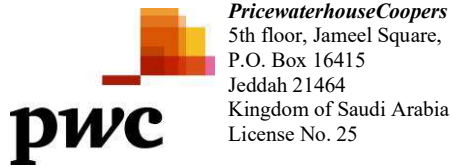
**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
31 DECEMBER 2020**

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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Independent Auditors' Report

To the Shareholders of Bupa Arabia for Cooperative Insurance Company (A Saudi Joint Stock Company)

Opinion

We have audited the financial statements of Bupa Arabia For Cooperative Insurance Company – a Saudi Joint Stock Company (the “Company”), which comprise the statement of financial position as at 31 December 2020, and the related statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (referred to as “IFRS as endorsed in the Kingdom of Saudi Arabia”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the key audit matter below, a description of how our audit addressed the matter is provided in that context:



Independent Auditors' Report

**To the Shareholders of Bupa Arabia for Cooperative Insurance Company (A Saudi Joint Stock Company)
(continued)**

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of ultimate claim liabilities arising from insurance contracts</p> <p>As at 31 December 2020, gross outstanding claims and reserves including claims incurred but not reported (IBNR) and premium deficiency reserve amounted to Saudi Riyals 2.1 billion as reported in Note 13.1 to the financial statements.</p> <p>The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. Accordingly, this complexity arises from calculating the actuarial best estimate and the margin over best estimate using historical data which is sensitive to external inputs, such as claims cost inflation and medical trends, as well as the actuarial methodology that is applied and the assumptions on current and future events.</p> <p>The Company calculates its own estimate of the provision using standardised reserving methodology for comparing against the provision calculated by the independent actuary, and considers the impact of any significant differences.</p> <p>Due to the estimation uncertainty and subjectivity involved including uncertainties due to COVID-19 pandemic in the assessment of valuation of ultimate claim liabilities arising from insurance contracts, we have considered this as a key audit matter.</p>	<p>We performed the following procedures</p> <ul style="list-style-type: none"> • Understood, evaluated and tested key controls around the claims handling and provision setting processes. • Evaluated the competence, capabilities and objectivity of the management's actuarial expert based on their professional qualifications and experience and assessed their independence. • Performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves. • Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, and tested on a sample basis, the accuracy of underlying claims data utilised by the management's expert in estimating the IBNR by comparing it to the accounting and other records. • Challenged management's methods and assumptions, through assistance of our own actuarial expert to understand and evaluate the Company's actuarial practices and provisions established and gained comfort over the actuarial report issued by management's expert, by performing the following:



Please refer to notes 3(xxi) for the accounting policy adopted by the Company and note 2d(i) for the significant accounting judgements, estimates and assumptions involved in the initial recognition and subsequent measurement of claims. Also, refer to note 13 for the movement in outstanding claims.

- i. Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;
 - ii. Assessed key actuarial assumptions including claims ratios and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and
 - iii. Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivity analysis performed.
- Assessed the adequacy and appropriateness of the related disclosures in the financial statements.



Independent Auditors' Report

To the Shareholders of Bupa Arabia for Cooperative Insurance Company (A Saudi Joint Stock Company) (continued)

Other Information

Management is responsible for the other information. Other information consists of the information included in the Company's 2020 annual report other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia, the applicable requirements of the Regulations for Companies, the Company's By-laws and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance i.e. the Board of Directors of the Company is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**for PricewaterhouseCoopers
Certified Public Accountants**

Mufaddal A. Ali
Certified Public Accountant
License No. 447

**for Ernst & Young & Co.
Certified Public Accountants**

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

Shaaban 3, 1442H
March 16, 2021

Jeddah, Kingdom of Saudi Arabia



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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		<i>2020</i>	<i>2019</i>
		<i>SR'000</i>	<i>SR'000</i>
	<i>Notes</i>		
<u>ASSETS</u>			
Cash and cash equivalents	5	633,251	665,709
Premiums receivable – net	6	1,320,043	1,689,377
Reinsurers' share of unearned premiums	13.2	20,108	20,625
Reinsurers' share of outstanding claims	13.1	1,475	1,218
Reinsurers' share of claims incurred but not reported	13.1	6,461	3,972
Deferred policy acquisition costs	14	68,214	134,022
Investments	7	6,029,446	1,840,832
Prepaid expenses and other assets	8	158,460	276,643
Term deposits	9	2,723,173	5,063,976
Fixtures, Furniture and Right-of-use assets – net	10	204,019	169,441
Intangible assets – net	11	61,958	56,245
Deferred tax asset	26b	37,941	30,216
Goodwill	4	98,000	98,000
Statutory deposit	12	120,000	120,000
Accrued income on statutory deposit	12	13,806	10,820
TOTAL ASSETS		11,496,355	10,181,096
<u>LIABILITIES</u>			
Accrued and other liabilities	18	676,050	448,687
Insurance operations' surplus payable	20	200,391	168,454
Reinsurers' balances payable	25	4,873	54,413
Unearned premiums	13.2	4,023,331	4,376,219
Outstanding claims	13.1	446,519	451,788
Claims incurred but not reported	13.1	1,378,294	1,157,428
Premium deficiency reserve	13.1	263,751	--
Claims handling reserve	13.1	20,755	18,492
Due to related parties	24	108,521	78,848
Provision for end-of-service benefits (EOSB)	21	140,012	96,341
Provision for zakat and income tax	26c	317,199	274,709
Accrued income payable to SAMA	12	13,806	10,820
TOTAL LIABILITIES		7,593,502	7,136,199
<u>EQUITY</u>			
Share capital	27	1,200,000	1,200,000
Statutory reserve	28	867,096	727,871
Share based payments	29	32,800	25,525
Shares held under employees share scheme	29	(48,779)	(57,538)
Retained earnings		1,684,003	1,128,973
Re-measurement reserve of employees' EOSB		(31,173)	(10,473)
Investments fair value reserve – related to shareholders		174,848	18,035
TOTAL SHAREHOLDERS' EQUITY		3,878,795	3,032,393
Investments fair value reserve – related to policyholders		24,058	12,504
TOTAL EQUITY		3,902,853	3,044,897
TOTAL LIABILITIES AND EQUITY		11,496,355	10,181,096

Chairman

Director and Chief Executive Officer

Director and Chief Financial Officer

The accompanying notes 1 to 39 form an integral part of these financial statements.

CONFIDENTIAL

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

STATEMENT OF INCOME

For the year ended 31 December 2020

		2020 SR'000	2019 SR'000
	<i>Notes</i>		
<u>REVENUES</u>			
Gross premiums written	13.2	10,447,353	10,410,868
Reinsurance premiums ceded – Local		(5,953)	(10,377)
Reinsurance premiums ceded – International		(59,289)	(95,417)
Net premiums written		10,382,111	10,305,074
Changes in unearned premiums – net		352,371	(933,783)
Net premiums earned	13.2	10,734,482	9,371,291
<u>UNDERWRITING COSTS & EXPENSES</u>			
Gross claims paid		(8,262,050)	(7,655,078)
Reinsurers' share of claims paid		20,987	58,632
Net claims paid		(8,241,063)	(7,596,446)
Changes in outstanding claims	13.1	5,269	103,370
Changes in claims incurred but not reported	13.1	(220,866)	(259,305)
Changes in premium deficiency reserve		(263,751)	--
Changes in claims handling reserves		(2,263)	908
Reinsurance share of changes in outstanding claims		257	882
Reinsurance share of changes in claims incurred but not reported		2,489	1,294
Net claims incurred		(8,719,928)	(7,749,297)
Policy acquisition costs	14	(630,734)	(463,542)
Total underwriting costs & expenses		(9,350,662)	(8,212,839)
NET UNDERWRITING INCOME		1,383,820	1,158,452
<u>OTHER OPERATING (EXPENSES)/INCOME</u>			
Allowance for doubtful receivables	6	(28,770)	(31,907)
General and administrative expenses	31	(585,549)	(491,001)
Selling and marketing expenses	32	(106,467)	(109,856)
Investment income – net	33	213,295	235,005
Other income – net		27,481	18,795
Total other operating (expenses)/income		(480,010)	(378,964)
Income before surplus, zakat & income tax		903,810	779,488
Income attributed to the insurance operations (transfer to surplus payable)	20	(80,141)	(66,834)
Income attributed to the shareholders before zakat and income tax		823,669	712,654
Zakat charge	26a	(64,297)	(57,821)
Income tax charge	26b	(63,244)	(61,036)
NET INCOME ATTRIBUTED TO SHAREHOLDERS AFTER ZAKAT AND INCOME TAX		696,128	593,797
Weighted average number of ordinary outstanding shares (in thousands)		119,421	119,548
Basic and diluted earnings per share (Expressed in SR per Share)	34	5.83	4.97

Chairman



Director and Chief Financial Officer

NADEL ASHOOQ

Director and Chief Executive Officer

The accompanying notes 1 to 39 form an integral part of these financial statements.

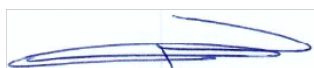
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**BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

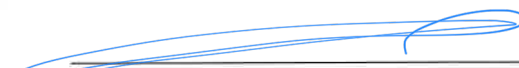
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
NET INCOME ATTRIBUTED TO THE SHAREHOLDERS AFTER ZAKAT AND INCOME TAX	696,128	593,797
Other comprehensive income		
<i>Items that will not be reclassified to statement of income in subsequent years</i>		
Re-measurement losses on employees' EOSB	(20,700)	(1,551)
<i>Items that are or may be reclassified to statement of income in subsequent years</i>		
Net movement in fair value of available for sale investments:		
- related to shareholders	156,813	39,977
- related to policyholders	11,554	21,093
	168,367	61,070
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	843,795	653,316



Chairman



Director and Chief Executive Officer



Director and Chief Financial Officer

The accompanying notes 1 to 39 form an integral part of these financial statements.

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Related to shareholders' operations									
	Share capital SR'000	Statutory reserve SR'000	Share based payments SR'000	Shares held under share scheme SR'000	Retained earnings SR'000	Remeasurement reserve of employees' EOSB SR'000	Investments fair value related to shareholders' operations SR'000	Total shareholders' equity operations SR'000	Investment s fair value reserve – related to policyholder s operations SR'000	Total equity SR'000
Balance at 1 January 2020	1,200,000	727,871	25,525	(57,538)	1,128,973	(10,473)	18,035	3,032,393	12,504	3,044,897
Total comprehensive income for the year										
Net income for the year attributed to shareholders after zakat and income tax	--	--	--	--	696,128	--	--	696,128	--	696,128
Re-measurement losses on employees' EOSB	--	--	--	--	--	(20,700)	--	(20,700)	--	(20,700)
Changes in fair value of available for sale investments	--	--	--	--	696,128	--	156,813	156,813	11,554	168,367
Total comprehensive income for the year										
Transfer to statutory reserves	--	139,225	--	--	(139,225)	--	--	--	--	--
Share based payment transactions	--	--	16,034	--	--	--	--	16,034	--	16,034
Delivery of shares under LTIP	--	--	(8,759)	8,759	--	--	--	--	--	--
Income tax recoverable (to)/from non-Saudi shareholders	--	--	--	--	(1,873)	--	--	(1,873)	--	(1,873)
Balance at 31 December 2020	1,200,000	867,096	32,800	(48,779)	1,684,003	(31,173)	174,848	3,878,795	24,058	3,902,853



Chairman



Director and Chief Executive Officer

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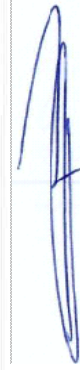
Director and Chief Financial Officer

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

The accompanying notes 1 to 39 form an integral part of these financial statements.
STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2020

	<i>Related to shareholders' operations</i>						<i>Investments fair value reserve - related to policyholders operations SR'000</i>	<i>Total shareholder s' operations equity SR'000</i>	<i>Total equity SR'000</i>
	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Share based payments SR'000</i>	<i>Shares held under employees share scheme SR'000</i>	<i>Retained earnings SR'000</i>	<i>Remeasurement reserve of employees' EOSB SR'000</i>			
2019									
Balance at 31 December 2018	1,200,000	609,111	17,579	(32,662)	836,705	(8,922)	(21,942)	2,599,869	2,591,280
Impact of adopting IFRS 16 at 1 January 2019	--	--	--	--	(8,900)	--	--	(8,900)	(8,900)
Balance at 1 January 2019	1,200,000	609,111	17,579	(32,662)	827,805	(8,922)	(21,942)	2,590,969	2,582,380
Total comprehensive income for the year									
Net income for the year attributed to shareholders after zakat and income tax	--	--	--	--	593,797	--	--	593,797	593,797
Actuarial losses on end-of-service benefits	--	--	--	--	--	(1,551)	--	(1,551)	(1,551)
Changes in fair value of available for sale investments	--	--	--	--	--	--	39,977	39,977	21,093
Total comprehensive income for the year	--	--	--	--	593,797	(1,551)	39,977	632,223	653,316
Transfer to statutory reserves	--	118,760	--	--	(118,760)	--	--	--	--
Share based payment transactions	--	--	15,814	--	--	--	--	15,814	15,814
Delivery of shares under LTIP	--	--	(7,868)	7,868	--	--	--	--	--
Purchase of shares under LTIP	--	--	--	(32,744)	--	--	--	(32,744)	(32,744)
Dividends paid	--	--	--	--	(180,000)	--	--	(180,000)	(180,000)
Income tax recoverable (to)/from non-Saudi shareholders	--	--	--	--	6,131	--	--	6,131	6,131
Balance at 31 December 2019	1,200,000	727,871	25,525	(57,538)	1,128,973	(10,473)	18,035	3,032,393	3,044,897

Chairman



Director and Chief Financial Officer



Director and Chief Executive Officer



The accompanying notes 1 to 39 form an integral part of these financial statements.

