# The Annual Report

For the year ended December 31, 2012

Arab Orient Insurance Company

(A Public Limited Shareholding Company)

Amman - Jordan

# His Majesty King Abdullah II

## Crown Prince Hussein bin Al Abdullah II

## Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
## Prince of Kuwait

# Contents

## Chairman
Mr. Khaled Al Hasan
Representative of Gulf Insurance Company

## Vice Chairman
Mr. Mansour Lozi
Representative of Strategic Company for Investment

## Member
Mr. Alaa Al Zoheiri
Representative of Gulf Insurance Company

## Member
Mr. Bijan Khosrochahi
Representative of United States Fire Insurance Company

## Member
Mr. «Mohammed Yaser» Al Asmar
Representative of Jordan Kuwait Bank

## Member
Mr. Samir Abdelhadi Hammoudeh
Representative of Hammoudeh Group for Trade and Investment

## Member
Mr. Ebrahim Al Rayes

## CEO – Secretary of Board of Directors
Mr. Isam Abdelkhaliq

## Auditors
Messrs. Ernst & Young

## Dear shareholders,

On behalf of the members of the board of directors and myself, I am glad to present to you the 15th annual report showing the results and achievements of our company in addition to the financial statements for the year ended 31.12.2012.

The Year 2012 was, by all means, an exceptional year given the events that have devastated the Arab Region. The events surprised us all as individuals and countries on the same footing. The above events have directly affected all the financial and economic sectors, particularly the local insurance companies as the case of the other Arab countries. Therefore, we had to take various measures to eliminate as much as possible the negative impacts of such events by developing a work plan that takes into account the current situation and future consequences.

Among the negative effects on the economic situation was the scarcity of liquidity and absence of investment opportunities. This in particular has affected people in terms of their purchase power and priorities of their life concerns in the light of the unforeseen events for the Jordanian market. Undoubtedly, we may describe this year as the most difficult one within the last decade. We had to think loud in an attempt to come up with applicable, creative, real and practical plans. By virtue of such plans we managed to terminate the year with the least possible losses for the compulsory motor insurance and with the best possible results for the remaining insurance branches at the Jordanian market level with distinction.

The aforesaid crisis was accompanied by old economic problems, effects of which have dramatically exacerbated in 2012. The massive losses of the insurance sector during the year have reached their fullest extent affecting negatively the insurance sector in general and some insurance companies in specific. Furthermore, unusual problems we have never been exposed to have emerged like the dramatic increase in fraudulent accidents and illicit exploitation of the legal gaps for unjustifiable & illegal gains. They took advantage of the fact that insurance has been one of the most direct and rapid sources for cash funding. Those factors have led to the realization of successive losses to all insurance companies operating in the Jordanian market for the motor insurance compulsory and comprehensive branches.

Notwithstanding the events 2012 had witnessed in terms of substantial challenges, however, that year also witnessed achievements. During 2012, the company had received a distinct rating at the local and regional level by the international rating firm "AM Best" by granting our company the financial rating of B++ and credit rating of bbb+.

With the exception of motor insurance branch, the company had achieved a substantial growth in the net profits in all insurance branches. However, a significant part of those profits has been drained for redressing a large provision for corporate bonds in the Arab Real Estate Development Co. (ARED) who suffered from significant financial difficulties. The provision in this year amounted to JD 300,000. Another provision of JD 500,000 was redressed for the bad debts due to the financial difficulties faced by so many indebted transport and service companies.

## Dear Shareholders,

The global reinsurance markets are still tight in terms of agreement renewal for 2013. The reinsurance companies' strategy continues to focus on specialization for the sake of securing profitability. As well, they focus on the necessity for increasing the technical profits to the insurance companies directly and to readjusting the loss rate due to the drop of returns in the global market.

Despite the above tightening, Gulf Insurance Group and for the third year respectively, decided to organize a uniform collective reinsurance agreement (Master Treaty) which included all subsidiaries and whereby it has gained better merits in terms of capacity of such agreements that have managed to maintain good commission rates by reinsurers in addition to benefits in the conditions and exclusions. Therefore, the group strategy continues to improve quality and profitability of the assigned business. Hannover Re. has assumed leadership of the Master Treaty in the year 2013. Hannover Re. is a reinsurance international company. The Treaty has involved more than 30 reinsurance companies of excellent rating in accordance with the instructions of the insurance commission in order to guarantee durability of this agreement.

## Dear Shareholders,

In continuation of what had been the case in the past year, 2012 had witnessed a sharp price competition, because most insurance companies had focused on the investment segment of the business more than the technical side. Given the recession of the stock market performance, most companies turned to the price competition being the best way to obtain business and to maintain the market share. However, notwithstanding the competition, we have managed to maintain high rates to renew policies up to 87% where in certain cases we reduced prices for certain major projects, in addition to expanding the insurance coverage in other cases. This had created pressure on the company profitability margins. Therefore, we were driven during the second half of the year to increase the target premium volume for 2012 to reach JD 77.58 million in order to address the sharp decline experienced by the technical work profitability margins, and to maintain a profitability level better than what was achieved in 2011.

On the other hand, the company has doubled its efforts to attract medium and large size accounts through concentration of efforts towards providing advanced programs to the market at suitable and handy prices and presentation of outstanding services rapidly and accurately and through focusing on the general insurance premiums to make advantage of the major project insurance opportunities. It is envisaged that Jordan insurance market will witness some growth in the major projects such as Phosphate, Potash, Electricity and New Airport, as we all the time followed up and provided insurance to such major projects under the tangible Jordanian economy growth at all levels. The company has managed to continue in servicing the largest insurance portfolio for companies in the Kingdom with a clientele of more than 2,324 companies. In the medical insurance field, we provide service to more than 206,000 subscribers with first class medical insurance services. They represent more than 986 companies and corporations from various economic sectors. An integrated team of doctors, pharmacists and nurses counting more than 80 staff members provide the medical services to the above companies around the clock. The medical team is strongly supported by account managers who make more than 870 service and sales visits a week in order to guarantee rapid provision of best personal services and at all times.

The company shall continue its commitment to maintain its service criteria. Such criteria is based on fast payment of claims, transparency in dealing with the customers and highest level of credibility and moral and technical commitment. It will continue so during 2013 with the clear objectives and strategy in connection with its orientation towards focusing on the individual products and programs which day by day prove to be the most profitable business, most stable and less affected by external factors. The company will continue upgrading and developing its IT system for more speed, accuracy, efficiency and discipline.

The company now adopts the electronic process systems and deals with the reinsurers and control authorities with extreme transparency through internet communication system, according to which such authorities can monitor our performance and review our business around the clock. Furthermore, today and through the adoption of an outstanding IT system, our company is able to directly obtain profit and loss results around the clock. Therefore, it can get its final financial statements immediately with the end of the last hours of the fiscal year. The system grants the company an opportunity for permanent control over its operational transactions. In terms of IT systems, trends of the company during 2013 will be based on developing its control systems and protection of its information and statements. The company will try to promote its rating with "AM Best" in 2013. In short, the company will make every possible effort to maintain its position as the leading insurance company in the Jordanian market at all levels of subscription and profitability, most significantly the maximization of the return on the shareholders' equity.

## Dear Shareholders,

For the insurance sector, we believe that the biggest challenge falls in the solvency and level of professionalism in a manner to attract several new investors. The market has become more able to develop creative insurance products and programs that satisfy and meet the needs of customers. However, we still believe that the great threat facing the insurance companies is the negative results of the compulsory insurance due to the civil liability arising from using the vehicles which still gives the insured the right to choose the insurer at consolidated tariff, while the insurance company is not allowed to decide prices or select the risks in line with its underwriting policy. The continuation of this situation shall mean more exhaustion to the insurance sector unless prices of this type of insurance are liberalized in a manner to balance between premium and level of risk. Currently we, in coordination with the insurance commission, are trying to find the best solution and consider the possibility to apply the principle of ceasing cash indemnity to the people affected by vehicle accidents as a preliminary step on the way to the goal of price liberalization during 2013.

## Dear Shareholders,

With the same consistency and perseverance, our company once again has achieved the targeted figures in terms of premiums and profits. The growth rate of the underwriting premiums reached 17.37%, and reached the figure JD 77.58 million to remain the largest company in the Kingdom in terms of its market share which in 2012 is more than 16%. On the other hand, the company has maintained its profitability rates where total technical profits before tax and provisions reached JD 4.43 million while the company assets grew to become JD 70.99 million.

In the light of the foregoing excellent results, the board of directors suggests that the extraordinary general assembly distributes cash dividend with an amount of 1,310,750 million Jordanian Dinars which represents 7% of the company capital, and bonus shares amounting to 1,310,750 million Shares/Dinar to be capitalized. These shares represent 7% of the company capital amounting to JD 18.725.000; therefore the capital will become 20,035,750 million Shares/Dinar.

Chairman of the Board of Directors
**Khaled Al Hasan**

## Dear Shareholders,

The results of the company's activities during 2012 have been as follows:

## Insurance Premiums

Total insurance premiums during the year 2012 were JD 77,585,752 compared to JD 66,102,873 in 2011, with total increase of 17.4%, distributed as follows:

- Marine Insurance: Total marine insurance premiums during the year 2012 were JD 1,784,879 compared to JD 1,639,006 in 2011, with total increase of 8.9%.
- Fire Insurance: Total fire insurance premiums during the year 2012 reached JD 6,625,522 compared to JD 4,859,541 in 2011, with total increase of 36.3%.
- Liability and Other Insurance Branches: Total premiums of liability and other insurance branches during the year 2012 were JD 6,470,511 compared to JD 5,445,065 in 2011, with total increase of 18.8%.
- Motor Insurance: Total motor insurance premiums during the year 2012 were JD 17,868,218 compared to JD 14,840,958 in 2011, with total increase of 20.4%.
- Medical Insurance: Total medical insurance premiums during the year 2012 were JD 44,836,622 compared to JD 39,318,303 in 2011, with total increase of 14%.

## Insurance Claims

Total paid claims during the year 2012 were JD 56,461,932 compared to JD 47,036,723 in 2011, with total increase of 20%, distributed as follows:

- Marine Insurance: Total marine paid claims during the year 2012 were JD 227,015 compared to JD 187,339 in 2011, with total increase of 21.2%.
- Fire Insurance: Total fire paid claims during the year 2012 were JD 1,085,179 compared to JD 1,477,468 in 2011, with total decrease of 26.6%.
- Liability and Other Insurance Branches: Total paid claims for liability and other insurance branches during the year 2012 were JD 675,396 compared to JD 571,691 in 2011, with total increase of 18.1%.
- Motor Insurance: Total motor paid claims during the year 2012 were JD 14,435,136 compared to JD 15,994,475 in 2011, with total decrease of 4.3%.
- Medical Insurance: Total medical paid claims during the year 2012 were JD 40,039,206 compared to JD 28,805,750 in 2011, with total increase of 39%.

## Reserves

- The net unearned premiums reserve at the end of 2012 was JD 19,421,898 compared to JD 14,998,884 at the end of 2011, with total increase of 29.5%.
- The net outstanding claims reserve at the end of 2012 was JD 9,717,368 compared to JD 8,035,531 at the end of 2011, with total increase of 20.9%.

## Investments

- The company achieved an income of JD 1,009,481 compared to JD 675,865 as an interest on its deposits at bank in 2011, with total increase of 49.4%.
- The fair value for the available for sale securities as at 31/12/2012 was JD 1,646,573.
- Deposits at banks were JD 24,369,485 as at 31/12/2012, from which there is JD 225,000 as restricted deposit in the name of the general manager of the insurance commission as a legal requirement.

## Profits

- Marine Insurance: Total marine profits during the year 2012 were JD 421,516 compared to JD 450,814 in 2011, with total decrease of 6.5%.
- Fire Insurance: Total fire profits during the year 2012 were JD 765,659 compared to JD 701,279 in 2011, with total increase of 9.2%.
- Liability and Other Insurance Branches: Total liability and other insurance branches profits during the year 2012 were JD 1,148,081 compared to JD 540,014 in 2011, with total increase of 112.6%.
- Motor Insurance: Total motor profits during the year 2012 were JD 1,916,824 compared to losses in 2011 amounted of JD 423,471, with total increase of 552.6%.

- Medical Insurance: Total medical profits during the year 2012 were JD 2,077,763 compared with JD 5,126,877 in 2011, with total decrease of 59.5%.
- Total company's total technical profits during the year 2012 were JD 6,329,843 compared to JD 6,395,513 in 2011, with total decrease of 1%.
- Total profits before tax and provisions for the year 2012 were JD 4,437,381 compared to JD 4,163,187 in 2011, with total increase of 6.6%.
- Total net profits after tax and provisions for the year 2012 were JD 3,344,340 compared to JD 3,157,410 in 2011, with total increase of 5.9%.
- The percentage of the net profits from the paid up capital for the year 2012 were 17.86% compared to18.04% in 2011.

## Future Plan

- Continue with diversifying the Company's portfolio by concentrating on personal lines as well as introducing new and innovative tailor- made products and services, which will provide the company with a wide base of small to medium profitable accounts.
- Pursue all opportunities to acquire a life insurance license.
- Improve our claims management and control procedures.
- Focus on the bancassurance project in close cooperation with Jordan Kuwait Bank to ensure optimal standards.
- Continue with staff training in order to upgrade their technical and sales skills.
- Maximize the utilization of our IT system.
- Concentrate on cross selling as an effective tool to increase our premium income.
- Target profitable accounts in order to improve the technical results.
- Concentrate on reducing and controlling the expenses.
- Geographic spreading and opening new branches all over the Kingdom.

## Recommendations of the Board of Directors

- Address the outcomes of the previous general assembly meeting which was held on 29/3/2012
- Attend the Auditors' report.
- Address the Board of Directors report and the Company's future plan.
- Discuss the Auditor's report and financial statements as of 31/12/2012.
- To approve the proposal of the board of directors dated 24/1/2013 concerning the distribution of cash profits to the shareholders at 7% of the company capital and to carry forward the remaining profits.
- Grant release to the chairman and members of the Board of Directors for the year ended 31/12/2012.
- Elect new Board of Directors for the coming four years.
- Elect the Auditors for the 2013 financial year and authorize the Board of Directors to determine their fees.
- Any other subjects addressed by the General Assembly according to law requirements.

