



Bupa بوبا

ANNUAL REPORT 2012

WORKING TOGETHER FOR HEALTHIER AND HAPPIER LIVES

www.bupa.com.sa



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



HRH Crown Prince Salman Abdul Aziz Al Saud
First Deputy Prime Minister and Minister of Defense



BUPA ARABIA ANNUAL REPORT 2012

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

OUR VALUES

CARING

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

ENABLING

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

RESPECTFUL

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

DEDICATED

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

ETHICAL

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

ACCOUNTABLE

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

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

Loay Nazer
Chairman



CHAIRMAN'S MESSAGE

WORKING TOGETHER TO IMPROVE HEALTH

A Growing Sector

In 2012, the world economy has been under great pressure driven by the sovereign debt crisis and slow growth. By contrast, the Saudi market has maintained steady growth despite fluctuating world markets and regional turbulence.

The insurance market in Saudi Arabia has changed considerably over the past few years as new entrants and new regulations continue to embed and the sector continues to move towards maturity. As insurance penetration in Saudi Arabia remains generally low, and the economic outlook supports an increased demand for insurance, we continue to believe that the Saudi insurance market contains opportunities for true organic growth given the size and composition of its population.

The Saudi Arabia government recently announced the biggest budget in its history, an increase of 19% versus the previous year, and this increased government spending, coupled with population growth, is likely to have a positive impact on the health insurance market. This would be from both an increased demand and an expanding workforce, as well as representing some first steps to partially reduce the hospital and provider capacity shortfall which currently exists.

Bupa Arabia is unique as the only significant single-line health insurer in Saudi Arabia and is proud of its achievements as a healthcare partner to all its customers. Results have continued to be strong and consistent, in line with the strategic direction set by the Board, and 2012 represented a year of steady growth, in a very challenging market place. This is the fifth successive year in which Bupa Arabia achieved growth in its underlying health insurance profits.

During the year the Board has continued to work with the senior management of the business, to enhance the already established core business strategy and extensively redevelop new strategies. The Board is pleased with the results which are aligned with the strategy and direction.

Bupa Arabia is very successful at maintaining its loss ratio over the past few years and as a result is now the most profitable health insurer in the Saudi Arabian market place. With market pricing expected to stabilize at more sensible levels in future years we are well placed to continue to outperform the sector and our major competitors.

We recognize and support the SAMA and CCHI visions and their driving the industry forward towards a sound future with a proven regulatory framework for the insurance industry, and the environment in which we operate and in which policy holders, and shareholders, are protected. We also continue to work with, and support, our industry regulators and to facilitate the development of the industry by adding the commercial perspective of market and industry realities and issues. We are committed to sustainability, being a social responsible partner and to promoting, and developing a good healthcare environment in the Kingdom.

The Board, and all the Board Committees, continues to support the business in its drive to implement robust corporate governance frameworks supported by proportionate and pragmatic underlying policies and procedures. The company values, ethics and mission are all fully aligned with the regulatory and corporate governance

requirements and we believe we have the highest level of implemented best practice corporate governance compliance in the industry.

Bupa Arabia's purpose is to help people live longer, healthier and happier lives and we remain committed to enabling customers, partners and employees to have access to all required healthcare options to facilitate appropriate health decisions. As has always been the case Bupa Arabia puts the customer at the core of our strategy and strives to provide the best in class customer care to all members.

Bupa Arabia is also passionate about its Corporate Social Responsibilities (CSR) activities and we are proud of our achievements in this arena. We have continued to progress our CSR initiative of providing all the orphans under the Ministry of Social Affairs with free, top quality, health insurance cover and in 2012 progressed this coverage to more than 1,100 orphans in more than sixteen different locations.

Bupa Arabia is proud of the values of its people and the culture of its working environment. This has been independently acknowledged and recognized via the awards consistently achieved by the people of the business with respect to the "Best Working Environment" for female employees and being amongst the top working environments, for all employees, in the financial sector.

We have undertaken an extensive market research to support our aim of implementation of leading remuneration policies and schemes and to position Bupa Arabia as the 'employer of choice'. We continue to drive our Saudization agenda whilst investing in significant training and development programs for our people as we believe strongly in the career development of all our employees and we are committed to supporting and rewarding a results-driven culture. These initiatives continue to be highly regarded by our employees and this is illustrated by our senior executive and top management team members who collectively possess many years' experience.

On behalf of the Board of Directors, I would like to express my appreciation to all our employees, and in particular the management leaders of the business, for continuing to produce sound business results which are in line with the expectations as set by the Board. The Annual Report includes an overview of some of the important achievements made during 2012.

I would also like to advise my appreciation for the dedication, and valued support, of all our shareholders, clients, partners, regulators and service providers for their continued commitment and contribution.

Loay Nazer

Chairman

“
BUPA ARABIA IS UNIQUE
AS THE ONLY SIGNIFICANT
SINGLE-LINE HEALTH
INSURER IN SAUDI ARABIA
AND IS PROUD OF ITS
ACHIEVEMENTS AS A
HEALTHCARE PARTNER .”

“
WE CONTINUE
TO FOCUS
ON CREATING
VALUE FOR OUR
MEMBERS.”

Tal Nazer
CEO



For more than fifteen years, the people of Bupa Arabia have worked together to improve the total health of our members and the communities we serve.

CEO'S MESSAGE

In 2012 we enjoyed remarkable accomplishments that reflected our commitment to providing high-quality, patient-centered health care. It was a very challenging year, with a sustained price war significantly damaging the economics of the health insurance industry, plus various regulatory and provider issues (fraud, patient safety) to overcome. Bupa Arabia, however, has emerged leaner and more focused, finishing the year financially strong and well-positioned for future growth.

The company delivered very encouraging financial results in 2012. Bupa Arabia reported a growth in pre-tax/zakat profits, up from SR42m in 2011 to SR134m in 2012, making Bupa Arabia the most profitable player in the health sector. This was driven by a 12% increase in underlying profits, the release of bad debt provisions, which were no longer required, and a significant improvement in investment income.

Cash/investments grew strongly by SR350m, from SR1,188m at the end of 2011 to SR1,541m at the end of 2012, plus our solvency position was restored (post Article 69) to a position of comfortable surplus by the year-end, underpinned by the growth in cash/investments being mainly held in admissible assets.

Delivering more to our customers is a constant motivation as we continue to focus on creating value and products/services that yield a positive healthcare outcome for our members. At Bupa Arabia we understand that the only sustainable advantage an insurance company has over its competitors is the value of its proposition and the quality of service delivery.

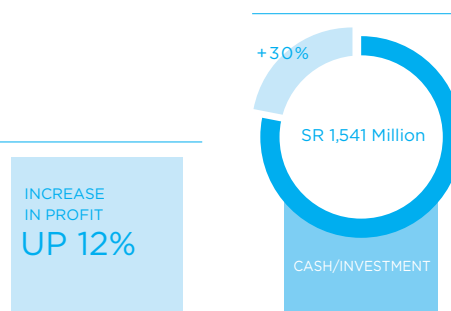
Accordingly, a new department called 'Healthcare Operations' was created in 2012 to lead our healthcare partner mission which gives access to our members who want to speak to a specialized doctor, gives inpatient members our specialized attention and review while they are still in the hospital, profiles hospitals based on quality of service and medical care standards, and provides a medical helpline to coach members on specific conditions at their request. We have continued to raise standards of customer care and drive a service excellence mindset with the continuation of our "Up Your Service Passion" program launched in 2011, plus extended our Service delegate presence in hospitals to seventeen staff, to readily support our customers when they need us most. The steps Bupa Arabia is taking to provide relevant solutions for customers will help physicians and consumers use the health care system in smarter and simpler ways which will improve choice and affordability. In return, our customers gain greater value for money in readily accessing quality care.

We have also created additional initiatives to enhance our ability to identify and engage members in a more personal manner so that we learn first-hand from our customers and provide meaningful solutions for their concerns. For example, 2012 witnessed an active commitment to our Social Media presence and journey, where we have built the foundation of yet another platform and channel of communication with our customers. Bupa Arabia is now actively present on Facebook, Twitter and You Tube, providing daily interaction and engagement with our customers. In September 2012 we also revamped our website to offer customers a significantly improved electronic experience and offering.

Our corporate social responsibility (CSR) program also remained a priority in 2012 as we progressed all of our CSR programs.

One such program which has special significance to me personally was the part of the Bupa Global 2012 Challenge of walking to a Well World. Bupa Arabia and the Ministry of Health collaborated to inspire people to walk towards a healthier lifestyle in a 'Walk your Heart' campaign. During October 2012 over 4,000 participants walked inside Jeddah's largest mall, during which over 2,000 completed a 1,400 metre walkathon. As part of this campaign, Bupa Arabia donated SR50,000 to a charity determined by the participant's votes.

In closing, I would like to thank the people of Bupa Arabia for their hard work, discipline and dedication to our clients and other key stakeholders this past year, without which our success would not have been possible. Through the focused execution of our growth strategy we achieved great things in 2012 and we are well positioned for continued success as we enter 2013. I invite you to study this Annual Report for more details regarding Bupa Arabia's performance during 2012.





BUPA ARABIA BOARD MEMBERS



1. Eng. Loay Hisham Nazer,
Chairman

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

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

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

2. Mr. Abdulhadi A. Shayif,
Director-Independent

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

In Saudi Arabia, Abdulhadi A. Shayif serves as a Board member and the Chairman of various committees at the Saudi Arabia Airlines, Saudi Hollandi Bank, Arab Cement Company and the Deutsche Securities Saudi Arabia. Outside Saudi Arabia, he is a Board member at Byblos Bank in Beirut and the Chairman of FWU International advisory Board, Munich.

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

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

3. Mr. Aamer Abdullah Alireza,
Director-Independent

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

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

Mr. Aamer Alireza graduated from Pitzer College in California with a B.A. in Economics and Political Science in 1994. He also joined various management executive programs at the University of California - Berkley in 2000, Stanford University in 2003, and Harvard University, in 2010 and in 2012, where he attended the Advanced Management Program.

4. Mr. Saleh Al-Jasser,
Director-Independent

Mr. Saleh Al-Jasser is a Board member of Bupa Arabia, as well as Itihad Itisalat Company (Mobily), The Saudi Research and Marketing Group and other unlisted companies. He is also Chief Executive Officer of BAHRI (The National Shipping Company of Saudi Arabia).

He holds a Master's degree in business administration from the King Saud University in Riyadh and BSc in Industrial Engineering from the King Abdul-Aziz University in Jeddah. He has received extensive executive education from various prestigious institutions such as the Harvard Business School, INSEAD, Oxford Cranfield Universities.

5. Mr. Tal Hisham Nazer,
Executive Director

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

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



65 YEARS OF HEALTHCARE AND WELLNESS

The Bupa Group was established in 1947 in the United Kingdom with one core purpose, 'to prevent, relieve and cure sickness and ill health of every kind'. More than 60 years hence, with over 11.5 million customers in 191 countries, Bupa remains true to this core principle across all its businesses and geographies, from Europe, Asia, the Americas, Africa and the Middle East.

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

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

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

BUPA GROUP

- Provide health insurance to customers in 190 countries. Covering 11.5 million people internationally.
- GBP 8.4 bn (SR 47.6 bn) turnover in 2012.
- Works with 7,500 hospitals and clinics worldwide.
- Operates hospitals and primary care centres in UK and Spain.
- Operates more than 400 care homes and retirement villages in the UK, Spain, Australia and New Zealand.

BUPA AROUND THE WORLD

UK

UK's largest health insurer with 2.7m customers; Bupa Cromwell Hospital; wellness centres; Bupa Home Healthcare; almost 300 care homes for over 18,000 residents.

Spain

Sanitas, Spain's leading health insurer with 2.2m customers; wellness centres; hospitals and clinics; residential care for 4,200 residents across 41 care homes; 770,000 dental insurance customers and 50 dental clinics.

Australia

Australia's second largest health insurer with 3.5m customers; residential care for 4,000 residents across 50 homes.



International

A leading expatriate health insurer with 500,000 customers, working with 7,500 hospitals and clinics across 191 countries and medical emergency evacuation services.

New Zealand

Retirement villages, homes and hospitals for 3,100 residents; Telecare, Bupa's personal alarm network covering 10,300 people.



11.5m
customers

Saudi Arabia

With over 1M customers, one of the Kingdom's largest health insurers, serving individuals and businesses; a joint venture with The Nazer Group.

USA

Health Dialog provides healthcare analytics and decision support services for health plans.



Hongkong

280,000 health insurance customers, including employees from more than 2,300 companies.

Latin America

International and domestic health insurance for 160,000 customers in Latin America and the Caribbean.



Thailand

Thailand's leading individual and corporate health insurer, with over 250,000 customers.

India

383,000 health insurance customers through Max Bupa, a joint venture with Max India.

China

International health insurance, provided with Chinese partner and insurer, the Alltrust Insurance Company.

COUNTRIES

191

We provide health insurance to customers all around the world.

