


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

**FINANCIAL STATEMENTS
31 DECEMBER 2009**

 **ERNST & YOUNG**
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Jeddah 21441
Saudi Arabia

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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Scope of audit:

We have audited the accompanying statement of financial position of Bupa Arabia For Cooperative Insurance Company - A Saudi Joint Stock Company ('the Company') as at 31 December 2009, and the related statements of insurance operations and accumulated surplus, shareholders' operations, comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the period from 1 May 2008 to 31 December 2009. 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 our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion:

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

1. Present fairly, in all material respects, the financial position of the Company as at 31 December 2009 and the results of its operations and its cash flows for the period from 1 May 2008 to 31 December 2009 in accordance with International Financial Reporting Standards; and
2. 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

for Sindi & Batterjee





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8 Rabi Awal 1431 H
22 February 2010

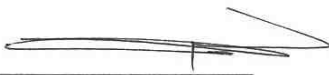


BUPA ARABIA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	<i>Note</i>	<i>2009</i> <i>SR'000</i>
INSURANCE OPERATIONS' ASSETS		
Cash and cash equivalents	4	444,162
Prepayments and other assets	5	28,823
Premiums receivable, net	6	64,732
Premiums written not invoiced	7	342,666
Deferred policy acquisition costs	8	14,764
Total insurance operations' assets		<u>895,147</u>
SHAREHOLDERS' ASSETS		
Cash and cash equivalents	4	308,789
Accrued income	5	613
Amount due from insurance operations		39,580
Goodwill	1 & 3	98,000
Furniture, fittings and equipment	10	21,025
Statutory deposit	11	40,000
Total shareholders' assets		<u>508,007</u>
TOTAL ASSETS		<u><u>1,403,154</u></u>


Chairman


Director and Chief Executive Officer


Chief Financial Officer


The accompanying notes 1 to 27 form part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2009

	<i>Note</i>	<i>2009</i> <i>SR'000</i>
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		
Insurance operations' liabilities:		
Unearned premiums	12	522,517
Outstanding claims	13	275,259
Reinsurance balance payable		89
		<u>797,865</u>
Accruals and other liabilities	14	51,750
		<u>849,615</u>
Amount due to shareholders' operations		39,580
Policyholders' share of surplus from insurance operations		5,952
		<u>895,147</u>
SHAREHOLDERS' LIABILITIES AND EQUITY		
Shareholders' liabilities		
Accruals and other liabilities	14	11,336
Accrued Zakat and income tax	15 (c)	10,318
Amount due to a related party in respect of goodwill	3 (b)	49,000
		<u>70,654</u>
Shareholders' equity		
Share capital	16	400,000
Statutory reserve	17	9,534
Retained earnings		27,819
		<u>437,353</u>
Total shareholders' equity		<u>437,353</u>
Total shareholders' liabilities and equity		<u>508,007</u>
TOTAL LIABILITIES, SURPLUS FROM INSURANCE OPERATIONS AND SHAREHOLDERS' EQUITY		<u><u>1,403,154</u></u>


Chairman


Director and Chief Executive Officer


Chief Financial Officer


The accompanying notes 1 to 27 form 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 period from 1 May 2008 to 31 December 2009

	<i>Note</i>	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
REVENUE		
Gross premiums earned	12	1,205,440
Reinsurance ceded	12	(89)
Net premiums earned	12	1,205,351
CLAIMS		
Claims incurred	13	973,422
NET UNDERWRITING RESULT		231,929
OTHER INCOME		2,666
EXPENSES		
Selling and marketing	18	(98,598)
General and administration	19	(76,475)
SURPLUS FROM INSURANCE OPERATIONS		59,522
Shareholders' share of surplus from insurance operations	2 (a)	(53,570)
POLICYHOLDERS' SHARE OF SURPLUS FROM INSURANCE OPERATIONS		5,952
Transfer of surplus to policyholders	2 (a)	(5,952)
Accumulated surplus at the end of the period		-


Chairman


Director and Chief Executive Officer


Chief Financial Officer


The accompanying notes 1 to 27 form part of these financial statements.

