

Board Report



Board of Directors report for the period ending 31/12/2009

The Board of Directors of Bupa Arabia for Cooperative Insurance is pleased to present the first annual report covering the company's financial results and achievements, followed by the audited financial statements and notes for the period ending December 31, 2009 (twenty months). The 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 (the Company) is a Saudi public joint stock company, registered in Saudi Arabia under C.R. No. 4030178881 on date 05/05/1429 H (10/05/2008).

The company specializes in cooperative health insurance and other business-related activities which take place in accordance with the provisions of the Insurance Law and regulations and its amendments and relevant rules in Saudi Arabia. The company was listed on the Saudi stock market on May 17, 2008.

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

2. Asset purchase agreement and transfer of insurance portfolio:

After the completion of the IPO process, on 07/03/1429 H (15/03/2008), 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).

The Company's license was approved by Royal Decree No. M/74 dated 29/08/1428 H (11/09/2007) and by declaration from the Council of Ministers No. 279 dated 28/08/1428 H (10/09/2007).

The Saudi Arabian Monetary Agency (SAMA) permitted BUPA Arabia to conduct the business of 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, and Article IV of the law's executive summary issued by decree of Minister of Finance No. 1/596 date 01/03/1425, and the pronouncement of the Governor of SAMA No.111/429 date of 08/08/1429.

The Company concluded an agreement to purchase the insurance portfolio and the net assets of BUPA Middle East Limited E.C. registered in the Kingdom of Bahrain. Accordingly, a financial study was presented to SAMA (including assessment of the operations) by an independent auditor.

According to letter no. 2173/MZ/MT dated 12/11/1429 H (10/11/2008), SAMA returned with an assessment summary for the insurance portfolio of Bupa Middle East Limited E.C. . Thereafter, an Ordinary General Assembly was called to inform shareholders on the final outcome of the assessment process and hence decide whether to purchase the portfolio or not.

The Ordinary General Assembly meeting took place on Sunday, 30/12/1429 H (28/12/2008), in which it was approved unanimously to purchase the insurance portfolio of BUPA Middle East Limited E.C. following the guidelines set by SAMA. Shareholders delegated to the Board the full authority to complete the acquisition and agree on terms and conditions of the purchase. The agreement was signed between BUPA Middle East Limited E.C. as seller and Asas Co. Ltd. as an agent of BUPA Middle East in Saudi Arabia.. The purchase was effective 1st January 2009.

Shareholders approved unanimously, during the second ordinary session of the General Assembly, held on Wednesday 19/09/1430 H

(09/09/2009), that the company enters into a licensing agreement for using Bupa's trademark as well as for utilising information systems and services with BUPA Asia, with the agreement providing for technical services by Bupa Finance. Shareholders authorised the Board of Directors to agree on the terms and conditions of these two agreements.

Based on SAMA's letter no IS928 dated 07/071430 H (30/06/2009), the company obtained SAMA's approval to transfer the insurance portfolio of Bupa Middle East Limited E.C. (Bahrain) to Bupa Arabia and thereafter, the Q1 2009 financial statements were republished on 21/07/2009 after having been certified by the External Auditors as to cover all areas of the company's activities including insurance operations that had not been published whilst the transfer was taking place.

3. Official approval of company's products:

The company received the final official approval on all products from SAMA on 19/02/1430 H according to letter no. AS229 which is in compliance with the executive summary of Supervision of Cooperative Insurance Law.

4. Final eligibility from the Council of Cooperative Health Insurance (CCHI):

The CCHI has granted the company the final eligibility under the letter number 5821/30/2/T dated 11/03/1430 H (08/03/2009).