CONFIDENTIAL

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 SR '000	2019 SR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income attributed to the shareholders before zakat and income tax		823,669	712,654
<u>Adjustments for non-cash items:</u>			
Net income attributed to the insurance operations	20	80,141	66,834
Depreciation and amortisation of Fixtures, Furniture and Right-of-use assets		31,507	30,640
Amortisation of intangible assets		15,731	17,576
(Gain) / loss on disposal of Fixtures and Furniture		-	(1)
Provision for LTIP		16,034	15,814
Allowance for doubtful receivables provision		28,770	31,907
Unrealised gains on investments held as FVSI		(876)	(12,745)
Provision for end-of-service benefits		27,294	19,481
Finance cost		5,244	5,223
<u>Changes in operating assets and liabilities:</u>			
Premiums receivable		340,564	(770,613)
Reinsurers' share of unearned premiums		517	(14,305)
Reinsurers' share of outstanding claims		(257)	(882)
Reinsurers' share of claims Incurred but not reported		(2,489)	(1,294)
Deferred policy acquisition costs		65,808	(15,699)
Prepaid expenses and other assets		118,183	(73,658)
Accrued and other liabilities		182,092	72,549
Reinsurers' balances payable		(49,540)	3,777
Unearned premiums		(352,888)	948,088
Outstanding claims		(5,269)	(103,370)
Claims incurred but not reported		220,866	259,305
Premium deficiency Reserve		263,751	-
Claims handling reserve		2,263	(908)
Due to related parties	24	27,800	43,884
		1,838,915	1,234,257
End-of-service benefits paid		(4,323)	(6,086)
Surplus paid to policyholders		(48,204)	(38,135)
Zakat and income tax paid		(92,776)	(48,596)
Net cash generated from operating activities		1,693,612	1,141,440
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement in term deposits		(788,850)	(3,637,489)
Proceeds from maturity of term deposits		3,129,653	3,288,794
Additions to investments		(13,748,860)	(3,702,161)
Disposals of investments		9,729,489	3,556,635
Additions to Fixtures, Furniture and Right-of-use assets		(11,840)	(15,765)
Disposal of Fixtures, Furniture and Right-of-use assets		-	124
Intangible assets acquired		(21,444)	(16,548)
Net cash used in investing activities		(1,711,852)	(526,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(180,000)
Purchase of shares under LTIP		-	(32,744)
Lease liability paid		(14,218)	(26,990)
Net cash used in financing activities		(14,218)	(239,734)
Net change in cash and cash equivalents		(32,458)	375,296
Cash and cash equivalents at beginning of the year		665,709	290,413
Cash and cash equivalents at end of the year		633,251	665,709
<u>Non-cash transactions</u>			
Movements in fair value reserve of available for sale investments		(168,367)	61,070
Transfer from WIP to Fixtures, Furniture / Intangible assets		22,653	44,869
Re-measurement losses on employees' EOSB		(20,700)	(1,551)
Recognition of Lease liability		54,245	112,096
Recognition of Right-of-use assets		(54,245)	(103,196)
Tax recoverable (to)/from non- Saudi shareholders		1,873	6,131

Chairman



Director and Chief Financial Officer

Director and Chief Executive Officer

The accompanying notes 1 to 39 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 2020

1. ORGANIZATION 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 Investment’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-Khaledeyah District,
Prince Saud Al Faisal Street,
Front of Saudi Airlines Cargo Building,
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 1428H (corresponding to 11 September 2007) pursuant to the Council of Ministers’ Resolution No 279 dated 28 Shabaan 1428H (corresponding to 10 September 2007).

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.

The Board of Directors approve the distribution of surplus from insurance operations in accordance with the Implementing Regulations issued by the Saudi Central Bank (“SAMA”), whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising in insurance operations is transferred to the shareholders’ operations in full.

2. BASIS OF PREPARATION

(a) Basis of presentation and measurement

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements as endorsed by Saudi organization for Certified Public Accountants (“SOCPA”) (referred to as “IFRS as endorsed in KSA”).

The financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investments held at fair value through statement of income (FVSI), available for sale investments, measurement of ultimate liability arising from claims made under insurance contracts and measurement of employees end-of-service benefits (EOSB) and liabilities for cash settled share based payments at present value. The Company’s statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: available for sale investments, held to maturity investments, fixtures, furniture and right-of-use assets, intangible assets, goodwill, statutory deposit, accrued income on statutory deposit, provision for employees’ EOSB and accrued income payable to SAMA. All other financial statement line items would generally be classified as current, unless stated otherwise.

As required by the Saudi Arabian Insurance Regulations “the Implementation Regulations”, the Company maintains separate books of accounts for “Insurance Operations” and “Shareholders’ Operations”. Accordingly, assets, liabilities, revenues and expenses attributable to either operation are recorded in the respective accounts. Note 36 to these annual financial statements provides the statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations, separately.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

2. BASIS OF PREPARATION (continued)

(a) Basis of presentation and measurement (continued)

During 2018, SAMA issued illustrative financial statements for the insurance sector in the Kingdom of Saudi Arabia. In preparing the Company level financial statements in compliance with IFRS as endorsed in the Kingdom of Saudi Arabia, the balances and transactions of insurance operations are combined with those of shareholders' operations. Inter-operation balances and transactions, if any, are eliminated in full. The accounting policies adopted for the insurance and shareholders' operations are uniform for like transactions and events in similar circumstances.

(b) 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 off to the nearest thousand except where otherwise indicated.

(c) Fiscal year

The Company follows a fiscal year ending on 31 December.

(d) Critical accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenue, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustment to the carrying amount of assets or liabilities affected in future years. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the accounting judgments and estimates that are critical in the preparation of these financial statements:

i) The ultimate liability arising from claims made under insurance contracts

Judgment by management is required in the estimation of amounts due to medical providers and third parties arising from claims made under insurance contracts. Such estimates are necessary based on assumptions derived from several factors involving varying degrees of judgment and uncertainty as well as 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. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. Claims requiring court or arbitration decisions, if any, are estimated individually. The 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 actual settlement is included in provisions in the following year in the statement of income for that year. The provision for outstanding claims, as at 31 December, is also verified by an independent actuary.

A range of methods such as the Chain Ladder Method, the Bornhuetter-Ferguson Method and the Expected Loss Ratio Method are used by the actuaries to determine these provisions. Also, the Actuaries have used a segmentation approach which includes analyzing the costs per member per year for the medical line of business. Underlying these methods are also a number of explicit or implicit assumptions relating to the expected settlement amount and the settlement patterns of the claims.

Estimation of premium deficiency for medical insurance is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for active written policies. To arrive at the estimate of the expected loss ratio, the company's actuarial team, and also the independent actuary, consider the claims and premiums relationship which is expected to apply on a month-to-month basis, and ascertain, at the end of the financial period, whether a premium deficiency reserve is required.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

2. BASIS OF PREPARATION (continued)

(d) Critical accounting judgments, estimates and assumptions (continued)

ii) Impairment of receivables

A provision for impairment of receivables and reinsurance receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtors will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

iii) Deferred acquisition costs

Acquisition costs related to the sale of new policies are recorded as deferred acquisition costs and are amortised in the statement of income over the 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 income.

iv) Useful lives of Fixtures, Furniture and Right-of-use assets

The Company's management determines the estimated useful lives of its Fixtures, Furniture and Right-of-use assets for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews residual values and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

v) Fair value of financial instruments

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

vi) Impairment of available for sale investments

The Company exercises judgment to consider impairment on the available for sale investments at each reporting date. This includes determination of a significant or a prolonged decline in the fair value of equity securities below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share prices. In addition, the Company considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational & financing cash flows.

The Company considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, which is recognised in the statement of income as an impairment charge on investments. A prolonged decline represents a decline below cost that persists for 1 year or longer irrespective of the amount and is recognised in the statement of income accordingly as an impairment charge on investments. The previously recognised impairment loss in respect of equity investments cannot be reversed through the statement of income. The Company reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired.

vii) Going concern

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

2. BASIS OF PREPARATION (continued)

(d) Critical accounting judgments, estimates and assumptions (continued)

viii) Impairment of Goodwill

The Company tests whether goodwill has suffered any impairment on an annual basis. For the 2020 and 2019 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated in note 4. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

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. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The recoverable amount is the greater of its value in use or fair value less cost to sell. In assessing the 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 risk specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented except new IFRS standards, IFRIC interpretations and amendments thereof, adopted by the Company as explained below:

a) *New IFRS Standards, IFRIC interpretations and amendments thereof, adopted by the Company:*

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB), have been effective from 1 January 2020 and accordingly adopted by the Company. The Company has assessed that the amendments have no significant impact on the Company's financial statements., as applicable::

<u>Standard / Amendments</u>	<u>Description</u>	
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards.	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	1 January 2020
Amendments to IAS 39 & IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020

b) *Standards issued but not yet effective:*

Standards issued but not yet effective up to the date of issuance of the Company's annual financial statements are listed below. The Company intends to adopt these standards when they become effective.

<u>Standard/ Interpretation</u>	<u>Description</u>	<i>Effective from periods beginning on or after the following date</i>
IFRS 17	Insurance Contracts	See note below
IFRS 9	Financial Instruments	See note below
Amendments to IAS 37	Onerous contracts – Cost of Fulfilling a contract	1 January 2023

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES

b) *Standards issued but not yet effective*

IFRS 17 – Insurance Contracts

Overview

This standard has been published on May 18, 2017, it establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 – Insurance contracts.

The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts:

- i) embedded derivatives, if they meet certain specified criteria;
- ii) distinct investment components; and
- iii) any promise to transfer distinct goods or non-insurance services.

These components should be accounted for separately in accordance with the related standards (IFRS 9 and IFRS 15).

Measurement

In contrast to the requirements in IFRS 4, which permitted insurers to continue to use the accounting policies for measurement purposes that existed prior to January 2005, IFRS 17 provides the following different measurement models:

The General model is based on the following “building blocks”:

- a) the fulfilment cash flows (FCF), which comprise:
 - probability-weighted estimates of future cash flows;
 - an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows; and
 - a risk adjustment for non-financial risk.
- b) the Contractual Service Margin (CSM). The CSM represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the fulfilment cash flows at inception will be recorded in profit or loss immediately. At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:
 - the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date; and
 - the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

The CSM is adjusted subsequently for changes in cash flows related to future services but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in statement of income. Interest is also accreted on the CSM at rates locked in at initial recognition of a contract (i.e. discount rate used at inception to determine the present value of the estimated cash flows). Moreover, the CSM will be released into statement of income based on coverage units, reflecting the quantity of the benefits provided and the expected coverage duration of the remaining contracts in the group.

The Variable Fee Approach (VFA) is a mandatory model for measuring contracts with direct participation features (also referred to as ‘direct participating contracts’). This assessment of whether the contract meets these criteria is made at inception of the contract and not reassessed subsequently. For these contracts, the CSM is also adjusted for in addition to adjustment under general model.

- i) changes in the entity’s share of the fair value of underlying items; and
- ii) changes in the effect of the time value of money and financial risks not relating to the underlying items.

In addition, a simplified Premium Allocation Approach (PAA) is permitted for the measurement of the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period for each contract in the group is one year or less. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less insurance acquisition cash flows, unless the Company chooses to recognise the payments as an expense. The general model remains applicable for the measurement of incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

Effective date

The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently January 1, 2023. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intend to apply the standard on its effective date.

Transition

Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to apply either a modified retrospective approach or a fair value approach.

Presentation and Disclosures

The Company expects that the new standard will result in a change in accounting policies for insurance contracts together with amendments to presentation and disclosures.