RESIDENTS

30,000

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

HOSPITALS

7,500

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

YEARS

65

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

BUPA ARABIA COMPETITIVE ADVANTAGES



Our services, setting the standards in care



Relationship Management

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



24/7

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



Bupa Active

cutting-edge online services exclusively for Bupa Arabia members



Msg.Bupa

free SMS service that provides instant updates to members



Automated Approval

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



Basmah

trendsetting biometric security service with unmatched record safety



Doctor on Phone

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



Roving Doctor

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



Doctor on Chat

Expert medical advice available to the public through our website



International SOS

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

COMPETITIVE ADVANTAGES

We continue to focus on delivering sustainable value for our stakeholders and society through both what we do and how we do it and, in order to maintain our differentiation and success, we continuously strive to enhance the following capabilities:

Management Team and Staff Expertise:

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

International Healthcare Experience:

Our members benefit from the assurance of being part of the Bupa Group, a secure, worldwide organization—one which is entirely focused on health and care, employing over 50 thousand staff and servicing over 11.5m insured members in 190 countries. Bupa Arabia benefits from its ability to draw upon a world of healthcare expertise and experience from which we can “steal with pride” new services, products, systems and capabilities to add further value to our clients.

Specialization in Private Medical Insurance

As the first specialized medical insurer in the Kingdom of Saudi Arabia, and with 15 years of local Saudi market experience, Bupa Arabia is best placed to provide our clients with a unique and specialized range of health care services. We have launched several campaigns such as our service differentiator campaign highlighting the Dr. Chat service, and in addition we have launched a number of technology based initiatives to increase our brand awareness and convey the message “With you for a better Health”.

Fully Integrated Information Technology System:

We continuously invest in the functionality, scalability and robustness of our IT infrastructure. Over the past few years, we have introduced a new document management system to automate and streamline processes, plus we re-built our business continuity plans and created a disaster recovery capability. In addition, we have introduced several services to make Bupa Arabia easier to work with. That includes SADAD service that gives the ability for customers to pay online; and Yaqeen services that gives the ability for Bupa to reduce the unnecessary rejections related to CCHI system validation. We have also re-launched our online services to make it more users friendly and provide more functionality. In addition, Bupa launched several mobile applications to make it more convenient for its members; that include Bupa Access, Step counter and Diabetes management.

Customer Service Culture:

Committed to delivering great customer service, Bupa Arabia constantly reviews our services and implements positive steps to provide better customer service, carried out by enthusiastic, dedicated teams throughout the organization with every employee trained to embrace the customer service mindset.

Many customer led initiatives were launched in 2012, such as “Dr. Chat”, an online service for Bupa Members who can chat in real time with a professional physician online from Saturday through Wednesday from 9am to 7pm.

Providing care and comfort by upgrading our customer services and Bupa's exclusive and unique offering remains one of our major objectives, thus the “Member Exclusive” program was launched to ensure our customers enjoy healthy offers by providing special discounts for restaurants, gym memberships, dental and optical providers etc.

Stakeholder Management

We aim to provide a premier service by providing stakeholders with clear information, in alignment with the application of regulations and instructions issued by our regulators; SAMA, the CMA, the CCHI, the MOH and the Chamber of Commerce.

Corporate Social Responsibility - CSR

In 2012 the Company excelled momentum on its valued CSR initiative to cover all orphans resident in the Kingdom with free quality health insurance, by expanding coverage of 400 orphans in 6 sites to 1,125 orphans in 16 sites. In line with this initiative, Bupa Arabia employees were actively engaged in health education such as oral hygiene, donation drives providing clothes and toys as well as homecare services and check-up visits at the designated orphanages.



RECOGNIZING OUR CARE

SHOWCASING OUR AWARDS

2012



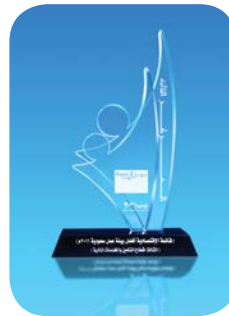
Best Large Call Centre, INSIGHTS Middle East Call Centre Awards

2011



Best Saudi Company to work For, Best Workplace for Women Award

2011



Best Saudi Company to work For, Third-Insurance and Finance Services Sector Award

2010



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

2009



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

2008



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

2007



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

2006



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



BOARD REPORT

Bupa Arabia for Cooperative Insurance Company

Board of Directors Report

for the period ended 31/12/2012:

The Board of Directors of Bupa Arabia for Cooperative Insurance Company is pleased to present the annual report covering the Company's financial results and achievements, followed by the audited financial statements and notes for the twelve month period ended 31 December 2012. This Board report includes the most important developments, financial results, operational activities and disclosures in compliance with the rules and regulations of the Kingdom of Saudi Arabia.

1. Main activities:

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

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

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

The current year financial statements, for the twelve month period ended 18/02/1434 H, 31/12/2012 G, represent the fourth statutory financial statements of the Company.

2. Asset purchase agreement and transfer of insurance portfolio:

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

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

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

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

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

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

During 2011, on 26/07/1432 H, 28/06/2011 G, the company successfully renewed its SAMA license qualification for a further three year period to 08/08/1435 H, 06/06/2014 G.

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

During 2011, on 03/11/1432 H, 01/10/2011 G, the company successfully renewed its three year CCHI license qualification for the further three year period to 19/05/1435 H, 19/03/2014 G and during 2012, on 19/05/1433 H, 11/04/2012 G, the company successfully renewed its one-year CCHI license qualification for the further one year period to 19/05/1434 H, 31/03/2013 G (the two renewals, one for three years and one for one year, being separate requirements of the CCHI).

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

• 5.1 Strategy review - execution progress:

Bupa Arabia continued to progress the execution of its strategy review, as approved by the Board in 2010. The "7 Pillar" strategy included enhancements to its core business activities covering Distribution, Brand, Healthcare Partner, Medical claims management, Customer service excellence, People capability building and Partnership relations. Progress was reviewed by the Board through the year as well as consideration to the next phase of strategy covering expansion outside of current core activities.

• 5.2 Corporate governance enhancements:

The Company embedded the prior year expansion of its Finance and Risk Management resources and implemented some new key frameworks and policy updates during the year including; Conflict of Interest Policies and Procedures, a Risk Management Framework, a Risk Management Policy, Risk Appetite Statements, a Financial Crime Policy (incorporating Anti-Money Laundering, Combatting the Financing of Terrorism and Anti-Bribery), and also completed a detailed review and update of the Terms of References of each of the Board Committees.

• 5.3 Long term incentive plan (LTIP):

The Company implemented an approved Long term incentive plan, for certain senior executives, during 2010 and the custodian obtained approval for the Bupa Arabia LTIP from the CMA and communicated its details to SAMA as required in terms of Article 57. An outcome of the LTIP is that some of the Company's own shares are held by the custodian on behalf of the senior executive(s) and as a result these have been classified as "Shares held under Long-term incentive plan by the custodian". At 18/02/1434 H, 31/12/2012 G, the shares held by the custodian on behalf of the senior executives numbered 212,161 shares.

• 5.4 New sales outlets:

In accordance with the 2010 approval received for twenty-three new Sales outlets (per SAMA's letter numbered 51747/MT/1987 dated 05/11/1431 H, 19/04/2010 G), the Company successfully opened a further five outlets during 2012 to expand to fourteen operational outlets. The implementation of the remaining approved outlets will be progressed having established the economic viability of further sites.

• 5.5 Chief Executive Team (CET):

The business appointed a new Chief Human Resources Officer (CHRO) in April 2012 to fill the vacancy carried over from 2011. It also appointed a new Chief Commercial Officer (CCO) in December 2012, with the previous incumbent moving to Chief Strategy Officer (CSO). The other roles which comprise the CET are the Chief Executive Officer (CEO), the Chief Financial Officer (CFO - appointed July 2010) and the Chief Operations Officer (COO - appointed April 2010).

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

The Company further embedded its Business Continuity Plans (BCP) and Disaster Recovery (DR) plans through successfully testing the prior year implementations of the Document Management System (DMS) and the alternate data centre in an offsite Riyadh office.

Bupa Arabia will seek to further enhance its BCP, DR and Crisis Management plans during 2013 through the appointment of a dedicated Business Continuity Manager and the implementation of robust testing scenarios to ensure a limited impact to operations in the event of a disaster.

• 5.7 Corporate social responsibility (CSR):

Bupa Arabia does not stand alone from its environment nor the society in which it operates and makes its living. Bupa Arabia is committed to sustainability, being a socially responsible partner and promoting good health in the Kingdom, at all levels in the organisation (Board, Executives and Employees).

In 2012 the Company maintained momentum on its CSR program, which has the ambition of covering all the orphans resident in the Kingdom with free quality health insurance. In 2012 the coverage was expanded from 400 orphans (in six sites) to 1,125 orphans (in sixteen sites). Bupa Arabia also looked to promote employee engagement in providing health education (i.e. oral hygiene), donation drives (clothes and toys), homecare services and check-up visits at the covered orphanages.

The Company and the Ministry of Health also collaborated by encouraging 4,000 people to walk inside Jeddah's largest mall in a "Walk your Heart" campaign during October 2012, to inspire people to walk towards a healthier lifestyle. Over 2,000 of the participants completed a 1,400 metre route in the mall and Bupa Arabia also donated SR50k to a charity as part of the campaign.

• 5.8 Shariah compliance developments:

During 2012 Bupa Arabia continued to develop its Shariah compliance agenda with the Shariyah Review Bureau. The Bupa Arabia bank accounts and financial investments have been confirmed to be in compliance with the required Shariah principles and Bupa Arabia is developing its policies and evaluating its contracts in support of achieving overall Shariah compliance in the future.

6. Bupa Arabia future prospects, risks and developments:

• 6.1 Competition and market dynamics:

The Saudi economy continued its strong performance in 2012 with a GDP growth rate of 6.8% (oil 5.5%, non-oil 7.2%). The Saudi government recently announced the biggest budget in the history of the Kingdom for 2013, up 19%, and continues to pursue diversification and sustainable growth with investments in infrastructure, education, healthcare and economic developments. This increased spending coupled with population growth is likely to have a positive backdrop on the health insurance market, from both increased demand and the expanding workforce subject to private medical insurance (PMI) regulations.

The Government is expected to spend approaching SR 100 billion on health and social affairs projects in 2013, an 18% p.a. growth since 2005. New projects include 19 new hospitals in addition to 102 already under construction. Additional supply for health care services will be crucial for meeting the health care demands of a growing population with such a high and rising incidence of chronic health outcomes.

The private sector share in the provider market remained flat at around 30% of the overall market. Going forward, the government and private sector will need to work closely in order to adequately meet the growing healthcare demand. The price war in medical insurance which started mid 2011 continued throughout 2012, with some competitors consistently under-pricing to win market share. This has damaged the industry profitability with the overall loss ratio rising 15% for two key competitors. However, we are encouraged by the recent tough stance, taken by regulators, towards unauthorised traders and predatory pricing which should help firm prices in 2013.

• 6.2 Provider capacity and quality:

There remains a genuine concern over the shortage of private capacity for clinical services in the Kingdom. Where there is full capacity, in any market, there is high risk that not all care providers will be sufficiently incentivized to give excellent customer service, appropriate and high quality clinical treatment, transparency of outcomes and value for money. In 2012 the Bupa Arabia network was enhanced by the addition of 142 new providers (mostly small clinics) offset by the closure/withdrawal of 38 providers, for various reasons ranging from license/going concern issues to problems of fraud and abuse in some cases.

Bupa Arabia has been concerned about the medical incidents which have closed, albeit temporarily, a few hospitals and clinics in the Kingdom. Additionally new capacity is either slow to come to market or faces regulatory hurdles in opening. Bupa Arabia is keen to see new Regulations that will encourage extra provider capacity to improve the overall outcome for patients in the Kingdom.

• 6.3 Financial strength:

The Company's objective is to provide the highest appropriate quality and cost effective care for its members. In so doing it also seeks to make a sustainable return such that it may invest in the future plus retain a solvent position to ensure that member liabilities are never at risk of default.

In 2012 Bupa Arabia continued to strongly underpin this objective. The Company maintained its loss ratio, giving full and fair coverage where due to its members. The Company also reported a growth in pre-tax/pre-zakat profits, up from SR42m in 2011 to SR134m in 2012, making Bupa Arabia the most profitable player in the health insurance sector. This was driven by a 12% increase in underlying profits, the release of no longer required doubtful debt provisions and a significant improvement in investment income.

Cash/Investments grew SR350m, an increase of 29%, from SR1,225m at the end of 2011 to SR1,575m at the end of 2012, and additionally the solvency position was restored (post Article 69) to a material surplus solvency position at the year-end, with the growth in cash/investments held mainly in admissible assets.

6.4 Healthcare specialist:

Bupa Arabia believes in principle that delivering for its customers requires focus, commitment and dedication to ensure a sustainable, affordable, quality delivery in alignment with changing customer needs.