In conclusion, I would like to express sincere thanks and gratitude to our esteemed customers for their support and confidence in our company and our services. I also would like to thank our esteemed shareholders for their support to the board of directors and executive management. Further, I do thank our parent company "Gulf Insurance Company" for its permanent support to us. Furthermore, I thank all authorities that worked with us within the framework of outstanding strategic partnerships, foremost of which is the Insurance Commission, Jordan Insurance Federation and all their staff members. We also don't forget to thank the reinsurers and the insurance and reinsurance agents and brokers whose contribution in the above achievements had been substantial. We look forward to having more success in 2013 in a way to meet your aspirations and increase your contribution.

Finally, I wish more progress, advancement and security to our lovely Kingdom under the leadership of His Majesty King Abdullah II and his prudent government.

Chairman of the Board of Directors
Khaled Al Hasan

## Mr. Isam Abdelkhaliq

Job Title: CEO & Secretary of the Board of Directors
Education: BS in Marketing & Political Science
Years of Experience: 25 years

## Mr. Khalil Khmous

Job Title: Deputy CEO
Education: BS in Accounting & Business administration
Years of Experience: 37 years

## Mr. Mustafa Melhem

Job Title: Deputy CEO / Medical Insurance, Customer Care, and Information Technology Departments
Education: BS
Years of Experience: 15 years

## Eng. Yazan Khasawneh

Job Title: Senior Director / HR, Branches, Bancassurance, and Indirect Business
Education: BS
Years of Experience: 11 years

## Mr. Ahmad Abdo

Job Title: Director / Business Development, Public Relations, and Marketing Departments
Education: BS
Years of Experience: 14 years

## Mr. Tareq Ammary

Job Title: Director / Reinsurance, Underwriting, and Engineering Department
Education: Master, Cert. CII/London
Years of Experience: 15 years

## Mr. Rami Dababneh

Job Title: Director / Key Accounts & General Claims Departments
Education: BS, Cert. ACII
Years of Experience: 11 years

## Advocate Raghad Hammad

Job Title: Senior Manager / Legal Department
Education: BS
Years of Experience: 11 years

## Mr. Mohammad Suboh

Job Title: Deputy Director / Branches, Bancassurance, and Indirect Business
Education: BS
Years of Experience: 16 years

## Mr. Suleiman Dandis

Job Title: Deputy Director / Medical Insurance Department
Education: BS
Years of Experience: 12 years

## Mr. Bisher Obeidat

Job Title: Deputy Director / Branches & Bancassurance
Education: BS, Cert. Cisco
Years of Experience: 6 years

## Mr. Khaled Ghanem

Job Title: Senior Manager / Marine, Aviation, and Energy Insurance Department
Education: BS
Years of Experience: 18 years

## Mr. Wael Shehadeh

Job Title: Senior Manager / Accounting Department
Education: BS
Years of Experience: 20 years

## Mrs. Abeer Dawoud

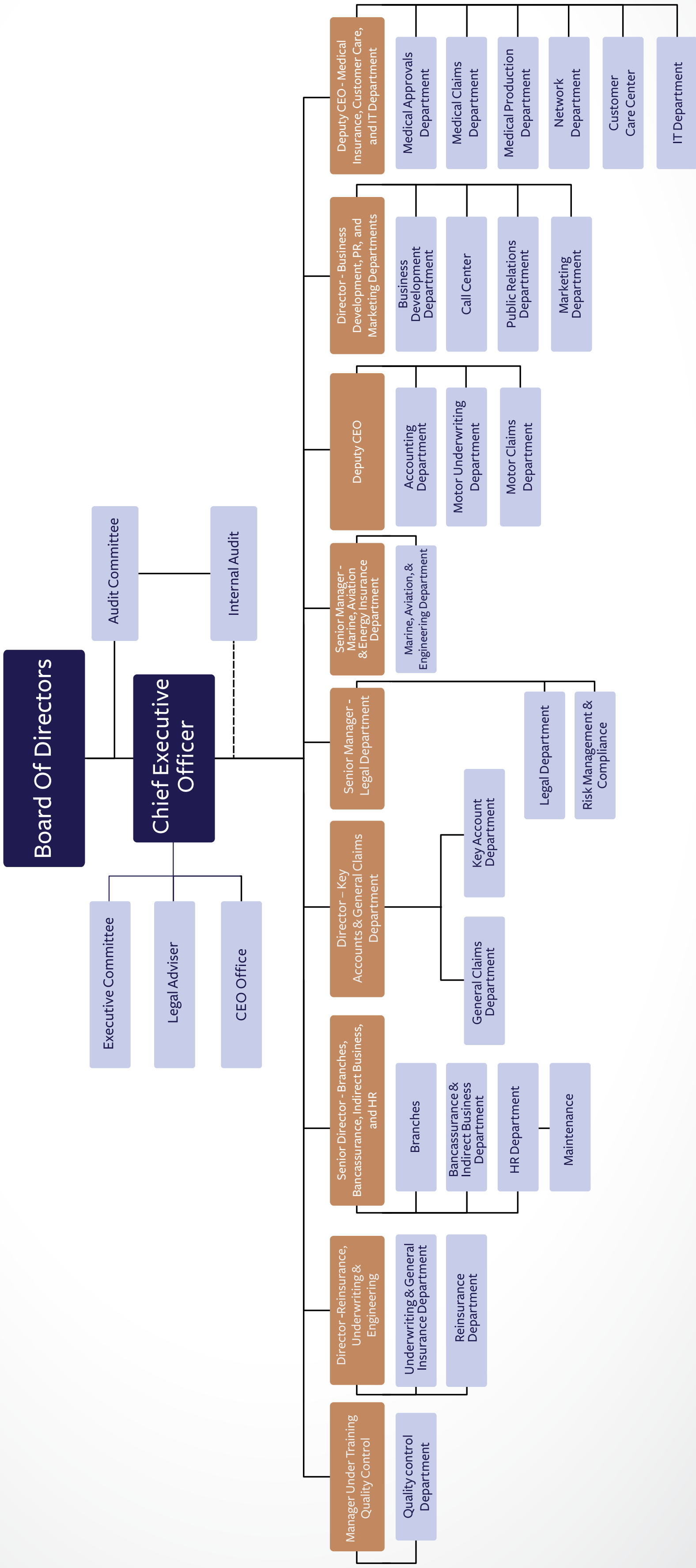
Job Title: Senior Manager / Underwriting & Engineering Department
Education: BS
Years of Experience: 10 years

## Mrs. Farah Obeidat

Job Title: Senior Manager - Reinsurance / Facultative Operations
Education: BS
Years of Experience: 7 years

## Mr. Areen Al Kurdi

Job Title: Senior Manager / Customer Care Center
Education: Diploma
Years of Experience: 20 years





Arab Orient Insurance | gig GULF INSURANCE GROUP

# Financial Statements

31, December 2012

# Independent Auditors' Report To The Shareholders Of Arab Orient Insurance Public Shareholding Company

Amman – Jordan

We have audited the accompanying financial statements of Arab Orient Insurance Public Shareholding Company, which comprise the statement of financial position as of December 31, 2012, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Company Name as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Report on the legal Requirements

The company maintains proper accounting records and the accompanying financial statements are in agreement with the financial data presented in the Board of Directors' report. We recommend approving these financial statements.

## Other Matters

The financial statements for the year 2011 has been audited by another auditor who issued an unqualified opinion dated 31 January 2012.

**Ernst & Young**

Amman - Jordan
24, January 2013

**Bisher Ibrahim Bakir**
License Number (592)

| Assets | Notes | 2012 | 2011 |
|---|---|---|---|
| | | JD | JD |
| Bank deposits | 3 | 24,369,485 | 18,684,935 |
| Financial assets at fair value through profit or loss | 4 | 276,573 | 366,794 |
| Financial assets at amortized cost | 5 | 1,370,000 | 1,670,000 |
| **Total Investments** | | **26,016,058** | **20,721,729** |
| **Other Assets-** | | | |
| Cash in hands and at banks | 6 | 2,261,653 | 1,269,544 |
| Checks under collection | 7 | 5,187,013 | 4,378,007 |
| Accounts receivable, net | 8 | 26,329,793 | 22,844,164 |
| Reinsurance receivable | 9 | 3,472,137 | 3,630,946 |
| Deferred income tax | 10 | 1,360,738 | 957,088 |
| Property and equipment, net | 11 | 5,750,326 | 5,772,329 |
| Intangible assets | 12 | 72,353 | 53,475 |
| Other assets | 13 | 542,741 | 497,974 |
| Total Assets | | 70,992,812 | 60,125,256 |
| **Liabilities and Equity** | | | |
| **Liabilities –** | | | |
| **Technical Reserves** | | | |
| Unearned premium reserve, net | | 19,421,898 | 14,998,884 |
| Outstanding claims reserve, net | | 9,717,368 | 8,035,531 |
| Total Technical Reserves | | 29,139,266 | 23,034,415 |
| **Other liabilities** | | | |
| Accounts payable | 14 | 2,891,138 | 3,280,062 |
| Accrued expenses | | 153,852 | 98,262 |
| Reinsurance payable | 15 | 11,194,268 | 8,621,341 |
| Other provisions | 16 | 667,757 | 529,742 |
| Income tax provision | 10 | 1,098,905 | 1,227,301 |
| Other liabilities | 17 | 263,179 | 219,026 |
| Total Liabilities | | 45,408,365 | 37,010,149 |
| **Equity** | | | |
| Paid in capital | 18 | 18,725,000 | 17,500,000 |
| Statutory reserve | 19 | 2,790,322 | 2,343,084 |
| Retained earnings | | 4,069,125 | 3,272,023 |
| Total Shareholders Equity | | 25,584,447 | 23,115,107 |
| Total Liabilities and Equity | | 70,992,812 | 60,125,256 |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of
the Board of Directors

# Statement of Income
# for the Year Ended 31 December 2012

| | Notes | 2012 | 2011 |
|---|---|---|---|
| | | JD | JD |
| **Revenue –** | | | |
| Gross written premiums | | 77,585,752 | 66,102,873 |
| Less: reinsurance share | | (39,833,438) | (36,912,391) |
| **Net written premiums** | | **37,752,314** | **29,190,482** |
| Net change in unearned premiums reserve | | (4,423,014) | (2,337,001) |
| **Net earned premiums** | | **33,329,300** | **26,853,481** |
| Commissions income | | 7,210,895 | 5,952,778 |
| Insurance policies issuance fees | | 5,055,962 | 3,541,703 |
| Interest income | 21 | 1,108,942 | 803,879 |
| Loss from financial assets and investments | 22 | (79,202) | (25,149) |
| Total revenues | | 46,625,897 | 37,126,692 |
| **Claims and related expenses** | | | |
| Paid claims | | 56,461,932 | 47,036,723 |
| Less: Recoveries | | (2,956,076) | (3,677,975) |
| Less: Reinsurance share | | (24,702,740) | (21,942,920) |
| **Paid claims, net** | | **28,803,116** | **21,415,828** |
| Net change in claims reserve | | 1,681,837 | 810,665 |
| Allocated employees' expenses | 23 | 4,104,195 | 3,510,016 |
| Allocated administrative expenses | 24 | 2,345,374 | 2,027,177 |
| Excess of loss premiums | | 541,219 | 521,191 |
| Policies acquisition costs | | 1,664,401 | 1,570,196 |
| Other expenses | | 126,172 | 97,376 |
| Net Claims | | 39,266,314 | 29,952,449 |
| Unallocated employees' expenses | 23 | 1,026,048 | 877,504 |
| Depreciation and amortization | 11,12 | 477,884 | 376,950 |
| Unallocated general and administrative expenses | 24 | 586,344 | 506,794 |
| Allowance for doubtful debts | 9 | 500,000 | 388,000 |
| Impairment of financial assets at amortized cost | 5 | 300,000 | 800,000 |
| (Gain) loss from sale of property and equipment | | (3,074) | 13,712 |
| Other expenses | 25 | 35,000 | 48,096 |
| Total expenses | | 2,922,202 | 3,011,056 |
| Profit for the year before tax | | 4,437,381 | 4,163,187 |
| Income tax expenses | 10 | (1,093,041) | (1,005,777) |
| **Profit for the year** | | **3,344,340** | **3,157,410** |
| | | JD/Fils | JD/Fils |
| **Basic and diluted earnings per share** | **26** | **(0.178)** | **(0.168)** |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of
the Board of Directors

# Statement of Comprehensive Income for the Year Ended 31 December 2012

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Profit for the year | 3,344,340 | 3,157,410 |
| **Add: other comprehensive income** | **-** | **-** |
| **Total comprehensive income for the year** | **3,344,340** | **3,157,410** |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of the Board of Directors

# Statement Of Changes in Equity for the Year Ended 31 December 2012

| | Note | Paid in capital | Statutory reserve | Cumulative change in fair value | Retained earnings *** | Total |
|---|---|---|---|---|---|---|
| | | JD | JD | JD | JD | JD |
| **2012 -** | | | | | | |
| **Balance at 1 January 2012** | | **17,500,000** | **2,343,084** | **-** | **3,272,023** | **23,115,107** |
| Total comprehensive income | | - | - | - | 3,344,340 | 3,344,340 |
| Cash capital increase * | 10 | 1,225,000 | - | - | (1,225,000) | - |
| Dividends ** | | - | - | - | (875,000) | (875,000) |
| Transfer to reserve | | - | 447,238 | - | (447,238) | - |
| **Balance at 31 December 2012** | | **18,725,000** | **2,790,322** | **-** | **4,069,125** | **25,584,447** |
| **2011 -** | | | | | | |
| **Balance at 1 January 2011** | | **15,000,000** | **1,923,265** | **(61,526)** | **3,095,958** | **19,957,697** |
| Effect of implementation IFRS9 | | - | - | 61,526 | (61,526) | - |
| **Restated balance at 1 January 2011** | | **15,000,000** | **1,923,265** | **-** | **3,034,432** | **19,957,697** |
| Total comprehensive income for the year | | - | - | - | 3,157,410 | 3,157,410 |
| Transfer to reserve | | - | 419,819 | - | (419,819) | - |
| Capital increase | | 2,500,000 | - | - | (2,500,000) | - |
| **Balance at 31 December 2011** | | **17,500,000** | **2,343,084** | **-** | **3,272,023** | **23,115,107** |

* According to the extra ordinary General Assembly of Shareholders' resolution on March 29, 2012 and the securities commission's decision on June 20, 2012 the increase of the Company's capital has been approved by JD 1,225,000 through the capitalization of retained earnings and the distribution of free stock dividend of 7% of paid in capital accordingly, the authorized and paid in capital became JD 18,725,000.

** On 29 March 2012, the General Assembly of Shareholders approved the board of directors recommendation to distribute cash dividends of 5% of the paid capital as of 31 December 2011.