Impact

The Company is currently assessing the impact of the application and implementation of IFRS 17. As of the date of the publication of these financial statements, the Company expects the implementation of IFRS 17 to have impact on the following areas:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Impact (continued)

The Company expects the Implementation of IFRS 17 to have impact on the following areas:

Impact Area	Summary of Impact
Financial Impact	No Significant impact based on the assessment conducted in 2020.
Data Impact	Management is assessing data storage and infrastructure considering systems interfaces and data integrity. However, management believes that the data impact is not likely to be significant.
IT Systems	Management is assessing the current IT systems and considering the migration to a new system in phases by utilizing the current system capabilities before the migration is carried out ensuring IFRS17 disclosure and reconciliation requirements are met.
Process Impact	The Company is assessing the implication on process and need to establish new process to ensure that required line items and additional breakdowns are fed into the downstream systems to create the required presentations and disclosures.
Impact on RI Arrangements	The Company’s held reinsurance is not material (less than 1% of GWP is reinsured). New/enhanced systems should be flexible to account for any changes in the Company’s reinsurance strategy.
Impact on Policies & Control Frameworks	The Company needs to update the actuarial and accounting policies and develop guidance papers; From governance perspective, management needs to make sure all IFRS17 key decisions and results are appropriately reviewed and signed off by the auditors, appointed actuary, audit committee as well as the board of directors and the required control functions.

The Company has started with their implementation process and have set up an implementation committee.

IFRS 9 – Financial Instruments

This standard was published on July 24, 2014 and has replaced IAS 39. The new standard addresses the following items related to financial instruments:

Classification and measurement

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is measured at amortized cost if both:

- i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and;
- ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

The debt financial asset is measured at fair value through other comprehensive income and realized gains or losses would flow through profit or loss upon sale, if both conditions are met:

- i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale and;
- ii) the contractual terms of cash flows are SPPI.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

Classification and measurement (continued)

Assets not meeting either of these categories are measured at fair value through profit or loss. Additionally, at initial recognition, an entity can use the option to designate a financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

For equity instruments that are not held for trading, an entity can also make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of the instruments (including realized gains and losses), dividends being recognized in profit or loss.

Additionally, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the IFRS 9 approach, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Hedge accounting

IFRS 9 introduces new requirements for hedge accounting that align hedge accounting more closely with Risk Management. The requirements establish a more principles-based approach to the general hedge accounting model. The amendments apply to all hedge accounting with the exception of portfolio fair value hedges of interest rate risk (commonly referred to as "fair value macro hedges"). For these, an entity may continue to apply the hedge accounting requirements currently in IAS 39. This exception was granted largely because the IASB is addressing macro hedge accounting as a separate project.

Effective date

The published effective date of IFRS 9 was January 1, 2018. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on September 12, 2016, changes the existing IFRS 4 to allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 before the IASB's new insurance contract standard (IFRS 17 – Insurance Contracts) becomes effective. The amendments introduce two alternative options:

- 1) apply a temporary exemption from implementing IFRS 9 until the earlier of
 - a) the effective date of a new insurance contract standard; or
 - b) annual reporting periods beginning on or after January 1, 2023. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or
- 2) adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented. During the interim period, additional disclosures are required.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

Effective date (continued)

The Company has performed a detailed assessment beginning Jan 1, 2017: (1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and (2) the total carrying amount of the Company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

Impact assessment

As at December 31, 2020, the Company has total financial assets and insurance related assets amounting to SR 8,752 million and SR 2,373 million, respectively. Financial assets mainly represent investments held to maturity which consist of cash and cash equivalents, term deposits and designated sukuk amounting to SR 2,854 million (2019: SR 5,511 million). Fair value investments held at fair value through statement of income as at December 31, 2020 is SR 3,695 million (2019: SR 270 million). Other financial assets consist of available for sale investments amounting to SR 2,203 million (2019: SR 1,440 million). The Company is currently assessing the impact on application and implementation of IFRS 9, however the Company expects the classification and measurement of financial assets to be impacted by the implementation of IFRS 9.

The significant accounting policies used in preparing these financial statements are set out below:

i) Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, premiums receivable, investments, term deposits, statutory deposit and other receivables. Financial liabilities consist of insurance operations surplus payable, amounts due to related parties, and certain other liabilities.

Date of recognition

Regular way sale and purchase of financial instruments is recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial instruments that require settlement of instrument within the time frame generally established by regulation or convention in the market place.

Measurement of financial instruments

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

ii) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and term deposits that have original maturity periods not exceeding three months from the date of acquisition.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Premiums receivable

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. An allowance for uncollectible amount is established when there is an objective evidence that the Company will not be able to collect all amounts due according to their original terms. Bad debts are written off as incurred. Subsequent recoveries of amounts previously written off are credited in the statement of income.

iv) Policy acquisition costs

Commission and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are deferred. The deferred acquisition costs are subsequently amortised over the terms of the insurance contract as premiums are earned and reported in the statement of income. Changes in the contractual useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in accounting estimate. 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 income. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting year.

v) Investments

(a) *Financial assets at fair value through statement of income*

Investments are classified as at fair value through statement of income if they are classified as held-for-trading or are designated as such on initial recognition. The investments in sukuks, equities and mutual funds are held for trading and accordingly are classified as FVSI. Directly attributable transaction costs are recognised in the statement of income as incurred. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of income.

(b) *Available for sale investments*

Available for sale investments are non-derivative investments that are designated as available for sale or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities where fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognised through the statement of comprehensive income until the investments are derecognised or impaired whereupon any cumulative gains or losses previously recognised in equity are reclassified to statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

(c) *Held to maturity investments*

Held to maturity investments are investments having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity are classified as held to maturity. Investments are initially recognised at fair value including direct and incremental transaction cost. Subsequent to initial measurement, these are measured at amortised cost less impairment losses, if any.

vi) Term deposits

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

vii) Fixtures and Furniture

Fixtures and Furnitures are initially recorded in the statement of financial position at cost. Subsequent measurement is carried out at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

	<u>Years</u>
Leasehold Improvements (civil, construction work and fixtures)	15 years or lease term
Fixtures, Furniture and Right-of-use assets	5 to 20
Computer and IT equipment and infra-structure	2.5 to 7
Motor vehicles	4

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

Expenditure for repairs and maintenance is charged to the statement of income. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Gain / loss on sale of Fixtures, Furniture and Right-of-use assets is included in statement of income.

viii) Intangible assets

Separately acquired intangible assets (software) are shown at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over the following periods:

	<u>Years</u>
IT development and software	3 to 7

ix) Goodwill

Goodwill is initially measured at excess of the fair value of the consideration paid over the 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. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised in the statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

x) Liability adequacy test

At each reporting date the Company assesses annually 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 income and an unexpired risk provision is created.

xi) 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.

xii) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation amount.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

xiii) Employee-end-of-service benefits (EOSB)

Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to the expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as it falls due. Re-measurement (actuarial gains / losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in the statement of other comprehensive income.

xiv) Share based payments (LTIP)

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. Grant date is the date at which the entity and an employee agree to a share based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity as a reserve for a share based payment, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the statement of income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In cases where an award is forfeited (i.e. when the vesting conditions relating to an award are not satisfied), the Company reverses the expense relating to such awards previously recognised in the statement of income. Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

xv) Shares held under employee share scheme (LTIP)

The Company purchases shares held under employee share scheme to hedge itself against adverse changes in fair value of its shares between the grant date and the date on which these shares are transferred to employees. When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as shares held under employee share scheme and are presented in the statement of changes in equity.

xvi) Impairment of financial assets

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

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

For impaired available for sale securities any subsequent increase in fair value of these impaired securities is recognised in the statement of other comprehensive income and recorded in the investment fair value reserve unless this increase represents a decrease in the impairment loss that can be objectively related to an event occurring after the impairment loss was recognised in the statement of income. In such an event, the reversal of the impairment loss is recognised as a gain in the statement of income. Impairment relating to investments in available-for-sale equity instruments are not reversed through profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

xvii) Impairment of non-financial assets

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

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

Impairment losses of continuing operations are recognised in the statement of income.

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 income.

xviii) De-recognition

Financial asset

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

- the rights to receive cash flows from the asset have expired; or
- 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.

Financial liability

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

xix) Revenue recognition

Premiums earned

The Company only issues short-term insurance contracts for providing health care services ('medical insurance') in Saudi Arabia. Premiums are taken to income over the terms of the policies to which they relate on a pro-rata basis based on 365th method. 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 income.

Investment and commission income

Investment income or loss comprises of unrealised and realised gains and losses on investments. Commission income on term deposits is recognised using the effective interest method in the statement of income.

xx) Reinsurance premiums (ceded)

Reinsurance premiums ceded are recognised as a reduction in net written premium when payable. Reinsurance premiums are charged to income over the terms of the policies to which they relate on a pro-rata basis.

xxi) Claims

Claims, comprising amounts payable to medical providers and other third parties 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 each reporting date.

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

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.

xxii) Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

xxiii) Reinsurance contracts held

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxiv) Expenses

Selling and marketing expenses are those which specifically relate to salesmen, sales promotion, advertisements, regulatory levies, trademark fees and fulfillment costs. All other expenses are classified as general and administration expenses.

xxv) Segment reporting

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); and
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

xxvi) Leases

"Right of Use Assets

The Company recognises Right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use).

Company applies cost model, and measure right of use asset at cost;

1. less any accumulated depreciation and any accumulated impairment losses; and
2. adjusted for any re-measurement of the lease liability for lease modifications

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, Generally, right of use asset would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. it needs to be added to the right of use asset value.

The recognised Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease Liabilities

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

After the commencement date, Company measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

xxvi) Zakat and income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

xxvii) Foreign currencies

The accounting records of the Company are maintained in Saudi Riyals. Transactions in foreign currencies are recorded in Saudi Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate at the reporting date. All differences are taken to the statement of income.

xxviii) Offsetting

Financial assets and financial liabilities are offset and the net amount is 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 income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

xxix) Cash dividend to shareholders

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

xxx) Statutory reserve

In accordance with the Company's by-laws, the Company shall allocate 20% of its net income from shareholders operations each year to the statutory reserve until it has built up a reserve equal to the share capital. The reserve is not available for distribution.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

4. GOODWILL

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

In accordance with the requirements of International Financial Reporting Standards, the Company’s management annually carry out an annual impairment test in respect of the above-mentioned goodwill. Management conducted the impairment exercise for the year ended 31 December 2020. The recoverable amount of operations has been determined based on value in use. The two key assumptions used in the test are the discount rate and estimated future cash flows from the business as follows:

- An average discount rate of 10.1 was used to discount future cash flows.
- EBTIDA growth rate of 10.8% was used for the first three years. Thereafter, a growth rate of 3% was used in the terminal value calculation.
- A change in discount rate by 300 basis point with other variables held constant would not result in impairment of goodwill.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	2020		<i>Total</i>
	<i>Insurance operations</i>	<i>Shareholders’ operations</i>	
	<i>SR’000</i>		
Bank balances	195,232	438,019	633,251
	195,232	438,019	633,251
	2019		
	<i>Insurance operations</i>	<i>Shareholders’ operations</i>	<i>Total</i>
	<i>SR’000</i>		
Bank balances	230,946	118,767	349,713
Term deposits	215,996	100,000	315,996
	446,942	218,767	665,709

The amount payable to / receivable from shareholders’ operations is settled by transfer of cash at each reporting date.

During the year ended 31 December 2020, the insurance operations transferred cash of SR 142 million to shareholders’ operations (31 December 2019: SR 95 million).

6. PREMIUMS RECEIVABLE - NET

Receivables comprise of amounts due from the following:

	2020	2019
	<i>SR’000</i>	<i>SR’000</i>
Policyholders	1,159,253	1,287,810
Brokers	383,314	598,754
	1,542,567	1,886,564
Provision for doubtful receivables	(222,524)	(197,187)
Premiums receivable – net	1,320,043	1,689,377

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

6. PREMIUMS RECEIVABLE – NET (continued)

Movement in provision for doubtful debts during the year was as follows:

	2020	2019
	SR'000	SR'000
Balance at the beginning of the year	197,187	169,231
Provision made during the year	28,770	31,907
Write-offs during the year	(3,433)	(3,951)
Balance at end of the year	222,524	197,187

The gross amount of impaired receivables amounted to SR 378,107 thousand (31 December 2019: SR 713,617 thousand). The aging analysis of premiums receivable - net arising from insurance contracts is as follows:

	2020					Total
	<i>Past due but not impaired</i>	<i>Past due and impaired</i>			<i>SR'000</i>	
	<i>Neither past due nor impaired</i>	<i>Up to three months</i>	<i>Above three and up to six months</i>	<i>Above six and up to twelve months</i>		
Policyholders	389,768	481,842	89,359	14,213	1,835	977,017
Brokers	222,027	52,705	57,196	8,392	2,706	343,026
	611,795	534,547	146,555	22,605	4,541	1,320,043
	2019					Total
	<i>Past due but not impaired</i>	<i>Past due and impaired</i>			<i>SR'000</i>	
	<i>Neither past due nor impaired</i>	<i>Up to three months</i>	<i>Above three and up to six months</i>	<i>Above six and up to twelve months</i>		
Policyholders	560,671	182,607	231,736	138,370	20,485	1,133,869
Brokers	9,924	424,710	70,148	45,114	5,612	555,508
	570,595	607,317	301,884	183,484	26,097	1,689,377

Unimpaired receivables are estimated, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

The Company only enters into insurance and reinsurance contracts with recognised, creditworthy parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