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

STATEMENT OF SHAREHOLDERS' OPERATIONS

For the period from 1 May 2008 to 31 December 2009

	<i>Note</i>	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
REVENUE		
Shareholders' share of surplus from insurance operations		53,570
EXPENSES		
General and administration	19	(3,985)
Pre-incorporation expenses written off	20	(8,983)
		<u>40,602</u>
Interest income		<u>15,418</u>
NET PROFIT FOR THE PERIOD		<u><u>56,020</u></u>
Weighted average number of ordinary shares outstanding (in thousands)		<u>40,000</u>
Basic earnings per share (in Saudi Riyals)	25	<u><u>1.40</u></u>


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Director and Chief Executive Officer


Chief Financial Officer

The accompanying notes 1 to 27 form part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 May 2008 to 31 December 2009

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



Chairman



Director and Chief Executive Officer



Chief Financial Officer


The accompanying notes 1 to 27 form part of these financial statements.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period from 1 May 2008 to 31 December 2009

	<i>Note</i>	<i>Share Capital SR'000</i>	<i>Statutory Reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total SR'000</i>
Issue of share capital	16	400,000	-	-	400,000
Transaction costs	16	-	-	(8,349)	(8,349)
Total comprehensive income for the period from 1 May 2008 to 31 December 2009		-	-	56,020	56,020
Zakat for the period	15	-	-	(5,838)	(5,838)
Income tax for the period	15	-	-	(4,480)	(4,480)
Transfer to statutory reserve	17	-	9,534	(9,534)	-
Balance at 31 December 2009		400,000	9,534	27,819	437,353



Chairman



Director and Chief Executive Officer



Chief Financial Officer


The accompanying notes 1 to 27 form part of these financial statements.

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

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the period from 1 May 2008 to 31 December 2009

	<i>Note</i>	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
OPERATING ACTIVITIES		
Policyholders' share of surplus from insurance operations		5,952
Adjustment for:		
Depreciation	10	6,798
Movement in unearned premiums		141,897
		<u>154,647</u>
Changes in assets and liabilities:		
Prepaid expenses and other assets		(23,162)
Premiums receivable, net		(332)
Premiums written not invoiced		(95,503)
Deferred policy acquisition costs		(1,062)
Outstanding claims		84,365
Reinsurance balance payable		89
Accruals and other liabilities		21,552
Amounts due to shareholders' operations		52,168
Net cash from operating activities		<u>192,762</u>
INVESTING ACTIVITY		
Cash and cash equivalents acquired from the Seller	3	251,400
Cash from investing activities		<u>251,400</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>444,162</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		<u>-</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	<u><u>444,162</u></u>
MAJOR NON-CASH TRANSACTIONS:		
Assets acquired	3	332,400
Liabilities taken over	3	<u><u>601,712</u></u>


Chairman


Director and Chief Executive Officer


Chief Financial Officer

The accompanying notes 1 to 27 form part of these financial statements.

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

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the period from 1 May 2008 to 31 December 2009

	<i>Note</i>	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
OPERATING ACTIVITIES		
Net profit for the period		56,020
Changes in assets and liabilities:		
Accrued income		(613)
Amount due from insurance operations		(52,168)
Accruals and other liabilities		11,336
Amount due to a related party – other		1,474
Net cash from operating activities		<u>16,049</u>
INVESTING ACTIVITIES		
Purchase of furniture, fittings and equipment	10	(9,911)
Amount paid to a related party in respect of goodwill	3	(49,000)
Statutory deposit	11	(40,000)
Net cash used in investing activities		<u>(98,911)</u>
FINANCING ACTIVITIES		
Issue of share capital	16	400,000
Transaction costs	16	(8,349)
Net cash from financing activities		<u>391,651</u>
INCREASE IN CASH AND CASH EQUIVALENTS		308,789
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	<u>308,789</u>
MAJOR NON-CASH TRANSACTION:		
Assets acquired, net	3	<u>17,912</u>