As the only viable single line health insurer in the Kingdom Bupa Arabia seeks to bring the expertise of the Bupa Group (an International healthcare operator) to bear in constantly improving the medical outcomes for its members. Bupa Arabia will continue to introduce products and services that enable its members to feel understood, informed, guided and re-assured as to the right treatment, at the right time, in the right setting, by the right specialist and at an appropriate fee for their healthcare needs.

6.5 Risks:

The key risks that the company's management are actively managing, or planning to mitigate the impact of, are:

- * Irrational competitor pricing below claims costs
- * Overtreatment and fraudulent claims by providers
- * Continuously escalating prices by providers underpinned by the imbalance of supply and demand in the market
- * Regulatory delays regarding product approval, increased levies (VAT, Dahman Fund) and other
- * Availability of qualified professionals in a tight labour market
- * Zakat risk associated with long term Investment portfolios
- * Crisis management and disaster recovery capabilities

7. Financial statements presentation:

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

For comparative purposes the results contained within this Board Report use the twelve month period ended 18/02/1434 H, 31/12/2012 G as a comparative versus the results for the twelve month period ended 6/02/1433 H, 31/12/2011 G.

8. Unqualified opinion of the independent external auditors:

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

9. Bupa Arabia business results:

9.1 Summary profit results:

	2009 SR000s 12 months	2010 SR000s 12 months	2011 SR000s 12 months	2012 SR000s 12 months
Gross written premiums	1,347,337	1,749,390	1,993,251	2,194,301
Net earned premiums	1,205,351	1,608,908	1,927,629	2,128,028
Total revenue (insurance operations)	1,208,017	1,613,109	1,930,583	2,141,092
Gross claims paid	889,057	1,232,218	1,523,835	1,671,622
Net claims incurred	973,422	1,308,103	1,551,030	1,701,051
Total expenses (insurance operations)	175,073	223,888	324,649	296,227
Surplus from insurance operations	59,522	81,118	54,904	143,814
Shareholders' net income	57,732	70,798	42,244	134,406

Earned revenue increased by 10% and the net underwriting result by 13%. Excluding investment income, the bad debt provision release of SR20m (versus prior year bad debt provision expense of SR34m), and the 2011 year one-offs (Goodwill consideration fees of SR3.4m and the additional retrospective CCHI levies of SR5.2m) the "underlying" trading results for each of the respective years 2009 to 2012 would have been SR49.4m, SR76.0m, SR82.2m and SR91.7m respectively. The "underlying" trading result for 2012 therefore represents an increase of 12% versus the "underlying" trading result of 2011.

• 9.2 Summary balance sheets:

INSURANCE OPERATIONS' ASSETS	2009 SR000s	2010 SR000s	2011 SR000s	2012 SR000s
Cash and cash equivalents	444,162	346,908	551,914	204,533
Murabaha deposits	-	-	58,000	732,340
FVIS investments	-	257,178	187,699	87,821
Prepayments and other assets	28,823	20,881	30,069	23,786
Premiums receivable - gross	427,197	520,004	403,936	279,807
Allowance for doubtful premiums receivable	(19,799)	(30,164)	(64,106)	(44,548)
Premiums receivable - net	407,398	489,840	339,830	235,259
Deferred policy acquisition costs	14,764	15,470	21,097	22,535
Total insurance operations' assets	895,147	1,130,277	1,188,609	1,306,274
SHAREHOLDERS' ASSETS	2009 SR000s	2010 SR000s	2011 SR000s	2012 SR000s
Cash and cash equivalents	308,789	13,631	13,631	13,631
FVIS investments	-	299,462	373,534	497,158
Other receivables	613	-	244	735
Amount due from insurance operations	39,580	48,761	-	-
Goodwill	98,000	98,000	98,000	98,000
Furniture, fittings and equipment	21,025	38,703	41,565	48,918
Statutory deposit	40,000	40,000	40,000	40,000
Total shareholders' assets	508,007	538,557	566,974	698,442
TOTAL ASSETS	1,403,154	1,668,834	1,755,583	2,004,716
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS	2009 SR000s	2010 SR000s	2011 SR000s	2012 SR000s
Unearned premiums	522,517	659,819	722,739	786,669
Outstanding claims	275,259	352,379	381,265	413,509
Reinsurance balance payable	89	1,269	702	443
	797,865	1,013,467	1,104,706	1,200,621
Accrued expenses and other liabilities	51,750	50,508	59,503	63,619
Obligation under Long-Term Incentive Plan (LTIP)	-	3,477	4,846	8,099
	849,615	1,067,452	1,169,055	1,272,339
Amount due to shareholders' operations	39,580	48,761	-	-
Policyholders' share of surplus from insurance operations	5,952	14,064	19,554	33,935
Total insurance operations' liabilities and surplus	895,147	1,130,277	1,188,609	1,306,274
SHAREHOLDERS' LIABILITIES AND EQUITY	2009 SR000s	2010 SR000s	2011 SR000s	2012 SR000s
Accrued expenses and other liabilities	11,336	13,855	21,352	26,532
Accrued Zakat and income tax	10,318	7,905	15,437	30,306
Amount due to a related party in respect of goodwill	49,000	20,990	3,355	3,355
Amount due to related parties	-	2,818	4,400	4,041
Total shareholders' liabilities	70,654	45,568	44,544	64,234
Share capital	400,000	400,000	400,000	400,000
Shares held under Employees' Share Scheme	-	(2,709)	(2,910)	(4,988)
Statutory reserve	9,534	23,694	32,143	59,024
Retained earnings	27,819	72,004	93,197	180,172
Total shareholders' equity	437,353	492,989	522,430	634,208
Total shareholders' liabilities and equity	508,007	538,557	566,974	698,442
TOTAL LIABILITIES INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY	1,403,154	1,668,834	1,755,583	2,004,716

Investments and cash have grown significantly over the period and during 2012 increased to SR1,575m from SR1,225m at the end of 2011 (an increase of SR350m, +29%). The growth in cash, during the year, has been achieved mainly through the successful transition to new customer payment terms, an insurance industry initiative commenced during 2011 in response to regulatory changes relating to bad debt provision requirements.

10. Bupa Arabia financial highlights:

• 10.1 Summary key performance indicators:

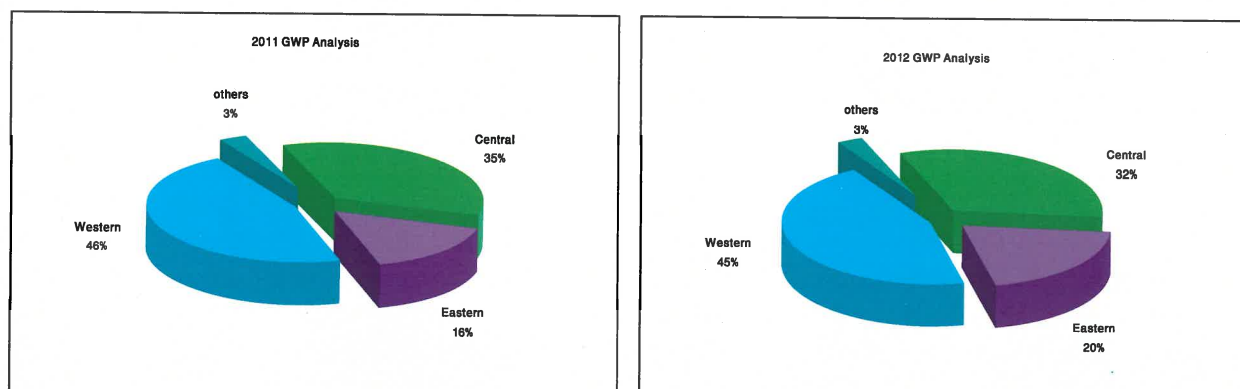
	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Gross written premiums	1,993,251	2,194,301	201,050	10%
Net earned premiums	1,927,629	2,128,028	200,399	10%
Total expenses	331,565	301,322	(30,243)	(9%)
Total operating expense ratio	17.2%	14.2%	(3.0%)	(18%)
Surplus of insurance operations	54,904	143,814	88,910	162%
Policyholders' share of insurance operations' surplus	5,490	14,381	8,891	162%
Net shareholders' income	42,244	134,406	92,162	218%
Weighted average no of ordinary shares (thousands)	39,865	39,843	(22)	0%
Basic earnings per share (Saudi Riyals)	1.06	3.37	2.31	218%

In 2012 the Company sustained its growth momentum and revenue earned improved by 10%, despite difficult market conditions arising from unfavourable competitor activity on price throughout the year. The increased earned combined with the improved loss ratio (claims to earned) resulted in an increase in the underwriting result of SR50m, +13%. The overheads of the business decreased year on year as a result of a release in the required allowance for doubtful debts (regulatory driven increase during 2011). Excluding the doubtful debts' provision movement overheads increased versus the prior year due to the full year costs of the prior year infrastructure and resource capability build and the current year additional costs associated with the increased volume of customers and extra investment in capability (distribution, brand, infrastructure, operations and other key activities).

• 10.2 Gross written premiums (GWP) and geographical analysis:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Central	689,197	706,301	17,104	2%
Eastern	327,542	446,919	119,377	36%
Western	921,665	980,019	58,354	6%
Other	54,847	61,062	6,215	11%
Total gross written premiums	1,993,251	2,194,301	201,050	10%

The written premium increased by 10% to SR2.194m as a result of continued strong sales performance in both new and renewal business. The Company writes only health insurance business in Saudi Arabia and its revenue is currently concentrated predominantly in the main Central, Western and Eastern regions of the country. As illustrated by the results the 2012 geographical gross written premium mix is very similar to that of 2011 with a slight mix increase in the Eastern region.



• 10.3 Net claims incurred:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Net claims incurred	1,551,030	1,701,051	150,021	10%

The increase in net claims incurred was due to business growth and medical inflation.

• 10.4 Total operating expenses:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Insurance operations' operating expenses	324,649	296,227	(28,422)	(9%)
Shareholder operations' operating expenses (G&A)	6,916	5,095	(1,821)	(26%)
Total operating expenses	331,565	301,322	(30,243)	(9%)
Total operating expense ratio to earned	17.2%	14.2%	(3.0%)	(18%)

The total operating expense ratio, to earned, at 14.2%, was an improvement versus the previous twelve month period at 17.2% and was mainly driven by the partial release of the additional prior year required allowance for doubtful debts. The total operating expense ratio of 14.2% represents an improvement versus the 14.3% of 2010 (prior to the changed regulatory requirement of doubtful debt provisioning). The reduction in the Shareholder operations' operating expenses was mainly due to the 2011 year one-off cost associated with the goodwill consideration fees, of SR3,355k, but compensated by increased costs, versus the prior year, relating to the Company's 2012 strategy review process. The increase in the Insurance Operations' expenses is further described in section 10.5.

• 10.5 Total insurance operations' operating expenses:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
CCHI and SAMA levies	35,124	32,915	(2,209)	(6%)
Bad debt provision (release)/expense	34,122	(19,551)	(53,673)	N/A
Other sales and marketing expenses	112,923	125,299	12,376	11%
Total S&M expenses-Insurance operations	182,169	138,663	(43,506)	(24%)
Total G&A expenses-Insurance operations	142,480	157,564	15,084	11%
Total Insurance operations operating expenses	324,649	296,227	(28,422)	(9%)

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

- The 2012 CCHI and SAMA levies reduced versus the prior year as the expense for the twelve month period ended 31/12/2011 included a retrospective CCHI levy, for the 2009 year, of SR5,225k. The reduction during 2012 is less than the SR5,225k due to the additional levy arising from the higher written premium of 2012.
- The decrease in the allowance for doubtful premiums receivable, for the twelve month period ended 31/12/2012, was due to 2012 completion of the changed customer payment terms transition, driven by the 2011 changed Article 69 interpretation enforcement, from an invoiced aged basis to a written inception aged basis (as per the SAMA regulations).
- The increase in the other Sales and Marketing expenses was due to increased marketing spend, staff costs and commissions in support of the brand development and extending the Company's retail distribution.

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

The Insurance operation's general and administration expense increase during the year related mainly to the full year staff and infrastructure costs relating to the prior year capability build, and the current year additional expenditure incurred due to enhancing the organisational capability in support of the Company's customer growth and strategic initiatives.

• 10.6 Surplus from insurance operations:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Surplus from insurance operations	54,904	143,814	88,910	162%

The increase in the surplus from insurance operations was mainly due to the release of the no longer required allowance for doubtful premiums receivable (a year on year improvement impact of SR54m), an increase in underwriting contribution of SR50m and an increase in insurance operation's investment income of SR10m. These gains were partially offset by an increase in operating expenses as described in sections 10.4 and 10.5.

• 10.7 Investment income:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Insurance operations' investment income	2,341	12,635	10,294	440%
Shareholder operations' investment income / (loss)	(254)	10,068	10,322	4,064%
Total investment income	2,087	22,703	20,616	988%

Investment income during the year increased versus the previous year as a result of an increased average cash balance due to the more up-front payments. Additionally there was increased market stability and improved interest rates. The prior year investment results also contained a one-off SR5m equity exit loss.