The five largest customers account for 18.8% (31 December 2019: 14.9%) of the premium's receivable as at 31 December 2020.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

7. INVESTMENTS

Investments are classified as follows:

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>					
Held as FVSI	2,869,628	825,133	3,694,761	161,548	107,968	269,516
Available-for-sale	698,553	1,504,882	2,203,435	564,003	876,063	1,440,066
Held to maturity	--	131,250	131,250	--	131,250	131,250
	3,568,181	2,461,265	6,029,446	725,551	1,115,281	1,840,832

(i) Investments held as FVSI comprise of the following:

	2020				
	<i>Insurance operations</i>		<i>Shareholders' operations</i>		<i>Total</i>
	<i>Domestic</i>	<i>International</i>	<i>Domestic</i>	<i>International</i>	
	<i>SR'000</i>				
Sukuks	18,025	--	55,079	--	73,104
Funds	2,843,985	7,618	747,199	22,855	3,621,657
	2,862,010	7,618	802,278	22,855	3,694,761
	2019				
	<i>Insurance operations</i>		<i>Shareholders' operations</i>		<i>Total</i>
	<i>Domestic</i>	<i>International</i>	<i>Domestic</i>	<i>International</i>	
	<i>SR'000</i>				
Sukuks	25,025	--	78,078	--	103,103
Funds	136,523	--	29,890	--	166,413
	161,548	--	107,968	--	269,516

(ii) Available for sale investments comprise of the following:

	2020				
	<i>Insurance operations</i>		<i>Shareholders' operations</i>		<i>Total</i>
	<i>Domestic</i>	<i>International</i>	<i>Domestic</i>	<i>International</i>	
	<i>SR'000</i>				
Sukuks	422,351	238,029	900,236	147,710	1,708,326
Funds	-	38,173	107,501	7,111	152,785
Equities	-	-	228,716	5,625	234,341
Investments in discretionary portfolios	-	-	107,983	-	107,983
	422,351	276,202	1,344,436	160,446	2,203,435

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

At 31 December 2020

7. INVESTMENTS (continued)

	2019				
	<i>Insurance operations</i>		<i>Shareholders' operations</i>		<i>Total</i>
	<i>Domestic</i>	<i>International</i>	<i>Domestic</i>	<i>International</i>	
<i>SR'000</i>					
Sukuks	238,899	287,287	461,248	180,545	1,167,979
Funds	--	37,817	112,314	7,782	157,913
Investments in discretionary portfolios	--	--	114,174	--	114,174
	<u>238,899</u>	<u>325,104</u>	<u>687,736</u>	<u>188,327</u>	<u>1,440,066</u>

(iii) Held to maturity investments comprise of the following:

	2020				
	<i>Insurance operations</i>		<i>Shareholders' operations</i>		<i>Total</i>
	<i>Domestic</i>	<i>International</i>	<i>Domestic</i>	<i>International</i>	
<i>SR'000</i>					
Sukuks	--	--	131,250	--	131,250
	<u>--</u>	<u>--</u>	<u>131,250</u>	<u>--</u>	<u>131,250</u>

	2019				
	<i>Insurance operations</i>		<i>Shareholders' operations</i>		<i>Total</i>
	<i>Domestic</i>	<i>International</i>	<i>Domestic</i>	<i>International</i>	
<i>SR'000</i>					
Sukuks	--	--	131,250	--	131,250
	<u>--</u>	<u>--</u>	<u>131,250</u>	<u>--</u>	<u>131,250</u>

The movements in the investments balance are as follows:

	2020		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>		
Balance at the beginning of the year	725,551	1,115,281	
Purchases during the year	9,765,721	3,983,139	13,748,860
Disposals during the year	(6,935,704)	(2,793,785)	(9,729,489)
Unrealised gains during the year, net	12,613	156,630	169,243
	<u>3,568,181</u>	<u>2,461,265</u>	<u>6,029,446</u>

	2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>		
Balance at the beginning of the year	810,175	811,316	
Purchases during the year	2,037,449	1,664,712	3,702,161
Disposals during the year	(2,154,358)	(1,402,277)	(3,556,635)
Unrealised gains during the year, net	32,285	41,530	73,815
	<u>725,551</u>	<u>1,115,281</u>	<u>1,840,832</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

8. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise of the following:

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>					
Prepayments	48,529	--	48,529	68,839	--	68,839
Accrued income	53,359	40,056	93,415	63,439	54,219	117,658
Restricted deposits (note 17)	--	--	--	34,818	--	34,818
Other receivables	16,516	--	16,516	55,328	--	55,328
	118,404	40,056	158,460	222,424	54,219	276,643

9. TERM DEPOSITS

The term deposits are held with reputable commercial banks and financial institutions. These deposits are predominantly in Murabaha structure with a small allocation in Mudaraba structure. They are mostly denominated in Saudi Arabian Riyals and have an original maturity of more than three months to more than one year (2019: three months to more than one year) and yield financial income at rates ranging from 1.2% to 4.30% per annum (2019: 2.15% to 4.30% per annum). The movements in term deposits during the year ended 31 December 2020 as follows:

	2020		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>		
Balance at beginning of the year	3,347,965	1,716,011	5,063,976
Matured during the year	(2,238,760)	(890,893)	(3,129,653)
Placed during the year	488,850	300,000	788,850
	1,598,055	1,125,118	2,723,173
	2019		
	<i>Insurance Operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>		
Balance at beginning of the year	3,033,743	1,681,538	4,715,281
Matured during the year	(2,162,343)	(1,126,451)	(3,288,794)
Placed during the year	2,476,565	1,160,924	3,637,489
	3,347,965	1,716,011	5,063,976

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10. FIXTURES, FURNITURE AND RIGHT OF USE ASSETS - net

10.1 FIXTURES, FURNITURE

	<i>Office, furniture, and fixtures</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Capital work in progress</i>	<i>Total</i>
2020 SR'000						
Cost:						
At 1 January 2020	85,828	46,167	404	41,039	6,699	180,137
Additions during the year	--	2,892	--	--	8,948	11,840
Transferred during the year	404	10,946	--	1,533	(12,883)	--
At 31 December 2020	<u>86,232</u>	<u>60,005</u>	<u>404</u>	<u>42,572</u>	<u>2,764</u>	<u>191,977</u>
Accumulated depreciation:						
At 1 January 2020	(57,194)	(35,703)	(60)	(5,361)	--	(98,318)
Charge for the year	(5,972)	(5,132)	(101)	(4,061)	--	(15,266)
At 31 December 2020	<u>(63,166)</u>	<u>(40,835)</u>	<u>(161)</u>	<u>(9,422)</u>	<u>--</u>	<u>(113,584)</u>
Net book value:						
At 31 December 2020	<u>23,066</u>	<u>19,170</u>	<u>243</u>	<u>33,150</u>	<u>2,764</u>	<u>78,393</u>

2019 SR'000

Cost:						
At 1 January 2019	85,360	38,549	--	38,571	3,084	165,564
Additions during the year	--	--	--	--	15,765	15,765
Disposal during the year	(111)	(1,068)	--	(13)	--	(1,192)
Transferred during the year	579	8,686	404	2,481	(12,150)	--
At 31 December 2019	<u>85,828</u>	<u>46,167</u>	<u>404</u>	<u>41,039</u>	<u>6,699</u>	<u>180,137</u>
Accumulated depreciation:						
At 1 January 2019	(49,739)	(32,866)	--	(1,716)	--	(84,321)
Charge for the year	(7,455)	(3,905)	(60)	(3,645)	--	(15,065)
Disposal during the year	--	1,068	--	--	--	1,068
At 31 December 2019	<u>(57,194)</u>	<u>(35,703)</u>	<u>(60)</u>	<u>(5,361)</u>	<u>--</u>	<u>(98,318)</u>
Net book value:						
At 31 December 2019	<u>28,634</u>	<u>10,464</u>	<u>344</u>	<u>35,678</u>	<u>6,699</u>	<u>81,819</u>

10.2 RIGHT-OF-USE ASSETS

The movement of Right-of-use assets are as follows:

	<i>2020 SAR'000</i>	<i>2019 SAR'000</i>
As at 1 January	87,622	103,196
Additions during the year	54,245	--
Amortisation during the year	(16,241)	(15,574)
As at 31 December	<u>125,626</u>	<u>87,622</u>
Total Fixture, Furniture and Right-of-use assets as at 31 December	<u>204,019</u>	<u>169,441</u>

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11. INTANGIBLE ASSETS

	<i>Software</i>	<i>Capital work in progress</i>	<i>Total</i>
	<i>2020 SR'000</i>		
Cost:			
At 1 January 2020	128,316	8,262	136,578
Additions during the year	1,453	19,991	21,444
Transfers during the year	9,769	(9,769)	--
At 31 December 2020	<u>139,538</u>	<u>18,484</u>	<u>158,022</u>
Accumulated amortisation:			
At 1 January 2020	(80,333)	--	(80,333)
Charge for the year	(15,731)	--	(15,731)
At 31 December 2020	<u>(96,064)</u>	<u>--</u>	<u>(96,064)</u>
Net book value:			
At 31 December 2020	<u>43,474</u>	<u>18,484</u>	<u>61,958</u>
	<i>2019 SR'000</i>		
Cost:			
At 1 January 2019	83,447	36,583	120,030
Additions during the year	--	16,548	16,548
Transfers during the year	44,869	(44,869)	--
At 31 December 2019	<u>128,316</u>	<u>8,262</u>	<u>136,578</u>
Accumulated amortisation:			
At 1 January 2019	(62,757)	--	(62,757)
Charge for the year	(17,576)	--	(17,576)
Disposal during the year	--	--	--
At 31 December 2019	<u>(80,333)</u>	<u>--</u>	<u>(80,333)</u>
Net book value:			
At 31 December 2019	<u>47,983</u>	<u>8,262</u>	<u>56,245</u>

12. STATUTORY DEPOSIT

As required by SAMA Insurance Regulations, the Company deposited an amount equivalent to 10% of its paid-up share capital, amounting to SR 120 million (2019: SR 120 million), in a bank designated by SAMA. Accrued income on this deposit is payable to SAMA amounting to SR 13.8 million (2019: SR 10.8 million) and this deposit cannot be withdrawn without approval from SAMA.

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At 31 December 2020

13. TECHNICAL RESERVES

13.1 Net outstanding claims and reserves

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Outstanding claims	446,519	451,788
Claims incurred but not reported	1,378,294	1,157,428
Premium deficiency reserve	263,751	-
Claims handling reserve	20,755	18,492
	2,109,319	1,627,708
Less:		
Reinsurers' share of outstanding claims	(1,475)	(1,218)
Reinsurers' share of claims incurred but not reported	(6,461)	(3,972)
	(7,936)	(5,190)
Net outstanding claims reserve	2,101,383	1,622,518

13.2 Movement in unearned premiums

Movements in unearned premiums are as follows:

	<i>2020</i>		
	<i>Gross</i>	<i>Reinsurance</i> <i>SR'000</i>	<i>Net</i>
Balance at beginning of the year	4,376,219	(20,625)	4,355,594
Premium written/(ceded) during the year	10,447,353	(65,242)	10,382,111
Premium earned during the year	(10,800,241)	65,759	(10,734,482)
	4,023,331	(20,108)	4,003,223
	<i>2019</i>		
	<i>Gross</i>	<i>Reinsurance</i> <i>SR'000</i>	<i>Net</i>
Balance at beginning of the year	3,428,131	(6,320)	3,421,811
Premium written/(ceded) during the year	10,410,868	(105,794)	10,305,074
Premium earned during the year	(9,462,780)	91,489	(9,371,291)
	4,376,219	(20,625)	4,355,594

14. DEFERRED POLICY ACQUISITION COSTS

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Balance at beginning of the year	134,022	118,323
Deferred during the year	564,926	479,240
Amortisation for the year	(630,734)	(463,541)
	68,214	134,022

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

15. CLAIMS DEVELOPMENT TABLE

The following table reflects the estimated ultimate claim cost, including claims notified and incurred but not reported for each successive treatment year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier treatment years. In order to maintain adequate reserves, the Company transfers much of this release to the current treatment year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Treatment year – gross outstanding claims	2017	2018	2019	2020	Total
SR ‘000					
Estimate of ultimate claims cost:					
At the end of treatment year	6,577,919	6,949,081	7,842,155	8,742,057	30,111,212
One year later	6,572,947	6,845,677	7,841,118	--	21,259,742
Two years later	6,563,363	6,874,130	--	--	13,437,493
Three years later	6,577,989	--	--	--	6,577,989
Current estimate of ultimate claims	6,577,989	6,874,130	7,841,118	8,742,057	30,035,294
Ultimate payments to date	(6,561,091)	(6,860,099)	(7,823,274)	(6,966,017)	(28,210,481)
Liability recognised in the statement of financial position	<u>16,898</u>	<u>14,031</u>	<u>17,844</u>	<u>1,776,040</u>	1,824,813
Premium deficiency reserve					263,751
Claims handling provision					20,755
Balance at 31 December					<u>2,109,319</u>

Treatment year – net outstanding claims					
SR ‘000					
Estimate of ultimate claims cost:					
At the end of treatment year	6,532,672	6,897,367	7,768,195	8,693,491	29,891,725
One year later	6,528,729	6,787,022	7,765,376	--	21,081,127
Two years later	6,513,541	6,815,520	--	--	13,329,061
Three years later	6,528,225	--	--	--	6,528,225
Current estimate of ultimate claims	6,528,225	6,815,520	7,765,376	8,693,491	29,802,612
Ultimate payments to date	(6,511,328)	(6,801,514)	(7,747,783)	(6,925,110)	(27,985,735)
Liability recognised in the statement of financial position	<u>16,897</u>	<u>14,006</u>	<u>17,593</u>	<u>1,768,381</u>	1,816,877
Premium deficiency Reserve					263,751
Claims handling provision					20,755
Balance at 31 December					<u>2,101,383</u>

16. FIDUCIARY ASSETS

During the year ended 31 December 2018, after obtaining SAMA's approval, the Company entered into a Third Party Administration agreement (TPA) with a customer under which the Company facilitates healthcare services to the employees of the customer with specific terms and conditions. The agreement is effective from 1 March 2018. The services are remunerated against administration fees.