Chairman



Director and Chief Executive Officer



Chief Financial Officer

The accompanying notes 1 to 27 form part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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 Ministry of Commerce and Industry’s Resolution number 138/K dated 24 Rabi Thani 1429 H (corresponding to 1 May 2008). The Registered Office address of the Company is Bugshan Building, Mushrefah District, Palestine Street, Jeddah, Saudi Arabia. The Company is licensed to conduct insurance business in Saudi Arabia under cooperative principles in accordance with Royal Decree No. M/74 dated 29 Shabaan 1428 H (corresponding to 11 September 2007) pursuant to 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 Arabian stock market on 17 May 2008.

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

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2a BASIS OF PREPARATION

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

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

As per the Company’s by-laws and articles of association, the Company’s first fiscal period shall commence on the date of the Ministerial Resolution announcing its formation, which was dated 24 Rabi Thani 1429 H (corresponding to 1 May 2008), and shall end on 31 December the following Gregorian year, being 31 December 2009. Accordingly, these financial statements, which are the first set of statutory financial statements of the Company, are prepared for the period from 1 May 2008 to 31 December 2009. As these are the first set of statutory financial statements of the Company, there are no comparative figures in these financial statements.

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

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

Transfer to Shareholders’ operations	90%
Transfer to Policyholders’ payable	10%
	<hr/>
	100%
	<hr/>

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

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

2b SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Cash and cash equivalents

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

Premiums receivable

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

Policy acquisition costs

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

Goodwill

Goodwill represents the amount paid by the Company in excess of the net fair value of the identifiable assets, liabilities acquired from Bupa Middle East Limited E.C. (see note 3). Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Furniture, fittings and equipment

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

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

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

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

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

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

2b SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals

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

Provisions

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

Employees' terminal benefits

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

Zakat and income tax

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

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

Impairment and uncollectibility of financial assets

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

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

Derecognition of financial instruments

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

Premiums earned

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

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

2b SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance premiums

Reinsurance premiums ceded are recognized as an expense when payable.

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

Interest income

Interest income is recognised using the effective yield method.

Claims

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

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

Reinsurance contracts held

In order to minimise financial exposure from large claims the Company enters into excess-of-loss (XOL) reinsurance agreements with internationally reputed 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. All other expenses are classified as general and administration.

Transaction costs

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

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

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

2b SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The accounting records 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 transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.

Fair values of financial instruments

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

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses will not be 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.

2c SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

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

Provision for outstanding claims

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

Allowance for doubtful receivables

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

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

2d PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

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

3 TRANSFER OF PORTFOLIO

- a) As stated in note 1, the Company entered into an agreement with Bupa Middle East Limited E.C. (the Seller) pursuant to which it acquired the Seller's insurance operations in the Kingdom of Saudi Arabia, effective from 1 January 2009, at a goodwill amount of SR 98 million, as approved by Saudi Arabian Monetary Agency (SAMA), along with related insurance assets and liabilities of an equivalent amount. The value of assets and liabilities acquired from the Seller, as at 1 January 2009, as per the valuation approved by SAMA, are as follows:

	<i>SR'000</i>
ASSETS	
Short term deposits	242,771
Bank balances and cash	8,629
Cash and cash equivalents	251,400
Prepayments and other assets	5,661
Premiums receivable, net	64,400
Premiums written not invoiced, net (see note 7)	247,163
Deferred policy acquisition costs (see note 8)	13,702
Amounts due from a related party	1,474
Furniture, fittings and equipment, net (see note 10)	17,912
Total assets transferred	601,712
LIABILITIES	
Unearned premiums (see note 12)	380,620
Outstanding claims (see note 13)	190,894
Accruals and other liabilities	30,198
Total liabilities transferred	601,712
NET ASSET TRANSFERRED	-