*** Retained earnings include an amount of JD 1,360,738 as of December 31, 2012 (2011: JD 957,088), representing deferred tax assets that can not be distributed according to the securities commission instructions. This item does not include unrealized profits from financial assets in accordance with the instructions of the Securities Commission as of 31 December, 2012 and 2011.

Chief Executive Officer

Chairman of the Board of Directors

The attached notes 1 to 37 form part of these financial statements

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | JD | JD |
| **Cash Flows from Operating Activities** | | | |
| Profit for the year before tax adjustments | | 4,437,381 | 4,163,187 |
| **Adjustment for non cash items** | | | |
| Depreciation and amortization | | 477,884 | 376,950 |
| Allowance for doubtful debt | | 500,000 | 388,000 |
| Net change in fair value of financial assets at fair value through profit or loss | | 90,221 | 34,760 |
| Impairment losses on financial assets at amortized cost | | 300,000 | 800,000 |
| Gain (loss) from sale of property and equipment | | (3,074) | 13,712 |
| Other provision | | 138,015 | 67,628 |
| Net change in unearned premiums reserve | | 4,423,014 | 2,337,001 |
| Net change in outstanding claims reserve | | 1,681,837 | 810,665 |
| **Cash flows from operating activities before changes in working capital** | | **12,045,278** | **8,991,903** |
| Checks under collection | | (809,006) | (496,395) |
| Accounts receivable | | (3,985,629) | (3,229,025) |
| Reinsurers' receivable | | 158,809 | (2,146,276) |
| Other assets | | (44,767) | (118,289) |
| Accounts payable | | (388,924) | 947,546 |
| Accrued expenses | | 55,590 | 22,568 |
| Reinsurers' payable | | 2,572,927 | 1,089,855 |
| Other payables | | 44,153 | 34,752 |
| **Net cash flows from operating activities before tax** | | **9,648,431** | **5,027,135** |
| Income tax paid | | (1,625,087) | (1,240,069) |
| **Net cash flows from operating activities** | | **8,023,344** | **3,787,066** |
| **Cash Flows from Investing Activities** | | | |
| (Purchase) of financial assets at fair value through profit or loss | | - | (49,822) |
| (Purchase) of intangible assets | | (41,708) | (15,746) |
| (Purchase) of property and equipment | | (479,377) | (1,120,688) |
| (Payment) on purchase of property and equipments | | - | (5,000) |
| Proceeds from sale of property and equipment | | 49,400 | 18,017 |
| **Net cash flows (used in) investing activities** | | **(471,685)** | **(1,173,239)** |
| **Cash Flows from Financing Activities** | | | |
| Cash dividends | | (875,000) | - |
| **Net cash flow (used in) financing activities** | | **(875,000)** | **-** |
| **Net increase in cash and cash equivalent** | | **6,676,659** | **2,613,827** |
| Cash and cash equivalents at beginning of the year | | 19,729,479 | 17,115,652 |
| **Cash and cash equivalents at the end of the year** | **27** | **26,406,138** | **19,729,479** |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of
the Board of Directors

# Statement of Underwriting Revenues for the General Insurance for the year Ended 31 December 2012

| | Motor | | Marine | | Aviation | | Fire and property | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD | JD | JD | JD | JD |
| **Written Premiums:** | | | | | | | | |
| Direct insurance | 16,390,330 | 13,671,402 | 1,592,681 | 1,283,736 | 263,269 | 36,602 | 4,347,310 | 3,559,909 |
| Reinsurance inward business | 1,477,888 | 1,169,556 | 192,198 | 355,270 | - | - | 2,278,212 | 1,299,632 |
| **Total Premiums** | **17,868,218** | **14,840,958** | **1,784,879** | **1,639,006** | **263,269** | **36,602** | **6,625,522** | **4,859,541** |
| Less: | | | | | | | | |
| Local reinsurance share | (1,892,308) | (1,663,361) | (194,341) | (358,928) | - | - | (610,084) | (569,614) |
| Foreign reinsurance share | (30,905) | (4,168) | (1,109,570) | (893,887) | (263,269) | (36,602) | (4,865,766) | (3,416,659) |
| **Net Written Premiums** | **15,945,005** | **13,173,429** | **480,968** | **386,191** | **-** | **-** | **1,149,672** | **873,268** |
| Add: | | | | | | | | |
| **Balance at the beginning of the year** | | | | | | | | |
| Unearned premiums reserve | 6,957,362 | 6,104,512 | 450,105 | 296,300 | 329,594 | 674,852 | 2,421,211 | 2,085,075 |
| Less: Reinsurance share | (562,498) | (733,223) | (342,245) | (176,882) | (329,594) | (674,852) | (2,055,265) | (1,766,330) |
| **Net Unearned Premiums Reserve** | **6,394,864** | **5,371,289** | **107,860** | **119,418** | **-** | **-** | **365,946** | **318,745** |
| Less: | | | | | | | | |
| **Balance at ended of the year** | | | | | | | | |
| Unearned premiums reserve | 8,814,850 | 6,957,362 | 702,379 | 450,105 | 17,878 | 329,594 | 3,143,126 | 2,421,211 |
| Less : Reinsurance share | (737,374) | (562,498) | (539,518) | (342,245) | (17,878) | (329,594) | (2,693,421) | (2,055,265) |
| **Unearned premiums reserve - net** | **8,077,476** | **6,394,864** | **162,861** | **107,860** | **-** | **-** | **449,705** | **365,946** |
| **Earned revenue from written Premiums - net** | **14,262,393** | **12,149,854** | **425,967** | **397,749** | **-** | **-** | **1,065,913** | **826,067** |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of the Board of Directors

| | Liability | | Medical | | Other Classes | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD | JD | JD | JD | JD |
| **Written Premiums:** | | | | | | | | |
| Direct insurance | 385,697 | 358,642 | 44,819,731 | 38,957,432 | 5,117,253 | 4,322,540 | 72,916,271 | 62,190,263 |
| Reinsurance inward business | 257,087 | 282,462 | 16,891 | 360,871 | 447,205 | 444,819 | 4,669,481 | 3,912,610 |
| **Total Premiums** | **642,784** | **641,104** | **44,836,622** | **39,318,303** | **5,564,458** | **4,767,359** | **77,585,752** | **66,102,873** |
| Less: | | | | | | | | |
| Local reinsurance share | (251,922) | (258,220) | - | (936) | (728,073) | (767,797) | (3,676,728) | (3,618,856) |
| Foreign reinsurance share | (225,111) | (294,674) | (25,762,940) | (25,420,830) | (3,899,149) | (3,226,715) | (36,156,710) | (33,293,535) |
| **Net Written Premiums** | **165,751** | **88,210** | **19,073,682** | **13,896,537** | **937,236** | **772,847** | **37,752,314** | **29,190,482** |
| Add: | | | | | | | | |
| **Balance at the beginning of the year** | | | | | | | | |
| Unearned premiums reserve | 172,807 | 174,050 | 19,916,877 | 13,450,700 | 2,256,044 | 2,788,386 | 32,504,000 | 25,573,875 |
| Less: Reinsurance share | (96,188) | (104,081) | (12,206,365) | (6,991,298) | (1,912,961) | (2,465,326) | (17,505,116) | (12,911,992) |
| **Net Unearned Premiums Reserve** | **76,619** | **69,969** | **7,710,512** | **6,459,402** | **343,083** | **323,060** | **14,998,884** | **12,661,883** |
| Less: | | | | | | | | |
| **Balance at ended of the year** | | | | | | | | |
| Unearned premiums reserve | 367,847 | 172,807 | 19,754,568 | 19,916,877 | 2,238,762 | 2,256,044 | 35,039,410 | 32,504,000 |
| Less : Reinsurance share | (283,321) | (96,188) | (9,437,907) | (12,206,365) | (1,908,093) | (1,912,961) | (15,617,512) | (17,505,116) |
| **Unearned premiums reserve - net** | **84,526** | **76,619** | **10,316,661** | **7,710,512** | **330,669** | **343,083** | **19,421,898** | **14,998,884** |
| **Earned revenue from written Premiums - net** | **157,844** | **81,560** | **16,467,533** | **12,645,427** | **949,650** | **752,824** | **33,329,300** | **26,853,481** |

Chief Executive Officer

Chairman of
the Board of Directors

The attached notes 1 to 37 form part of these financial statements

# Statement of Claims Cost for the General Insurance for the year Ended 31 December 2012

| | Motor | | Marine | | Aviation | | Fire and property | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD | JD | JD | JD | JD |
| **Paid claims** | **14,435,136** | **15,994,475** | **227,015** | **187,339** | **-** | **-** | **1,085,179** | **1,477,468** |
| Less: | | | | | | | | |
| Recoveries | (2,916,157) | (3,674,273) | - | - | - | - | (39,663) | (1,797) |
| Local reinsurance share | (310,711) | (580,108) | - | - | - | - | (165,865) | (380,903) |
| Foreign reinsurance share | (108,316) | (91,335) | (113,463) | (97,294) | - | - | (499,896) | (775,267) |
| **Net Paid Claims** | **11,099,952** | **11,648,759** | **113,552** | **90,045** | **-** | **-** | **379,755** | **319,501** |
| Add: | | | | | | | | |
| Outstanding Claims Reserve at the end of the year | | | | | | | | |
| Reported | 6,433,583 | 5,905,751 | 127,246 | 125,016 | - | - | 656,499 | 459,513 |
| Unreported | 1,000,000 | 600,000 | 20,000 | 7,000 | - | - | 100,000 | 45,000 |
| Less: Reinsurance share | (710,331) | (982,109) | (94,669) | (95,217) | - | - | (508,400) | (360,455) |
| Less: Reinsurance share from IBNR | - | - | - | - | - | - | - | - |
| Less: Recoveries | (938,695) | - | - | - | - | - | - | - |
| **Net Outstanding Claims Reserve at the of the year** | **5,784,557** | **5,523,642** | **52,577** | **36,799** | **-** | **-** | **248,099** | **144,058** |
| Reported | | | | | | | | |
| Unreported | | | | | | | | |
| Less: | | | | | | | | |
| Outstanding Claims Reserve at the beginning of the year | | | | | | | | |
| Reported | 6,621,954 | 6,253,323 | 125,016 | 109,139 | - | - | 459,513 | 1,462,696 |
| Unreported | 600,000 | 400,000 | 7,000 | 7,000 | - | - | 45,000 | 45,000 |
| Reinsurance share | (982,109) | (1,112,272) | (95,217) | (84,194) | - | - | (360,455) | (1,339,171) |
| Reinsurance share from IBNR | - | - | - | - | - | - | - | - |
| Recoveries | (716,203) | - | - | - | - | - | - | - |
| **Net Outstanding Claims Reserve at beginning of the year** | **5,523,642** | **5,540,849** | **36,799** | **31,945** | **-** | **-** | **144,058** | **168,525** |
| **Net Claims Cost** | **11,360,867** | **11,631,552** | **129,330** | **94,899** | **-** | **-** | **483,796** | **295,034** |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of
the Board of Directors

| | Liability | | Medical | | Other Classes | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD | JD | JD | JD | JD |
| **Paid claims** | **56,166** | **34,885** | **40,039,206** | **28,805,750** | **619,230** | **536,806** | **56,461,932** | **47,036,723** |
| Less: | | | | | | | | |
| Recoveries | - | (150) | - | - | (256) | (1,755) | (2,956,076) | (3,677,975) |
| Local reinsurance share | (669) | (1,300) | - | (156,429) | (200,943) | (29,106) | (678,188) | (1,147,846) |
| Foreign reinsurance share | (26,151) | - | (23,115,978) | (19,515,548) | (160,748) | (315,630) | (24,024,552) | (20,795,074) |
| **Net Paid Claims** | **29,346** | **33,435** | **16,923,228** | **9,133,773** | **257,283** | **190,315** | **28,803,116** | **21,415,828** |
| Add: | | | | | | | | |
| Outstanding Claims Reserve at the end of the year | | | | | | | | |
| Reported | 70,220 | 107,938 | 5,303,756 | 3,284,732 | 1,930,567 | 1,241,039 | 14,521,871 | 11,123,989 |
| Unreported | 30,000 | 15,000 | 2,032,312 | 1,927,507 | 70,000 | 30,000 | 3,252,312 | 2,624,507 |
| Less: Reinsurance share | (47,890) | (74,677) | (2,974,556) | (3,154,067) | (1,731,940) | (1,046,440) | (6,067,786) | (5,712,965) |
| Less: Reinsurance share from IBNR | - | - | (1,050,334) | - | - | - | (1,050,334) | - |
| Less: Recoveries | - | - | - | - | - | - | (938,695) | - |
| **Net Outstanding Claims Reserve at the of the year** | **52,330** | **48,261** | **3,311,178** | **2,058,172** | **268,627** | **224,599** | **9,717,368** | **8,035,531** |
| Reported | | | | | | | | |
| Unreported | | | | | | | | |
| Less: | | | | | | | | |
| Outstanding Claims Reserve at the beginning of the year | | | | | | | | |
| Reported | 107,938 | 52,485 | 3,284,732 | 2,709,153 | 1,241,039 | 625,877 | 11,840,192 | 11,212,673 |
| Unreported | 15,000 | 15,000 | 1,927,507 | 1,242,349 | 30,000 | 30,000 | 2,624,507 | 1,739,349 |
| Reinsurance share | (74,677) | (27,854) | (1,987,680) | (2,647,144) | (1,046,440) | (516,319) | (4,546,578) | (5,727,156) |
| Reinsurance share from IBNR | - | - | (1,166,387) | - | - | - | (1,166,387) | - |
| Recoveries | - | - | - | - | - | - | (716,203) | - |
| **Net Outstanding Claims Reserve at beginning of the year** | **48,261** | **39,631** | **2,058,172** | **1,304,358** | **224,599** | **139,558** | **8,035,531** | **7,224,866** |
| **Net Claims Cost** | **33,415** | **42,065** | **18,176,234** | **9,887,587** | **301,311** | **275,356** | **30,484,953** | **22,226,493** |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of
the Board of Directors