In order to fulfil the commitment relating to this agreement, the Company has received funds in advance from the customer to settle anticipated claims from medical service providers. As the Company acts as an agent, the relevant bank balance and outstanding claims at the reporting date are excluded from the statement of financial position. The assets and liabilities held in fiduciary capacity amounted to SR 317.1 million as of 31 December 2020 (2019: SR 272.9 million).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

17. COMMITMENTS AND CONTINGENCIES

The Company's commitments and contingencies are as follows:

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Letters of guarantee	--	34,818
	<u>--</u>	<u>34,818</u>

- i) The Company is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings as at 31 December 2020.
- ii) As of 31 December 2020, total Letters of Guarantee issued by banks amounted to SR 138 million (2019: SR 134.8 million), of which Nil (2019: SR 34.8 million) are issued against restricted deposits with banks and have been recorded under prepaid expenses and other assets.

18. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities comprise of the following:

	<i>2020</i>			<i>2019</i>		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>					
Accrued expenses*	282,902	141,849	424,751	153,762	95,889	249,651
VAT payable	23,254	--	23,254	38,311	--	38,311
Advances from policyholders	52,583	--	52,583	47,826	--	47,826
VAT payable to providers	121,595	--	121,595	65,359	--	65,359
Other liabilities	53,867	--	53,867	47,540	--	47,540
	<u>534,201</u>	<u>141,849</u>	<u>676,050</u>	<u>352,798</u>	<u>95,889</u>	<u>448,687</u>

*As of 31 December 2020, Lease liability amounting of SAR 135.6 million (2019: SR 90.3 million), below is the movement during the year:

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Balance at the beginning of the year	90,329	112,096
Finance cost	5,244	5,223
Additions during the year	54,245	--
Lease settlement	(14,218)	(26,990)
	<u>135,600</u>	<u>90,329</u>

19. TRADEMARK FEES

During 2010, the Company entered into an agreement with a related party (a Group Company) for obtaining a license to use the trademark (the word Bupa with or without logo) of the related party. As per the terms of the agreement, the trademark fee is payable at different rates linked to the results of the Company, subject to a maximum of 5% of the Company's profits in any financial year, as trade-mark fees. Accordingly, a sum of SR 26.9 million (2019: SR 23.6 million) payable to a related party has been accrued for during the year (see notes 24 and 32).

20. INSURANCE OPERATIONS' SURPLUS PAYABLE

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Balance at the beginning of the year	168,454	139,755
Income attributable to insurance operations during the year	80,141	66,834
Surplus paid to policyholders during the year	(48,204)	(38,135)
Net surplus payable to policyholders	<u>200,391</u>	<u>168,454</u>

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At 31 December 2020

21. EMPLOYEES' END OF SERVICE BENEFITS

Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognised in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

21.1 Movement of end-of-service benefits

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at the beginning of the year	96,341	81,395
Current service costs	23,163	15,737
Finance costs	4,131	3,744
Actuarial losses	20,700	1,551
Benefits paid during the year	(4,323)	(6,086)
Balance at the end of the year	<u>140,012</u>	<u>96,341</u>

21.2 Principal actuarial assumptions

The following range of significant actuarial assumptions was used by the Company for the valuation of end-of-service benefits:

	<i>2020</i>	<i>2019</i>
Valuation discount rate	2.45%	4.50%
Expected rate of increase in salary level across different age bands	4.5%	6.50%

The impact of changes in sensitivities on present value of employees' end-of-service benefits is as follows:

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Valuation discount rate		
- Increase by 0.5%	6,521	3,159
- Decrease by 0.5%	(7,046)	(3,356)
Expected rate of increase in salary level across different age bands		
- Increase by 1%	(14,259)	(6,866)
- Decrease by 1%	12,482	6,197
Mortality rate		
- Increase by 50%	(74)	(96)
- Decrease by 50%	74	96
Employee turnover		
- Increase by 20%	(3,501)	(1,735)
- Decrease by 20%	3,634	1,767

The average duration of the employees' end-of-service benefits at the end of the reporting period is 10.9 years, (2019: 7.7 years)

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At 31 December 2020

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- in the accessible principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous accessible market for the asset or liability.

a) Determination of fair value and fair value hierarchy

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 or identical instrument that an entity can access at the measurement date;

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.

b) Carrying amounts and fair value

The following table shows the carrying amount and fair value of financial assets, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value. There were no transfers in between levels during the year ended December 31, 2020 and 2019.

	<i>Fair value</i>				<i>Carrying value</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	
	<i>SR'000</i>				
2020					
Financial assets measured at fair value					
- Investments held as FVSI	--	3,694,761	--	3,694,761	3,694,761
- Available for sale investments	1,404,736	793,074	5,625	2,203,435	2,203,435
	<u>1,404,736</u>	<u>4,487,835</u>	<u>5,625</u>	<u>5,898,196</u>	<u>5,898,196</u>
	<i>Fair value</i>				<i>Carrying value</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	
	<i>SR'000</i>				
2019					
Financial assets measured at fair value					
- Investments held as FVSI	990	268,526	--	269,516	269,516
- Available for sale investments	883,099	556,967	--	1,440,066	1,440,066
	<u>884,089</u>	<u>825,493</u>	<u>--</u>	<u>1,709,582</u>	<u>1,709,582</u>

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At 31 December 2020

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

c) Measurement of fair value

Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 fair value at 31 December 2020 and 31 December 2019, as well as the significant unobservable inputs used.

<u>Type</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Floating rate sukuks and mutual funds	Valuations are based on quotations as received by the custodians at the end of each period and on published net asset value (NAV) closing prices.	Not applicable	Not applicable

23. OPERATING SEGMENTS

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 reporting purposes, the operations are monitored in two customer categories, based on the number of members covered. Major customers represent members of large corporations, and all others are considered as non-major. Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing the performance of operating segments in line with the strategic decisions, has been identified as the chief executive officer. No inter-segment transactions occurred during the year.

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

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

Segment assets do not include cash and cash equivalents, fixtures, furniture and right-of-use assets, term deposits, investments, prepaid expenses and other assets. Segment liabilities do not include reinsurance balance payable, accrued and other liabilities, due to shareholders' operations, share based payment and policyholders' share of surplus from insurance operations.

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23. OPERATING SEGMENTS (continued)

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

<i>Operating segments</i>	<i>31 December 2020</i>				
	<i>Insurance operations</i>			<i>Shareholders' operations</i>	<i>Total</i>
	<i>Major customers</i>	<i>Non-major customers</i>	<i>Total - Insurance operations</i>		
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
ASSETS					
Premiums receivable – net	775,488	544,555	1,320,043	--	1,320,043
Reinsurers' share of unearned premiums	11,759	8,349	20,108	--	20,108
Reinsurers' share of outstanding claims	490	985	1,475	--	1,475
Reinsurers' share of claims incurred but not reported	1,959	4,502	6,461	--	6,461
Deferred policy acquisition costs	28,520	39,694	68,214	--	68,214
Unallocated assets			5,479,872	4,600,182	10,080,054
Total assets			6,896,173	4,600,182	11,496,355
LIABILITIES					
Unearned premiums	2,352,884	1,670,447	4,023,331	--	4,023,331
Outstanding claims	319,669	126,850	446,519	--	446,519
Claims incurred but not reported	988,089	390,205	1,378,294	--	1,378,294
Premium Deficiency Reserve	189,017	74,734	263,751	--	263,751
Claims handling reserve	14,869	5,886	20,755	--	20,755
Unallocated liabilities			739,465	721,387	1,460,852
Total liabilities			6,872,115	721,387	7,593,502
31 December 2019					
<i>Operating segments</i>	<i>Insurance operations</i>				
	<i>Insurance operations</i>			<i>Shareholders' operations</i>	<i>Total</i>
	<i>Major customers</i>	<i>Non-major customers</i>	<i>Total - Insurance operations</i>		
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
ASSETS					
Premiums receivable – net	992,461	696,916	1,689,377	--	1,689,377
Reinsurers' share of unearned premiums	10,819	9,806	20,625	--	20,625
Reinsurers' share of outstanding claims	526	692	1,218	--	1,218
Reinsurers' share of claims incurred but not reported	1,213	2,759	3,972	--	3,972
Deferred policy acquisition costs	81,753	52,269	134,022	--	134,022
Unallocated assets			4,742,882	3,589,000	8,331,882
Total assets			6,592,096	3,589,000	10,181,096
LIABILITIES					
Unearned premiums	2,717,387	1,658,832	4,376,219	--	4,376,219
Outstanding claims	327,541	124,247	451,788	--	451,788
Claims incurred but not reported	845,862	311,566	1,157,428	--	1,157,428
Premium deficiency Reserve	--	--	--	--	--
Claims handling reserve	13,460	5,032	18,492	--	18,492
Unallocated liabilities			575,665	556,607	1,132,272
Total liabilities			6,579,592	556,607	7,136,199

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23. OPERATING SEGMENTS (continued)

<i>Operating segments</i>	<i>2020</i>		<i>Total</i>
	<i>Major customers</i>	<i>Non-major customers</i>	
	<i>SR'000</i>		
<u>REVENUES</u>			
Gross premiums written	6,972,563	3,474,790	10,447,353
Reinsurance premiums ceded – Local	(3,691)	(2,262)	(5,953)
Reinsurance premiums ceded – International	(36,756)	(22,533)	(59,289)
Net premiums written	6,932,116	3,449,995	10,382,111
Changes in unearned premiums – net	365,443	(13,072)	352,371
Net premiums earned	7,297,559	3,436,923	10,734,482
<u>UNDERWRITING COSTS AND EXPENSES</u>			
Gross claims paid	(5,878,457)	(2,383,593)	(8,262,050)
Reinsurers' share of claims paid	14,902	6,085	20,987
Net claims paid	(5,863,555)	(2,377,508)	(8,241,063)
Changes in outstanding claims	7,872	(2,603)	5,269
Changes in claims incurred but not reported	(142,227)	(78,639)	(220,866)
Changes in Premium deficiency Reserve	(189,017)	(74,734)	(263,751)
Changes in claims handling reserves	(1,409)	(854)	(2,263)
Reinsurance share of changes in outstanding claims	(36)	293	257
Reinsurance share of changes in claims incurred but not reported	746	1,743	2,489
Net claims incurred	(6,187,626)	(2,532,302)	(8,719,928)
Policy acquisition costs	(378,440)	(252,294)	(630,734)
Total underwriting costs & expenses	(6,566,066)	(2,784,596)	(9,350,662)
NET UNDERWRITING INCOME	731,493	652,327	1,383,820
<u>OTHER OPERATING (EXPENSES)/ INCOME</u>			
Allowance for doubtful receivables			(28,770)
Unallocated income			240,776
Unallocated expenses			(692,016)
Total other operating (expenses)/income			(480,010)
Income before Surplus, Zakat & Income Tax			903,810
Income attributed to the insurance operations (transfer to surplus payable)			(80,141)
Income attributed to the shareholders before zakat and income tax			823,669
Zakat charge			(64,297)
Income tax charge			(63,244)
NET INCOME ATTRIBUTED TO SHAREHOLDERS AFTER ZAKAT AND INCOME TAX			696,128
<u>Gross Written Premium details</u>			
			<i>2020</i>
			<i>SAR'000</i>
Corporates			7,904,182
Medium Enterprises			1,770,054
Small Enterprises			695,395
Micro Enterprises			62,104
Individuals			15,618
Total			10,447,353

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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23. OPERATING SEGMENTS (continued)