• 10.8 Net shareholders' income:

Description	2011 SR000s (12 Months)	2012 SR000s (12 Months)	2012 Change SR000s	2012 Change %
Net shareholders' income	42,244	134,406	92,162	218%

The increase in the net shareholders' income for the twelve month period was driven mainly by the increased surplus from insurance operations as a result of the decrease in the allowance for doubtful premiums receivable and the improvement in net underwriting result but partially offset by the increased costs associated with increasing the organisation capabilities, including the expansion of distribution channels. In addition, as a result of the higher surplus from insurance operations, the Policyholders share of the surplus from insurance operations (the Cooperative Distribution expense) increased by SR9m versus the previous year.

• 10.9 Summary statement of financial position:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Insurance operations' assets	1,188,609	1,306,274	117,665	10%
Shareholder operations' assets	566,974	698,442	131,468	23%
Total assets	1,755,583	2,004,716	249,133	14%
Insurance operations' liabilities and surplus	1,188,609	1,306,274	117,665	10%
Shareholders' liability	44,544	64,234	19,690	44%
Shareholders' equity	522,430	634,208	111,778	21%
Total liabilities, surplus and shareholders' equity	1,755,583	2,004,716	249,133	14%

The increase in liabilities during the twelve month period was due mainly to an increase in the technical reserves and this was driven by the growth in written premiums during the twelve month period.

During 2012 the Company generated SR358,936k (2011: SR303,953k) of net cash from its operating activities, SR335,119k and SR23,817k from insurance operations and shareholder operations respectively, (2011: SR269,006k and SR34,947k respectively).

• 10.10 Total assets:

Description	2011 SR000s at 31/12/11	2011 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Total assets	1,755,583	2,004,716	249,133	14%

The increase in total assets during the twelve month period was due mainly to the net increase of cash and cash equivalents/ investments (a combined net increase of SR350,705k) but offset by a reduction in net premiums receivable of SR104,571k.

• 10.11 Cash and cash equivalents:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Insurance operations' cash and cash equivalents	551,914	204,533	(347,381)	(63%)
Insurance operations' murabaha deposits	58,000	732,340	674,340	1,163%
Shareholder operations' cash and cash equivalents	13,631	13,631	-	0%
Total cash and cash equivalents	623,545	950,504	326,959	52%

The increase in cash and cash equivalents was due mainly to the completion of the transition to the more up front customer payments, driven by the prior year changed regulatory requirements, resulting in a reduction in net premiums receivable during the year.

• 10.12 Investments:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Insurance operations' investments	187,699	87,821	(99,878)	(53%)
Shareholder operations' investments	373,534	497,158	123,624	33%
Total investments	561,233	584,979	23,746	4%

The original SR550 million investment placement remains under the management of the same external third party as originally approved by the Board and Investment Committee during 2010. An amount of SR113 million (2011: 75 million) was payable to the shareholders' operations by insurance operations and was settled by transfer of investments of an equivalent amount to shareholders' operations as at 31/12/2012.

• 10.13 Total premiums receivable, net:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Total premiums receivable, net	339,830	235,259	(104,571)	(31%)

The reduction in total net premiums receivable was due to the completion of the transition to the more up front based, customer payment terms introduced into the market place by the insurance industry, during the third quarter of 2011, as a result of the regulatory changed Article 69 interpretation, which was enforced from 01/01/2011. The reduction of the total net premiums receivable was achieved despite the regulatory required removal of suspension processes, from credit control/ cash collection processes, during the year.

• 10.14 Technical reserves:

Description	2011 SR000s at 31/12/11	2012 SR000s at 31/12/12	2012 Change SR000s	2012 Change %
Unearned premium reserves	722,739	786,669	63,930	9%
Claims reserves	381,265	413,509	32,244	8%
Technical reserves	1,104,004	1,200,178	96,174	9%

The growth in the technical reserves is mainly due to the growth in the written premium of 10%. The unearned premium reserves at 31/12/2012 represent 35.9% of the annual gross written premium (versus 2011 at 36.3%) and the claims reserves represent 24.3% of the annual net claims incurred (versus 2011 at 24.6%). The claims reserves have been verified as accurate, at 31/12/2012, by an independent actuary.

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

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

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

12. Key sales, operations and other functional activities:

• 12.1 Sales and marketing:

Bupa Arabia continued to strengthen its distribution capability in 2012, mainly through the growth of field salesmen and the number of retail outlets. Revenue growth (written and earned) was 10% up on the prior year, against an overall market growth estimated at approximately 13%. So, despite the intense price discounting in the market place, Bupa Arabia was successful in capturing a healthy share of this without destroying its margin.

The Company continues to focus on creating valued products and services that yield a positive healthcare outcome for its members. In 2012 Bupa Arabia started the following services:

- i. Providing access to any members who want to speak to a specialized Doctor,
- ii. Pro-actively calling inpatient members and reviewing with them the quality of care they are receiving while still in the hospital,
- iii. Profiling hospitals based on quality of service and medical care standards,
- iv. A Medical helpline to coach members on specific conditions at their request.

To communicate the Bupa Arabia healthcare proposition effectively Bupa Arabia developed a new television commercial which reflects the unique Bupa Arabia positioning. This commercial aired on regional and local channels in Saudi Arabia during December 2012. It can also be viewed on the Bupa Arabia website or on the You Tube channel.

2012 witnessed the real start of the Bupa Arabia Social Media presence and journey to expand the channels of communication with all its customers. Bupa Arabia is now actively present on Facebook, Twitter and You Tube and is providing a daily interaction and engagement with all customers. In September 2012 Bupa Arabia also revamped its website to offer customers a significantly improved on-line experience and offering.

• 12.2 Operations management and customer service:

Bupa Arabia continues to invest in its service delivery by enhancing its capabilities, systems and service proposition, aligned with a high performance culture and service excellence mindset (with the continuation of the "Up Your Service Passion" program launched in 2011).

The Company has designed and built six major voice-of-the-customer channels in order to listen pro-actively to members, customers and providers to address each of their issues. Bupa Arabia also provided a service education program to more than 200 front line staff, introduced better IVR call routing, enhanced its provider network (by over a hundred for Retail customers) and improved its issues resolution capability.

Bupa Arabia continues to regularly benchmark against the competition at all the touch points of the customer journey to identify innovation and differentiation opportunities. The Company has expanded the number of Service Delegates based in hospitals to seventeen, introduced Roving Service agents and has conducted structured forums with major providers to discuss Pre-authorization and claims issues.

• 12.3 Bupa Arabia's people:

Bupa Arabia believes in the value of a healthier and more engaged workforce, and the "service profit chain". The Company believes that engaged, positive employees will better serve our customers and drive business growth and success.

To ensure Bupa Arabia attracts, retains, motivates and develops its people effectively, Bupa Arabia implemented a number of initiatives during 2012. The Company implemented a new talent management process, received Board approval for a new and competitive remuneration structure (after a comprehensive review by Mercer) and also implemented an updated Human Resources Policy to streamline processes and enhance alignment with market norms. Bupa Arabia also conducted its Global People Survey in the fourth quarter of 2012, to measure employee engagement, and action plans arising from these insights will be formalised in early 2013.

From surveys that were conducted in late 2011, Bupa Arabia won the following awards early in 2012:

- Best Call Centre in the Middle East Award
- Best Saudi Company to Work For - female category
- 3rd Best Saudi Company to Work For - Insurance and Financial Services Sector.

Bupa Arabia's employment levels, during 2012, remained flat, broadly in line with 2011, at just below 900 employees, having grown significantly in the preceding years to support business growth and enhance capability. Despite an increase in membership levels during 2012, Bupa Arabia managed to be more effective without having to increase the number of its employees during the year.

• 12.4 Projects and information technology (IT):

The company continues to invest in its IT systems and capabilities to ensure it has the services and scale-ability to meet future customer needs.

- Core systems - Early in 2012, the Company reviewed its IT strategy and set a direction for the coming three years for its IT systems. Bupa Arabia will continue to continuously assess its IT capabilities and will upgrade/scale up in accordance with business growth projections and capability requirements.
- Digital services - Bupa Arabia launched several initiatives during the year and which included:
- SADAD - New functionality for customers to pay online
- Yaqeen - The ability for the Bupa Arabia team to improve service by verifying information submitted from customers to avoid rejected transactions from CCHI.
- Mobile applications - implemented 3 mobile applications, Bupa Access V2, Step Counter and Diabetes management.
- On-line services - improved the look and feel and the usability of the on-line services. Enhancements included the ability for VIP members to book a hospital appointment and for members to chat with a Bupa Doctor over the web.

13. Additional disclosures (in accordance with laws and regulations):

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

During the year the Board of Directors consisted of the following members and their membership in the Boards of other joint stock companies was as detailed within the table below. The Non-Executive Board members representing Bupa Investments Overseas Limited resigned during the year and the approval of the proposed replacements is currently pending SAMA approval (refer section 13.2 for further details).

Membership	Director name	Membership of other joint stock company Boards
Non-Executive	Eng. Loay Hisham Nazer	Not applicable
	Mr. William Stephen Ward (resigned 11/12/2012)	Not applicable
	Mr. Dean Allan Holden (resigned 11/12/2012)	Not applicable
	Mr. Ignacio Ereno Iribarren (resigned 11/12/2012)	Not applicable
Independent	Mr. Aamer Abdullah Ali Reza	Saudi Industrial Services Company (SISCO)
	Mr. Abdulhadi Ali Saif Shayif	Saudi Hollandi Bank, The Arabian Cement Company
	Mr. Saleh Nasser Al-Jasser	Etihad Etisalat Company, Saudi Research and Marketing Group
Executive	Mr. Tal Hisham Nazer	Not applicable

• **13.2 Board of director changes during the year:**

The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the foreign shareholder's (Bupa Investment Overseas Limited) request to change its representatives on the Board and accepted the resignations of its existing Board representatives effective from 27/01/1434 H, 11/12/2012 G. The Board approved the proposed replacement Board members, subject to the approval of SAMA, and subject to the approval of the Annual General Assembly meeting. Once appointed the new Board members will complete the three year Board cycle which commenced during 2011.

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

The table below details salaries, emoluments, allowances and bonuses received by board members and the top five senior executives, which includes the CEO and CFO, from 01/01/2012 to 31/12/2012:

Description	Executive Member	Non-Executive Members / Independents	Five senior Executives including CEO and CFO
Salaries and emoluments	120	924	7,417
Board Allowances	27	150	-
Bonuses	-	-	2,190
LTIP and EOS	-	-	2,913
Total SRO00s	147	1,074	12,520

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

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

The Bupa Arabia equities held by the Board members, and their immediate family members, of Bupa Arabia are as detailed below at 31/12/2012:

Interest of the Company's Board members and their spouses and minor children in the shares or debt instruments of the Company or any of its subsidiaries

Name of Director	Opening 31/12/2011		Closing 31/12/2012		change	
	No of shares	Debt Instruments	No of shares	Debt Instruments	In shares	%
Eng. Loay Hisham Nazer	10,850	-	10,850	-	-	-
Mr. Tal Hisham Nazer	91,500	-	1,000	-	(90,500)	-99%
Mr. Aamer Abdullah Ali Reza	6,000	-	6,000	-	-	-
Mr. Abdulhadi Ali Saif Shayif	75,025	-	75,025	-	-	-
Mr. Saleh Nasser Al-Jasser	100,000	-	41,450	-	(58,550)	-59%
Mr. Dean Allan Holden (to 11/12/2012) (Representative of Bupa Investments Overseas Limited)	-	-	-	-	-	-
Mr. William Stephen Ward (to 11/12/2012) (Representative of Bupa Investments Overseas Limited)	-	-	-	-	-	-
Mr Ignacio Ereno Iribarren (to 11/12/2012) (Representative of Bupa Investments Overseas Limited)	-	-	-	-	-	-

Bupa Investments Overseas Limited has registered 1,000 shares with the CMA for each Board member as guaranteed shares for its representatives on the Bupa Arabia Board (as required by the CMA regulations). The shares reflected as opening shares for Mr. Abdulhadi Shayif are shares which were already owned by Mr. Abdulhadi Shayif prior to his commencement of term period as Director of Bupa Arabia.

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

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

Interest of the Company's Senior Executive and their spouses and minor children in the shares or debt instruments of the Company or any of its subsidiaries						
Name of Director	Opening 31/12/2011		Closing 31/12/2012		change	
	No of shares	Debt Instruments	No of shares	Debt Instruments	In shares	%
Mr. Fraser David Gregory	7,000	-	7,000	-	-	100%

• 13.6 Description of any interest in a class of voting shares held by other persons:

Other than the equities and interests of the Board members and their immediate family members, and the equities and interests of the senior executives and their immediate family members, as detailed within the preceding sections 13.4 and 13.5, Bupa Arabia is not aware of any other interest in a class of voting shares held by persons that have notified Bupa Arabia of their holdings pursuant to Article 45 of these rules.