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2009

3 TRANSFER OF PORTFOLIO (continued)

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

*For the period from
1 May 2008 to
31 December 2009
SR'000*

Value of goodwill	98,000
Paid during the period	(49,000)
	<hr/>
Balance at the end of the period	49,000
	<hr/> <hr/>

4 CASH AND CASH EQUIVALENTS

*2009
SR'000*

Insurance Operations

Cash in bank (see note (a) below)	190,662
Short-term deposits (See note (b) below)	253,500
	<hr/>
	444,162
	<hr/> <hr/>

Shareholders' Operations

Cash in bank	13,615
Short-term deposits (See note (b) below)	295,174
	<hr/>
	308,789
	<hr/> <hr/>

- a) At 31 December 2009, bank balances amounting to SR 190.4 million are held in the name of a related party of the Company, on behalf of the Company. Subsequent to year end, this amount has been transferred to the Company.
- b) The short term deposits are held with commercial banks. These bank deposits are denominated in Saudi Arabian Riyals and had an original maturity not exceeding three months.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

5 PREPAYMENTS AND OTHER ASSETS

	<i>2009</i> <i>SR'000</i>
<i>Insurance Operations</i>	
Prepayments	27,802
Accrued income	311
Other receivables	710
	<u>28,823</u>
<i>Shareholders' Operations</i>	
Accrued income	613
	<u>613</u>

6 PREMIUMS RECEIVABLE, NET

	<i>2009</i> <i>SR'000</i>
<i>Insurance Operations</i>	
Balance at the end of the period	84,531
Allowance for impairment	(19,799)
At 31 December	<u>64,732</u>

Movements in the allowance for impairment of receivables was as follows:

	<i>Period from</i> <i>1 May 2008</i> <i>to</i> <i>31 December 2009</i> <i>SR'000</i>
Balance acquired from the seller	13,046
Transferred from PWN provision account (see note 7)	7,754
Provision no longer required	(1,001)
At 31 December	<u>19,799</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

6 PREMIUMS RECEIVABLE, NET (continued)

The age analysis of receivables arising from insurance contracts is as follows:

	<i>Neither past due nor impaired SR</i>	<i>Past due but not impaired</i>			<i>Total SR</i>
		<i>Up to three months SR</i>	<i>Above three and up to six months SR</i>	<i>Above six and less than twelve months SR</i>	
31 December 2009	36,382	16,926	11,424	-	64,732

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

7 PREMIUMS WRITTEN NOT INVOICED

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

	<i>Period from 1 May 2008 to 31 December 2009 SR'000</i>
Balance acquired from the seller (note 3)	247,163
Gross premiums written (note 12)	1,347,337
Invoices raised during the period	<u>(1,251,834)</u>
At 31 December	<u>342,666</u>

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

Movements in the allowance for impairment was as follows:

	<i>Period from 1 May 2008 to 31 December 2009 SR'000</i>
Balance transferred from the seller	7,754
Provision transferred to Premiums receivable provision account, as no longer required (see note 6)	<u>(7,754)</u>
At 31 December	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

8 DEFERRED POLICY ACQUISITION COSTS

	<i>Period from 1 May 2008 to 31 December 2009 SR'000</i>
Balance acquired from the Seller (see note 3)	13,702
Expenses deferred	14,764
Amortisation for the period	(13,702)
At 31 December	<u>14,764</u>

9 TRANSACTIONS WITH RELATED PARTIES

The following are the details of major related party transactions during the period from 1 May 2008 to 31 December 2009 and the related balance at the period end:

<i>Related party</i>	<i>Nature of transaction</i>	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
Insurance Operations		
Related parties	Premiums written	10,495
Key management personnel	Short term benefits	8,134
	Long term benefits	1,599
Shareholders' Operations		
Bupa Middle East Limited E.C. (related party)	Assets acquired (note 3)	601,712
	Liabilities taken over (note 3)	601,712
	Goodwill acquired (note 3)	98,000
	Payment in respect of goodwill (note 3)	49,000
	Payments made on behalf of a related party and recharged to the related party	1,615
	Transaction costs paid on behalf of the Company (IPO) and recharged to the Company (note 16 and see below)	8,349
	Pre-incorporation expenses paid on behalf of the Company and recharged to the Company (note 20 and see below)	8,983
	General and administrative expenses paid on behalf of the Company and recharged to the Company	1,474
ASAS Health Care Company Limited (ASAS – related party)	Payments made on behalf of the Company and recharged to the Company	1,831

Premiums amounting to SR 10.5 million were written for related parties. Prices and terms for these transactions are approved by the Chief Executive Officer in accordance with the authority delegated to him by the board of directors.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

9 TRANSACTIONS WITH RELATED PARTIES (continued)

Insurance claims paid to related parties amounted to SR 4.1 million and provider claims paid amounted to SR 32.1 million.

As at 31 December 2009, receivables from related parties amounted to SR 1.8 million, and payable to related parties amounted to SR 6.7 million. Furthermore, the amount due to a related party in respect of goodwill is disclosed in the statement of financial position.

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

Zakat and income tax recoverable from the shareholders, amounting to SR 5.8 million and SR 4.5 million respectively, is disclosed in note 15.

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

10 FURNITURE, FITTINGS AND EQUIPMENT

	<i>Furniture, fittings and office equipment</i> SR'000	<i>Computer applications</i> SR'000	<i>Total</i> SR'000
Shareholders' Operations			
Cost:			
Acquired from the Seller (note 3)	10,255	33,841	44,096
Additions during the period	2,538	7,373	9,911
At 31 December	12,793	41,214	54,007
Depreciation:			
Acquired from the Seller (note 3)	3,744	22,440	26,184
Charge for the period	1,888	4,910	6,798
At 31 December	5,632	27,350	32,982
Net carrying amount:			
At 31 December 2009	7,161	13,864	21,025

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

12 NET PREMIUMS EARNED

	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
<i>Insurance Operations</i>	
Gross written premiums (note 7)	1,347,337
Unearned premiums acquired from the Seller (note 3)	380,620
	<hr/>
Unearned premiums at the end of the period	1,727,957 (522,517)
	<hr/>
Gross premiums earned	1,205,440
	<hr/>
Premium ceded	(89)
Unearned premiums at the end of the period	-
	<hr/>
Reinsurance premiums ceded	(89)
	<hr/>
Net premiums earned	1,205,351
	<hr/> <hr/>

13 CLAIMS INCURRED

	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
<i>Insurance Operations</i>	
Gross claims paid	889,057
Outstanding claims at the end of the period	275,259
	<hr/>
Outstanding claims acquired from the Seller (note 3)	1,164,316 (190,894)
	<hr/>
	973,422
	<hr/> <hr/>

With effect from 15 December 2009, the Company has entered into an excess-of-loss (XOL) reinsurance contract with its reinsurers. All the outstanding claims, with respect to the period from 15 December 2009 to 31 December 2009, are lower than the XOL limit and therefore no reinsurance recovery has been booked in these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

14 ACCRUALS AND OTHER LIABILITIES

	<i>2009</i> <i>SR'000</i>
<i>Insurance Operations</i>	
Accrued expenses	29,806
Other liabilities	21,944
	<u>51,750</u>
<i>Shareholders' Operations</i>	
Accrued expenses	43
End of service benefits (see note below)	11,293
	<u>11,336</u>

Movement in end of service benefits provision during the period is as follows:

	<i>For the period from</i> <i>1 May 2008</i> <i>to</i> <i>31 December 2009</i> <i>SR'000</i>
Balance transferred from the Seller	8,360
Charged during the period	3,369
Paid during the period	(436)
	<u>11,293</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