# Statement of Underwriting Profits for the General Insurance for the year Ended 31 December 2012

| | Motor | | Marine | | Aviation | | Fire and property | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD | JD | JD | JD | JD |
| **Net earned revenue from written premiums** | **14,262,393** | **12,149,854** | **425,967** | **397,749** | **-** | **-** | **1,065,913** | **826,067** |
| Less: | | | | | | | | |
| **Net claims cost** | **(11,360,867)** | **(11,631,552)** | **(129,330)** | **(94,899)** | **-** | **-** | **(483,796)** | **(295,034)** |
| | 2,901,526 | 518,302 | 296,637 | 302,850 | - | - | 582,117 | 531,033 |
| Add: | | | | | | | | |
| Commissions received | 67,220 | 58,243 | 398,167 | 298,952 | 10,039 | (58,691) | 1,000,551 | 793,667 |
| Insurance policies issuance fees | 1,331,803 | 1,135,276 | 76,028 | 60,724 | 2,576 | (1,451) | 164,790 | 125,437 |
| **Total revenue** | **4,300,549** | **1,711,821** | **770,832** | **662,526** | **12,615** | **(60,142)** | **1,747,458** | **1,450,137** |
| Less: | | | | | | | | |
| Commissions paid | 742,761 | 748,398 | 143,760 | 32,639 | 13,545 | - | 180,034 | 129,095 |
| Excess of loss premiums | 155,610 | 143,722 | 51,995 | 36,626 | - | - | 233,987 | 197,877 |
| Allocated general and administrative expenses | 1,485,354 | 1,243,172 | 148,374 | 137,293 | 21,885 | 3,060 | 550,768 | 407,066 |
| **Other expenses** | **-** | **-** | **5,187** | **5,154** | **-** | **-** | **17,010** | **14,820** |
| **Total Expenses** | **2,383,725** | **2,135,292** | **349,316** | **211,712** | **35,430** | **3,066** | **981,799** | **748,858** |
| **Underwriting profit (loss)** | **1,916,824** | **(423,471)** | **421,516** | **450,814** | **(22,815)** | **(63,208)** | **765,659** | **701,279** |

The attached notes 1 to 37 form part of these financial statements

Chief Executive Officer

Chairman of
the Board of Directors

| | Liability | | Medical | | Other Classes | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD | JD | JD | JD | JD |
| **Net earned revenue from written premiums** | **157,844** | **81,560** | **16,467,533** | **12,645,427** | **949,650** | **752,824** | **33,329,300** | **26,853,481** |
| Less: | | | | | | | | |
| **Net claims cost** | **(33,415)** | **(42,065)** | **(18,176,234)** | **(9,887,587)** | **(301,311)** | **(275,356)** | **(30,484,953)** | **(22,226,493)** |
| | 124,429 | 39,495 | (1,708,701) | 2,757,840 | 648,339 | 477,468 | 2,844,347 | 4,626,988 |
| Add: | | | | | | | | |
| Commissions received | 98,057 | 86,349 | 4,879,821 | 4,132,227 | 757,040 | 642,031 | 7,210,895 | 5,952,778 |
| Insurance policies issuance fees | 21,431 | 18,333 | 3,234,797 | 2,070,466 | 224,537 | 132,918 | 5,055,962 | 3,541,703 |
| **Total revenue** | **243,917** | **144,177** | **6,405,917** | **8,960,533** | **1,629,916** | **1,252,417** | **15,111,204** | **14,121,469** |
| Less: | | | | | | | | |
| Commissions paid | 11,250 | 15,356 | 502,911 | 469,325 | 70,140 | 175,383 | 1,664,401 | 1,570,196 |
| Excess of loss premiums | - | - | - | - | 99,627 | 142,966 | 541,219 | 521,191 |
| Allocated general and administrative expenses | 53,434 | 53,703 | 3,727,191 | 3,293,549 | 462,563 | 399,344 | 6,449,569 | 5,537,193 |
| **Other expenses** | **-** | **-** | **98,056** | **70,782** | **5,923** | **6,620** | **126,172** | **97,376** |
| **Total Expenses** | **64,684** | **69,059** | **4,328,154** | **3,833,656** | **638,253** | **724,313** | **8,781,361** | **7,725,956** |
| **Underwriting profit** | **179,233** | **75,118** | **2,077,763** | **5,126,877** | **991,663** | **528,104** | **6,329,843** | **6,395,513** |

## (1) General

The Company was established in 1996 and registered as a public limited shareholding company under No. (309), with a paid up capital of JD 2,000,000 divided into 2,000,000 shares of JD 1 each. Moreover, its capital has been increased several times to become JD 17,500,000 divided into 17,500,000 shares, and during 2012 the company authorized and paid in capital increased to JD 18,725,000 divided into 18,725,000 shares.

The Company is engaged in insurance business against accidents and fire, marine, transportation, and vehicle insurance, and public liability, aviation and medical insurance through its main branch located at Jabal Amman 3rd circle in Amman, and other branches at Dier Gubar Abdoun, Tla'a Al Ali, Biader Wadi Elseer and Abdali in Amman, Aqaba branch in Aqaba, and Irbid branch in Irbid.

The Compnay is 88.6% owned by Gulf Insurance Company.

The number of the Company's employees was 258 as of December 31, 2012 (2011: 237).

The financial statements for the year 2012 were approved by the Board of Directors in its meeting No. (1) dated January 24, 2013.

## (2) Accounting Policies

### Basis of preparation

The financial statements have been prepared in accordance with the Standards issued by the International Accounting Standards Board and in accordance with the forms prescribed by the Jordanian Insurance Commission.

The financial statements have been prepared on historical cost basis, except for financial assets at fair value through profit or loss that have been measured at fair value.

The Jordanian Dinar is the functional and reporting currency of the financial statements.

### Changes in accounting policies

The accounting policies adopted in the preparation of the (consolidated) financial statements for the year ended 31 December 2012 are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements

The adoption of the amendments is described below:

**IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets**

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis.

The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the **Company's** financial position, performance or its disclosures.

**IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements**
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The **Company** does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

## Accounting policies

The following are significant accounting policies followed by the Company:

### Business Sector

The business sector represents a set of assets and operations that jointly provide products and service subject to risks and returns different from those of other business sector which in measured based on the reports used by the top management of the Company.

The geographic sector relates to the providing of products and services in a defined economic environment subject to risks and returns different from those of other economic environments.

### Date of Recognition

Purchases and sales of financial assets are recognized on the trade date (that being the date at which the sale or purchase takes place).

### Fair Value

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For financial instruments where there is no active market fair value is normally based on one of the following methods:

- Comparison with the current market value of a highly similar financial instrument.
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.
- Option pricing models.

The objective of the valuation method is to show a fair value that reflects market expectations.

Where the fair value of an investment cannot be reliably measured, it is stated at cost less any impairment in the value.

### A) Financial assets at amortized cost

Financial assets at amortized cost must be measured is met the following conditions:

- Financial assets are measured at amortized cost only if these assets are held within a business model whose objective is to hold the assets to collect their contractual cash flows.
- The cash flows according to contractual condition for these assets arise in specific dates and only represent payment for the asset amount and for the interest calculated on these assets.
- Assets at amortized cost is recorded at cost upon purchase plus acquisition expenses, the premium/ discount (if any) is amortized by using the effective interest rate method records on the interest or for its account. Any provisions resulted from impairment in its value is deducted and any impairment in its value is recorded in the income statement.

The amount of the impairment consists of the difference between the book value and present value of the expects future cash flows discounted at the original effective interest rate.

The standard permits in really cases of measured these assets at fair value through income statement if that eliminates or reduce to large extent the inconsistency in measurement (sometimes called accounting mismatch) that arise from measurement of assets or liabilities or profit and loss recognition resulted from them in different basis.

### B) Financial assets at fair value through income statement

The rest of financial assets that does not met the financial assets of amortized cost is measured as financial assets at fair value.

Financial assets at fair value through the income statement. Represents investment in equity instruments and debt instrument for the purpose of trading, and the purpose of holds it is to make gains fluctuation in the short term market prices or trading profit margin.

Financial assets through income statement are recorded at fair value upon purchase (the acquisition cost is recorded on the income statement upon purchase) and re-evaluated at the financial statement date at fair value, the subsequent changes in fair value is recorded in the income statement at the same period that change occurs including changes in fair value resulted from non- cash translation differences in foreign currency.

### Impairments in Financial Assets Value

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, the recoverable value is estimated in order to determine impairment loss.

Impairment amounts are determined by the following:

Impairment in financial assets recorded at amortized cost is determined on the basis of the present value of the expected cash flows discounted at the original interest rate.

Impairment in financial assets available for sale recorded at fair value represents the difference between book value and fair value.

Impairment of financial assets recorded at cost represents the difference between the book value and the present value of cash flow discounted at the market rate for similar financial assets.

The Impairment in value is recorded in the statement of income. Any surplus in the following period resulting from previous declines in the fair value of financial assets is taken to the statement of income.

### Cash and Cash equivalents

For cash flow purpose cash and cash equivalents comprise cash balances with banks and financial institutions maturing within three months, less bank overdrafts and restricted funds.

### Reinsurance Accounts

Reinsurers shares of insurance premiums, paid claims, technical provisions, and all other rights and obligations resulting from reinsurance based on contracts concluded between the Company and reinsures are accounted for on the accrual basis.

### Reinsurance

The Company engages within its normal activities a variety of inward and outward reinsurance operations with other insurance and reinsurance firms which involves different level of risks. The reinsurance operations include Quota share, excess of loss, facultative reinsurance, and other types of reinsurance. These reinsurance contracts do not eliminate the company's liability towards policy holders, where in the case the reinsurance fails to cover its portion of total liability, the company bears the total loss. Therefore, the company creates a provision for un-recovered amounts. The estimation of amounts that are likely to be recovered from reinsurers is done according to the company's portion of total liability for each claim.

### Impairment in Reinsurance Assets

In case there is any indication as to the impairment of the reinsurance assets of the company, which possesses the reinsured contract, the company has to reduce the present value of the contracts, and record the impairment in the statement of income,
The impairment is recognized in the following cases only:

1. There is objective evidence resulting from an event that took place after the recording of the reinsurance assets confirming the company's inability to recover all the amounts under the contracts terms.

2. The event has a reliably and clearly measurable effect on the amounts that the company will recover from reinsures.

### Insurance policies issuance cost

Insurance policies issuance cost represents commissions paid to intermediaries and other direct costs incurred in relation to the issuance and renewal of insurance contracts. These costs are recorded in the statement of income.

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses property and equipment (except lands) is depreciated when its ready for use. Depreciation is computed on a straight-line basis using the following depreciation rates, and the desperation expense is recorded in the income statement.

| | % |
|---|---|
| Building | 2 |
| Furniture | 10 |
| Vehicles | 15 |
| Computers | 20 |
| Tools and equipment | 15 |
| Decoration | 15 |

Depreciation expense is calculated when property and equipment is put in use, property and equipment under construction is stated at cost less impairment loss.

Assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. The impairment loss is recorded in the statement of income.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Any gain or loss arising on the disposal or retirement of an item of property and equipment which represents the difference between the sales proceeds and the carrying amount of the asset is recognized in the statement of income.

Any item of property and equipment derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

### Pledged financial assets

Represent those financial assets pledged to other parties with the existence of the right of use for the other party (sale, repledge). A periodic review is performed for those properties.

### Intangible assets

Intangible assets acquired through business combinations are recorded at their fair value on that date. Other intangible assets are measured on initial recognition at cost.

Intangible assets with finite lives are amortized over the useful economic lives, while intangible assets with indefinite useful lives are assessed for impairment at each reporting date or when there is an indication that the intangible asset may be impaired.

Internally generated intangible assets are not capitalized and are expensed in the income statement.

Indications of impairment of intangible assets are reviewed for and their useful economic lives are reassessed at each reporting date. Adjustments are reflected in the current and subsequent periods.

Intangible assets include computer software and software licenses. These intangible assets are amortized on a straight line basis at 15% amortization rate.

### Provisions

Provision are recognized when the company has an obligation at the date of the financial statements as a result of past events, and the cost to settle the obligation are both probable and measured reliably.
The amount recognized as a provision is the best estimate of the consideration required to settle the preset obligation at the financial statements date, taking into account the risks and uncertainties surrounding the obligation where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flow.

When it is expected to recover some or all amounts due from other parties, the due amount will be recognized within the assets if the value can be measured reliably.

### A- Technical Reserve

Technical reserves are provided in accordance to the Insurance Commission's instructions, as follows:

1. Unearned premiums reserve is measured for general insurance business based on remaining days of the insurance policy of expiration, considering a period of 365 days except marine and transport insurance which is calculated based on written premiums for existing policies at the date of the financial statements in accordance with Laws, regulations and instructions issued pursuant there to.
2. Outstanding claims (Reported) provision is measured at the maximum value of the total expected loss for each claim separately.
3. Provision for the ultimate cost of claims incurred but not yet reported (IBNR) and unexpired risk is measured based on the estimates and the experience of the company.

### B- Receivables Impairment

The receivables impairment is provided when there is objective evidence that the company will not be able to collect all or part of the due amounts, and this allowance is calculated based on the difference between book value and recoverable amount. The allowance is measured after monitoring the receivables in details and all receivables aging one year and above are provided for provision.

### C- End of service indemnity reserve

The end of service indemnity reserve for employees is calculated based on the company's policy and in accordance with Jordanian labor law.

The paid end of service for resigned employees is debited to this account. The Company obligation for the end of serves is recorded in the income statement.

### Liability adequacy test

At each statement of financial position date the company assesses whether its recognized 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 (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in the income statement.

## Income Tax

Income tax represents current and differed income tax.

### A- Accrued Income Tax

The accrued income tax expense is calculated based on taxable income. The taxable income differs from the actual income in the income statement because the accounting income contains expenditures and revenues that are not tax deductible in the current year but in the preceding years or the accepted accumulated losses or any other not deductibles for tax purposes.

The taxes are calculated based on tax percentages which are stated by laws and regulation on the counties which the company operates.

### B- Deferred Tax

Deferred taxes are taxes expected to be paid or recovered as a result of temporary differences between the time value of the assets or liabilities in the financial statements and the value that is calculated on the basis of taxable profit.

Deferred tax is provided using the liability method on temporary differences at the liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to allow all or part of deferred tax asset to be utilized.

## Offsetting

Financial assets and financial liabilities are only offsetted and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

## Revenue recognition

### A- Insurance policies

Insurance premiums are recorded as revenues (earned premiums) based on the accrual periods and policy covering period. Unearned premiums are recorded according to insurance policy periods at the date of financial statements claims expenses are recognized in the income statement based on the expected claim value to compensate other parties.

### B- Dividend and interest revenue

The Dividends revenues are realized when the shareholder has the right to receive the payment once declared by the General Assembly of Shareholders.

Interest revenues are recorded using the accrual basis based on the accrual periods, principle amount and interest rate.

### Expenditures recognition

All commissions and other costs related to the new insurance contracts or renewed are recorded in the income statement at the period it occurred in and all other expenditures are recognized using the accrual basis.

### Insurance compensations

Insurance compensations represent paid claims during the year and change in outstanding claims reserve.