5. Financial statement:

Balance Sheet as of 31 Dec. 2009 (Thousand Saudi Riyal)	<u>Policyholders' operations</u>	<u>Shareholders' operations</u>	<u>Consolidated</u>
Total assets	895,147	508,007	1,403,154
Liabilities	797,865	70,654	
Accrued liabilities	51,750		
Total liabilities	849,615	70,654	
Accounts payable-Shareholders' operations	39,580		
Policyholders' share of surplus	5,952		
Total liabilities and surplus from policyholders' operations	895,147		
Equity		437,353	
Total liabilities and shareholders' equity		508,007	
Total liabilities , surplus from policyholders' operations and shareholders' equity			1,403,154

This statement represents net assets acquired from Bupa Middle East on Jan 1, 2009 thus no previous statements to compare to.

Income statement as of 31 Dec. 2009 (Thousand Saudi Riyal)	<u>Shareholders' operations</u>	<u>Policyholders' operations</u>
Turnover		
Total of earned premiums		1,205,440
Reinsurance ceded		(89)
Net earned premiums		1,205,351
Shareholders share from policyholders' operations	53,570	
Claims incurred		(973,422)
Net underwriting result		231,929
Other income		2,666
Overhead/expenses		
Marketing & Sales expenses	(3,985)	(98,598)
General & administrative expenses	(8,983)	(76,475)
Insurance surplus		59,522
Shareholders share from policyholders' operations		(53,570)
Cooperative distribution		(5,952)
Surplus end of period	40,602	-
Interest income	15,418	
Year's net profit	56,020	
Weighted average of outstanding shares	40,000	
Basic earnings per share	1,4	

6. Accounting policies:

In compliance with the Capital market Authority's regulation dated 27/08/2008 permitting the issuance of financial statements according to International Financial reporting Standards (IFRS), the statements revealed herewith have been prepared following the international accounting policies instead of the Saudi GAAP. The company confirms that the outcome of statements have not been affected by this practice.

7. Company's policy of distribution of profits:

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

- The exclusion of Zakat and income tax.
- 20% of net profits are allocated to form a statutory reserve. The general assembly has the authority to halt this action when reserves equal the full amount of paid-up capital.
- 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 allocate it to purposes of its choosing.
- The balance shall be distributed as 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.

8. Services and operation activities:

• Marketing and sales:

In order to keep pace with, and stay ahead of, the evolutions in the market and increased competitive pressures, Bupa Arabia has continued to improve and enhance its sales activities and distribution channels through the continued building of qualified and well-trained sales teams. In addition, the company continues to invest in its sales management system which has contributed to achieving strong sales growth, strong customer retention and strong customer satisfaction levels.

Bupa Arabia has carried out marketing and advertising campaigns throughout the year covering all newspapers and magazines with the objective of promoting its pioneering health insurance products and services. This increased exposure resulted in a noticeable growth in the number of customers by 35% and in the number of renewed memberships exceeding 84%.

• CSR programs:

Bupa Arabia initiated a large educational campaign in 2009 to promote awareness of the H1N1 virus in support of the efforts of the Ministry of Health. This involved a series of sessions with a large number of corporate customers, sending out SMS messages, advertisements in daily newspapers, posters and flyers and a campaign at Jeddah's King Abdulaziz International Airport.

• Operations Management and Customer Service:

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

The company also introduced its Basmah swipe card and fingerprint service in more than 100 hospitals and clinics across its networks. This program is aimed to speed up the pre-authorisation process in provider facilities, thereby greatly enhancing the customer experience, as well as eradicating fraudulent behaviour.

• Human resources and work environment:

Saudi nationals form 42% of the total workforce at Bupa Arabia. In 2009, the HR department completed the company's organisational

structure and applied international-benchmarked employment grading and salary scales. The company also conducted full employee appraisals that covered both technical and job-related training activities. In co-operation with leading external specialist training providers, 36 training courses were conducted, the equivalent of 1,152 man hours of training..

The unique and stimulating work environment at Bupa Arabia was the key to achieving 4th place in the Best Work Environment competition organized by Al Eqtisadiyah newspaper. This represented a 4-place improvement on 2008 . The company has also been recognized for providing the best career development and work environment for Saudi Women.