15 ZAKAT AND INCOME TAX

a) Zakat

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

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

	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
Equity	400,000
Book value of long term assets	(169,086)
	<u>230,914</u>
Adjusted income for the period	88,824
	<u>319,738</u>
Zakat base	319,738
	<u>319,738</u>
Attributable to Saudi founding shareholders and the general public @ 73.75%	<u>235,806</u>

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

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

	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
Charge for the period	5,838
	<u>5,838</u>
Balance at the end of the period	<u>5,838</u>

b) Income tax

The movement in the tax provision for the period is as follows:

	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
Charge for the period	4,480
	<u>4,480</u>
Balance at the end of the period	<u>4,480</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

15 ZAKAT AND INCOME TAX (continued)

c) Zakat and income tax payable

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

d) Status of assessments

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

16 SHARE CAPITAL

- a) The share capital of the Company is SR 400 million divided into forty million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for twenty four million shares with a nominal value of SR 10 each, which represents 60% of the shares of the Company and the remaining sixteen million shares with a nominal value of SR 10 each, which represents 40% of the shares of the Company, have been subscribed by the public.
- b) The Company incurred a sum of SR 8,349 thousands as transaction costs to raise capital of SR 160 million through an Initial Public Offering (IPO) and this amount has been charged directly to equity (see also note 9).

17 STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, twenty percent of the shareholders' income shall be set aside as a statutory reserve until this reserve amounts to one hundred percent of the paid up share capital. During the period, the Company has transferred SR 9.5 million to statutory reserve being 20% of the shareholders' income, net of transactions costs, directly charged to retained earnings. The reserve is not available for distribution.

18 SELLING AND MARKETING EXPENSES

	<i>For the period from</i> <i>1 May 2008</i> <i>to</i> <i>31 December 2009</i> <i>SR'000</i>
<i>Insurance Operations</i>	
Employee costs	26,285
Marketing expenses	8,482
Fulfilment cost	6,672
Commission expenses	30,531
Statutory levies	23,600
Other	3,028
	<u>98,598</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

19 GENERAL AND ADMINISTRATION EXPENSES

	<i>For the period from 1 May 2008 to 31 December 2009 SR'000</i>
<i>Insurance Operations</i>	
Employee costs	52,382
Repair and maintenance	4,084
Travelling expenses	2,563
Communication expenses	4,852
Depreciation	6,798
Other operating costs	5,796
	<u>76,475</u>
<i>Shareholders' Operations</i>	
Statutory expenses	645
Legal and professional fees	1,893
Board expenses (see note 21)	1,365
Other	82
	<u>3,985</u>

20 PRE-INCORPORATION EXPENSES WRITTEN OFF

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

21 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

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

Board of Directors' remuneration represents remuneration payable to the Chairman and the remaining seven members of the Board, and its sub-committees.

22 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 corporates, and all others are considered as non-major.

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

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

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

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

	<i>Period from 1 May 2008 to 31 December 2009</i>		
	Major	Non-major	Total
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Net premiums earned	621,182	584,169	1,205,351
Claims incurred	(544,813)	(428,609)	(973,422)
Unallocated income	-	-	2,666
Unallocated expenses	-	-	(175,073)
Surplus from insurance operations			<u>59,522</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

22 SEGMENT INFORMATION (continued)

	<i>Period from 1 May 2008 to 31 December 2009</i>		
	Major SR'000	Non-major SR'000	Total SR'000
Insurance operations' assets			
Premiums receivable, net	41,093	23,639	64,732
Premiums written not invoiced, net	161,992	180,674	342,666
Deferred policy acquisition costs	6,553	8,211	14,764
Unallocated assets	-	-	472,985
Total			895,147
Insurance operations' liabilities and surplus			
Unearned premiums	231,932	290,585	522,517
Outstanding claims	154,055	121,204	275,259
Reinsurance balance payable	46	43	89
Unallocated liabilities and surplus	-	-	97,282
Total			895,147

23 COMMITMENTS AND CONTINGENCIES

- a) Operating lease commitments – Company as lessee

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

	<i>2009</i> <i>SR'000</i>
Within one year	4,408
After one year but no more than five years	23,400
More than five years	33,617
	61,425

- b) At 31 December 2009, the Company had capital commitments amounting to SR 16.6 million.