• 13.7 Board meetings and attendances:

Director name and period	Position	Membership	Board 1 3/04/2012	Board 2 19/06/2012	Board 3 03/01/2012	Board 4 11/12/2012
Eng. Loay Hisham Nazer (full year)	Member	Non-Executive	Y	Y	Y	Y
Mr. Tal Hisham Nazer (full year)	Member	Executive	Y	Y	Y	Y
Mr. Aamer Abdullah Ali Reza (full year)	Member	Independent	N	Y	Y	Y
Mr. Saleh Nasser Al-Jasser (full year)	Member	Independent	Y	N	Y	Y
Mr. Abdulhadi Ali Saif Shayif (full year)	Member	Independent	Y	Y	Y	Y
Mr. Dean Allan Holden (to 11/12/2012)	Former Member	Non-Executive	Y	Y	Y	N
Mr. William Stephen Ward (to 11/12/2012)	Former Member	Non-Executive	Y	Y	Y	N
Mr. Ignacio Ereno Iribarren (to 11/12/2012)	Former Member	Non-Executive	Y	N	N	Y

• 13.8 Major board resolutions during the year:

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

- The Investment Strategy, change in delegation of authority to the Investment Committee, and Investment Policy, subject to the approval of SAMA.
- A variety of policies and/or procedures including:
 - * Conflict of Interest Policy and Procedure,
 - * Financial Crime Policy,
 - * Risk Management Framework, Risk Management Policy and Risk Appetite Statements,
 - * A new staff compensation framework.
- The approval of the changes to the Board Committees' Terms of references, as recommended by the individual Committees, subject to the Ordinary General Assembly Meeting approval,

- The approval of the conflicts of interest of the Board members: Eng. Loay Nazer and Mr. Tal Nazer, arising from the ownership of Nazer Group Limited in the shareholding of Bupa Middle East Holdings Two W.L.L., TRACCs and Al Majd Al Rraqi Company for Medical Care and Health Services Limited, of Mr. Abdulhadi Shayif arising from his shareholding in the Shariyah Review Bureau, and of the representatives of Bupa Investments Overseas Limited arising from the Bupa Investments Overseas Limited shareholding in Bupa Middle East Holdings Two. W.L.L., all subject to the Ordinary General Assembly Meeting approval,
- The appointments of Mrs. Elizabeth Alison Platt and Mr. James Gordon Wheaton, to the Executive Committee, in place of Mr. Dean Allan Holden and Mr. William Stephen Ward, for the remainder of the term,
- The appointment of Mr. James Gordon Wheaton, to the Nomination and Remuneration Committee, in place of Mr. William Stephen Ward, for the remainder of the term,
- The appointment of Mr. Saleh Al-Jassar, as Chairman of the Investment Committee, in place of Mr. Hossam Radwan, for the remainder of the term,

• 13.9 General assembly meetings during the year:

Bupa Arabia's Annual Ordinary General Assembly Meeting (the fifth Ordinary General Assembly Meeting) of the shareholders convened on 12/05/1433 H, 4/04/2012 G, during which the following outcomes were concluded:

- The approval of the Board of Directors report for the year ended 6/01/1433 H, 31/12/2011 G (12 months),
- The approval of the Financial Statements, and the report of the external auditors, for the year ended 6/01/1433 H, 31/12/2011 G (12 months),
- The absolving of the Board of Directors of their legal and financial responsibility for managing the company for the year ended 6/01/1433 H, 31/12/2011 G (12 months),
- The approval of the selection and appointment of the joint external auditors (Ernst & Young and KPMG Al Fozan & Al Sadhan), and the audit fees, for the company's financial statements for the year ending 18/02/1434 H, 31/12/2012 G, in line with the recommendation of the Audit Committee,
- The approval of the ratification of business and contracts where a board member has a direct or an indirect interest, with respect to the TRACCs conflict of interest of the Board members related to the Nazer Group Limited,

• 13.10 Insurance contracts with companies related to Board members:

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

• 13.11 Other contracts with companies related to Board members:

During the financial period the Company contracted with Trans-Arabian Creative Communications (TRACCs) for public relations services. TRACCs is a company in which the Nazer Group Limited has a stake holding of forty-five percent. The Company confirms that proper arm's length tendering processes for the services took place and that the expense of the Company, with TRACCs, amounted to SR221k during the 2012 financial year (2011 SR177k). The contractual arrangement was approved during the 2011 Annual Ordinary General Assembly meeting which took place during 2012. Its approval will also form part of the 2012 Annual Ordinary General Assembly meeting, which will take place during 2013, for the approval of the shareholders (in accordance with Article 18 of the CMA Corporate Governance regulations) and will be provided to the Bupa Arabia Board of Directors for approval during 2013 (the related party Board members will not vote on this matter). The External Auditors will be requested to provide a full report on this agreement and this will be presented to the 2012 Annual Ordinary General Assembly meeting during 2013.

During the financial period the Company contracted with a Dammam based provider of dialysis services, Al Majd Al Rraqi Company for Medical Care and Health Services Limited (a company providing services associated with Diaverum), and which is owned ninety-eight percent by the Nazer Group Limited and two percent by Eng. Loay Nazer. Al Majd Al Rraqi Company for Medical Care and Health Services Limited provided dialysis services to five Bupa Arabia patients at a cost estimated at SR150k for 2012. Bupa Arabia confirms that the contract was priced on an arms-length basis and in line with the same procedures as the Company's other hospital providers and clinics. The Company further confirms that the contract carries no special arrangements with regard to any additional special benefits and nor are they entitled to, nor receive, any services or support different to that which is provided to any of the Company's other hospital providers and clinics.

Mr. Abdulhadi Shayif, independent Board member, owns a one percent stake holding in the Shariah Review Bureau (SRB), the Shariah review company contracted to by Bupa Arabia and which represented an operating expense to Bupa Arabia in 2012 of SR150k paid to the SRB for the 2012 year.

In accordance with the approval of the Ordinary General Assembly Meeting held on 19/09/1430 H, 9/09/2009 G, which authorised the Company to enter into a Brand Licence Agreement with Bupa or its relevant subsidiary, and authorised the Board to approve the terms and conditions of such agreement, including the financial consideration payable to the licensing company, during 2010 the Company entered into an agreement with the related party, Bupa Middle East Holdings Two W.L.L., a joint venture company owned fifty per cent by each of Nazer Group Limited and Bupa Investments Overseas Limited, for obtaining a license to use the trade marks (the word Bupa with or without logo) of the related party. As per the terms of the agreement the related party receives an amount equal to a fixed percentage of gross premiums earned, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee. During 2012 the trade mark fee payable amounted to SR2,130k, compared to 2011 of SR1,930k.

The above contractual arrangements were approved by the Board of Directors during 2012 (the related party Board members did not vote on these matters) and will be presented to the 2012 Annual Ordinary General Assembly meeting, which will take place during 2013, for approval.

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

• **13.12 Change in the composition of the Bupa Arabia major founding shareholders:**

In the interest of enhancing the utilization and returns on its capital Bupa Middle East Holdings W.L.L. (a shareholder in Bupa Arabia and which is owned 50% by Bupa Investments Overseas Limited and 50% by Nazer Group Holding Company Limited) transferred its entire 22.5% shareholding in Bupa Arabia, through a transfer of 11.25% to each of Bupa Investments Overseas Limited and Nazer Group Holding Company Limited, and its wholly owned subsidiaries namely ASAS Healthcare Company Limited and Modern Computer Programs Company Limited (all of which are shareholders in the Company).

The receipt of the 11.25% shareholding of Bupa Arabia, by each of Bupa Investments Overseas Limited and the Nazer Group Holding Company Limited and its wholly owned subsidiaries, leaves the overall shareholding in Bupa Arabia of each of Bupa Investments Overseas Limited and the Nazer Group Holding Company Limited unchanged at the same 26.25% each as was the position prior to the transfer of the Bupa Middle East Holdings W.L.L. shareholding.

The Company's major founding shareholder ownership composition changes, after the transfer of the Bupa Middle East Holdings W.L.L. shareholding, are as follows:

- a) Bupa Middle East Holdings W.L.L.: previous shareholding of 22.5% (9,000,000 shares), transferred shareholding of 22.5% (9,000,000 shares), new shareholding of 0% (nil shares),
- b) Bupa Investments Overseas Limited: previous shareholding of 15% (6,000,000 shares), additional shareholding of 11.25% (4,500,000 shares), new shareholding of 26.25% (10,500,000 shares),
- c) Nazer Group Holding Company Limited: previous shareholding of 5% (2,000,000 shares), additional shareholding of 4% (1,600,000 shares), new shareholding of 9% (3,600,000 shares),
- d) ASAS Healthcare Company Limited: previous shareholding of 5% (2,000,000 shares), additional shareholding of 3.25% (1,300,000 shares), new shareholding of 8.25% (3,300,000 shares),
- e) Modern Computer Programs Company Limited: previous shareholding of 5% (2,000,000 shares), additional shareholding of 4% (1,600,000 shares), new shareholding of 9% (3,600,000 shares),
- f) The increases in shareholdings as detailed within points c, d and e result in an increase in the shareholding of the combined Nazer Group Holding Company Limited shareholding (directly and through its subsidiaries (ASAS Healthcare Company Limited and Modern Computer Programs Company Limited)) of 11.25% (4,500,000 shares), a new combined shareholding of 26.25% (10,500,000 shares),

The summary change, in the composition of the Bupa Arabia major founding shareholders during 2012, is reflected within the table below:

Shareholder	Before	Change	After
Bupa Middle East Holdings W.L.L.	22.50%	(22.50%)	0.00%
Bupa Investments Overseas Limited	15.00%	11.25%	26.25%
Nazer Group Limited	5.00%	4.00%	9.00%
ASAS Healthcare Company Limited	5.00%	3.25%	8.25%
Modern Computer Programs Company Limited	5.00%	4.00%	9.00%
Total Nazer Group Limited and subsidiaries	15.00%	11.25%	26.25%

14. Other disclosures in accordance with laws and regulations:

• 14.1 Provision of corporate governance:

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

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

• 14.2 Corporate governance and risk management:

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

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

During 2012, predominantly as a result of the changes in the Board of Directors, the membership of the Executive, Investment, and Nomination and Remuneration Committees changed compared to 2011. The 2012 membership changes and the activities of the different Board Committees, and independent control functions, are summarised below:

• 14.3 Audit Committee and internal controls:

Audit Committee Purpose	Member Names	Meetings
<p>The purpose of the Audit Committee is to ensure the integrity of the Company's financial statements, to review and, where appropriate, make recommendations to the Board on internal financial controls, internal audit, compliance, and to review the external audit process and external auditors' performance. The Audit Committee approves the annual internal audit and compliance inspection plans. The Audit Committee will also have oversight, through the company's Risk and Compliance Committee (R&CC), for ensuring that the company's risk management processes, and procedures, are adequate and effective, particularly with regard to the impact on the company's financial reporting and its code of business conduct. In performing its duties the Audit Committee will maintain effective working relationships with the Board of Directors, management, the Risk and Compliance Committee and the external and internal auditors.</p>	<p>Mr. Abdulhadi Shayif (Chairman) Mr. James Wheaton Mr. Simon Granville</p>	<p>The Audit Committee convened five (5) times during 2012</p>

During 2012 the Audit Committee membership remained the same as per 2011, with Mr. Abdulhadi Shayif (independent Board member) as its Chairman.

- **The Risk and Compliance Committee (R&CC)** is a sub-committee of the Audit Committee and its members are the chief executive team of the business. The Chief Financial Officer is the Chairman of the R&CC. The purpose of the committee is to ensure that Bupa Arabia adopts a robust, consistent, proportionate and cost effective approach towards the identification, analysis and control of the key risks that could threaten the Company. This committee supports the Audit Committee by giving a dedicated focus to embedding effective policies and procedures into the organisation regarding Internal Audit, Risk Management and Regulatory Compliance. Additionally this committee has oversight of Business Continuity and Disaster Recovery Planning, Health and Safety, Financial Crime and Anti-Bribery/corruption. The Compliance Officer and the Internal Audit Services Manager both formally report to the Chairman of the Audit Committee to ensure appropriate independence. The R&CC met four times during 2012.
- **Internal Audit Services (IAS)** - The IAS department completed a number of varied internal audits during the year, covering the majority of operational processes/controls and recommendations arising were thereafter monitored by the IAS department for implementation and its reports were communicated and reviewed by the Audit Committee, and the R&CC, and also discussed at the Committee meetings. Recommendations arising were thereafter monitored by the IAS department for implementation.
- **Compliance** - The Compliance department completed a number of varied internal inspections during the year, covering key processes/controls and recommendations arising from the same were thereafter monitored by the Compliance department for implementation.
- **Risk Management** - the Company, through the Finance Reporting & Control Department's Risk Officer, undertakes a formal structured risk review process which comprises a Quarterly Risk Assessment (QRA) of the business risks for reviewing the risk items, the risk materiality, the appropriateness of existing mitigating controls and for setting risk action plans where risk mitigation controls are considered inadequate. The QRA process followed by the Company is part of the Bupa Group worldwide standard and four QRAs were completed during 2012 with risk recommendations arising progressed. The key risks that management are currently reviewing and managing closely are itemised in section 6.5.
- The reports, findings and recommendations arising from the activities of each of the internal audit, compliance and risk management processes are communicated to the external Audit Committee as well as the R&CC. Key issues and actions arising are formally discussed during the Audit Committee, and R&CC, meetings and progress against required completion of recommendations monitored.

