

التاريخ: 2019/3/27

الرقم : 12019 / 4 / 1159 / fin

**Messrs.' : Amman Stock Exchange**

السادة : بورصة عمان المحترمين

Subject: Audited financial statement  
In English for the fiscal 31/12/2018

**الموضوع : البيانات المالية السنوية باللغة الانجليزية**  
**للسنة المنتهية في 2018/12/31**

Attached the audited financial  
Statements of Euro Arab Insurance  
For the financial year ended at

مرفق طيه نسخة من البيانات المالية باللغة الانجليزية  
 المدققة للشركة العربية الاوروبية للتأمين عن السنة  
 المالية المنتهية في 2018/12/31

31/12/2018

Kindly accept our high appreciation

و تفضلوا بقبول فائق الاحترام ،،،،،

## And respect

### General Manager

**Dr. Lana Bader**

*Jana*

بورصة عمان  
الدائرة الإدارية والمالية  
السديان

١٤ نيسان ٢٠١٩

2004

الرقم المتسلسل: 2020

رقم الملف: 21023

الجزء المختص:

2011

المدير العام

۱. لانا بدر

*Jan*

*Serve to Grow . . . Grow to Serve*

EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT

EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN – JORDAN  
DECEMBER 31, 2018

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## Independent Auditor's Report

AM/ 007205

To the Shareholders of  
Euro Arab Insurance Group  
A Public Shareholding Limited Company  
Amman – The Hashemite Kingdom of Jordan

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Euro Arab Insurance Group (A Public Shareholding Limited Company), which comprise the statement of financial position as of December 31, 2018, and the statement of income and comprehensive income, statement of changes in shareholders' equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and its financial performance as well as its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants together with the other ethical requirements that are relevant to our audit of the Company's financial statements in Jordan, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Matter**

The accompanying financial statements are a translation of the statutory financial statements in the Arabic to which reference is made.

#### **Key Audit Matters**

Key audit matters, in our professional judgment, are the most significant matters in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Key Audit Matters

### Application of the International Financial Reporting Standard Number (9) "Financial Instruments"

The Company has adopted IFRS 9 "Financial Instruments" effective January 1<sup>st</sup>, 2018, this standard supersedes the requirements of IAS 39 "Financial instruments - recognition and measurement".

Implementing the IFRS is considered to be key audit matter, that requires management to use significant accounting estimates and measurements applying the method of expected credit loss.

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets.

The Company's management has applied a simplified approach to the calculate expected credit loss ("ECL") and determine the allowance for impairment of accounts receivable. The ECL model involves the use of various assumptions, macro-economic factors and the study of historical trends relating to the Company's accounts receivable collections experience.

As of December 31, 2018, the carrying amount of accounts receivable and financial assets subject to impairment requirements amounted to approximately JD 30 million and the provision for expected credit loss amounted to approximately JD 1.7 million.

### The adequacy of the Provision for Expected Credit Losses on Financial assets

Accounts receivable and financial assets constitute a major part of the Company's assets, and because of the importance of the judgements used to prepare future estimates and forecast set forth in IFRS (9), it was considered as key audit matter.

The Company's management exercises significant judgment and uses assumptions to determine both the timing and amount of provision to be recorded as expected credit losses.

The Company's total accounts receivable and financial assets subjected to impairment requirements are amounted to approximately JD 30 million, and the related provision for expected credit losses amounted to JD 1.7 million as of December 31, 2018.

## Scope of Audit to Address the Risk

We performed the following procedures in respect to the implementation of IFRS 9:

- Reviewed management's assessment of the impact of IFRS 9 in terms of the classification and measurement of its financial assets and liabilities, and understood the approach taken towards implementation.
- Reviewed the expected credit losses model developed by management to that required by IFRS 9 and reviewed the reasonableness of the methodology in comparison to accepted best practice. We also tested the accuracy of arithmetical the model;
- Tested key assumptions, used by management, by comparing to historical data. We also considered the incorporation of forward looking factors to reflect the impact of future events on expected credit losses;
- Reviewed of the receivables aging and the credit risk for the financial assets subject to the impairment requirements which have been provided to us by the Company's management.
- Involved our specialists to review the methodology used in the expected credit losses model; and compared it against accepted best practice.

The important accounting policies and accounting estimates are presented in Notes (2) and (3) to the financial statements.