<i>Operating segments</i>	<i>2019</i>		<i>Total</i>
	<i>Major customers</i>	<i>Non-major customers</i>	
	<i>SR'000</i>		
REVENUES			
Gross premiums written	6,848,097	3,562,771	10,410,868
Reinsurance premiums ceded – Local	(7,456)	(2,921)	(10,377)
Reinsurance premiums ceded – International	(68,558)	(26,859)	(95,417)
Net premiums written	6,772,083	3,532,991	10,305,074
Changes in unearned premiums – net	(617,873)	(315,910)	(933,783)
Net premiums earned	6,154,210	3,217,081	9,371,291
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	(5,121,026)	(2,534,052)	(7,655,078)
Reinsurers' share of claims paid	39,126	19,506	58,632
Net claims paid	(5,081,900)	(2,514,546)	(7,596,446)
Changes in outstanding claims	27,760	75,610	103,370
Changes in claims incurred but not reported	(271,063)	11,758	(259,305)
Changes in claims handling reserves	(1,044)	1,952	908
Reinsurance share of changes in outstanding claims	220	662	882
Reinsurance share of changes in claims incurred but not reported	(1,224)	2,518	1,294
Net claims incurred	(5,327,251)	(2,422,046)	(7,749,297)
Policy acquisition costs	(278,125)	(185,417)	(463,542)
Total underwriting costs & expenses	(5,605,376)	(2,607,463)	(8,212,839)
NET UNDERWRITING INCOME	548,834	609,618	1,158,452
OTHER OPERATING (EXPENSES)/ INCOME			
Allowance for doubtful receivables			(31,907)
Unallocated income			253,800
Unallocated expenses			(600,857)
Total other operating (expenses)/income			(378,964)
Income before Surplus, Zakat & Income Tax			779,488
Income attributed to the insurance operations (transfer to surplus payable)			(66,834)
Income attributed to the shareholders before zakat and income tax			712,654
Zakat charge			(57,821)
Income tax charge			(61,036)
NET INCOME ATTRIBUTED TO SHAREHOLDERS AFTER ZAKAT AND INCOME TAX			593,797
Gross Written Premium details			
			<i>2019</i>
			<i>SAR'000</i>
Corporates			7,802,157
Medium Enterprises			1,834,555
Small Enterprises			700,490
Micro Enterprises			56,930
Individuals			16,736
Total			10,410,868

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

24. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent major shareholders, Board members and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Contract pricing policies and terms are conducted on an arm's length basis and transactions approved by the Company's management, or where required and applicable the Company's Board of Directors. The following are the details of the major related party transactions during the year and their related balances:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>Receivable/(payable) balance as at</i>	
		<i>Income/ (Expense)</i>			
		<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
		<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Shareholders	Insurance premium written	392,020	266,165	(536)**	(285)**
Shareholders	Reinsurance Premium ceded	(41,431)	(36,423)	(79,803)*	(55,319)*
Shareholders	Claims paid	(274,591)	(145,780)	(20,997)***	(14,010)***
Shareholders	Medical costs charged by providers	(140,333)	(89,805)	(15,303)***	(9,824)***
Shareholders	Expenses charged to/ (from) a related party-net	869	1,520	966*	779*
Shareholders	Tax equalisation – net	(1,873)	(2,988)	(1,873)*	--
Shareholders	Board and committee member remuneration fees	(915)	(700)	(915)*	(700)*
Bupa Middle East Holdings Two W.L.L. (Group Company)	Trade mark fee	(26,896)	(23,608)	(26,896)*	(23,608)*

* Amounts due to related parties amounted to SR 108,521 thousand (2019: SR 78,848 thousand).

** Amounts included in premium receivables.

*** Amounts are included in the outstanding claims.

a. Compensation to key management personnel:

	<i>2020</i>	<i>2019</i>
	<i>SAR'000</i>	<i>SAR'000</i>
Salaries and allowances (note (a) below)	17,836	17,146
Incentives (note (b) below)	17,208	19,423
End of Service benefits	1,088	1,028
	36,132	37,597

a) Includes the members' direct salary related expenses, other than the incentives' and EOS expenses.

b) Includes the costs of the bonuses and the long term incentive plan.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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24. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

b. Board of Directors' remuneration and related expenses

	<i>2020</i> <i>SAR'000</i>	<i>2019</i> <i>SAR'000</i>
Board of Directors' remuneration	3,600	3,000
Board attendance fees	300	195
Other board and sub-committees' expenses	1,377	1,417
	<u>5,277</u>	<u>4,612</u>

25. REINSURERS' BALANCE PAYABLE

Reinsurance payable represents amounts payable to reinsurers of SR 4.873 million (2019: SR 54.4 million), for the excess of loss (XOL) reinsurance contract.

26. ZAKAT AND INCOME TAX

a) Zakat

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

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

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Share capital (attributable to Saudi shareholders)	712,869	729,000
Opening retained earnings, reserve and surplus	1,189,671	753,313
Opening provisions	389,301	146,978
Adjusted net income	519,284	475,771
Fixtures, Furniture, Right-of-use assets and goodwill	(211,407)	(206,701)
Investments	(5,203,315)	(4,386,639)
Others	--	(154,318)
Zakat Base	<u>(2,603,597)</u>	<u>(2,642,596)</u>
Adjusted net income attributable to Saudi shareholders and the general public (refer (*) below)	<u>519,284</u>	<u>475,771</u>
Zakat at 2.5%	<u>12,982</u>	<u>11,894</u>

*Adjusted net income has been computed on a pro-rata basis taking into consideration before and after shareholding change.

The differences between the accounting profit and the Zakat base are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

The Zakat charge relating to the Saudi shareholders consists of:

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Provision for zakat @ 2.5% of adjusted net income	12,982	11,894
Adjustment for assessment of zakat	51,315	45,927
	<u>64,297</u>	<u>57,821</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

26. ZAKAT AND INCOME TAX (continued)

a) Zakat (continued)

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

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at beginning of the year	232,444	184,295
Charge for the year	64,297	57,821
Payments made during the year	(11,293)	(9,672)
	<u>285,448</u>	<u>232,444</u>

b) Income Tax

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Current tax charge	70,969	65,700
Deferred tax income	(7,725)	(4,664)
	<u>63,244</u>	<u>61,036</u>

The reconciliation of deferred tax is as follows:

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Opening deferred tax asset	30,216	25,552
Deferred tax income	7,725	4,664
	<u>37,941</u>	<u>30,216</u>

The movement in the income tax provision during the year was as follows:

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at beginning of the year	42,265	15,489
Charge for the year	70,969	60,966
Adjustment for previous years	--	4,734
Payments made during the year	(81,483)	(38,924)
	<u>31,751</u>	<u>42,265</u>

c) Provision for zakat and income tax

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Zakat payable (note (a) above)	285,448	232,444
Income tax payable (note (b) above)	31,751	42,265
	<u>317,199</u>	<u>274,709</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

26. ZAKAT AND INCOME TAX (continued)

d) Status of assessment

The Company has filed its zakat and income tax returns for the financial years up to and including the year 2019 with the General Authority of Zakat and Tax (the "GAZT"). The Company has received assessments for the fiscal periods 2008 through 2018 of additional zakat, corporate income tax and withholding tax in addition to delay fines on various assessed items.

In February 2021, the company has reached a settlement with GAZT on all zakat, corporate income tax and withholding tax for the years 2008 through 2016 and 2018. All settled liabilities were provided for previously in respective years and there is no significant financial impact on the company's financial statements. For the year 2017 assessments, the company has escalated the matter to the General Secretariat of Tax Committees (the "GSTC").

27. SHARE CAPITAL

The authorised, issued and paid-up capital of the Company was SR 1,200 million at 31 December 2020 (31 December 2019: SR 1,200 million) consisting of 120 million shares (31 December 2019: 120 million shares) of SR 10 each.

The shareholding structure of the Company as at 31 December, was reflected as below:

	2020		2019	
	<i>Holding Percentage</i>	<i>SR'000</i>	<i>Holding Percentage</i>	<i>SR'000</i>
Major shareholders	52.3%	628,066	52.3%	628,066
General Public	47.7%	571,934	47.7%	571,934
	100.0%	1,200,000	100.0%	1,200,000

28. STATUTORY RESERVE

As required by the Saudi Arabian Insurance Regulations, 20% of the shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid-up share capital. The Company carries out this transfer on an annual basis at 31 December. As at 31 December 2020, SR 867.1 million (31 December 2019: SR 727.9 million) had been set aside as a statutory reserve, representing 72% (31 December 2019: 61%) of the paid-up share capital.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

29. SHARE BASED PAYMENTS

The Company established a share-based compensation scheme for its key management that entitles them to Bupa Arabia shares subject to successfully meeting certain service and performance conditions. Under the share-based compensation scheme, the Company manages various plans. Significant features of these plans are as follows:

Maturity dates	Between December 2020 and December 2023
Total number of shares granted on the grant date	519,411
Vesting period	3-4 years
Method of settlement	Equity
Fair value per share on grant date	Average SAR 97.21

30. CAPITAL MANAGEMENT

For the purpose of the Company's capital management, capital includes share capital and all other equity reserves attributable to the shareholders. Objectives are set by the Board of Directors of the Company to maintain healthy capital ratios to support its business objectives and maximise shareholders' value. The Company manages its capital requirements by assessing 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 the risk characteristics of the Company's activities. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares. Total capital amounted to SR 3,878,795 (31 December 2019: SR 3,032,393).

In the opinion of the Board of Directors, the Company has fully complied with the regulatory capital requirements during the reported financial year. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

31. GENERAL AND ADMINISTRATIVE EXPENSES

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>					
Employees' costs	393,903	--	393,903	359,200	--	359,200
Rents and maintenance costs	51,377	--	51,377	26,908	--	26,908
Travelling expenses	4,192	--	4,192	9,295	--	9,295
Depreciation and amortisation	47,238	--	47,238	48,216	--	48,216
Communication expenses	11,151	--	11,151	7,695	--	7,695
Board expenses	--	5,277	5,277	--	4,612	4,612
Others	57,338	15,073	72,411	29,143	5,932	35,075
	565,199	20,350	585,549	480,457	10,544	491,001

32. SELLING AND MARKETING EXPENSES

	2020	2019
	<i>SR'000</i>	<i>SR'000</i>
Employees' costs	47,875	46,163
Marketing expenses	24,816	29,490
Trade mark fee (see note 19)	26,896	23,608
Others	6,880	10,595
	106,467	109,856

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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33. INVESTMENT INCOME, NET

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>					
Commission income	109,560	102,907	212,467	117,605	108,635	226,240
Realised gains/(losses) on investment, net	11,170	(11,218)	(48)	8,468	(12,448)	(3,980)
Unrealised gains on FVSI investments, net	1,058	(182)	876	11,191	1,554	12,745
	121,788	91,507	213,295	137,264	97,741	235,005

34. EARNINGS PER SHARE

The basic and diluted earnings per share has been calculated by dividing net income after zakat and tax for the year by the weighted average number of ordinary shares issued and outstanding at year end.

35. RISK MANAGEMENT

a) Insurance risk

The Company provides short-term health insurance contracts in Saudi Arabia. Accordingly, the main insurance Risk within the Company is the claims reserve risk resulting from fluctuations in the estimated ultimate claims. The Company seeks to manage this through close monitoring of the claims' trend and payments' pattern to ensure that sufficient reserves are available to cover claim liabilities. The Company also have an external actuary to perform quarterly independent reviews of the reserves adequacy.

The Company has a reinsurance arrangement to reduce its exposure through transfer of risk. The reinsurance agreement is an excess of loss treaty per person per claim on losses occurring basis.

i) The ultimate liability arising from claims made under insurance contracts

Claims reserves which are key components of the Company's ultimate liability are estimated amounts of the outstanding claims, incurred but not reported claims ("IBNR") and claims handling provisions. These reserves do not represent exact calculations but rather expectations based on historical claims' trend (frequency and severity), payments' pattern, medical inflation, members' behaviour, seasonality and other factors.

The Company has a large insurance portfolio resulting in stable claims development patterns which relatively reduces the risk of fluctuations in the estimated ultimate claims. The short-tailed nature of the business is associated with higher consistency of the reserve estimates. The Company continually review the adequacy of claims reserves by conducting back-testing analysis, assessing the sufficiency of data, monitoring claims backlogs and settlement patterns. In addition, the external actuary runs independent valuation models after due reconciliation with financial statements to validate reserve adequacy.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

35. RISK MANAGEMENT (continued)

a) Insurance risk (continued)

ii) Concentration of insurance risk

The insurance risk exposure related to policyholders is mainly concentrated in Saudi Arabia. However, through its underwriting strategy, the Company ensures that the portfolio is well diversified and not concentrated within few large clients. Its business is proportionally spread across all regions in the Saudi Arabia, and the Company targets both corporate and retail business. The insurance portfolio is not concentrated in a specific benefit level (diverse medical providers, different deductibles, annual limits and sub-limits)

iii) Process used to decide on assumptions

The pricing team follows the Company's underwriting guidelines (approved by the Board of Directors) in setting premiums taking into consideration credible claims experiences for both new business and renewals or medical declarations.