•14.3.1 Results of the annual audit of the effectiveness of the internal control procedures:

- The IAS department successfully concluded a variety of internal audit assignments, in accordance with the approved 2012 IAS schedule, and amongst which the more significant areas covered were:
 - Corporate pricing processes for new & renewal business,
 - Premium collection, cash allocation and credit control processes and procedures,
 - Company expense payment and approval processes,
 - Customer calls and complaints handling processes,
 - Corporate sales processes for new business and renewals,
 - Purchase and procurement processes including fixed assets,
 - Recruitment processes,
 - Hospital audit doctor processes and activities (roving doctor).

The overall findings of the IAS department, based on its internal audits completed during 2012, were that the internal control procedures were effective.

- The results of the annual external audit, as performed by the joint external auditors, of the effectiveness of the internal control procedures of the Company, found that Bupa Arabia's internal control procedures and independent control functions are effective. There were no significant audit adjustments required and no material weaknesses in internal controls identified. This outcome illustrates that the internal control and risk management procedures followed by the Company are appropriate and effectively executed in a manner so as to ensure the accuracy of financial reporting, and also compliance with regulations.

• 14.4 Executive Committee:

Executive Committee Purpose	Member Names	Meetings
The purpose of the Executive Committee is to set the annual income target of Bupa Arabia which is thereafter ratified by the Board. The Executive Committee supports the Board with the management of the business through the review, and monitoring, of all aspects of the operational performance of the company on a monthly basis (to ensure that there are no barriers to achieving the objectives set). It also reviews and approves, as required per its terms of reference, certain aspects of a commercial nature, and ensures the company is fully compliant with all regulatory requirements.	Eng. Loay Nazer (Chairman) Mrs. Elizabeth Alison Platt Mr. James Gordon Wheaton Mr. Tal Nazer	The Executive Committee convened ten (10) times during 2012

The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the appointments of Mrs. Elizabeth Alison Platt and Mr. James Gordon Wheaton, to the Executive Committee, in place of Mr. Dean Allen Holden and Mr. William Stephen Ward, for the remainder of the term,

• 14.5 Nomination and Remuneration Committee:

Nomination and Remuneration Committee Purpose	Member Names	Meetings
The purpose of the Nomination and Remuneration Committee is to provide approvals for the remuneration packages (including bonuses, long term incentives and salary inflation related increases) of the CEO and other senior executives. The committee also reviews and approves the rules of the company bonus/incentives/long term incentive plans and payments. Additionally, the committee supervises the recruitment of key managerial positions, approves the human resources policies and procedures and makes recommendations regarding Board and Committee appointments.	Eng. Loay Nazer (Chairman) Mr. James Gordon Wheaton Mr. Aamer Ali Reza Mr. John Handley	The Nomination and Remuneration Committee convened three (3) times during 2012

The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the appointment of Mr. James Gordon Wheaton, to the Nomination and Remuneration Committee, in place of Mr. William Stephen Ward, for the remainder of the term,

• 14.6 Investment Committee:

Investment Committee Purpose	Member Names	Meetings
The purpose of the Investment Committee is to assist the business in developing its investment policy and to thereafter supervise its adherence to the same. To manage the company's investments to achieve the best return for the business, within the given risk parameter as approved by the Board, taking into account liquidity requirements and solvency constraints. The Committee will also monitor investment performance and act as the liaison between third party investment managers and Bupa Arabia to ensure investments are in line with SAMA's regulations and are fully Shariah compliant. Among other duties, the committee also provides investment advice to the business and the Board of Directors and will approve institutions to be used for significant investment placements.	Mr. Saleh Nasser Al-Jassar (Chairman) Mr. Simon Warren	The Investment Committee convened four (4) times during 2012

The Board of Directors on 27/01/1434 H, 11/12/2012 G approved the appointment of Mr. Saleh Nasser Al-Jassar, independent Board member, as Chairman of the Investment Committee, as replacement for Mr. Hossam Radwan who resigned from the Investment Committee during late 2012. Additionally Bupa Arabia is currently seeking a replacement Investment Committee member for Mr. Hassan Aljabri who resigned from the Investment Committee during late 2012.

15. Internal control system and effectiveness:

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

16. Maintenance of proper records:

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

17. Continuation as a going concern:

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

18. Payments and payable to regulatory bodies:

During 2012 the Company made payments, and has amounts payable, to the various Saudi Arabian regulatory bodies as detailed within the table, and thereafter explained in the narrative, below:

•18.1 Table of payments and payable to regulatory bodies:

	Paid SR000s	Payable SR000s
Zakat and income taxes	5,681	30,306
Levies and license fees	30,680	23,701
GOSI	7,914	653
Total	44,275	54,660

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

The total paid to the DZIT during the year, for Zakat and Income Tax, was SR5,681k (SR2,644k for the 2011 DZIT return (SR 1,481k for Zakat and SR1,163k for Income Tax) and SR3,037k as a 2012 advance Income Tax payment. The SR30,306k payable includes a SR20,550k provision for the 2012 DZIT return (SR14,769k for Zakat and SR5,781k for Income Tax) and this will be paid to the DZIT before 20/06/1434 H, 30/04/2013 G (as per the DZIT regulations). In addition to the Zakat and Income Tax payments an amount of SR799k was paid to the DZIT during the 2012 year for withholding tax (SR577k is provided in the results for 2012 related withholding tax, which is payable to the DZIT in 2013).

•18.3 The Saudi Arabian Monetary Agency (SAMA):

The total paid to SAMA during the year was SR10,748k. This includes payments for levies of SR10,748k (SR9,214k relating to levies for the first three quarters of the 2012 year and SR1,534k for the last quarter of the 2011 year). All prior year payments were fully provided in the 2011 results. The results include a provision for the 2012 fourth quarter SAMA levy of SR1,758k (which was paid to SAMA in January 2013 in accordance with the SAMA regulations).

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

The total paid to the CCHI during the year was SR19,932k. This includes payment of SR19,932k for CCHI levies for the 2011 year. The results include a provision for the 2012 CCHI levies of SR21,943k.

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

The total paid to GOSI during the year ended was SR7,914k and includes payment of SR613k for 2011. An amount of SR653k is provided in the results for the 2012 related GOSI amounts payable in 2013.

•18.6 Tadawul:

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

19. Regulatory penalty:

The Company paid a penalty of SR18k to SAMA during the fourth quarter of 2012 due to the late payment of the third quarter SAMA levy, which was paid after the Eid-Haj holiday as opposed to before.

20. External auditors:

The joint external auditors of the Company, as approved per the Ordinary General Assembly meeting held on 12/05/1433 H, 04/04/2012 G, for the financial statements for the fiscal year ended 18/02/1434 H, 31/12/2012 G were Ernst & Young and KPMG Al Fozan & Al Sadhan. The Board of Directors did not recommend any change to the joint external auditors from those appointed for the previous financial period so the joint external auditors remained the same as per the previous financial period.

21. No subsidiaries:

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

22. No borrowings or loans:

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

23. Additional declarations according to the regulations:

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

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

Conclusion:

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



FINANCIAL STATEMENTS

INDEPENDENT JOINT AUDITORS' REPORT

THE SHAREHOLDERS
BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**Scope of audit**

We have audited the accompanying statement of financial position of Bupa Arabia For Cooperative Insurance Company – a Saudi Joint Stock Company ('the Company') as at 31 December 2012, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the attached notes 1 through 32 which form an integral part of the financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required.

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

Unqualified opinion

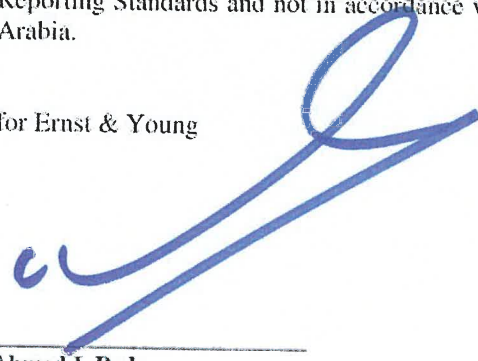
In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

Emphasis of a matter

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

for Ernst & Young


Ahmed I. Reda
Certified Public Accountant
Licence No. 356Jeddah, Kingdom of Saudi Arabia
8 Rabi Thani 1434 H
18 February 2013

for KPMG Al Fozan & Al Sadhan


Ebrahim Oboud Baeshen
Certified Public Accountant
Licence No. 332

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 SR'000	2011 SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	204,533	551,914
Murabaha deposits	5	732,340	58,000
FVIS investments	6	87,821	187,699
Prepayments and other assets	7	23,786	30,069
Premiums receivable, net	8	235,259	339,830
Deferred policy acquisition costs	9	22,535	21,097
Total insurance operations' assets		1,306,274	1,188,609
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	13,631	13,631
FVIS investments	6	497,158	373,534
Other receivables	7	735	244
Goodwill	1	98,000	98,000
Furniture, fittings and equipment	10	48,918	41,565
Statutory deposit	11	40,000	40,000
Total shareholders' assets		698,442	566,974
TOTAL ASSETS		2,004,716	1,755,583

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

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

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2012

	Notes	2012 SR'000	2011 SR'000
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance operations' liabilities			
Unearned premiums	14	786,669	722,739
Outstanding claims	15	413,509	381,265
Reinsurance balance payable		443	702
		1,200,621	1,104,706
Accrued expenses and other liabilities	16	63,619	59,503
Obligation under Long-Term Incentive Plan (LTIP)	20	8,099	4,846
		1,272,339	1,169,055
Policyholders' share of surplus from insurance operations		33,935	19,554
Total insurance operations' liabilities and surplus		1,306,274	1,188,609
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued expenses and other liabilities	16	26,532	21,352
Accrued Zakat and income tax	18	30,306	15,437
Amount due to a related party in respect of goodwill	3	3,355	3,355
Amount due to related parties	12	4,041	4,400
Total shareholders' liabilities		64,234	44,544
Shareholders' equity			
Share capital	19	400,000	400,000
Shares held under employees' share scheme	20	(4,988)	(2,910)
Statutory reserve	21	59,024	32,143
Retained earnings		180,172	93,197
Total shareholders' equity		634,208	522,430
Total shareholders' liabilities and equity		698,442	566,974
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		2,004,716	1,755,583

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

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

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
REVENUE			
Gross written premiums		2,194,301	1,993,251
Premiums ceded		(2,343)	(2,702)
Net written premiums		2,191,958	1,990,549
Net movement in unearned premium	14	(63,930)	(62,920)
Net earned premiums		2,128,028	1,927,629
CLAIMS			
Gross claims paid		1,671,622	1,523,835
Claims recovered (XOL)		(2,815)	(1,691)
Net claims paid		1,668,807	1,522,144
Net movement in outstanding claims	15	32,244	28,886
Net claims incurred		1,701,051	1,551,030
Net underwriting result		426,977	376,599
Investment and commission income		12,635	2,341
Other income		429	613
EXPENSES			
Selling and marketing	22	(138,663)	(182,169)
General and administration	23	(157,564)	(142,480)
SURPLUS FROM INSURANCE OPERATIONS		143,814	54,904
Shareholders' share of surplus from insurance operations		(129,433)	(49,414)
Policyholders' share of surplus from insurance operations		14,381	5,490
Policyholders' share of surplus from insurance operations at the beginning of the year		19,554	14,064
Policyholders' share of accumulated surplus from insurance operations at the end of the year		33,935	19,554

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

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

STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
REVENUE			
Shareholders' share of surplus from insurance operations	2b	129,433	49,414
EXPENSES			
General and administration	23	(5,095)	(6,916)
		124,338	42,498
Investment income/(loss)		10,068	(254)
Net income for the year		134,406	42,244
Weighted average number of ordinary shares outstanding (in thousands)		39,843	39,865
Basic and diluted income per share (in Saudi Arabian Riyals)	29	3.37	1.06

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

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

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
Net income for the year		134,406	42,244
Other comprehensive income/(expense)			
Zakat for the year	18	(14,769)	(8,217)
Income tax for the year	18	(5,781)	(4,385)
Total comprehensive income for the year		113,856	29,642

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

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2012

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

	Notes	Share capital	Shares held under Employees' Share Scheme	Statutory reserve	Retained earnings	Total
		SR'000	SR'000	SR'000	SR'000	SR'000
Balance at 31 December 2010		400,000	(2,709)	23,694	72,004	492,989
Net income for the year		-	-	-	42,244	42,244
Other comprehensive income		-	-	-	-	-
		-	-	-	42,244	42,244
Transfer to statutory reserve	21	-	-	8,449	(8,449)	-
Zakat for the year	18	-	-	-	(8,217)	(8,217)
Income tax for year	18	-	-	-	(4,385)	(4,385)
Partial disposal of shares held under LTIP	20	-	1,200	-	-	1,200
Purchase of additional shares held under LTIP	20	-	(1,401)	-	-	(1,401)
Balance at 31 December 2011		400,000	(2,910)	32,143	93,197	522,430