- **Information systems:**

The company continues to invest in it's IT infrastructure to ensure it has the most robust systems to deal with future growth and in parallel, invest in technology as a driver for future customer service enhancements. In 2009, the Company completed implementation of phase one of its CRM system and integrated new features to its customer service call center and IVR to enhance operational capacity. The company will continue to employ the latest customer service technologies to maintain its pioneering position in such a highly competitive market. In 2009, Bupa Arabia was awarded, for the third consecutive year, the e-business award for Insurance companies across the Middle East. This was in recognition for its Basmah service. Previous wins were for SMS technology and online services.

9. Disclosure in accordance with laws and regulations:

- **Provision of corporate governance:**

Bupa Arabia has committed to full adherence to the provision of corporate governance issued by CMA's council in bulletin No. 1-1-2009 dated 08/01/1430 H (05/01/2009) with the following minor exceptions:

Clause B of article 6: The cumulative vote system is the method to nominate board members in the general assembly. Alternatively, the company followed the regulations of the Ministry of Trade.

The company's Corporate governance code will be agreed and approved by the board in 2010.

- **Board of directors:**

The Board of directors consists of the following:

Membership	Name	Membership in other joint stock companies
Non-executive	Eng. Loay Hisham Nazer	n/a
	Mr. William Stephen Ward	n/a
	Mr. Anthony Frank Cabrelli	n/a
Independent	Eng. Zuhair Hamid Fayez	n/a
	Dr. Mohammed Akef Al Maghrabi	n/a
	Mr. Amer Abdullah Ali Reza	Saudi Industrial Services Company (SISCO)
Executive	Mr. Tal Hisham Nazer	n/a

- Benefits and emoluments of board members and senior executives:

The table below details salaries, emoluments, allowances and bonuses received by board members and senior executives from 01/05/2008 to 31/12/2009:

Description	Executive members	Non-executive members/ Independents	Five senior executives including CEO and Finance Director
Salaries and emoluments -	-	-	3,300
Allowances	30	129	1,520
Annual bonuses	180	1,020	4,913
Total	210	1,149	9,733

- Description of equities of board members:

Name	Position	Opening shares	Opening shares ratio	Change in shares	Change in shares ratio	Closing shares
Eng. Loay Hisham Nazer	Chairman of the board	435,300	1.08825%	-162,500	-0.40625%	272,800
Mr. Tal Hisham Nazer	Member	21,378	0.05344%	-20,378	-0.05094%	1,000
Mr. Anthony Frank Cabrelli	Member	-	-	-	-	-
Mr. William Stephen Ward	Member	-	-	-	-	-
Eng. Zuhair Hamid Fayez	Member	1,000	0.0025%	-	-	1,000
Dr. Mohammed Akef Al Maghrabi	Member	1,000	0.0025%	-	-	1,000
Mr. Amer Abdullah Ali Reza	Member	6,000	0.0015%	-	-	6,000

Bupa Investments Overseas Co. Ltd. registered 1,000 shares with the CMA for each Board member as guarantee shares for its representatives on the Board.

- Description of equities of senior executives:

Name	Position	Opening shares	Opening shares ratio	Change in shares	Change in shares ratio	Closing shares
Mr. Hisham Fayez Ali Radwan	Marketing and Sales Director	23,000	0.0575%	-	-	23,000

- Board meetings:

Name	Position	No. of meetings attended
Eng. Loay Hisham Nazer	Chairman of the board	6
Mr. Tal Hisham Nazer	Managing Director	6
Mr. Anthony Frank Cabrelli	Member	3
Mr. William Stephen Ward	Member	6
Eng. Zuhair Hamid Fayez	Member	2
Dr. Mohammed Akef Al Maghrabi	Member	2
Mr. Amer Abdullah Ali Reza	Member	6

No penalties/sanctions have been taken against the company by the CMA or any other administrative, organizational or judicial bodies.