Insurance compensations payments during the year even for the current or prior years. Outstanding claims represents the highest estimated amount settle the claims resulting from events occurring before the date of financial statements but not settled yet.

Outstanding claim reserve is recorded based on the best available information at the date of financial statement and includes the IBNR.

### Recoverable scraped value

Recoverable scraped value is considered when recording the outstanding claim amount

### General and administrative expenses

General and administrative expenses are distributed to each insurance division separately. Moreover, 80% of the undistributable general and administrative expenses is allocated to different insurance departments based on the ratio of earned premiums of the department to total premiums.

### Employee's expenses

The traceable employees' expenses are allocated directly to insurance departments, and 80% of un-allocated employee's expenses are allocated based on earned premiums per department to total premiums.

### Insurance policy acquisition cost

Acquisition cost represent the cost incurred by the company for selling or underwriting or issuing new insurance contract, the acquisition cost is recorded in the income statement.

### Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the transactions dates. Monetary assets and liabilities in foreign currencies are translated into JD at rates of exchange prevailing at the statement of financial position date as issued by Central Bank of Jordan. Any gains or losses are taken to the income statement.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on available-for-sale investments, unless it forms part of an effective hedging strategy.

### Estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes in such provisions.

**The details of significant estimates made by management as follows:**

- A provision of doubtful debt is estimated by the management based on their principles and assumptions according to international financial reporting standards.
- The financial year is charged with its related income tax in accordance with regulations.
- The management periodically reviews intangible assets useful life in order to calculate the amortization amount depending on the status of these assets and future benefit. The impairment loss (if any) appears on the income statement.
- The outstanding claim reserve and technical reserve are estimated based on technical studies and according to insurance commission regulation. The mathematical reserve is calculated by actuarial studies.
- A provision of lawsuit against the company is made by the company's lawyer where the contingent risk could be determined.
- The management periodically reviews whether a financial asset or group of financial assets is impaired, if so this impairment is taken to the income statement.

## (3) Bank Deposits

This item represents the following:

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | Deposits matured within one month | Deposits matured between 1-3 months | Total | Total |
| | JD | JD | JD | JD |
| Inside Jordan | 2,653,113 | 21,716,372 | 24,369,485 | 18,684,935 |

The annual interest rate on the JOD deposits ranged between 5.25% to 6.25% and on the USD and GB deposits between 3.25% to 4.50% during 2011.

Deposits pledged to the favor of the General Manager of the Insurance Regulatory Commission deposited in Jordan Kuwait Bank totaled JD 225,000 as of 31 December below the distribution of the deposits:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Jordan Kuwait Bank | 5,989,706 | 4,590,972 |
| Jordan Arab Investment Bank | 2,369,749 | 6,231,861 |
| Capital Bank | 1,454,711 | 6,236,602 |
| Audi Bank | 693,939 | 530,827 |
| Societe General Bank | 1,266,132 | 1,094,673 |
| Blom Bank | 2,110,682 | - |
| Aletihad Bank | 3,235,923 | - |
| Bank of Jordan | 1,208,221 | - |
| Cario Amman Bank | 1,944,113 | - |
| Arab Banking Corporation Bank | 2,052,322 | - |
| Ahli Bank | 2,043,987 | - |
| **Total** | **24,369,485** | **18,684,935** |

## (4) Financial Assets at Fair Value Through Profit or Loss

This item consists of the following:

| | Number of share | 2012 | 2011 |
|---|---|---|---|
| | | JD | JD |
| Inside Jordan | | | |
| Arab Bank | 6,000 | 43,500 | 47,100 |
| Arab East Financial Investment Company | 1,757 | 1,423 | 914 |
| Jordan Insurance Company | 12,000 | 27,600 | 26,280 |
| Jordan Steel | 70,000 | 92,400 | 153,300 |
| Rum Group for Transportation and Tourism Investment | 145,000 | 111,650 | 139,200 |
| **Total financial assets at fair value through profit or loss inside Jordan** | | **276,573** | **366,794** |

## (5) Financial Assets at Amortized Cost

This item consists of the following:

| | Number of share | 2012 | 2011 |
|---|---|---|---|
| | | JD | JD |
| Inside Jordan | | | |
| Unlisted Bonds: | | | |
| Aqaba Development Company * | 127 | 1,270,000 | 1,270,000 |
| Arab Real Estate Development Company ** | 120 | 1,200,000 | 1,200,000 |
| **Total financial assets at amortized cost – inside Jordan** | | **2,470,000** | **2,470,000** |
| Less: Impairment in financial assets at amortized cost | | (1,100,000) | (800,000) |
| **Financial assets amortized cost - net** | | **1,370,000** | **1,670,000** |

The maturity date of the bonds is as follows:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Bonds | | |
| Aqaba Development Company * | - | 1,270,000 |
| Arab Real Estate Development Company ** | - | 1,200,000 |
| | **-** | **2,470,000** |

The movement on Impairment of financial assets at amortized cost is as follows:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 800,000 | - |
| Additions | 300,000 | 800,000 |
| Balance at the end of the year | 1,100,000 | 800,000 |

* The Company bought 127 bonds of Aqaba Development Company during October 2009. These bonds mature on October 1, 2014 and bear interest at a fixed annual rate of 7.75% for the first thirty months and a variable rate every six months on April 1, and October 1, of every year. Moreover, these Bonds are guaranteed by Aqaba Special Economic Zone Authority (Governmental).

Aqaba Development Company bonds are stated at cost of JD 1,270,000.

** These bonds matured on April 1, 2011 at fixed annual interest rate of 10%. Interest is paid every six months on October 1ST and April 1ST of each year since October 1ST 2008. moreover, the board of directors approved in its meeting number (2) held on March 24, 2011 on the amended draft prospectus that was approved from the General Assembly of the bonds owners on March 28, 2011.

The prospectus includes extending the maturity date of these bonds to April 1, 2014 and amending the interest rate to become a fixed annual interest rat of 11%, to be paid semiannually on October 1ST, and April 1ST each year starting from October 1, 2011, noting that after the resolution of the General Assembly of the bonds owners in its meeting held on October 26, 2011 the Housing Bank for Trade and Finance, as the underwriter, has started the legal procedures against Arab Real Estate Development Company (Arab Corp) and filed a lawsuit under number (3460/2011) at the Court of First Insurance of Amman to demand the rights of the bonds owners.

Arab Real Estate Development Company bonds are stated at cost less impairment for the amount of JD 1,100,000 as of December 31, 2012.

## (6) Cash at banks

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Cash on hand | 237,862 | 8,808 |
| Current accounts at banks | 2,023,791 | 1,260,736 |
| Balances current accounts | 2,261,653 | 1,269,544 |

## (7) Cheques Under Collection

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Cheques under collection due within six month | 3,695,991 | 2,949,240 |
| Cheques under collection due within more than six months up to due year | 1,491,022 | 1,428,767 |
| | **5,187,013** | **4,378,007** |

* Cheques under collection become due up to December 2013.

## (8) Accounts receivable, Net

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Policy holders * | 27,476,863 | 23,448,491 |
| Brokers receivables | 76,722 | 62,262 |
| Employee receivables | 82,513 | 77,008 |
| Other | 250,017 | 214,744 |
| | 27,886,115 | 23,802,505 |
| Less: Provision for doubtful debts** | (1,556,322) | (958,341) |
| | **26,329,793** | **22,844,164** |

Below is the aging of unimpaired receivables table:

| | 1-90 day | 91-180 day | 181-270 day | 271-360 day | More than 360 day | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | | | JD |
| 31 December 2012 | 14,449,136 | 10,812,538 | 510,458 | 849,694 | 1,264,289 | 27,886,115 |
| 31 December 2011 | 13,513,804 | 6,666,421 | 2,216,871 | 744,245 | 661,164 | 23,802,505 |

* Includes scheduled 14,449,136 JD due of the December 31, 2012 for a total of (14,753,698 JD as of December 31, 2011).

** Movement on the provision for doubtful debts consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 958,341 | 788,500 |
| Additions | 500,000 | 169,841 |
| Transfer reinsurance receivable | 97,981 | - |
| **Balance at the end of the year** | **1,556,322** | **958,341** |

## (9) Reinsurance Receivables, Net

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Local insurance companies | 878,387 | 1,566,395 |
| Foreign reinsurance companies | 2,737,428 | 2,306,210 |
| | 3,615,815 | 3,872,605 |
| Less: Provision for doubtful debt for reinsurance receivables * | (143,678) | (241,659) |
| **Net reinsurance receivables** | **3,472,137** | **3,630,946** |

* Below the ageing of the unimpaired reinsurance receivables table:

| | 1-90 day | 91-180 day | 181-270 day | 271-360 day | More than 360 day | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | | | JD |
| 31 December 2012 | 2,542,655 | 438,557 | 246,242 | 316,263 | 72,098 | 3,615,815 |
| 31 December 2011 | 2,468,436 | 703,425 | 320,075 | 223,110 | 157,559 | 3,872,605 |

** Movement on the provision for doubtful debts consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 241,659 | 23,500 |
| Additions | - | 218,159 |
| Transfer reinsurance receivable | (97,981) | - |
| **Balance at the end of the year** | **143,678** | **241,659** |

# (10) Income tax

## A- Income tax provision

The movement on the income tax provision is as follows:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Balance at beginning of the year | 1,227,301 | 1,028,002 |
| Income tax paid | (1,575,817) | (1,207,818) |
| Income tax paid in advance | (49,270) | (32,251) |
| Income tax expense for the year | 1,496,691 | 1,439,368 |
| **Balance at end of the year** | **1,098,905** | **1,227,301** |

The income tax expense appears in the income statement represents the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Income tax for the year | 1,496,691 | 1,439,368 |
| Deferred tax assets | (403,650) | (433,591) |
| | **1,093,041** | **1,005,777** |

A summary reconciliation between accounting profit and taxable profit is as follows:

| | 2012 | 2011 |
|---|---|---|
| | JD | |
| Accounting profit | 4,437,381 | 4,163,187 |
| Not deductible expenses | 1,807,093 | 1,841,388 |
| Non taxable income | (8,263) | (7,208) |
| Taxable profit | 6,236,211 | 5,997,367 |
| Effective income tax rate | 24.6% | 24% |
| Income tax rate | 24% | 24% |

## B. Deferred tax assets/ liabilities

This item consists of the following:

| | 2012 | | | | 2011 |
|---|---|---|---|---|---|
| | Beginning Balance | Addition | Ending Balance | Deferred Tax | Deferred Tax |
| Included Account | JD | JD | JD | JD | JD |
| Provision for doubtful debt | 1,200,000 | 500,000 | 1,700,000 | 408,000 | 288,000 |
| Impairment loss in financial asset | 800,000 | 300,000 | 1,100,000 | 264,000 | 192,000 |
| Provision for incurred but not reported claim, net | 1,458,120 | 743,858 | 2,201,978 | 528,476 | 349,949 |
| Provision for end of service indemnity | 529,742 | 138,015 | 667,757 | 160,262 | 127,139 |
| | **3,987,862** | **1,681,873** | **5,669,735** | **1,360,738** | **957,088** |

* Movement on deferred tax asset consist of the follows:

| | Assets | |
|---|---|---|
| | 2012 | 2011 |
| | JD | JD |
| Beginning balance | 957,088 | 523,497 |
| Additions | 403,650 | 433,591 |
| **Ending balance** | **1,360,738** | **957,088** |

## (11) Property and Equipment

This item consists of the following:

| | Land | Building | Computers | Decoration | Equipment, tools and furniture | Vehicles | Total |
|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD |
| 31 December 2012 | | | | | | | |
| Cost | | | | | | | |
| Balance at the beginning of the year | 1,545,000 | 2,575,000 | 490,258 | 732,677 | 959,330 | 216,350 | 6,518,615 |
| Additions | - | - | 54,143 | 121,917 | 174,817 | 128,500 | 479,377 |
| Transfer from payment on purchase property and equipment | - | - | - | 5,000 | - | - | 5,000 |
| Disposals | - | - | - | - | (29,105) | (68,850) | (97,955) |
| Balance at the end of the year | 1,545,000 | 2,575,000 | 544,401 | 859,594 | 1,105,042 | 276,000 | 6,905,037 |
| **Accumulated depreciation** | | | | | | | |
| Balance at the beginning of the year | - | 68,667 | 239,750 | 110,890 | 256,421 | 75,558 | 751,286 |
| Additions | - | 51,500 | 83,990 | 154,510 | 127,889 | 37,165 | 455,054 |
| Disposals | - | - | - | - | (25,618) | (26,011) | (51,629) |
| Balance at the end of the year | - | 120,167 | 323,740 | 265,400 | 358,692 | 86,712 | 1,154,711 |
| **Net book value** | **1,545,000** | **2,454,833** | **220,661** | **594,194** | **746,350** | **189,288** | **5,750,326** |
| 31 December 2011 | | | | | | | |
| **Cost** | | | | | | | |
| Balance at the beginning of the year | 1,545,000 | 2,575,000 | 323,147 | 60,920 | 499,055 | 11,000 | 5,219,472 |
| Additions | - | - | 168,382 | 576,957 | 364,349 | 216,350 | 1,120,688 |
| Transfer from payment on purchase property and equipment | - | - | - | 94,800 | 142,200 | - | 237,000 |
| Disposals | - | - | (1,271) | - | (46,274) | (11,000) | (58,545) |
| Balance at the end of the year | 1,545,000 | 2,575,000 | 490,258 | 732,677 | 959,330 | 216,350 | 6,518,615 |
| **Accumulated depreciation** | | | | | | | |
| Balance at the beginning of the year | - | 17,167 | 169,763 | 9,094 | 183,240 | 43,106 | 422,370 |
| Additions | - | 51,500 | 71,258 | 101,796 | 97,932 | 33,246 | 355,732 |
| Disposals | - | - | (1,271) | - | (24,751) | (794) | 26,816 |
| Balance at the end of the year | - | 68,667 | 239,750 | 110,890 | 256,421 | 75,558 | 751,286 |
| Payment on purchase property and equipment | - | - | - | 5,000 | - | - | 5,000 |
| **Net book value** | **1,545,000** | **2,506,333** | **250,508** | **626,787** | **702,909** | **140,792** | **5,772,329** |

Property and equipment include fully depreciated items amounting 578,810 JD as 31 December 2012 (431,339 in 2011), which are still being used up to the date of the financial statements.