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

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

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
OPERATING ACTIVITIES			
Policyholders' share of surplus for the year		14,381	5,490
Adjustment for:			
Depreciation	23	14,386	10,894
Net movement in unearned premiums	14	63,930	62,920
(Reversal of) / additions to allowance for doubtful premiums receivable	8	(19,558)	33,942
Policy acquisition costs, net	9	(1,438)	(5,627)
Unrealised (gain)/loss on investments	6	(5,153)	645
		66,548	108,264
Changes in assets and liabilities:			
Premiums receivable		124,129	116,068
Prepayments and other assets		6,283	(9,188)
Outstanding claims	15	32,244	28,886
Due to shareholders' operations		98,805	15,179
Reinsurance balance payable		(259)	(567)
Accrued expenses and other liabilities		4,116	8,995
Obligation under LTIP		3,253	1,369
Net cash from operating activities		335,119	269,006
INVESTING ACTIVITIES			
Purchase of investments	6	(8,160)	(6,000)
Mubaraha deposits		(674,340)	(58,000)
Net cash used in investing activities		(682,500)	(64,000)
(Decrease)/increase in cash and cash equivalents		(347,381)	205,006
Cash and cash equivalents at the beginning of the year		551,914	346,908
Cash and cash equivalents at the end of the year	4	204,533	551,914

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

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

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
OPERATING ACTIVITIES			
Net income for the year		134,406	42,244
Adjustment for:			
Unrealised (gain)/loss on investments	6	(10,433)	762
		123,973	43,006
Changes in assets and liabilities:			
Accrued expenses and other liabilities		5,180	7,497
Amount due to related parties		(359)	1,582
Amount due to related party in respect of goodwill		-	3,355
Due from insurance operations		(98,805)	(15,179)
Other receivables		(491)	(244)
		29,498	40,017
Zakat and income tax paid	18	(5,681)	(5,070)
Net cash from operating activities		23,817	34,947
INVESTING ACTIVITIES			
Purchase of furniture, fittings and equipment		(21,739)	(13,756)
Purchase of shares held under LTIP		(3,989)	(1,401)
Disposal of shares held under LTIP		1,911	1,200
Amount paid to related party in respect of goodwill	3	-	(20,990)
Net cash used in investing activities		(23,817)	(34,947)
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		13,631	13,631
Cash and cash equivalents at the end of the year	4	13,631	13,631

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Bupa Arabia For Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 138/K dated 24 Rabi Thani 1429H (corresponding to 1 May 2008). The Commercial Registration number of the Company is 4030178881 dated 5 Jumad Awwal 1429H (corresponding to 11 May 2008). The Registered Office of the Company is situated at: Al-Rawdah Street, Al-Khaleidiyah District, P.O. Box 23807, Jeddah 21436, Kingdom of Saudi Arabia.

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

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

On 31 December 2008, the Company entered into an agreement with Bupa Middle East Limited E.C. (the "Seller") pursuant to which it acquired the Seller's insurance operations in the Kingdom of Saudi Arabia, effective from 1 January 2009. The acquisition transaction was approved by Saudi Arabian Monetary Agency ("SAMA") and resulted in goodwill of SR 98 million (see note 3).

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. STATEMENT OF COMPLIANCE

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

b. BASIS OF PREPARATION

These financial statements are prepared under the historical cost convention except for the measurement of FVIS investments at fair value.

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

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

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

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

c. FUNCTIONAL AND PRESENTATION CURRENCY

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's financial statements for the year ended 31 December 2011. The new standards, amendments to standards and interpretation, which are effective for annual periods beginning after 1 January 2012 have not had a significant effect on the financial statements of the Company. The significant accounting policies used in preparing these financial statements are set out below:

Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets include cash and cash equivalents, murabaha deposits, premium receivable, other receivables and investments. Financial liabilities consist of outstanding claims, reinsurance balance payable, obligation under long term incentive plan, policyholders' share of surplus from insurance operations, amount due to a related party in respect of goodwill and amount due to related parties.

Date of recognition

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

Initial measurement of financial instruments

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

Cash and cash equivalents

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

Murabaha deposits

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

Investments

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

Premiums receivable

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Bad debts are written off as incurred.

Policy acquisition costs

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

Goodwill

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

Furniture, fittings and equipment

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

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

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

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

Liability adequacy test

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

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

Accounts payable and accruals

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

Provisions

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

Employees' end of service benefits

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

Obligation under the Long-Term Incentive Plan

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

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

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

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

Shares held under LTIP by a custodian

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

Zakat and income tax

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

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

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations. Impairment is determined as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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 for publicly traded subsidiaries or other available fair value indicators.

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

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

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

Derecognition

Financial asset

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

Financial liability

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

Revenue recognition

Premiums earned

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

Investment and commission income

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

Reinsurance premiums

Reinsurance premiums ceded are recognised as an expense when payable.

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

Claims

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

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

Reinsurance contracts held

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

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

Expenses

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

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Segmental reporting

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

Leases

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

Foreign currencies

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

Offsetting

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

e. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Provision for outstanding claims

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

Allowance for doubtful receivable

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

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Deferred acquisition costs

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

Useful lives of furniture, fittings and equipment

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

Fair values of financial instruments

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

Going concern

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

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

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

Standard/ Interpretation	Description
IFRS 1	First-time adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters.
IFRS 1	First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters.
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures
IFRIC 14	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IAS 1	Amendments to IAS 1 Presentation of items of Other Comprehensive Income
IAS 12	Amendments to Income taxes – Deferred taxes: Recovery of underlying assets
IAS 24	Revision to IAS 24 Related Party Disclosures

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

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

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

Standard/ Interpretation	Description	Effective from periods beginning on or after the following date
IFRS 1	Amendment to IFRS 1 Government Loans	1 January 2013
IFRS 7	Amendment to IFRS 7 Disclosure - offsetting financial assets and financial liabilities	1 January 2013
IFRS 9	Financial Instruments - Classification & Measurement	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements: Investments in Associates & Joint ventures	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine.	1 January 2013
IAS 19	Revision to IAS 19 Employee benefits	1 January 2013
IAS 27	Separate financial statements	1 January 2013
IAS 28	Investment in associates and joint ventures	1 January 2013
IAS 32	Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014

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

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3. AMOUNT DUE TO A RELATED PARTY IN RESPECT OF GOODWILL

The movement in the amount payable to the Seller (a related party) in respect of goodwill during the year ended 31 December 2012 is as follows:

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	3,355	20,990
Compensation for outstanding goodwill (see note below)	-	3,355
Paid during the year	-	(20,990)
Balance at the end of the year	3,355	3,355

In accordance with the agreement between the Seller and the Company, the Seller is entitled to additional compensation, not exceeding 5% per annum on the outstanding amounts payable to them. Accordingly, during the year ended 31 December 2011, a sum of SR 3,355 thousands payable to the Seller was accrued and charged to general and administration expenses in the statement of shareholders' operations. This amount was calculated at a lower percentage than that allowed in accordance with the agreement. Subsequent to the year end, the Company received SAMA's letter, number 341000017461, approving the settlement of the final goodwill consideration of SR 3,355 thousand and accordingly settled the amount with the Seller.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	2012 SR'000	2011 SR'000
Insurance Operations		
Cash in banks (see note 27 (b))	83,267	194,556
Murabaha deposits (see note 5)	121,266	357,358
	204,533	551,914
Shareholders' Operations		
Cash in bank	13,631	13,631

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

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5. MURABAHA DEPOSITS

Murabaha deposits comprised the following:

	2012 SR'000	2011 SR'000
Insurance Operations		
Murabaha deposits	853,606	415,358
Less: Murabaha deposits with maturity less than three months (see note 4)	(121,266)	(357,358)
	732,340	58,000

6. FVIS INVESTMENTS

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

	2012 SR'000	2011 SR'000
Units in open ended mutual fund		
Insurance operations	87,821	187,699
Shareholders' operations	497,158	373,534
	584,979	561,233

The above investments represent units of mutual funds, denominated in Saudi Arabian Riyals.

The movement in the investments, during the year ended 31 December 2012, were as follows:

	2012 SR'000	2011 SR'000
Insurance operations		
Balance at the beginning of the year	187,699	257,178
Purchased during the year	8,160	6,000
Transferred to shareholders' operations (see note below)	(113,191)	(74,834)
Unrealised gain/(loss) during the year	5,153	(645)
Balance at the end of the year	87,821	187,699
Shareholders' operations		
Balance at the beginning of the year	373,534	299,462
Transferred from insurance operations (see note below)	113,191	74,834
Unrealised gain/(loss) during the year	10,433	(762)
Balance at the end of the year	497,158	373,534

Amount payable to shareholders' operations are settled by transfer of investments of equivalent amount representing fair value between the operations at the respective date.

As at 31 December 2012, an amount of SR 113,191 thousand (31 December 2011: SR 74,834 thousand) was payable to the shareholders' operations by the insurance operations. This amount was settled by transfer of investments of an equivalent amount to shareholders' operations as at that date.

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7. PREPAYMENTS AND OTHER ASSETS

	2012 SR'000	2011 SR'000
Insurance Operations		
Prepayments	19,642	27,247
Accrued income	1,988	877
Other receivables	2,156	1,945
	23,786	30,069
Shareholders' Operations		
Other receivables	735	244

8. PREMIUMS RECEIVABLE, NET

	2012 SR'000	2011 SR'000
Gross premiums receivable	279,807	403,936
Allowance for doubtful premiums receivable	(44,548)	(64,106)
Premiums receivable, net	235,259	339,830

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

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	64,106	30,164
(Reversal)/additions during the year (note 22)	(19,558)	33,942
Balance at the end of the year	44,548	64,106

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

	Neither past due nor impaired	Up to three months	Above three and up to six months	Above six and up to twelve months	Above twelve months	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
31 December 2012	18,123	125,195	62,291	22,765	6,885	235,259
31 December 2011	11,038	124,806	114,351	84,361	5,274	339,830

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

In respect of premiums receivable, 5 major customers accounted for 16.6% (2011: 15.9%) of this balance as at 31 December 2012.

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9. DEFERRED POLICY ACQUISITION COSTS

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	21,097	15,470
Expenses incurred	62,860	58,182
Amortisation for the year	(61,422)	(52,555)
Balance at the end of the year	22,535	21,097

10. FURNITURE, FITTINGS AND EQUIPMENT

	Furniture, fittings and office equipment SR'000	Computer applications SR'000	Motor vehicles SR'000	Total SR'000
Shareholders' Operations				
Cost:				
At 1 January 2011	39,012	44,279	-	83,291
Additions during the year 2011	4,146	9,610	-	13,756
At 1 January 2012	43,158	53,889	-	97,047
Additions during the year 2012	6,209	15,318	212	21,739
At 31 December 2012	49,367	69,207	212	118,786
Accumulated depreciation:				
At 1 January 2011	13,404	31,184	-	44,588
Charge for the year 2011	3,026	7,868	-	10,894
At 1 January 2012	16,430	39,052	-	55,482
Charge for the year 2012	3,885	10,469	32	14,386
At 31 December 2012	20,315	49,521	32	69,868
Carrying amount: At 31 December 2012	29,052	19,686	180	48,918
At 31 December 2011	26,728	14,837	-	41,565

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

11. STATUTORY DEPOSIT

	2012 SR'000	2011 SR'000
Shareholders' Operations		
Statutory deposit	40,000	40,000

As required by Saudi Arabian Insurance Regulations, the Company deposited an amount equivalent to 10% of its paid up share capital, amounting to SR 40 million in a bank designated by SAMA. Commission accruing on this deposit is payable to SAMA and this deposit cannot be withdrawn without the approval from SAMA.

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12. TRANSACTIONS WITH RELATED PARTIES

In addition to the note 1, 3 and 6, following are the details of major related party transactions during the year and the related balances at the end of the year:

Related party	Nature of transaction	2012 SR'000	2011 SR'000
Insurance Operations			
Shareholders	Premiums written	38,988	25,791
	Claims paid	17,330	13,962
	Medical cost payments to a provider (see note (a) below)	117,304	100,950
Bupa Middle East Holdings Two WLL (Related party)	Trade mark fee (note 17)	2,130	1,930

- a) The related party is a hospital provider where any of Bupa Arabia's entitled customers, and their qualified members, can use the facilities of the related party. The Company makes payments for all medical costs of all its contracts, to this provider related party, in accordance with the contractual terms of agreement with the provider related party on an arm's length basis. As at 31 December 2012, the estimated payable to the related party, for medical cost payments, amounted to SR 15.8 million (2011: SR 14.1 million).
- b) Information relating to key management personnel is provided in note 24.

Amount due to related parties is disclosed in the statement of financial position. Premiums receivable, net, includes premiums receivable from related parties amounting to SR 2,467 thousands (31 December 2011: SR 1,248 thousands).