- c) A bank of the Company's related party has given performance guarantees, limited to SR 2.8 million, in respect of insurance premiums written by the Company, and a payment guarantee, limited to SR 0.3 million, on behalf of the Company. In addition, the bank of the related party has also given another guarantee to regulatory authorities, limited to SR 25 million. The Company has pledged short term deposits, amounting to SR 30 million, to the bank for obtaining such guarantees.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

24 RISK MANAGEMENT

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

Insurance risk

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

Geographical concentration of risks

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

Frequency and amounts of claims

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

Reinsurance risk

With effect from 15 December 2009, in common with other insurance companies, in order to minimise financial exposure arising from large claims, the Company, in the normal course of business, has entered into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. All of the reinsurance is effected under an excess-of-loss reinsurance contract. The Company has reinsurance cover to limit losses for any individual claim to SR 200 thousand and deals with reinsurance companies, which are rated at least A or above 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 these arise.

Capital management risk

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

The Company manages its capital requirements by assessing 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 the amount of dividends paid to shareholders or issue shares.

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

	<i>2009</i> <i>SR'000</i>
Minimum regulatory capital (Premium solvency margin method)	<u>215,560</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

24 RISK MANAGEMENT (continued)

Financial risk

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

The Company does not enter into derivative transactions.

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

Market price risk and interest rate risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. At 31 December 2009, the Company is not exposed to any market price risk.

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

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

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

Insurance Operations

	2009 SR '000			Total
	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>No fixed maturity</i>	
Short term deposits	253,500	-	-	253,500
	<u>253,500</u>	<u>-</u>	<u>-</u>	<u>253,500</u>

Shareholders' Operations

	2009 SR '000			Total
	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>No fixed maturity</i>	
Short term deposits	295,174	-	-	295,174
Statutory deposit	-	-	40,000	40,000
	<u>295,174</u>	<u>-</u>	<u>40,000</u>	<u>335,174</u>

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

24 RISK MANAGEMENT (continued)

Financial risk (continued)

The effective interest rates for the interest bearing financial instruments, at the period end, were as follows:

	<i>2009</i>
<i>Insurance operations</i>	
Saudi Riyal denominated deposits	0.88%
<i>Shareholders' operations</i>	
Saudi Riyal denominated deposits	1.10%

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

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

Foreign currency risk

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

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

Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2009

24 RISK MANAGEMENT (continued)

Credit risk (continued)

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

31 December 2009

	<i>Total SR' 000</i>
<i>Insurance' Operations</i>	
Cash and cash equivalents	444,162
Premiums receivable	64,732
	<u>508,894</u>
<i>Shareholders' Operations</i>	
Cash and cash equivalents	308,789
Accrued income	613
Amount due from insurance operations	39,580
	<u>348,982</u>

Liquidity risk

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

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

The Company's financial liabilities consist of outstanding claims, amount due to a related party, reinsurance balance payable, and certain other liabilities. All financial liabilities, which are non-interest bearing, are expected to be settled within 12 months from the statement of financial position date.

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

25 EARNINGS PER SHARE

Earnings per share for the period from 1 May 2008 to 31 December 2009 has been calculated by dividing the net profit for the period by the ordinary issued and outstanding shares at the period-end. Diluted earnings per share is not applicable for the Company for the period from 1 May 2008 to 31 December 2009.

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

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, receivables, and accrued income and its financial liabilities consist of outstanding claims, reinsurance balances payable amount due to a related party in respect of goodwill and other liabilities. The fair values of financial instruments are not materially different from their carrying values. At 31 December 2009, there were no financial instruments held by the Company that were measured at fair value.

27 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 22 February 2010, corresponding to 8 Rabi Awal 1431 H.