## (12) Intangible Assets

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 53,475 | 58,947 |
| Additions | 41,708 | 15,746 |
| Disposals | (22,830) | (21,218) |
| Balance at the end of the year | 72,353 | 53,475 |

## (13) Other Assets

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Unearned accrued revenues | 195,537 | 117,566 |
| Prepaid expenses | 88,962 | 124,076 |
| Refundable deposits | 236,972 | 235,062 |
| Medical tools for claims | 21,270 | 21,270 |
| | 542,741 | 497,974 |

## (14) Accounts Payable

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Agents payables | 497,032 | 440,685 |
| Employee payables | 5,952 | 8,106 |
| Garages receivable | 402,567 | 188,398 |
| Medical network | 978,542 | 1,370,201 |
| Trade and company payable | 961,371 | 1,226,247 |
| Other payables | 45,674 | 46,425 |
| | 2,891,138 | 3,280,062 |

## (15) Reinsurers Payable

The item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Local insurance companies | 122,539 | 92,035 |
| Foreign reinsurance companies | 11,071,729 | 8,529,306 |
| | 11,194,268 | 8,621,341 |

## (16) Other Provisions

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Provision for end of service indemnity | 667,757 | 529,742 |
| | 667,757 | 529,742 |

The schedule represents the transaction on provisions.

| | Beginning balance | Component during the year | Used during the year | Ending balance |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Provision for end of service indemnity | 529,742 | 197,409 | 59,394 | 667,757 |
| | 529,742 | 197,409 | 59,394 | 667,757 |

## (17) Other Liabilities

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Board of Directors remuneration | 35,000 | 35,000 |
| Due to shareholders – subscription refunds | 24,147 | 24,100 |
| Stamps withholdings | 60,681 | 63,240 |
| Sales tax withholdings | 121,919 | 76,465 |
| Others | 21,432 | 20,221 |
| | 263,179 | 219,026 |

## (18) Paid in Capital

Subscribed and paid in capital amounted to JD 18,725,000 divided into 18,725,000 shares the par value of each in JD 1 as of December 31, 2012 (JD 17,500,000 shares of JD 1 each as of December 31, 2011).

According to the General Assembly's resolution in its extraordinary meeting held on March 29, 2012 and the resolution of the Securities Commission on June 20, 2012, it was decided to increase the Company's capital by JD 1,225,000 from retained earnings through distributing free shares with a percentage of 7% from capital, so that paid up capital would become 18,725,000 share / JD.

## (19) Legal Reserve

**Statuary reserve**

This amount represents appropriations at 10% of net income before income tax during this year and prior years. This reserve is not available for distribution to shareholders.

## (20) Retained Earnings

The item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Beginning balance | 3,272,023 | 3,095,958 |
| Effect resulting from application of (IFRS9) | - | (61,526) |
| Dividends | 875,000 | - |
| Distribution of bonus shares | (1,225,000) | (2,500,000) |
| Profit for the year | 3,344,340 | 3,157,410 |
| Transfer to reserves | 447,238 | 419,819 |
| Ending balance of the year | 4,069,125 | 3,272,023 |

## (21) Interest Income

The item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Bank interest | 1,009,481 | 675,865 |
| Interest from financial assets at amortized cost | 99,461 | 128,014 |
| | 1,009,481 | 675,865 |
| Transferred to statement of income | | |
| Transferred to underwrite accounts | - | - |
| | 1,009,481 | 675,865 |

## (22) Loss from Financial Assets and Investments

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Cash dividends received (financial assets at fair value through profit or loss) | 11,019 | 9,611 |
| Net change in fair value of financial assets at fair value through profit or loss | (90,221) | (34,760) |
| | (79,202) | (25,149) |

## (23) Employee Expenses

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Salaries and bonuses | 4,189,728 | 3,640,296 |
| End of service indemnity | 197,409 | 117,315 |
| Social security contribution | 397,315 | 317,976 |
| Medical expenses | 159,152 | 154,480 |
| Travel and transportation | 168,535 | 107,261 |
| Training | 18,104 | 50,192 |
| Total | 5,130,243 | 4,387,520 |
| Allocated employee expenses to the underwriting account | 4,104,195 | 3,510,016 |
| Unallocated employee expense to the underwriting account | 1,026,048 | 877,504 |

## (24) General and Administrative Expenses

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Rent expense | 186,685 | 166,504 |
| Stationery and printing | 465,741 | 375,474 |
| Advertisements | 257,006 | 295,515 |
| Bank interest and commission expenses | 55,403 | 47,406 |
| Water, electricity and heating | 117,360 | 72,274 |
| Maintenance expense | 129,242 | 148,578 |
| Postage and telecommunications | 222,302 | 205,116 |
| Building management fees | 70,618 | 68,207 |
| Hospitality | 80,600 | 67,818 |
| Legal fees and expenses | 109,225 | 82,142 |
| Subscriptions | 28,639 | 28,304 |
| Insurance commission fees | 586,461 | 473,256 |
| Government fees and other fees | 62,447 | 50,648 |
| Donations | 6,035 | 9,070 |
| Office insurance expenses | 32,099 | 14,707 |
| Cleaning expense | 29,333 | 30,078 |
| Professional fees | 17,500 | 20,000 |
| Board members transportation fees | 42,000 | 42,000 |
| Board members committee fees | 5,600 | 14,000 |
| Tenders expenses | 95,513 | 73,412 |
| Vehicles expenses | 46,820 | 40,486 |
| Collection | 78,263 | 64,435 |
| Technical fees | 42,211 | 64,439 |
| Orange card fees | 4,000 | 6,250 |
| Others | 160,615 | 73,852 |
| **Total** | **2,931,718** | **2,533,971** |
| Allocated general & administrative expenses to the underwriting accounts | 2,345,374 | 2,027,177 |
| Unallocated general and administrative expense to the underwriting account | 586,344 | 506,794 |

## (25) Other Expenses

This item consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Board of director remunerations | 35,000 | 35,000 |
| Foreign currency differences | - | 13,096 |
| Total | 35,000 | 48,096 |

## (26) Basic and Diluted Earnings Per Share

The proft per share was calculated by dividing the profit for the year by the weighted average number at shares during the year.

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Profit for the year | 3,344,340 | 3,157,410 |
| Weighted average number of shares | 18,725,000 | 18,725,000 |
| Basic and diluted earnings per share from the year's income | Fils/ JD | Fils/ JD |
| | 0.178 | 0.168 |

The weighted average number of shares for the year 2011 has been adjusted with the stock dividends in accordance with the International Financial Reporting Standards.

## (27) Cash and Cash Equivalents

The cash and cash equivalents that appear in the statement of cash flows represent the following:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Cash at hands and at banks | 2,261,653 | 1,269,544 |
| Add: deposits at banks matured within three month | 24,369,485 | 18,684,935 |
| Less: restricted deposits to the insurance commission (Note 3) | 225,000 | 225,000 |
| **Net Cash and cash equivalent** | **26,406,138** | **19,729,479** |

## (28) Related Party Transactions

During the year, the Company entered into transactions with major shareholders, board members and directors in the Company within the normal activities of the company using insurance prices and commercial commission. All debts provided to related parties are considered performing and no provision has been taken for them.

Below is a summary of related parties transactions, which represents transactions during the year as the follows:

| | December 31, 2012 | | | December 31, 2011 |
|---|---|---|---|---|
| | Jordan Kuwait Bank (Board member) | Top Executive Management | Total | Total |
| **On-Statement of Financial Position Items:** | **JD** | **JD** | **JD** | **JD** |
| Time deposits | 5,989,706 | - | 5,989,706 | 4,590,972 |
| Overdraft account (ceiling of JD100,000)/ credit balance | 1,281,248 | - | 1,281,248 | (64,137) |
| Demand deposits | 688,852 | - | 688,852 | 1,284,974 |
| Deposits on letters of guarantee | 220,708 | - | 220,708 | 217,612 |
| Accounts receivable | 14,266 | 24,543 | 38,809 | 31,518 |
| **Off-statement of Financial Position Items:** | | | | |
| Letters of guarantee | 2,207,080 | - | 2,207,080 | 2,176,121 |
| **Statement of Income Items :** | | | | |
| Bank interest income | 224,950 | - | 224,950 | 117,039 |
| Insurance | 1,017,003 | 12,918 | 1,029,921 | 1,116,922 |
| Bank expenses and commissions | 51,754 | - | 51,754 | 66,015 |
| Rent expenses | - | - | - | 19,153 |
| Salaries | - | 743,862 | 743,862 | 693,598 |
| Bonuses | - | 246,546 | 246,546 | 263,883 |
| Travel expenses for members of the Board of Directors | - | - | 42,000 | 42,000 |
| Bonus expenses for members of the Board of Directors | - | - | 35,000 | 35,000 |

Top Executive management (salaries, bonuses, and other benefits) are as follows:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Salaries and bonuses | 990,408 | 957,481 |
| | 990,408 | 957,481 |

## (29) Fair value of financial instruments

There are no significant differences between the book value and fair value of the financial assets and financial liabilities at the end of the year 2012 and 2011.

## (30) Risk Management

First: Explanatory Disclosures:

Risk management is the evaluation of the risk process of measurement and development of strategies to manage it. These strategies include the transfer of risks to another party, avoiding and mitigating their adverse effect on the Company, in addition to accepting the related consequences partially or wholly. Risk management can be divided into four sections:

First: Material risks such as natural catastrophes, fires, accidents, and other external risks not relating to the Company's operations.

Second: Legal risks resulting from legal claims or any risks arising from the laws and regulations issued by the Insurance Commission and the related non-compliance.

Third: Risks arising from financial matters such as interest rate, insurance risk, foreign currencies risks, and market risk.

Fourth: Intangible risks that are difficult to identify such as knowledge risk that occurs upon the application of inadequate knowledge by employees. Moreover, relationships risks occur when there is inefficient cooperation with clients. All of these risks reduce the employee's productivity in knowledge and lessen the effectiveness of expenditures, profit, service, quality, reputation, and the quality of gains.

Management of risks adopted by the Company relies on prioritizing so that risks with huge losses and high probability are treated first while risks with lower losses and lesser probability are treated later on.

### Risk Management Policy

**First: Planning and Preparation**
The work scope plan and criteria for adopting and evaluating risks at the Company have been set through creating the Institutional Development and Quality Department that monitors this performance.

### Second: Identification of Risks

Risks represent events that create problems upon their occurrence. Therefore, these problems should be identified at their origin. When the problem or its origin is identified, the related accident may lead to new risks that can be treated prior to their occurrence. There are many ways to identify risks such as identification based on objectives as each of the Company's sections has certain objectives it endeavors to achieve. Any event that threatens the achievement of these objectives is considered a risk. Based on this, risks are studied and pursued. Moreover, there is a type of risk identification based on a comprehensive classification of all probable sources of risk. Still another type of risk identification is common risks especially for similar companies.

### Third: Risk Treatment Method

The Company deals with probable risks by means of the following methods:

- Transfer: This represents the process of transferring the risk to another party through contracts or financial protection.

- Avoidance: This is an active process to ward off risk through avoiding works that lead to risks. Avoidance is the best preventive method against risk. This may deprive the Company from conducting certain activities profitable for the Company.

- Reduction: This is the process of decreasing the loss arising from the occurrence of risk.

- Acceptance: There should be a policy to accept unavoidable risks as acceptance of small risks is an effective strategy.

### Fourth: Plan

An easy and clear plan has been set to deal with risks through a pricing policy that relies on historical statistics to avoid the occurrence of risks from any insurance branch so that the premium covers the probable cumulative risks.

### Fifth: Execution

The Company's technical departments execute the plan so that the risk effects are mitigated. Moreover, all avoidable risks are avoided.

### Sixth: Plan Review and Evaluation

The Risks Department follows up on the Company's development and constantly and continuously develops and upgrades the plan in effect.

## Risk Management Arrangements

### Determinants

Top priority is given to the Risks Department. This affects the Company's productivity and profitability. Moreover, the Risks Department distinguishes between actual risk and doubt. Priorities are given to risks with huge losses and high probability so as to avoid them.

## Risks Management Responsibilities

- Upgrading the risk data base constantly and continuously.
- Predicting any probable risk.
- Cooperating with executive management to treat risks and mitigate riskiness.
- Preparing plans and risk reports continuously in order to avoid the probable risk or reduce the probability of its occurrence.

## Risk Treatment Strategy

- Determining the Company's objectives.
- Clarifying strategies for the Company's objectives.
- Distinguishing risk.
- Assessing risk.
- Identifying methods to avoid and treat risk.

## Second: Quantitative Disclosures :
## a. Insurance Risk

### 1. Insurance Risk

Risks of any insurance policy represent the probability of occurrence of the insured accident and the uncertainty of the related claim amount due to the nature of the insurance policy whereby the risks are volatile and unexpected in connection with insurance policies of a certain insurance class. As regards the application of the probability theory on pricing and the reserve, the primary risks facing the Company are that incurred claims and the related payments may exceed the book value of the insurance obligations. This may happen if the probability and risk of claims are greater than expected. As insurance accidents are unstable and vary from one year to another, estimates may differ from the related statistics.

Studies have shown that the more similar the insurance policies are, the nearer the expectations are to the actual loss. Moreover, diversifying the types of insurance risks covered decreases the probability of the overall insurance loss.

The Company practices all types of insurance except for life insurance through its main branch located in Jabal Amman, 3rd circle in Amman and its branches in Swefieh, Tla'a Al Ali and Al Abdali branch in Amman and Aqaba branch in Aqaba and Irbid Branch in Irbid.

Through its personnel consisting of professionals and administrative staff, the Company provides the best service to its clients. Moreover, a plan has been set to protect it against probable risks whether natural or unnatural. This requires that the necessary provisions as well as the necessary technical equipment be made available to maintain the Company's continuity and viability. Hence, the necessity to set the risk management strategy.

**Steps in Determining Assumptions**

These steps rely on the internal data derived from the quarterly claims reports and the sorting of the executed insurance policies as of the statement of financial position date to identify the outstanding insurance policies. The effective results for the year's accidents are selected for each type of insurance based on the evaluation of the most appropriate mechanism for observing the historical development.