Zakat and income tax recoverable from the shareholders, amounting to SR 14,769 thousands (2011: SR 8,217 thousands) and SR 5,781 thousands (2011: SR 4,385 thousands) respectively, are disclosed in note 18.

13 . REINSURANCE BALANCE PAYABLE

Reinsurance payable represents amount payable to two reinsurers (2011: three), based in Germany for the excess of loss (XOL) reinsurance contract.

14. NET MOVEMENT IN UNEARNED PREMIUMS

	2012 SR'000	2011 SR'000
Insurance Operations		
Unearned premiums at the beginning of the year	722,739	659,819
Unearned premiums at the end of the year	(786,669)	(722,739)
Net movement in unearned premiums	(63,930)	(62,920)

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15. NET MOVEMENT IN OUTSTANDING CLAIMS

	2012 SR'000	2011 SR'000
Insurance Operations		
Outstanding claims at the end of the year	413,509	381,265
Outstanding claims at the beginning of the year	(381,265)	(352,379)
Net movement in the outstanding claims	32,244	28,886

As at 31 December 2012 and 2011, all the outstanding claims which are covered by XOL reinsurance are lower than the XOL limit and therefore no reinsurance recovery has been booked in these reserves in these financial statements.

16. ACCRUALS AND OTHER LIABILITIES

	2012 SR'000	2011 SR'000
Insurance Operations		
Accrued expenses	53,427	50,387
Other liabilities	10,192	9,116
	63,619	59,503
Shareholders' Operations		
Accrued expenses	2,438	1,510
Employees' end of service benefits (see note (a) below)	24,094	19,842
	26,532	21,352

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

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	19,842	13,346
Charged during the year	5,183	6,888
Paid during the year	(931)	(392)
Balance at the end of the year	24,094	19,842

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

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17. TRADE MARK FEE

During 2010, the Company entered into an agreement with a related party for obtaining a license to use the trade marks (the word Bupa with or without logo) of the related party. As per the terms of the agreement, the Company is required to pay an amount equal to a fixed percentage of gross earned premiums, subject to a maximum of 5% of the Company's profits in any financial year, as trade mark fee. Accordingly, a sum of SR 2,130 thousands (2011: SR 1,930 thousands) payable to a related party has been accrued for in these financial statements (see note 22).

18. ZAKAT AND INCOME TAX

a) Zakat

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

Charge for the year

The Zakat charge relating to the Saudi partners consists of:

	2012 SR'000	2011 SR'000
Provision for the year	11,422	8,217
Adjustment for the previous year	3,347	-
Charge for the year	14,769	8,217

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

	2012 SR'000	2011 SR'000
Equity	525,340	495,698
Opening allowances and other adjustments	121,238	46,865
Book value of long-term assets	(142,879)	(180,408)
	503,699	362,155
Adjusted income for the year (see note below)	115,794	83,526
Zakat base	619,493	445,681
Attributable to Saudi founding shareholders and the general public @ 73.75%	456,876	328,690

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

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

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	14,088	7,317
Charge for the year	14,769	8,217
Payment made during the year	(1,481)	(1,446)
Balance at the end of the year	27,376	14,088

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b) Income tax

Charge for the year

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

	2012 SR'000	2011 SR'000
Provision for the year	6,079	4,385
Adjustment for the previous year	(298)	-
Charge for the year	5,781	4,385

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

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	1,349	588
Charge for the year	5,781	4,385
Payment made during the year	(4,200)	(3,624)
Balance at the end of the year	2,930	1,349

c) Zakat and income tax payable

	2012 SR'000	2011 SR'000
Zakat payable (note (a) above)	27,376	14,088
Income tax payable (note (b) above)	2,930	1,349
	30,306	15,437

d) Status of assessments

During the year, the Department of Zakat and Income Tax ("DZIT") raised revised assessments for the fiscal periods 2008 through 2010 demanding additional income tax, Zakat and withholding tax liability of SR 8.82 million as well as delay fine for each 30 days delay in payment of assessed additional taxes. The Company has filed an appeal against the revised assessments with the Preliminary Appeal Committee.

The DZIT issued an initial assessment for the year 2011 with additional Zakat liability of SR 7.49 million. The Company has made appropriate submissions there against. Final assessment for the year 2011 is awaited.

19. SHARE CAPITAL

The share capital of the Company is SR 400 million divided into forty million shares of SR 10 each (2011: forty million shares of SR 10 each) and subscribed by the following:

	Percentage holding	2012 SR'000	Percentage holding	2011 SR'000
Founding shareholders	60%	240,000	60%	240,000
General public	40%	160,000	40%	160,000
	100%	400,000	100%	400,000

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20. LONG-TERM INCENTIVE PLAN

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

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

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

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

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

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

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

	2012		2011	
	Number of shares	Amount SR'000	Number of shares	Amount SR'000
Opening balance	147,332	2,910	140,017	2,709
Purchased during the year	161,575	3,989	69,342	1,401
Sold during the year	(96,746)	(1,911)	(62,027)	(1,200)
	212,161	4,988	147,332	2,910
Market value per share as at 31 December 2012		27.30		22.35

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

In addition, an amount of SR 2,307 thousands (2011: SR 1,553 thousands) has been accrued by the Company representing the fixed percentage of entitled employees' salaries and commission thereon, for which the entitled employees have not yet made the election to purchase the Company's shares.

During the year, an amount of SR 5,290 thousands (2011: SR 1,369 thousands) has been charged to the statement of insurance operations and accumulated surplus under the above plan.

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21. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, twenty percent of the shareholders' income shall be set aside as a statutory reserve until this reserve amounts to one hundred percent of the paid up share capital. Accordingly, during the year, the Company has transferred SR 26,881 thousands (2011: SR 8,449 thousands) to the statutory reserve.

22. SELLING AND MARKETING EXPENSES

	2012 SR'000	2011 SR'000
Insurance Operations		
Employee costs	45,809	41,364
Marketing expenses	18,278	18,907
Fulfilment costs	6,938	6,553
Commission expenses	44,666	35,736
Statutory levies (note a)	32,915	35,124
Trade mark fees (see note 17)	2,130	1,930
(Reversal)/allowance for doubtful premiums receivables (note 8)	(19,558)	33,942
Others	7,485	8,613
	138,663	182,169

a) The statutory levies for the year ended 31 December 2011 included an additional CCHI levy, for the year 2009, of SR 5,255 thousands.

23. GENERAL AND ADMINISTRATION EXPENSES

	2012 SR'000	2011 SR'000
Insurance Operations		
Employee costs	110,535	101,513
Repairs and maintenance costs	11,955	11,119
Travelling expenses	3,233	3,567
Depreciation (see note 10)	14,386	10,894
Communication expenses	7,793	6,803
Others	9,662	8,584
	157,564	142,480
Shareholders' Operations		
Statutory expenses	-	953
Legal and professional fees	2,847	619
Board expenses (see note 25)	1,467	1,343
Additional compensation to Seller (see note 3)	-	3,355
Others (see note below)	781	646
	5,095	6,916

During 2011, the Company initiated a Corporate Social Responsibility (CSR) program involving the provision of health cover to orphans in the Kingdom of Saudi Arabia. The health insurance premiums and associated medical claims costs of the contracts of these orphans are borne by the Company. In 2012, the costs associated with the orphans health cover was SR 418 thousands (2011: SR 19 thousands) and is charged to statement of shareholders' operations as part of general and administration expenses.

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24. INFORMATION RELATING TO KEY MANAGEMENT PERSONNEL

	2012 SR'000	2011 SR'000
Compensation to key management personnel:		
Short-term benefits	9,607	8,772
Long-term benefits	2,913	2,343
	12,520	11,115

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

On 3 December 2011, a senior management personnel purchased 7,000 shares of the Company through Tadawul (the Saudi Stock Exchange), for SR 143 thousands, after obtaining the approval from the required regulatory authority. The fair value of the shares as at 31 December 2012 was SR 191 thousands (2011: SR 156 thousands).

25. BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

	2012 SR'000	2011 SR'000
Board of directors' remuneration	1,044	870
Board attendance fees	78	81
Other board and sub-committees expenses	345	392
	1,467	1,343

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

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26. SEGMENT INFORMATION

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

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

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

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

Segment liabilities do not include reinsurance balance payable, accruals and other liabilities, obligation under LTIP and policyholders' share of surplus from insurance operations.

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

	For the year ended 31 December 2012		
	Major SR'000	Non-major SR'000	Total SR'000
Gross written premiums	1,031,766	1,162,535	2,194,301
Premium ceded	(1,079)	(1,264)	(2,343)
Net written premiums	1,030,687	1,161,271	2,191,958
Net movement in unearned premiums	(25,256)	(38,674)	(63,930)
Net earned premiums	1,005,431	1,122,597	2,128,028
Gross claims paid	857,014	814,608	1,671,622
Claims recovered (XOL)	(1,647)	(1,168)	(2,815)
Net claims paid	855,367	813,440	1,668,807
Net movement in outstanding claims	17,007	15,237	32,244
Net claims incurred	872,374	828,677	1,701,051
Net underwriting result	133,057	293,920	426,977
Unallocated income	-	-	13,064
Unallocated expenses	-	-	(296,227)
Surplus from insurance operations			143,814

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

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As at 31 December 2012

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

As at 31 December 2011

	Major SR'000	Non-major SR'000	Total SR'000
Insurance operations' assets			
Premiums receivable, net	181,951	157,879	339,830
Deferred policy acquisition costs	10,348	10,749	21,097
Unallocated assets	-	-	827,682
Total			1,188,609
Insurance operations' liabilities and surplus			
Unearned premiums	368,233	354,506	722,739
Outstanding claims	207,561	173,704	381,265
Unallocated liabilities and surplus	-	-	84,605
Total			1,188,609

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27 COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments:

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

	2012 SR'000	2011 SR'000
Within one year	4,388	4,388
After one year but no more than five years	25,009	24,424
More than five years	14,478	20,913
	43,875	49,725

- b) As at 31 December 2012, performance guarantees amounting to SR 6.3 million (2011: SR 0.3 million) were issued to the customers on behalf of the Company. The Company pledged bank balance equivalent to the amount of performance guarantees to the bank for obtaining such guarantees. The bank balance disclosed in Note 4 is inclusive of above-mentioned amount.

28. RISK MANAGEMENT

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

Risk management structure

Board of Directors

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

Audit committee

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

Internal audit

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

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

Insurance risk

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

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Geographical concentration of risks

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

Frequency and amounts of claims

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

Independent actuarial review of claims and claims reserves

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

Reinsurance risk

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

Regulatory framework risk

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

Capital management (solvency) risk

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

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

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The following information summarizes the minimum regulatory capital of the Company:

	2012 SR'000	2011 SR'000
Minimum regulatory capital	364,815	318,488

Financial risk

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

The Company does not enter into derivative transactions.

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

Market price risk

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

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

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the Insurance Operations and Shareholders' Operations by SR 4,391 thousands (2011: SR 9,385 thousands) and SR 24,858 thousands (2011: SR 18,677 thousands) respectively.

Commission rate risk

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

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

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

Insurance Operations	2012 SR '000			Total
	Less than 3 months	3 months to 1 year	No fixed maturity	
Murabaha deposits	121,266	732,340	-	853,606

Insurance Operations	2011 SR '000			Total
	Less than 3 months	3 months to 1 year	No fixed maturity	
Murabaha deposits	415,358	-	-	415,358

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

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

	2012	2011
Insurance operations		
Saudi Riyal denominated Murabaha deposits	1.06%	0.73%

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

	2012 SR'000	2011 SR'000
	Effect on surplus from insurance operations	Effect on surplus from insurance operations
Insurance operations		
Saudi Riyals:		
Increase in commission rates by 100 basis points	8,536	4,154
Decrease in commission rates by 100 basis points	(8,536)	(4,154)

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

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Foreign currency risk

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

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

Credit risk

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

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

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

	2012 SR'000	2011 SR'000
Insurance' Operations		
Cash and cash equivalents	204,533	551,914
Murabaha deposits	732,340	58,000
Premiums receivable - net	235,259	339,830
Other receivables	2,156	1,945
	1,174,288	951,689
Shareholders' Operations		
Cash and cash equivalents	13,631	13,631
Other receivables	735	244
	14,366	13,875

Liquidity risk

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

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

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

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

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29. EARNINGS PER SHARE

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

30. FAIR VALUES OF FINANCIAL INSTRUMENTS

- a) Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, Murabaha deposits, investments, receivables, and accrued income and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to a related party in respect of goodwill, amount due to related parties and other liabilities. The fair values of financial instruments are not materially different from their carrying values. At 31 December 2012, apart from the investments which are carried at fair value (note 6), there were no other financial instruments held by the Company that were measured at fair value (2011: nil).
- b) The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:
- Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);
 - Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
 - Level 3: valuation techniques for which any significant input is not based on observable market data.

As at 31 December 2012 and 31 December 2011, all financial instruments which are fair valued are Level 2 instruments.

31. COMPARATIVE FIGURES

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

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorized for issue by the Board of Directors on 18 February 2013, corresponding to 8 Rabi Thani 1434 H.