We have understood the Company's key operations used in the preparation of the assumptions and estimates used and set forth in International Financial Reporting Standard (9).

We have also read out the Company's expected credit loss provisioning policy in relation to International Financial Reporting Standard (9). Furthermore, we have understood the methodology used by the Company to determine the provisions against each category, and the reasonableness of the underlying assumptions, the adequacy of the data used by the Company, and the use of experts were appropriate to satisfy ourselves about these data.

## Key Audit Matters

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### Scope of Audit to Address the Risk

We have selected a sample of accounts receivable and financial assets subjected to impairment requirements to review the following:

- The completeness of accounts receivable information included in the calculation process of expected credit loss.
- The appropriateness of the Company's determination of the significant increase in credit risk and the basis for the classification of exposures into different stages.
- Reviewing and understanding the models used by the Company based on the simplified approach and the appropriateness with the International Financial Reporting Standard (9).
- Management's estimate of future cash flows, their reasonableness, and outcome of the calculation of provisions.

The significant accounting policies, accounting estimates, and management disclosures are presented in notes (2) and (3) to the financial statements

### Technical Provisions

Technical provisions are key audit matters. Moreover, technical provisions amounted to JD 16,404,119, representing approximately 68% of total liabilities as of December 31, 2018. In addition, the Company assesses technical provisions according to the requirements of International Financial Reporting Standards and regulatory bodies. As such, technical provisions are calculated based on the adopted accounting policies, the Company's estimates, and historical data on claims. The reinsurers' share from the technical provisions is re-calculated based on the related signed agreements. Furthermore, Executive Management appoints a certified actuary and a loss adjuster to periodically review the adequacy of the technical provisions.

The followed audit procedures include understanding the nature of the technical provisions, testing the adopted internal control environment, assessing the reasonableness of the estimates and assumptions, and the adequacy of the provisions prepared by management. This is carried out through studying a sample of the technical provisions and reinsurers' share and its calculation, obtaining the support of the loss adjuster and the Company's lawyer, and comparing the sample with its related provisions. In addition, the certified actuary's reports were reviewed in respect to the adequacy of the technical provisions. Moreover, we assessed the appropriateness adequacy of disclosures on the technical provisions.

## **Other Information**

Management is responsible for other information which comprises information in the annual report excluding the financial statements and the independent auditor's report thereon. Furthermore, we expect the annual report to be made available to us after the date of our audit report. Our opinion on the financial statements does not cover other information, and we do not express any form of assurance or conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

#### **Report on Other Legal and Regulatory Requirements**

The Company maintains proper accounting records duly organized and in line with the accompanying financial statements, in all material respects, and we recommend that the General Assembly approve these financial statements.

Amman – Jordan  
February 28, 2019

Deloitte & Touche (M.E.) – Jordan



EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN  
STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Note</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>JD</u>	<u>JD</u>
Deposits at banks	4	19,527,430	17,614,117
Financial assets at fair value through profit or loss	5	814,656	580,426
Financial assets at amortized cost	6	-	-
Investment property - net	7	879,227	863,354
Total Investments		<u>21,221,313</u>	<u>19,057,897</u>
Cash on hand and at banks	8	76,377	39,428
Cheques under collection	9	636,422	604,852
Accounts receivable - net	10	7,546,806	5,501,860
Re-insurance and insurance companies accounts receivable - Net	11	684,650	855,057
Deferred tax assets	B/12	906,752	735,676
Property and equipment - net	13	3,128,964	3,241,613
Intangible assets	14	10,065	28,695
Other assets	15	498,030	529,751
TOTAL ASSETS		<u>34,709,379</u>	<u>30,594,829</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>LIABILITIES:</u>			
Unearned premiums reserve - net		9,009,815	8,824,270
Claims reserve - net		7,293,820	6,442,171
Mathematical reserve - net	16	100,484	71,768
Total Insurance Contracts Liabilities		<u>16,404,119</u>	<u>15,338,209</u>
Due to banks	17	1,655,646	939,928
Accounts payable	18	2,679,926	1,982,242
Re-insurance and insurance companies accounts payable	19	2,209,443	875,514
Other provisions	20	303,933	211,200
Provision for Income tax	A/12	225,479	176,546
Other liabilities	21	637,570	569,259
TOTAL LIABILITIES		<u>24,116,116</u>	<u>20,092,898</u>
<u>SHAREHOLDERS' EQUITY:</u>			
Authorized and paid-up capital	22	8,000,000	8,000,000
Statutory reserve	23	1,342,268	1,249,375
Voluntary reserve	23	15,676	15,676
Retained earnings	24	1,235,319	1,236,880
Total Shareholders' Equity		<u>10,593,263</u>	<u>10,501,931</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>34,709,379</u>	<u>30,594,829</u>

Chairman of the Board of Directors

General Manager

THE ACCOMPANYING NOTES CONSTITUTE AN INTEGRAL PART OF  
THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM  
AND WITH INDEPENDENTS AUDITOR'S REPORT.

EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN  
STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	Note	For the Year Ended December 31,	
		2018 JD	2017 JD
<u>Revenue:</u>			
Gross written premiums		28,610,731	22,760,233
<u>Less: Re-insurers' share</u>		<u>(6,355,568)</u>	<u>(3,947,611)</u>
Net Written Premiums		22,255,163	18,812,622
Net change in unearned premiums reserve		(185,545)	(1,448,101)
Net change in mathematical reserve		<u>(28,716)</u>	<u>(24,246)</u>
Net Revenues Premiums Earned		22,040,902	17,340,275
Commissions' revenue		359,229	295,438
Insurance policies issuance fees		822,004	588,683
Interest revenue	25	1,114,429	820,524
Net (losses) gains from financial assets and investments	26	(51,168)	64,088
Other revenue	27	<u>423,392</u>	<u>410,858</u>
Total Revenue		<u>24,708,788</u>	<u>19,519,866</u>
<u>Claims, Losses and Expenses:</u>			
Paid claims		22,013,263	19,171,884
<u>Less: Recoveries</u>		<u>(2,552,759)</u>	<u>(2,234,975)</u>
Re-insurers' share		<u>(1,255,720)</u>	<u>(2,202,704)</u>
Net paid claims		18,204,784	14,734,205
Net change in claims reserve		851,649	(166,563)
Allocated employees' expenditure	28	1,575,154	1,528,173
Allocated general and administrative expenses	29	710,757	576,498
Policies acquisition cost		901,333	779,197
Excess of loss premiums		244,646	233,450
Other expenses related to underwritings		<u>605,670</u>	<u>467,869</u>
Net Claims Costs		<u>23,093,993</u>	<u>18,152,829</u>
Unallocated employees' expenses	28	194,145	189,214
Depreciation and amortization	7&13&14	154,642	158,153
Unallocated general and administrative expenses	29	177,689	144,124
Provision for expected credit losses - net		70,618	2,320
Other expenses	30	<u>120,775</u>	<u>57,904</u>
Total Expenses		<u>23,811,862</u>	<u>18,704,544</u>
Income for the Year before Tax		896,926	815,322
Income tax for the year	A/12	<u>(201,026)</u>	<u>(190,088)</u>
Income for the Year / Total Comprehensive Income		<u>695,900</u>	<u>625,234</u>
The Company's Shareholders		<u>8,000,000</u>	<u>8,000,000</u>
Earnings per Share for the Year - Basic and Diluted	31	<u>0.087</u>	<u>0.078</u>

Chairman of the Board of Directors

General Manager

THE ACCOMPANYING NOTES CONSTITUTE AN INTEGRAL PART OF THESE  
FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM  
AND WITH INDEPENDENTS AUDITOR'S REPORT.

**EURO ARAB INSURANCE COMPANY**  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - JORDAN

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Note	Paid - up Capital	Statutory Reserve	Voluntary Reserve	Retained Earnings		
					Realized	Unrealized	Total
		JD	JD	JD	JD	JD	JD
<b>For the Year Ended December 31, 2018</b>							
Balance as of January 1, 2018 (as disclosed previously)		8,000,000	1,249,375	15,676	501,204	735,676	1,236,880
IFRS(9) implementation effect - Net (note3)		-	-	-	-	(204,568)	(204,568)
Adjusted balance as of January 1, 2018		8,000,000	1,249,375	15,676	501,204	531,108	1,032,312
Total comprehensive income		-	-	-	695,900	-	695,900
Transfers during the year		-	-	-	(375,644)	375,644	-
Transferred to statutory reserve		-	92,893	-	(92,893)	-	(92,893)
Distributed dividends *	24	-	-	-	(400,000)	-	(400,000)
Balance - End of the year		8,000,000	1,342,268	15,676	328,567	906,752	1,235,319
<b>For the Year Ended December 31, 2017</b>							
Balance - beginning of the year		8,000,000	1,164,943	15,676	808,076	488,002	1,296,078
Total comprehensive income		-	-	-	625,234	-	625,234
Transfers during the period		-	-	-	(247,674)	247,674	-
Transferred to statutory reserve		-	84,432	-	(84,432)	-	(84,432)
Distributed dividends *	24	-	-	-	(600,000)	-	(600,000)
Balance - End of the Year		8,000,000	1,249,375	15,676	501,204	735,676	1,236,880
							10,501,931