**2. Claims Development**

The schedules below show the actual claims (based on management's estimates at year-end) compared to the expectations for the past four years based on the year in which the vehicles insurance claims were reported and on the year in which underwriting of the other general insurance types was executed as follows:

**Total - Motors Insurance:**

| The accident year | 2008 and before | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|
| | JD | JD | | JD | JD | JD |
| At the end of the year | 6,421,088 | 4,400,072 | 4,475,781 | 5,055,492 | 6,670,099 | |
| After one year | 5,938,920 | 3,670,357 | 3,220,094 | 3,486,261 | - | |
| After two years | 4,726,898 | 2,366,846 | 2,248,095 | - | - | |
| After three years | 3,639,161 | 1,366,022 | - | - | - | |
| After four years | 3,251,364 | - | - | - | - | |
| Present expectation for the accumulated claims | 3,251,364 | 1,366,022 | 2,248,095 | 3,486,261 | 6,670,099 | 17,021,841 |
| Accumulated claims | 2,421,501 | 980,059 | 1,622,449 | 2,186,656 | 2,377,593 | 9,588,258 |
| Liability as in the statement of financial position Outstanding claims | 829,863 | 385,963 | 625,646 | 1,299,605 | 4,292,506 | 7,433,583 |
| Reported | 829,863 | 385,963 | 625,646 | 1,299,605 | 3,292,506 | 6,433,583 |
| Unreported | - | - | - | - | 1,000,000 | 1,000,000 |
| Surplus (deficit) in the preliminary estimate for reserve | 3,169,654 | 3,034,050 | 2,227,686 | 1,569,231 | - | 10,000,621 |

**Total - Fire and Property:**

| The accident year | 2008 and before JD | 2009 JD | 2010 JD | 2011 JD | 2012 JD | Total JD |
|---|---|---|---|---|---|---|
| | | | | | | |
| At the end of the year | 801,993 | 1,395,349 | 614,479 | 144,899 | 284,573 | |
| After one year | 588,734 | 754,370 | 155,972 | 220,310 | - | |
| After two years | 445,249 | 642,307 | 76,582 | - | - | |
| After three years | 409,841 | 169,070 | - | - | - | |
| After Four years | 331,061 | - | - | - | - | |
| Present expectation for the accumulated claims | 331,061 | 169,070 | 76,582 | 220,310 | 284,573 | 1,081,596 |
| Accumulated payments | 291,748 | 14,889 | 3,045 | 86 | 15,329 | 325,097 |
| Liability as in the statement of financial position Outstanding claims | 39,313 | 154,181 | 73,537 | 220,224 | 269,244 | 756,499 |
| Reported | 39,313 | 154,181 | 73,537 | 220,224 | 169,244 | 656,499 |
| Unreported | - | - | - | - | 100,000 | 100,000 |
| Surplus (deficit) in the preliminary estimate for reserve | 470,932 | 1,226,279 | 537,897 | (75,411) | - | 756,499 |

**Total – Liability:**

| The accident year | 2008 and before JD | 2009 JD | 2010 JD | 2011 JD | 2012 JD | Total JD |
|---|---|---|---|---|---|---|
| Year at the end of the | 114,680 | 7,300 | 7,522 | 30,528 | 57,412 | |
| After one year | 104,209 | 19,180 | 16,500 | 20,700 | - | |
| After two years | 93,709 | 2,500 | 16,500 | - | - | |
| After three years | 84,600 | - | - | - | - | |
| After four years | 29,367 | - | - | - | - | |
| Present expectation for the accumulated claims | 29,367 | - | 16,500 | 20,700 | 57,412 | 123,979 |
| Accumulated payments | 19,329 | - | 3,710 | 720 | - | 23,759 |
| Liability as in the statement of financial position | 10,038 | - | 12,790 | 19,980 | 57,412 | 100,220 |
| Reported | 10,038 | - | 12,790 | 19,980 | 27,412 | 70,220 |
| Unreported | - | - | - | - | 30,000 | 30,000 |
| Surplus (deficit) in the preliminary estimate for reserve | 85,313 | 7,300 | (8,978) | 9,828 | - | 93,463 |

**Total – Marine:**

| The accident year | 2008 and before | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD |
| At the end of the year | 81,454 | 622,200 | 45,200 | 2,590 | 27,500 | |
| After one year | 191,807 | 678,165 | 60,200 | 7,000 | - | |
| After two years | 69,713 | 678,765 | 55,200 | - | - | |
| After three years | 69,713 | 676,765 | - | - | - | |
| After four years | 62,227 | - | - | - | - | |
| Present expectation for the accumulated claims | 62,227 | 676,765 | 55,200 | 7,000 | 27,500 | 828,693 |
| Accumulated payments | 4,897 | 669,118 | 6,682 | 750 | - | 681,447 |
| Liability as in the statement of financial position | 57,331 | 7,647 | 48,518 | 6,250 | 27,500 | 147,246 |
| Reported | 57,331 | 7,647 | 48,518 | 6,250 | 7,500 | 127,246 |
| Unreported | - | - | - | - | 20,000 | 20,000 |
| Surplus (deficit) in the preliminary estimate for reserve | 19,226 | (54,565) | (10,000) | (4,410) | - | (49,749) |

**Total – Others:**

| The accident year | 2008 and before | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD |
| Year at the end of the | 1,539,288 | 242,325 | 133,535 | 458,307 | 103,023 | |
| After one year | 605,131 | 176,849 | 432,571 | 1,053,555 | - | |
| After two years | 468,155 | 68,568 | 425,551 | - | - | |
| After three years | 386,425 | 60,312 | - | - | - | |
| After four years | 404,120 | - | - | - | - | |
| Present expectation for the accumulated claims | 404,120 | 60,312 | 425,551 | 1,053,555 | 103,023 | 20,046,561 |
| Accumulated payments | 45,307 | 44 | - | 643 | - | 45,994 |
| Liability as in the statement of financial position | 358,813 | 60,268 | 425,551 | 1,052,912 | 103,023 | 2,000,567 |
| Reported | 358,813 | 60,268 | 425,551 | 1,052,912 | 33,023 | 1,930,567 |
| Unreported | - | - | - | - | 70,000 | 70,000 |
| Surplus (deficit) in the preliminary esti-mate for reserve | 1,078,400 | 182,013 | (292,016) | (595,248) | - | 429,917 |

**Total – Medical:**

| The accident year | 2008 and before | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD |
| At the end of the year | - | - | - | - | 5,281,969 | |
| After one year | - | - | - | 2,054,099 | - | |
| After two years | - | - | - | - | - | |
| After three years | - | - | - | - | - | |
| After four years | - | - | - | - | - | |
| Present expectation for the accumulated claims | - | - | - | 2,054,099 | 5,281,969 | 7,336,068 |
| Accumulated payments | - | - | - | - | - | - |
| Liability as in the statement of financial position | - | - | - | 2,054,099 | 5,281,969 | 7,336,068 |
| Reported | - | - | - | 2,054,099 | 3,249,657 | 5,303,756 |
| Unreported | - | - | - | - | 2,032,312 | 2,032,312 |
| Surplus (deficit) in the preliminary estimate for reserve | - | - | - | - | - | - |

**3. Insurance Risk Concentrations**

Below is a schedule presenting risk concentration based on insurance type and the geographical distributions

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Net | Gross | Net | Gross |
| | JD | JD | JD | JD |
| **Insurance types** | | | | |
| Motors | 13,862,033 | 16,248,433 | 11,918,506 | 13,463,113 |
| Marine | 215,438 | 849,625 | 144,659 | 582,121 |
| Airline | - | 17,878 | - | 329,594 |
| Fire and properties | 697,804 | 3,899,625 | 510,004 | 2,925,724 |
| Other classes | 736,152 | 4,707,396 | 692,562 | 3,822,828 |
| Medical | 13,627,839 | 27,090,636 | 9,768,684 | 25,129,116 |
| **Total** | **29,139,266** | **52,813,593** | **23,034,415** | **46,252,496** |

The Company covers all its activities by reinsurance agreements and excess of loss agreements, in addition to agreements that cover the Company's retention under the name of reinsurance risk agreements.

The geographical distribution is as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Off-Statement of Financial Position | Assets | Liabilities | Off-Statement of Financial Position |
| | JD | JD | JD | JD | JD | JD |
| a. According to geographical area: | | | | | | |
| Inside Jordan | 68,255,385 | 34,768,857 | 2,207,080 | 57,819,046 | 28,388,808 | 2,176,121 |
| Other Middle East Countries | 967,619 | 707 | - | 420,345 | - | - |
| Europe | 1,755,850 | 9,086,457 | - | 1,885,865 | 6,466,750 | - |
| Asia * | 13,958 | 1,551,822 | - | - | 2,154,591 | - |
| Africa * | - | 522 | - | - | - | - |
| **Total** | **70,992,812** | **45,456,365** | **2,207,080** | **60,125,256** | **37,010,149** | **2,176,121** |

* Excluding Middle East countries.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Off-Statement of Financial Position | Assets | Liabilities | Off-Statement of Financial Position |
| | JD | JD | JD | JD | JD | JD |
| b. According to Sector: | | | | | | |
| Public sector | 5,387,583 | 2,370,520 | 2,207,080 | 3,963,250 | 1,739,477 | 2,176,121 |
| Private Sector: | | | | | | |
| Companies and corporations | 63,333,459 | 42,229,677 | - | 54,560,776 | 34,715,520 | - |
| Individuals | 2,271,770 | 808,168 | - | 1,601,230 | 555,152 | - |
| **Total** | **70,992,812** | **45,408,365** | **2,207,080** | **60,125,256** | **37,010,149** | **2,176,121** |

Concentration of the off-statement of financial position assets and liabilities related to reinsurers according to the geographical and sectorial distribution is as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Off-Statement of Financial Position | Assets | Liabilities | Off-Statement of Financial Position |
| | JD | JD | JD | JD | JD | JD |
| a. According to geographical area: | | | | | | |
| Inside Jordan | - | 51,874,898 | - | - | 46,252,496 | - |
| Other Middle East Countries | - | - | - | - | - | - |
| Europe | 20,197,485 | - | - | 15,924,090 | - | - |
| Asia * | 8,941,781 | - | - | 7,110,325 | - | - |
| Africa * | - | - | - | - | - | - |
| **Total** | **29,139,266** | **51,874,898** | **-** | **23,034,415** | **46,252,496** | **-** |

* Excluding Middle East countries.

## Insurance Risk Sensitivity

The table below shows the possible reasonable effect of the premiums price on the income statement and equity keeping all other affecting variables fixed.

| Insurance activities | Change | Effects on the underwriting premiums | Effects on the current year pre-Tax profit | Effects on The equity |
|---|---|---|---|---|
| | % | JD | JD | JD |
| Motors | 10 | 1,786,822 | 1,426,240 | 1,083,942 |
| Marine | 10 | 178,488 | 42,597 | 32,374 |
| Airlines | 10 | 26,327 | - | - |
| Fire | 10 | 662,552 | 106,591 | 81,009 |
| Liabilities | 10 | 64,278 | 15,784 | 11,996 |
| Medical | 10 | 4,483,662 | 1,646,753 | 1,251,532 |
| Other classes | 10 | 556,446 | 94,965 | 72,173 |
| **Total** | | **7,758,575** | **3,332,930** | **2,533,026** |

* Net after deducting income tax effect.

If there is negative change the effect equals the change above with changing the sign.

The table below shows the possible reasonable effects of the claims cost on the income statement and equity keeping all other affecting valuables fixed.

| Insurance activities | Change | Effects on the underwriting claims | Effects on the current year pre-Tax profit | Effects on The equity* |
|---|---|---|---|---|
| | % | JD | JD | JD |
| Motors | 10 | 1,443,514 | 1,136,087 | 863,426 |
| Marine | 10 | 22,702 | 12,933 | 9,829 |
| Airlines | 10 | - | - | - |
| Fire | 10 | 108,518 | 48,380 | 36,769 |
| Liabilities | 10 | 5,617 | 3,342 | 2,540 |
| Medical | 10 | 4,003,921 | 1,817,623 | 1,381,393 |
| Other classes | 10 | 61,923 | 30,131 | 22,900 |
| **Total** | | **5,646,195** | **3,048,496** | **2,316,857** |

* Net after deducting income tax effect.

If there is negative change the effect equals the change above with changing the singe.

## (B) Financial Risks

The company follows financial policies to manage several risks within a specified strategy. The company's management observes and controls the risk and determines the most suitable strategic risk distribution procedures for each of the financial assets and liabilities. This risk includes interest rate risk, credit risk, foreign currency risk and market risk.

The Company follows a hedging policy for each of its assets and liabilities when required, the hedging policy is related to future expected risks.

### 1. Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices such as interest and currency prices. These risks are monitored according to specific policies and procedures and through specialized committees and business units.

Market risk and its related controls are measured through sensitivity analysis.

### 2. Interest Rate Risk

Interest rate risks relate to long – term bond deposits, development bonds, and other deposits. Moreover, the Company always endeavors to mitigate these risks through monitoring the changes in interest rates in the market. Interest rate risks relate to fixed deposits at banks and overdraft accounts, as of December 31, 2012. The interest rate on bank deposits ranged from 6.5% to 5.25% annually on Jordanian Dinar deposits. The interest rate on overdraft accounts ranged from 6.25% annually.

The following table illustrates the sensitivity of exposure to interest rate at the date of the financial statements. Moreover, the analysis below has been prepared assuming that the amount of deposits outstanding at the statement of financial position date was outstanding for the whole financial year. An increase / decrease of 0.5% is used representing the Company's assessment of the probable and acceptable change of interest rates.

| | + 0.5% | | - 0.5% | |
|---|---|---|---|---|
| | For the Year Ended December 31, | | | |
| | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD |
| Increase (decrease) in profit for the year | 121,847 | 93,425 | (121,847) | (93,425) |
| Shareholders' equity | 121,847 | 93,425 | (121,847) | (93,425) |

The table below shows the sensitivity of exposure to interest rates on the bonds of Aqapa development company. Since the bond below that amount based on the financial statements was based along the financial period. And is used to increase or decrease by 0.5%, which represents the company's management assessment of the potential change and acceptable interest rates.

| | +0.5% | | -0.5% | |
|---|---|---|---|---|
| | For the Year Ended December 31, | | | |
| | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD |
| Increase (decrease) in profit for the year | 6,350 | 6,350 | (6,350) | (6,350) |
| Shareholders' equity | 6,350 | 6,350 | (6,350) | (6,350) |

**3. Foreign Currencies Risks**

Foreign currencies risks are the risks resulting from the fluctuations in the value of the financial instruments due to the changes in the exchange rates of foreign currencies. Most of the Company's assets and liabilities are funded by Jordanian Dinar or US Dollar. The exchange rate of the US Dollar to Jordanian Dinar is fixed at 0.709 and the probability of this risk is very minimal. Consequently, the Company does not hedge for the foreign currencies risk due to the following reasons:

- The US Dollar exchange rate is fixed within a range from 0.708 to 0.710 selling and buying by the Central Bank of Jordan.

- All of the Company's accounts with the various parties including reinsurers are in Jordanian Dinar.

- There are no other foreign currencies denominated accounts. However, the Company monitors the fluctuation in the foreign currency exchange rate continuously.