In fiscal year 2009, Bupa Arabia appointed Zuhair Fayed Partnerships (ZFP) in which Mr. Fayed is a major shareholder, to carry out construction and interior design works for the new headquarters building that the company is planning to move to in Q2 2010. Although Mr. Zuhair Fayed is a board member of Bupa Arabia, the Company conducted a full and independent contractor search and ultimately chose ZFP based on extensive criteria such as quality, pricing and reputation. The Chairman of the Board will make note of this contract to shareholders during the next Ordinary General Assembly Meeting. This contract required none of the members to agree to waive any compensation of any type.

Board committees:

- [Audit committee](#)

The Audit committee consists of Mr. Saleh Al-Jasser (Chairman), Mr. Robert Jones and Mr. Duncan Walsh (independent members). The audit committee's function is to ensure the credibility of the financial statements of the company and to provide advice and recommendation to the Board with regards internal and external auditing, and compliance with all regulatory regulations and instructions. The Committee also reviews the company's policies and procedures to verify compliance with the laws and instructions in the issuance of financial statements. To ensure the completion of its work to the fullest, the Audit Committee will maintain effective working relations with the Board, management, and with the external and internal auditors. The committee held two meetings during 2009 in the presence of all members.

- [Executive committee](#)

The Executive committee consists of Eng. Loay Nazer (Chairman), Mr. Tal Nazer and Mr. William Ward (members). The committee sets the annual income target of Bupa Arabia that is thereafter ratified by the Board. The committee also monitors 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 needed any requests from non-authenticated parties and ensures the company is fully compliant with all regulatory requirements. The committee held 12 meeting in 2009 in the presence of all members.

- [Compensation committee](#)

The Compensation committee consists of Eng. Loay Nazer (Chairman), Mr. William Ward, Mr. Anthony Cabrelli (members) and Mr. John Handley (independent member). This committee agrees on the remuneration packages (including bonuses and long term incentives) for the CEO and senior executives. The committee reviews the sales commission schemes and targets and defines corporate and individual goals. Additionally, the committee supervises the recruitment of key managerial positions and approves the human resources policies and procedures. The committee held one meeting during 2009 in the presence of all members.

- [Investment committee](#)

The Investment committee consists of Mr. Hossam Radwan (Chairman), Mr. Hassan Al Jabri and Mr. Simon Warren (both independent members). The committee's remit is the management of the company's investment portfolio to achieve the best return for the business. The Committee acts as liaison between third party investment managers and Bupa Arabia to ensure investments are in line with SAMA's regulations and are fully Shariah-compliant. The committee appoints investment managers based on experience following a thorough review process and based on a minimum grade A external rating. Among other duties, the committee provides investment advice to the Board of Directors in regard to liquidity and risk of interest rate. The committee held three meetings during the year in the presence of all members.

10. Establishing a Shariah-compliance committee:

On 1st of April 2009, the company contracted the office of Dr. Mohammed Ali Al Gari to obtain Islamic Shariah compliance and advisory services. The office reviews the company's products and services, investments, transactions, contracts and activities in order to ensure full compliance with Shariah law. The office is currently in the process of preparing an internal Shariah-compliance committee.

11. Zakat, official payables and loans:

Total Zakat payable for founding investors and Saudi shareholders for the period was SR 5,838,000 for the 20 months ending 31/12/2009. This amount will be paid before 30/04/2010 according to the regulations of the Department of Zakat and Income Tax.

12. Accounting records and company's ability to continue with operations:

All financial statements are prepared in accordance with international accounting standards. The company confirms proper preparation of respective statements and the ability to continue operations in health insurance on an ongoing basis.

13. Internal audit system:

Annual audits showed the effectiveness of internal audit procedures in 2009. The company commenced an audit committee to maintain these procedures and to achieve them to the fullest. The internal audit department evaluates internal systems in place to ensure the achievability and regulatory process of the goals set.

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 health insurance market. The Board would also like to express their gratitude to the Company's management and employees for their dedication and strong leadership throughout his period.