Assumptions used in determining claims reserves are based on the best estimate. Ultimate claims are estimated using historical claim trends adjusted for inflation, seasonality, membership growth and any other external or internal factors that may have impact on claim costs. Given the nature of the business, the Company may still be exposed to risk of insufficiency of claim reserves for which actual claim cost may turn out to be higher than the initial estimated ultimate claims.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the outstanding claims which are received but not yet settled with the providers. For the case of outstanding claims, the Company uses payment information of settled batches with providers to estimate the expected settlement amounts of recently submitted batches, while it uses mainly pre-authorization data to estimate IBNR. The Company seeks to avoid inadequate reserve levels by adopting established processes in determining claim reserve and using updated information from both claims received and pre-authorization data.

The premium liabilities have been determined as such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve, if applicable and required as per the result of the liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies. The expected future liability is determined using the Company's loss ratio adjusted for seasonality and portfolio mix for the remaining unearned period. The details of estimation of the outstanding claims and premium deficiency reserves are given under Notes 2(d)(i).

iv) Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at year-end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process.

An assumed 5% change in the claims' ratio, net of reinsurance, would impact net underwriting income as follows:

	<i>2020</i>	<i>2019</i>
	<i>SR'000</i>	<i>SR'000</i>
Impact of change in claims ratio by 5%	± 536,724	± 468,565

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

35. RISK MANAGEMENT (continued)

b) Reinsurance risk

The Company has a reinsurance arrangement to reduce its exposure through transfer of insurance risk. The reinsurance agreement is an excess of loss treaty per person per claim on losses occurring basis. Such arrangement protects the Company from large claims with a reasonable ceded premium given the stable underwriting performance and the size of the insurance portfolio.

The Reinsurers are selected based on the following criteria:

- All reinsurers should meet SAMA's minimum acceptable rating of BBB (S&P Rating).
- The reinsurers' panel and the agreement should be reviewed and approved by the Company's Board of Directors.

Reinsurance ceded business does not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

c) Market risk

Market risk refers to the potential impact of various market dynamics on the fair value or the expected cash flows of financial instruments. The Company adopts asset allocation guidelines and diversification limits on asset classes, geographies, currencies and securities to ensure that market risk is contained and kept to minimal levels.

The Board of Directors sets the overall risk appetite to a prudent level that does not impact the Company's operating results. The management prepares monthly and quarterly reports, highlighting deployment activities and exposure limits to ensure that appropriate monitoring and compliance with the approved guidelines. Management performs continuous assessment of developments in relevant markets to ensure that market risk is monitored and mitigated at the asset class and securities levels.

Market risk comprises three types: interest rate risk, price risk and currency risk.

i) Interest rate risk

Interest rate risk is the potential change in the fair value of financial instruments and expected cash flows as a result of changes in interest rates. Management constantly monitors developments in global and local interest rates and accordingly allocates the durations of its term deposits and sukuk investments.

Investments in term deposits and sukuk instruments have various maturities in order to maximise investment returns while ensuring that liquidity requirements are continuously met. Details of maturities of interest bearing securities as at 31 December are as follows:

	2020				Total
	Less than 3 months	3 months to 1 year	1 year to 3 years	More than 3 years	
	SR'000				
Term deposits	668,555	1,011,500	650,094	393,024	2,723,173
Investments in Sukuk	125,000	86,304	405,184	1,296,192	1,912,680
	793,555	1,097,804	1,055,278	1,689,216	4,635,853
	2019				
	Less than 3 months	3 months to 1 year	1 year to 3 years	More than 3 years	Total
	SR'000				
Term deposits	1,109,087	1,899,771	1,662,000	393,118	5,063,976
Investments in Sukuk	84,416	235,271	308,969	773,677	1,402,333
	1,193,503	2,135,042	1,970,969	1,166,795	6,466,309

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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35. RISK MANAGEMENT (continued)

c) Market risk (continued)

ii) Price risk

Price risk is the potential change in the fair value of financial instruments as a result of instrument-specific developments or systemic factors affecting the overall market in which the instrument is being traded.

The total size of investments which are exposed to market price risk is SR 6,029 million (2019: SR 1,841 million). The Company manages this risk conducting thorough due diligence on each instrument prior to investing as well as maintaining exposure limits guidelines to minimise the potential impact of marking to market on the overall portfolio.

The potential impact of a 10% increase or decrease in the market prices of investments on Company's profit would be as follows:

	<u>Fair value change</u>	<u>Effect on Company's profit</u> <u>SR'000</u>
2020	± 10%	± 22,378
2019	± 10%	± 26,952

The above sensitivity analysis is only on FVSI investments which directly impact the Company's profit.

iii) Currency risk

Currency risk is the potential fluctuation of the value of a financial instrument due to changes in foreign exchange rates. All Company's transactions are in Saudi Arabian Riyals and US Dollar. Given the peg of Saudi Arabian Riyals and US Dollars, foreign exchange risk is minimal.

d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

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

	<i>2020</i> <i>SR'000</i>	<i>2019</i> <i>SR'000</i>
Cash and cash equivalents	633,251	665,709
Premiums receivable – net	1,320,043	1,689,377
Reinsurers' share of outstanding claims	1,475	1,218
Reinsurers' share of claims incurred but not reported	6,461	3,972
Investments	6,029,446	1,840,832
Other assets	109,931	207,804
Term deposits	2,723,173	5,063,976
Statutory deposit	120,000	120,000
Accrued income on statutory deposit	13,806	10,820
	<u>10,957,586</u>	<u>9,603,708</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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35. RISK MANAGEMENT (continued)

d) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade ratings refers to companies with sound credit standing of AAA to BBB- (as per S&P) and/or Aaa to Baa3 (as per Moody's). Ratings below the mentioned threshold are considered sub-investment grade with a higher default risk.

	2020			
	<i>Investment grade</i>	Non-investment grade		<i>Total</i>
		<i>Not impaired</i>	<i>Impaired</i>	
	<i>SR'000</i>			
Cash and cash equivalents	633,251	--	--	633,251
Premiums receivable – net	--	1,146,342	173,701	1,320,043
Reinsurers' share of outstanding claims	1,475	--	--	1,475
Reinsurers' share of claims Incurred but not reported	6,461	--	--	6,461
Investments	6,029,446	--	--	6,029,446
Other receivables	109,931	--	--	109,931
Term deposits	2,723,173	--	--	2,723,173
Statutory deposit	120,000	--	--	120,000
Accrued income on statutory deposit	13,806	--	--	13,806
	9,637,543	1,146,342	173,701	10,957,586
	2019			
	<i>Investment grade</i>	Non-investment grade		<i>Total</i>
		<i>Not impaired</i>	<i>Impaired</i>	
	<i>SR'000</i>			
Cash and cash equivalents	665,709	--	--	665,709
Premiums receivable – net	--	1,177,912	511,465	1,689,377
Reinsurers' share of outstanding claims	1,218	--	--	1,218
Reinsurers' share of claims Incurred but not reported	3,972	--	--	3,972
Investments	1,840,832	--	--	1,840,832
Other receivables	207,804	--	--	207,804
Term deposits	5,063,976	--	--	5,063,976
Statutory deposit	120,000	--	--	120,000
Accrued income on statutory deposit	10,820	--	--	10,820
	7,914,331	1,177,912	511,465	9,603,708

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

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35. RISK MANAGEMENT (continued)

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its operational or financial obligations when they are due. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

Unearned premiums have been excluded from the analysis as they are not contractual obligations. The table below summarises the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

	<i>2020</i>		
	<i>Up to</i>	<i>More than</i>	<i>Total</i>
	<i>one year</i>	<i>one year</i>	
<i>SR'000</i>			
Accrued and other liabilities	540,450	135,600	676,050
Insurance operations' surplus payable	200,391	--	200,391
Reinsurers' balances payable	4,873	--	4,873
Outstanding claims	446,519	--	446,519
Claims incurred but not reported	1,378,294	--	1,378,294
Premium deficiency Reserve	263,751	--	263,751
Claims handling reserve	20,755	--	20,755
Due to related parties	108,521	--	108,521
Provision for end-of-service benefits (EOSB)	13,746	126,266	140,012
Provision for zakat and income tax	83,951	233,248	317,199
Accrued income payable to SAMA	--	13,806	13,806
	3,061,251	508,920	3,570,171
<i>2019</i>			
	<i>Up to</i>	<i>More than</i>	<i>Total</i>
	<i>one year</i>	<i>one year</i>	
<i>SR'000</i>			
Accrued and other liabilities	380,425	68,262	448,687
Insurance operations' surplus payable	168,454	--	168,454
Reinsurers' balances payable	54,413	--	54,413
Outstanding claims	451,788	--	451,788
Claims incurred but not reported	1,157,428	--	1,157,428
Claims handling reserve	18,492	--	18,492
Due to related parties	78,848	--	78,848
Provision for end-of-service benefits (EOSB)	16,043	80,298	96,341
Provision for zakat and income tax	49,978	224,731	274,709
Accrued income payable to SAMA	--	10,820	10,820
	2,375,869	384,111	2,759,980

f) Liquidity profile

All assets excluding investments, Fixtures, Furniture and Right-of-use assets, intangible assets, goodwill, statutory deposit and accrued income on statutory deposit, are expected to be recovered or settled before one year. Term deposits amounting to SR 1,680 million (31 December 2019: SR 3,324 million) mature within one year and the remaining balance have maturities greater than one year.

None of the financial liabilities on the statement of financial position are based on discounted cash flows, with exception of end-of-service benefits and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the financial liabilities of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

35. RISK MANAGEMENT (continued)

g) Operation risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from factors other than credit, market and liquidity risks such as those arising from regulatory requirements. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address those risks;
- Ethical and business standards; and
- Risk mitigation policies and procedures.

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

At 31 December 2020

36. SUPPLEMENTARY INFORMATION

Statement of Financial Position

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<u>ASSETS</u>						
Cash and cash equivalents	195,232	438,019	633,251	446,942	218,767	665,709
Premiums receivables – net	1,320,043	--	1,320,043	1,689,377	--	1,689,377
Reinsurers' share of unearned premiums	20,108	--	20,108	20,625	--	20,625
Reinsurers' share of outstanding claims	1,475	--	1,475	1,218	--	1,218
Reinsurers' share of claims Incurred but not reported	6,461	--	6,461	3,972	--	3,972
Deferred policy acquisition costs	68,214	--	68,214	134,022	--	134,022
Investments	3,568,181	2,461,265	6,029,446	725,551	1,115,281	1,840,832
Prepaid expenses and other assets	118,404	40,056	158,460	222,424	54,219	276,643
Term deposits	1,598,055	1,125,118	2,723,173	3,347,965	1,716,011	5,063,976
Fixtures, Furniture and Right-of-use assets – net	--	204,019	204,019	--	169,441	169,441
Intangible assets – net	--	61,958	61,958	--	56,245	56,245
Deferred tax asset	--	37,941	37,941	--	30,216	30,216
Goodwill	--	98,000	98,000	--	98,000	98,000
Statutory deposit	--	120,000	120,000	--	120,000	120,000
Accrued income on statutory deposit	--	13,806	13,806	--	10,820	10,820
TOTAL ASSETS	6,896,173	4,600,182	11,496,355	6,592,096	3,589,000	10,181,096

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

36. SUPPLEMENTARY INFORMATION (continued)

Statement of Financial Position (continued)

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<u>LIABILITIES</u>						
Accrued and other liabilities	534,201	141,849	676,050	352,798	95,889	448,687
Insurance operations' surplus payable	200,391	--	200,391	168,454	--	168,454
Reinsurers' balances payable	4,873	--	4,873	54,413	--	54,413
Unearned premiums	4,023,331	--	4,023,331	4,376,219	--	4,376,219
Outstanding claims	446,519	--	446,519	451,788	--	451,788
Claims incurred but not reported	1,378,294	--	1,378,294	1,157,428	--	1,157,428
Premium deficiency Reserve	263,751	--	263,751	--	--	--
Claims handling reserve	20,755	--	20,755	18,492	--	18,492
Due to related parties	--	108,521	108,521	--	78,848	78,848
Provision for end-of-service benefits (EOSB)	--	140,012	140,012	--	96,341	96,341
Provision for zakat and income tax	--	317,199	317,199	--	274,709	274,709
Accrued income payable to SAMA	--	13,806	13,806	--	10,820	10,820
TOTAL LIABILITIES	6,872,115	721,387	7,593,502	6,579,592	556,607	7,136,199
<u>EQUITY</u>						
Share capital	--	1,200,000	1,200,000	--	1,200,000	1,200,000
Statutory reserve	--	867,096	867,096	--	727,871	727,871
Share based payments	--	32,800	32,800	--	25,525	25,525
Shares held under employees share scheme	--	(48,779)	(48,779)	--	(57,538)	(57,538)
Retained earnings	--	1,684,003	1,684,003	--	1,128,973	1,128,973
Re-measurement reserve of end-of-service benefits	--	(31,173)	(31,173)	--	(10,473)	(10,473)
Investments fair value reserve	24,058	174,848	198,906	12,504	18,035	30,539
TOTAL EQUITY	24,058	3,878,795	3,902,853	12,504	3,032,393	3,044,897
<u>TOTAL LIABILITIES AND EQUITY</u>	6,896,173	4,600,182	11,496,355	6,592,096	3,589,000	10,181,096