The foreign currencies risks are the risks relating to the change in the value of the financial instruments due to the change in the foreign currencies exchange rates. Moreover, the Jordanian Dinar is considered the Company's functional currency. The Board of Directors sets the limits for the financial position of each currency at the Company. Additionally, the foreign currencies positions are monitored daily. Strategies are adopted to ensure that the positions of foreign currencies are maintained within the approved limits.

The following is the net position of the Company's major foreign currencies:

| Currency Type | Foreign Currency | | Equivalent in Jordanian Dinar | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| US Dollar | 971,582 | 1,812,121 | 688,852 | 1,284,794 |

The Company's management believes that the foreign currencies risks and their impact on the financial statements are immaterial.

**4. Liquidity Risk**

The Company applies a suitable system to manage its short and long term funding risk and maintains sufficient reserves through monitoring the expected cash flows and comparing the matures of assets with to the matures of liabilities and technical commitments.

Liquidity risk is the risk that the Company will be not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis and maintains sufficient amount of cash and cash equivalents.

The table below summarizes the maturity profile of the company's financial liabilities based on contractual undiscounted payments:

| | Less than month | 1 month to 3 months | 3-6 months | 6 month to 1 year | 1-3 years | Without maturity | Total |
|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | | JD |
| 2012 - | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payables | 800,000 | 1,000,000 | 400,000 | 600,000 | 91,138 | - | 2,891,138 |
| Accrued expenses | 153,852 | - | - | - | - | - | 153,852 |
| Reinsurance payables | 1,500,000 | 3,000,000 | 3,500,000 | 2,500,000 | 694,268 | - | 11,194,268 |
| Other provisions | - | - | - | - | - | 667,757 | 667,757 |
| Income tax provision | 561,259 | - | 537,646 | - | - | - | 1,098,905 |
| Other payables | 117,113 | 121,919 | - | - | - | 24,147 | 263,179 |
| Total liabilities | 3,132,224 | 4,121,919 | 4,437,646 | 3,100,000 | 785,406 | 691,904 | 16,269,099 |
| Total Assets | 12,925,790 | 24,038,550 | 10,638,920 | 14,836,135 | 8,137,615 | 415,802 | 70,992,812 |
| 2011 - | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payables | 1,000,000 | 820,000 | 500,000 | 800,000 | 160,062 | - | 3,280,062 |
| Accrued expenses | 98,262 | - | - | - | - | - | 98,262 |
| Reinsurance payables | 3,000,000 | 2,000,000 | 1,500,000 | 1,500,000 | 621,341 | - | 8,621,341 |
| Other provisions | - | - | - | - | - | 529,742 | 529,742 |
| Income tax provision | 359,542 | 867,759 | - | - | - | - | 1,227,301 |
| Other payables | 118,461 | 76,465 | - | - | - | 24,100 | 219,026 |
| Total liabilities | 4,576,265 | 3,764,224 | 2,000,000 | 2,300,000 | 781,403 | 553,842 | 13,975,734 |
| Total Assets | 10,146,731 | 20,445,549 | 9,008,243 | 12,071,841 | 7,495,804 | 957,088 | 60,125,256 |

### 5. Share Price Risk

This represents the decrease in the value of shares as a result of the changes in the level of indices of shares subscribed to in the investment portfolio at the Company.

The change in the stock exchange index as of the financial statements date was +5% or - 5%. The following is the impact of the change on the Company's shareholders:

| 2012 | Change in Index | Impact on Shareholders' Gain/(Loss) |
|---|---|---|
| | | JD |
| Stock Exchange | +5% | 13,829 |
| Stock Exchange | -5% | (13,829) |

| 2011 | Change in Index | Impact on Shareholders' (Gain/(Loss)) |
|---|---|---|
| | | JD |
| Stock Exchange | +5% | 18,340 |
| Stock Exchange | -5% | (18,340) |

### 6. Insurance Risk

This risk arises from the other parties' inability to meet their obligations. These risks arise from the following:

- Reinsurers.
- Policyholders.
- Insurance agents.

To mitigate insurance risks, the Company performs the following:

- Sets credit limits for agents and intermediaries.
- Controls accounts receivable.
- Sets reinsurance policies at other high net worth parties.
- Maintains the Company's cash balances at local and international banks.

### 7. Reinsurance Risk

As with other Insurance Companies, and for the purpose of reducing the exposure to financial risks that may arise from major insurance claims, the Company, within the normal course of its operations, enters into reinsurance contracts with other parties.

In order to reduce its exposure to major losses arising from the insolvency of reinsurance companies, the Company evaluates the financial position of the reinsurance companies it deals with while monitoring credit concentrations coming from geographic areas and activities or economic components similar to those companies. Moreover, the reinsurance policies issued do not exempt the Company from its obligations towards policyholders. As a result, the Company remains committed to the reinsured claims balance in case the reinsurers are unable to meet their obligations according to the reinsurance contracts.

In order to reduce exposure to the financial risks that may arise from the major insurance claims, the Company enters into reinsurance agreements with other parties.

- The Company applies the contractual and optional insurance agreements terms upon underwriting for all types of insurance regardless of size.

- The Company completes the reinsurance coverage for each risk assigned to it before the issuance of the insurance policy in case of insurance policies exceeding the relative agreements limits.

- As regards major contracts exceeding the proportional agreements limits, the Company, if it decides, assigns what exceeds 30% of any insurance contract to cover the optional reinsurance at a rate of not less than 60% of the assignment to a reinsurance company classified as 1st and 2nd class according to the solvency margin instructions.

The Company optionally returns 100% of risks excluded from contracts to the reinsurance company (companies) classified as 1st or 2nd class according to the solvency margin instructions.

The Company follows up on the contractual and optional reinsurances monthly to ensure that the classification is not down graded below 1st and 2nd class.

**8. Operating Risks**

Operating risks relate to systems downtime or may result from any intentional or unintentional human error. These risks may affect the Company’s reputation as they may lead to financial losses. These risks may be avoided through segregating duties, setting the necessary procedures to obtain any information from the Company’s systems, and making aware and training the Company’s personnel.

### 9. Legal Risks

These risks relate to the lawsuits against the Company. In order to avoid these risks, the Company setup an independent legal department to follow up on the Company's operations in a manner that complies with the Insurance Law and the Insurance Commission's Regulations.

## (31) Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

| 2012 - | Within1 year | More than 1 year | Total |
|---|---|---|---|
| | JD | JD | JD |
| Assets | | | |
| Bank deposits | 24,369,485 | - | 24,369,485 |
| Financial assets at fair value through income statement | 276,573 | - | 276,573 |
| Financial assets at amortized cost | - | 1,370,000 | 1,370,000 |
| Cash at hands and at bank | 2,261,653 | - | 2,261,653 |
| Cheques under collection | 5,187,013 | - | 5,187,013 |
| Account receivable net | 26,329,793 | - | 26,329,793 |
| Reinsurance receivable net | 3,472,137 | - | 3,472,137 |
| Deferred tax assets | - | 1,360,738 | 1,360,738 |
| Property and equipment | - | 5,750,326 | 5,750,326 |
| Intangible equipment | - | 72,353 | 72,353 |
| Other assets | 542,741 | - | 542,741 |
| **Total Assets** | **62,439,395** | **8,553,417** | **70,992,812** |
| Liabilities | | | |
| Unearned premiums revenue, net | 19,421,898 | - | 19,421,898 |
| Outstanding claims reserve, net | 6,802,150 | 2,915,218 | 9,717,368 |
| Accounts payable | 2,800,000 | 91,138 | 2,891,138 |
| Accrued expenses | 153,852 | - | 153,852 |
| Reinsurance payable | 10,500,000 | 694,268 | 11,194,268 |
| Other provisions | - | 667,757 | 667,757 |
| Income tax provision | 1,098,905 | - | 1,098,905 |
| Other liabilities | 239,032 | 24,147 | 263,179 |
| **Total Liabilities** | **41,015,837** | **4,392,528** | **45,408,365** |
| **Net Assets** | **21,423,558** | **4,160,889** | **25,584,447** |

| 2011 - | Within1 year | More than 1 year | Total |
|---|---|---|---|
| | JD | JD | JD |
| Assets | | | |
| Bank deposits | 18,684,935 | - | 18,684,935 |
| Financial assets at amortized cost | 366,794 | - | 366,794 |
| Financial assets at fair value through profit or loss | - | 1,670,000 | 1,670,000 |
| Cash at hands and at banks | 1,269,544 | - | 1,269,544 |
| Cheques under collections | 4,378,007 | - | 4,378,007 |
| Account receivable, net | 22,844,164 | - | 22,844,164 |
| Reinsurance receivable, net | 3,630,946 | - | 3,630,946 |
| Deferred tax assets | - | 957,088 | 957,088 |
| Property and equipment | - | 5,772,329 | 5,772,329 |
| Intangible assets | - | 53,475 | 53,475 |
| Other assets | 497,974 | - | 497,974 |
| **Total Assets** | **51,672,364** | **8,452,892** | **60,125,256** |
| Liabilities | | | |
| Unearned premiums revenue | 14,998,884 | - | 14,998,884 |
| Outstanding claims reserve | 5,544,516 | 2,491,015 | 8,035,531 |
| Accounts payable | 3,120,000 | 160,062 | 3,280,062 |
| Accrued expenses | 98,262 | - | 98,262 |
| Reinsurance payable | 8,000,000 | 621,341 | 8,621,341 |
| Other provisions | - | 529,742 | 529,742 |
| Income tax provision | 1,227,301 | - | 1,227,301 |
| Other liabilities | 194,926 | 24,100 | 219,026 |
| **Total Liabilities** | **33,183,889** | **3,826,260** | **37,010,149** |
| **Net Assets** | **18,488,475** | **4,626,632** | **23,115,107** |

## (32) Analysis Of Main Sectors

### A- Background for the company business sectors

General insurance sector includes insurance on Motor, Marine, Fire and Property, Liability, medical and others, The sectors above also include investments and cash management for the company account. The activities between the business sectors are performed based on commercial basis.

### B-Geographic concentration of risk

The Company mainly operates in Jordan, which represents domestic operations. The following tables depict the distribution of gross income and capital expenditure based on the geographical location of the customers and assets.

| | Inside Kingdom | | Outside Kingdom | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | JD | JD | JD | JD | JD | JD |
| Total assets | 68,255,385 | 57,819,046 | 2,737,427 | 2,306,210 | 70,992,812 | 60,125,256 |
| Total revenues | 77,585,752 | 66,102,873 | - | - | 77,585,752 | - |
| Capital expenditure | 423,128 | 1,141,434 | - | - | 423,128 | 1,141,434 |

## (33) Management of Capital

The Company’s objectives as to the management of capital are as follows:

a. To adhere to the Company’s minimum capital issued by the Insurance Law. Moreover, the Company’s minimum capital prior to the enforcement of the law according to which it was licensed to practice general insurance in all of its branches, jointly and severally, is JD 4 million.

b. To secure the continuity of the Company, and consequently, the Company’s ability to provide the shareholders with good returns on capital.

c. To make available the proper return to shareholders through pricing insurance policies in a manner compatible with the risks associated with those polices.

d. To comply with the Insurance Commission Instructions associated with the solvency margin.

e. The following table shows the summary of the Company’s capital and the minimum required capital:

| | 2012 | 2012 |
|---|---|---|
| | JD | JD |
| Total paid Capital | 18,725,000 | 17,500,000 |
| Minimum Capital According to the Insurance Law | 4,000,000 | 4,000,000 |

f. The following table shows the amount contributed to capital by the Company and the net solvency as of December 31, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| | JD | JD |
| Core Capital | | |
| Paid – up Capital | 18,725,000 | 17,500,000 |
| Statutory reserve | 2,790,322 | 2,343,084 |
| Profit for the year net of appropriations | 2,897,102 | 2,737,591 |
| Retained earnings | 1,172,023 | 534,432 |
| Less: decrease in provisions | (861,555) | - |
| Total Primary Capital | 24,722,892 | 23,115,107 |
| Supplementary capital: | | |
| Cumulative change in fair value | - | - |
| Total Supplementary Capital | - | - |
| Total regulatory capital (a) | 24,722,892 | 23,115,107 |
| Total required capital (b) | 15,415,338 | 12,642,295 |
| Solvency margin (a) / (b) | 165.9% | 182% |

In the opinion of the Company's management, the regulatory capital is compatible with and adequate to the size of capital and nature of risks to which the Company is exposed.

## (34) Lawsuits Against the Company

There are lawsuits against the Company at courts claiming compensation for a total amount of JD 1,567,478 as of December 31, 2012. In the opinion of the Company's management and its lawyer, no obligations shall arise therefrom exceeding the allocated amounts within the net claims reserve.

## (35) Contingent Liabilities

The Company was contingently liable for bank guarantees of JD 2,207,080 as of December 31, 2012 against cash margins of JD 220,708.

## (36) Fair Value Hierarchy

The following table analyzes the fiancial instruments recorded at fair value based on the valuation method which is defined at different levels as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2: Information not included in level (1) quoted prices monitored for the asset or liability, either directly (e.g. prices) or indireclty (i.e. derived from prices);
- Level 3: information on the asset or liability not based on those observed from the market (unobservable inputs).

| December 31, 2012 | Level (1) | Level (2) | Level (3) | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Financial instrments assets: | | | | |
| Financial assets at fair value through the statement of income | 276,573 | - | - | 276,573 |
| Total financial assets | 276,573 | - | - | 276,573 |

| | Level (1) | Level (2) | Level (3) | Total |
|---|---|---|---|---|
| December 31, 2012 | JD | JD | JD | JD |
| Financial instrments assets: | | | | |
| Financial assets at fair value through the statement of income | 366,794 | - | - | 366,794 |
| Total financial assets | 366,794 | - | - | 366,794 |

## (37) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the **Company's / Group's / Bank's** financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1**

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the **Company's** financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

**IAS 19 Employee Benefits (Revised)**

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The **Company** does not expect the amendments to have any impact on its financial position or performance as the **Company** does not have employees benefit plans.

**IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)**

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

**IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32**

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

**IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7**

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation.

The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

**IFRS 9 Financial Instruments: Classification and Measurement (IN CASE NOT ADOPTED YET)**

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

**IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements**

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

**IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**Annual Improvements May 2012**

These improvements will not have an impact on the **Group/Company/Bank**, but include:

**IAS 1 Presentation of Financial Statements**
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

**IAS 16 Property Plant and Equipment**
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

**IAS 32 Financial Instruments, Presentation**
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

**IAS 34 Interim Financial Reporting**
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.