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

At 31 December 2020

36. SUPPLEMENTARY INFORMATION (continued)

Statement of Income

	2020			2019		
	<i>Insurance operations</i>	<i>Share-holders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Share-holders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<u>REVENUES</u>						
Gross premiums written	10,447,353	--	10,447,353	10,410,868	--	10,410,868
Reinsurance premiums ceded – Local	(5,953)	--	(5,953)	(10,377)	--	(10,377)
Reinsurance premiums ceded – International	(59,289)	--	(59,289)	(95,417)	--	(95,417)
Net premiums written	10,382,111	--	10,382,111	10,305,074	--	10,305,074
Changes in unearned premiums – net	352,371	--	352,371	(933,783)	--	(933,783)
Net premiums earned	10,734,482	--	10,734,482	9,371,291	--	9,371,291
<u>UNDERWRITING COSTS AND EXPENSES</u>						
Gross claims paid	(8,262,050)	--	(8,262,050)	(7,655,078)	--	(7,655,078)
Reinsurers' share of claims paid	20,987	--	20,987	58,632	--	58,632
Net claims paid	(8,241,063)	--	(8,241,063)	(7,596,446)	--	(7,596,446)
Changes in outstanding claims	5,269	--	5,269	103,370	--	103,370
Changes in claims incurred but not reported	(220,866)	--	(220,866)	(259,305)	--	(259,305)
Changes in Premium deficiency Reserve	(263,751)	--	(263,751)	--	--	--
Changes in claims handling reserves	(2,263)	--	(2,263)	908	--	908
Reinsurance share of changes in outstanding claims	257	--	257	882	--	882
Reinsurance share of changes in claims incurred but not reported	2,489	--	2,489	1,294	--	1,294
Net claims incurred	(8,719,928)	--	(8,719,928)	(7,749,297)	--	(7,749,297)
Policy acquisition costs	(630,734)	--	(630,734)	(463,542)	--	(463,542)
TOTAL UNDERWRITING COSTS AND EXPENSES	(9,350,662)	--	(9,350,662)	(8,212,839)	--	(8,212,839)
NET UNDERWRITING INCOME	1,383,820	--	1,383,820	1,158,452	--	1,158,452

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

At 31 December 2020

36. SUPPLEMENTARY INFORMATION (continued)

Statement of Income (continued)

	2020			2019		
	<i>Insurance operations</i>	<i>Share-holders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Share-holders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<u>OTHER OPERATING (EXPENSES)/ INCOME</u>						
Allowance for doubtful receivables	(28,770)	--	(28,770)	(31,907)	--	(31,907)
General and administrative expenses	(565,199)	(20,350)	(585,549)	(480,457)	(10,544)	(491,001)
Selling and marketing expenses	(106,467)	--	(106,467)	(109,856)	--	(109,856)
Investment income – net	121,788	91,507	213,295	137,264	97,741	235,005
Other income/(loss) – net	(3,762)	31,243	27,481	(5,155)	23,950	18,795
Total Other Operating (Expenses)/ Income	(582,410)	102,400	(480,010)	(490,111)	111,147	(378,964)
<u>Income before Surplus, Zakat & Income Tax</u>	801,410	102,400	903,810	668,341	111,147	779,488
Transfer of surplus to shareholders	(721,269)	721,269	--	(601,507)	601,507	--
<u>Income Attributed To The Shareholders Before Zakat And Income Tax</u>	80,141	823,669	903,810	66,834	712,654	779,488
Zakat charge	--	(64,297)	(64,297)	--	(57,821)	(57,821)
Income tax charge	--	(63,244)	(63,244)	--	(61,036)	(61,036)
NET INCOME ATTRIBUTED TO THE SHAREHOLDERS AFTER ZAKAT AND INCOME TAX	80,141	696,128	776,269	66,834	593,797	660,631
Weighted average number of ordinary outstanding shares (in thousands)		119,421			119,548	
Basic and diluted earnings per share (Expressed in SR per Share)		5.83			4.97	

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

At 31 December 2020

36. SUPPLEMENTARY INFORMATION (continued)

Statement of Comprehensive Income

	2020			2019		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Net income attributed to the shareholders after zakat and income tax	80,141	696,128	776,269	66,834	593,797	660,631
Other comprehensive income						
<i>Items that will not be reclassified to statements of income in subsequent years</i>						
Re-measurement losses on employees' EOSB	--	(20,700)	(20,700)	--	(1,551)	(1,551)
<i>Items that are or may be reclassified to statement of income in subsequent years</i>						
Net movement in fair value of available for sale investments	11,554	156,813	168,367	21,093	39,977	61,070
<u>TOTAL COMPREHENSIVE INCOME</u>	<u>91,695</u>	<u>832,241</u>	<u>923,936</u>	<u>87,927</u>	<u>632,223</u>	<u>720,150</u>
Reconciliation:						
Less: Net income attributable to insurance operations transferred to surplus payable			(80,141)			(66,834)
<u>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</u>			<u>843,795</u>			<u>653,316</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

36. SUPPLEMENTARY INFORMATION (continued)

Statement of Cash flows

	2020			2019		
	<i>Insurance operations</i>	<i>Share-holders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Share-holders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income attributed to the shareholders before zakat and income tax	--	823,669	823,669	--	712,654	712,654
<u>Adjustments for non-cash items:</u>						
Net income attributed to the insurance operations	80,141	--	80,141	66,834	--	66,834
Depreciation and amortisation of Fixtures, Furniture and Right-of-use assets	31,507	--	31,507	30,640	--	30,640
Amortisation of intangible assets	15,731	--	15,731	17,576	--	17,576
Gain on disposal of Fixtures and Furniture	--	--	--	--	(1)	(1)
Provision for LTIP	--	16,034	16,034	--	15,814	15,814
Allowance of doubtful receivables provision	28,770	--	28,770	31,907	--	31,907
Unrealised (gains) / losses on investments held as FVSI	(1,058)	182	(876)	(11,191)	(1,554)	(12,745)
Provision for end-of-service benefits	--	27,294	27,294	--	19,481	19,481
Finance cost	--	5,244	5,244	--	5,223	5,223
<u>Changes in operating assets and liabilities:</u>						
Premiums receivable	340,564	--	340,564	(770,613)	--	(770,613)
Reinsurers' share of unearned premiums	517	--	517	(14,305)	--	(14,305)
Reinsurers' share of outstanding claims	(257)	--	(257)	(882)	--	(882)
Reinsurers' share of claims incurred but not reported	(2,489)	--	(2,489)	(1,294)	--	(1,294)
Deferred policy acquisition costs	65,808	--	65,808	(15,699)	--	(15,699)
Prepaid expenses and other assets	104,020	14,163	118,183	(53,558)	(20,100)	(73,658)
Accrued and other liabilities	181,403	689	182,092	71,774	775	72,549
Reinsurers' balances payable	(49,540)	--	(49,540)	3,777	--	3,777
Unearned premiums	(352,888)	--	(352,888)	948,088	--	948,088
Outstanding claims	(5,269)	--	(5,269)	(103,370)	--	(103,370)
Claims incurred but not reported	220,866	--	220,866	259,305	--	259,305
Premium deficiency Reserve	263,751	--	263,751	--	--	--
Claims handling reserve	2,263	--	2,263	(908)	--	(908)
Due to related parties	--	27,800	27,800	--	43,884	43,884
Due to shareholders' operations	(47,239)	47,239	--	(48,218)	48,218	--
	876,601	962,314	1,838,915	409,863	824,394	1,234,257
End-of-service benefits paid	--	(4,323)	(4,323)	--	(6,086)	(6,086)
Surplus paid to policyholders	(48,204)	--	(48,204)	(38,135)	--	(38,135)
Zakat and income tax paid	--	(92,776)	(92,776)	--	(48,596)	(48,596)
Net cash generated from operating activities	828,397	865,215	1,693,612	371,728	769,712	1,141,440

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

36. SUPPLEMENTARY INFORMATION (continued)

Statement of Cash flows (continued)

	2020			2019		
	<i>Insurance</i>	<i>Share-</i>	<i>Total</i>	<i>Insurance</i>	<i>Share-</i>	<i>Total</i>
	<i>operations</i>	<i>holders'</i>		<i>operations</i>	<i>holders'</i>	
<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	
CASH FLOWS FROM INVESTING ACTIVITIES						
Placement in term deposits	(488,850)	(300,000)	(788,850)	(2,476,565)	(1,160,924)	(3,637,489)
Proceeds from maturity of term deposits	2,238,760	890,893	3,129,653	2,162,343	1,126,451	3,288,794
Additions to investments	(9,765,721)	(3,983,139)	(13,748,860)	(2,037,449)	(1,664,712)	(3,702,161)
Disposals of investments	6,935,704	2,793,785	9,729,489	2,154,358	1,402,277	3,556,635
Additions to Fixtures, Furniture and Right-of-use assets	--	(11,840)	(11,840)	--	(15,765)	(15,765)
Disposal of Fixtures, Furniture and Right-of-use assets	--	--	--	--	124	124
Intangible assets acquired	--	(21,444)	(21,444)	--	(16,548)	(16,548)
Increase in statutory deposit	--	--	--	--	--	--
Net cash used in investing activities	(1,080,107)	(631,745)	(1,711,852)	(197,313)	(329,097)	(526,410)
CASH FLOWS FROM FINANCING ACTIVITIES						
Dividends paid	--	--	--	--	(180,000)	(180,000)
Lease liability paid	--	(14,218)	(14,218)	--	(26,990)	(26,990)
Purchase of shares under LTIP	--	--	--	--	(32,744)	(32,744)
Net cash used in financing activities	--	(14,218)	(14,218)	--	(239,734)	(239,734)
Net change in cash and cash equivalents	(251,710)	219,252	(32,458)	174,415	200,881	375,296
Cash and cash equivalents at beginning of the year	446,942	218,767	665,709	272,527	17,886	290,413
Cash and cash equivalents at end of the year	195,232	438,019	633,251	446,942	218,767	665,709

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and regrouped to conform with the current year's presentation to these financial statements.

38. IMPACT OF COVID-19 COMPENSATION FOR GOVERNMENT PROVIDERS

As many world economies grapple with a coronavirus ("COVID-19") surge, Bupa Arabia continues to monitor the situation closely and refresh its business continuity and risk management plans to ensure sustainability of its current service levels and operational activities under different scenarios while preserving the safety and health of its employees. COVID-19 is having a profound impact on many facets of the health insurance sector, including medical claim patterns as explained below. Given the many uncertainties surrounding the duration and severity of the pandemic, management continues reassessing and updating its estimates and judgments on a regular basis. Actual outcomes may differ from those projected. The liquidity and solvency positions of the Company remain strong as at the date of issuing these interim condensed financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2020

38. IMPACT OF COVID-19 COMPENSATION FOR GOVERNMENT PROVIDERS (continued)

After Saudi Arabia easing COVID-19 lockdown and curfew measures towards the end of second quarter of 2020, demand for healthcare services gradually recovered during the second half of the year after the substantial drop in the second quarter earlier in the year. This resulted in a noticeable increase in incurred claims from June through December, with current levels exceeding those that existed pre-Covid. The Company expects this pattern to persist over the next few months as more untreated and deferred medical conditions find their way through the provider network. The propensity of a particular type of claim to be deferred depends on the nature of the medical condition and the types of diagnostic investigations and treatments associated with it.

Compensation for Government Providers

The Council of Cooperative Health Insurance (“CCHI”) recently issued Circular 895, dated 17/12/2020, regarding the enforcement of Article 11 of the Cooperative Health Insurance Law, requesting medical insurance companies, effective 1/1/2021, to include all accredited government healthcare providers in their medical network while complying with the approved financial compensation structure. The circular is expected to have a material impact on future medical claims considering the mandated prices and protocols regulating the relationship between government health facilities and insurance companies. Given the many uncertainties surrounding the actual rollout and application of Circular 895, management continues monitoring the situation closely, while reassessing and updating its estimates and judgments on a regular basis.

SAMA’s Circular 173

SAMA’s circular 173, dated 16/01/2019, requires insurance companies to hold a Premium Deficiency Reserve (“PDR”) in case the relevant Unearned Premium Reserve (“UPR”) is insufficient to cover related projected claims and expenses. When a premium deficiency exists, the amount of the deficiency must first be offset against any Deferred Acquisition Costs (“DAC”). Any remaining deficiency not absorbed by DAC is accrued for as a separate premium deficiency reserve. To adequately meet the future insurance liabilities of the unexpired risk after considering the impact of COVID-19 and Circular 895, the Company recognized a PDR of SR 263.75 million as at 31 December 2020 (2019: Nil).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors, on 23 Rajab 1442H corresponding to 7 March 2021.