- Retained earnings includes JD 906,752 as of December 31, 2018, restricted against deferred tax assets (JD 735,676 as of December 31, 2017) according to Jordan Securities Commission regulations, Moreover the amount also includes unrealized losses from revaluation of financial assets at fair value through profit or loss amounted JD 375,901 as of December 31, 2018 (JD 221,653 as of December 31, 2017).

\* The General Assembly of shareholders has approved in its ordinary meeting held on April 29, 2018 the recommendation of Board of Directors for cash dividends to shareholders amounted JD 400,000 equivalent to 5% from paid in capital. (JD 600,000 as of December 31, 2017)

THE ACCOMPANYING NOTES CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ  
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EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN  
STATEMENT OF CASH FLOWS

	Note	For the Year Ended	
		December 31,	
		2018	2017
		JD	JD
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before tax for the year		896,926	815,322
Adjustments:			
Depreciation and amortization	7&13&14	154,642	158,153
Unrealized losses of financial assets at fair value through profit or loss	26	154,248	38,556
Provision of expected credit loss - net		70,618	2,320
Provision for other liabilities	20	80,000	25,000
End of service indemnity	20	13,513	3,102
Unearned premiums reserve - net		185,545	1,448,101
Claims reserve - net		851,649	(166,563)
Mathematical reserve - net	16	28,716	24,246
Cash Flows from Operating Activities before Changes in Working Capital Items		2,435,857	2,348,237
(Increase) in cheques under collection		(38,915)	(61,315)
(Increase) in receivables		(2,306,908)	(1,920,746)
Decrease (increase) in re-insurance companies' accounts receivables		119,034	(316,188)
(Increase) decrease in financial assets at fair value through profit or loss		(388,478)	421,624
Decrease in other assets		31,721	16,297
Increase in payables		697,684	630,224
Increase in re-insurance companies' accounts payable		1,333,929	7,554
Increase in other liabilities		68,311	21,610
(Decrease) in accrued expenses		-	(42,115)
Net Cash Flows from Operating Activities before Tax Paid and Provisions		1,952,235	1,105,182
Income tax paid	A/12	(258,568)	(53,406)
End of service indemnity paid	20	(780)	(6,030)
Net Cash Flows from Operating Activities		1,692,887	1,045,746
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in deposits at banks maturing after three months		4,129,984	(1,476,597)
(Purchase) of property and equipment	13	(20,936)	(37,872)
(Increase) in intangible assets		-	(7,500)
(Improvements) in investment properties		(18,300)	-
Net Cash Flows from (used in) Investment Activities		4,090,748	(1,521,969)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in due to banks		715,718	686,409
Distributed dividends	24	(400,000)	(593,545)
Net Cash Flows from Financing Activities		315,718	92,864
Net Increase (Decrease) in Cash and Cash Equivalents		6,099,353	(383,359)
Cash and cash equivalents - beginning of the year		2,918,660	3,302,019
Cash and Cash Equivalents - End of the Year	32	9,018,013	2,918,660

THE ACCOMPANYING NOTES CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS  
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EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN

STATEMENT OF UNDERWRITING REVENUE FOR GENERAL INSURANCE ACTIVITIES

	Motor	Marine and Transportation				Fire and Other Damages to Properties				Aviation				Liability				Medical				Others				Total					
	For the Year Ended	For the Year Ended				For the Year Ended				For the Year Ended				For the Year Ended				For the Year Ended				For the Year Ended									
	December 31,	December 31,				December 31,				December 31,				December 31,				December 31,				December 31,									
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Written premiums:																															
Direct business	11,159,747	11,212,294	641,628	501,969	1,038,235	666,726	973,429	-	459,218	342,466	10,926,928	6,814,725	212,095	165,861	25,411,280	19,704,041															
Re-insurers' Inward business	859,878	818,351	9,846	292	402,387	454,252	-	-	1,199	1,535	-	320,000	5,418	4,615	1,277,728	3,399,575															
Gross Written Premiums	12,018,625	12,030,675	651,474	502,261	1,440,622	1,121,478	973,429	-	460,417	344,001	10,926,928	6,934,725	217,513	170,476	26,689,008	21,103,616															
Less: Local re-insurers' share	(982,389)	(879,993)	(4,378)	(3,698)	(291,489)	(281,649)	-	-	(2,485)	(42)	-	(120,000)	(8,698)	(356)	(1,290,439)	(1,285,728)															
Foreign re-insurers' share	(71,372)	(56,013)	(514,826)	(401,590)	(988,219)	(720,492)	(973,429)	-	(308,784)	(172,489)	(736,810)	-	(135,848)	(172,806)	(3,230,388)	(1,473,390)															
Net Written Premiums	10,964,864	11,094,679	132,270	96,973	159,914	119,337	-	-	148,148	171,470	10,190,118	6,814,725	22,967	47,314	21,668,281	18,344,498															
Add: Unearned premiums reserve - beginning of the year	5,702,230	5,689,092	127,997	116,926	622,306	592,321	-	-	174,801	121,692	2,999,289	1,625,480	81,431	80,630	9,708,054	8,226,141															
Less: Re-insurers share - beginning of the year	(79,535)	(67,922)	(98,700)	(96,466)	(555,388)	(547,336)	-	-	(90,313)	(60,351)	-	-	(59,848)	(57,897)	(883,784)	(849,972)															
Net Unearned Premiums Reserve - Beginning of the Year	5,622,695	5,601,170	29,297	20,460	66,918	44,985	-	-	84,488	61,341	2,999,289	1,625,480	21,583	22,733	8,824,270	7,376,169															
Less: Unearned premiums reserve - end of the year	5,660,349	5,702,230	140,948	127,997	702,087	622,306	368,036	-	204,678	174,801	4,041,279	2,999,289	121,111	81,431	11,238,488	9,708,054															
Re-insurers' share - end of the year	(300,407)	(29,535)	(113,416)	(98,700)	(620,953)	(555,388)	(368,036)	-	(140,089)	(90,313)	(606,847)	-	(78,926)	(59,848)	(2,278,673)	(883,784)															
Net Unearned Premiums Reserve - End of the Year	5,359,942	5,622,695	27,532	29,297	81,134	66,918	-	-	64,590	84,488	3,434,432	2,999,289	42,185	21,583	9,009,815	8,824,270															
Net change in unearned premiums reserve	262,753	(21,525)	1,265	(9,837)	(14,216)	(21,933)	-	-	19,898	(23,147)	(435,143)	(373,809)	(20,602)	1,150	(185,545)	(1,448,101)															
Net Revenue from the Written Premiums	11,227,617	11,073,154	134,035	88,136	145,698	97,404	-	-	168,046	148,320	9,754,975	5,440,916	52,365	48,464	21,482,736	16,896,397															

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EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN

STATEMENT OF PAID CLAIMS COST FOR GENERAL INSURANCE ACTIVITIES

	Motor		Marine and Transportation		Fire and Other Damages to Properties		Aviation		Liability		Medical		Others		Total
	For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2017
Paid claims	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Less: Recoveries	12,098,155	12,118,785	71,820	171,104	196,903	709,368	-	-	23,745	30,594	8,513,654	4,587,605	42,781	40,467	20,947,058
	(2,536,020)	(2,225,064)	-	(1,545)	(15,662)	(6,542)	-	-	(730)	-	-	-	(347)	(1,824)	(2,552,759)
Local re-insurers' share	-	-	-	(76,363)	(1,929)	(15,097)	-	-	-	-	-	-	-	(5,688)	(97,148)
Foreign re-insurers' share	(122,337)	(134,936)	(51,067)	(70,667)	(167,120)	(558,482)	-	-	(18,784)	(26,153)	-	-	(33,652)	(23,382)	(392,960)
Net Paid Claims	9,439,798	9,758,785	20,753	22,529	12,192	129,247	-	-	4,231	4,441	8,513,654	4,587,605	8,782	9,573	17,999,410
Add: Reported claims reserve - end of the year	6,020,955	5,854,454	220,873	154,847	799,108	721,871	-	-	8,735	45,491	922,503	442,240	414,100	345,014	8,386,274
Un-reported claim reserve	800,000	750,000	3,000	3,000	10,000	10,000	-	-	-	-	624,534	548,489	3,000	3,000	1,440,534
Less: Re-insurers share - end of the year	(153,452)	(161,894)	(184,727)	(128,081)	(729,899)	(668,131)	-	-	-	(37,000)	-	-	(357,607)	(306,854)	(1,425,685)
Recoveries	(1,245,559)	(1,266,202)	-	-	-	-	-	-	-	-	-	-	-	-	(1,245,559)
Net Claims Reserve - End of the Year	5,421,944	5,176,358	39,146	29,766	79,209	63,740	-	-	8,735	8,491	3,547,037	990,729	59,493	41,160	7,155,564
Net reported claims reserve end of the year	4,621,944	4,426,358	38,846	29,466	78,709	63,240	-	-	8,735	8,491	922,503	442,240	59,193	40,860	5,729,930
Net un-reported claims reserve end of the year	800,000	750,000	300	300	500	500	-	-	-	-	624,534	548,489	300	300	1,425,634
Less: Reported claims reserve - beginning of the year	5,854,454	6,243,685	154,847	179,775	721,871	1,271,781	-	-	45,491	16,073	442,240	358,535	345,014	405,372	7,563,917
Un-reported claims reserve	750,000	750,000	3,000	3,000	10,000	10,000	-	-	-	-	548,489	362,365	3,000	3,000	1,314,489
Re-insurers' share - beginning of the year	(161,894)	(171,626)	(128,081)	(173,919)	(668,131)	(1,093,929)	-	-	(37,000)	(9,968)	-	-	(306,854)	(363,171)	(1,301,960)
Recoveries	(1,266,202)	(1,323,215)	-	-	-	-	-	-	-	-	-	-	-	-	(1,266,202)
Net Claims Reserve - Beginning of the Year	5,176,358	5,498,844	29,766	8,856	63,740	187,852	-	-	8,491	6,105	990,729	720,900	41,160	45,201	6,310,244
Net reported claims reserve beginning of the year	4,426,358	4,748,844	29,466	8,556	63,240	187,352	-	-	8,491	6,105	442,240	358,535	40,860	44,901	5,010,655
Net un-reported claims reserve beginning of the year	750,000	750,000	300	300	500	500	-	-	-	-	548,489	362,365	300	300	1,299,589
Net Change at Claims Reserve	245,586	(322,486)	9,380	20,910	15,469	(124,112)	-	-	244	2,386	556,308	269,829	18,333	(4,041)	845,320
Net Paid Claims Cost	9,685,384	9,436,299	30,133	43,439	27,661	5,135	-	-	4,475	6,827	9,069,962	4,857,434	27,115	5,532	18,844,730

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EUROARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - JORDAN

STATEMENT OF UNDERWRITING PROFIT FOR GENERAL INSURANCE ACTIVITIES

	For the Year Ended										Total	
	2018					2017					For the Year Ended	
	December 31,					December 31,					December 31,	
	2018	2017	2018	2017	2018	2018	2017	2018	2017	2018	2017	2017
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Net revenue from the written premiums	11,227,617	11,073,154	88,136	145,598	97,404	-	168,046	148,323	9,754,975	5,440,916	48,464	21,482,706
(Less): Net paid claims cost	(9,885,384)	(9,438,299)	(10,133)	(43,439)	(5,135)	-	(4,475)	(6,827)	(9,069,862)	(4,852,434)	(22,115)	(18,864,208)
	1,342,233	1,634,855	103,902	44,597	318,037	97,269	363,571	141,496	685,013	588,482	25,250	2,618,498
Add: Recalled commissions	2,428	2,627	139,795	103,033	183,298	162,345	11,144	5,281	-	3,000	21,539	358,204
Insurance policies issuance fees	264,771	269,217	20,962	17,159	32,395	24,471	12,153	11,265	424,195	232,555	15,006	786,809
Other revenue	195,650	234,636	49,609	58,676	12,211	15,563	-	2,122	165,952	99,653	6	423,392
	1,808,082	2,175,335	193,478	223,565	345,041	295,648	186,868	160,175	1,279,160	918,630	61,795	4,208,411
Total Revenue	618,141	580,154	32,850	14,630	107,475	68,525	14,601	19,954	102,014	79,384	20,348	895,439
Less: Insurance policies obtaining cost	173,951	169,000	25,695	19,450	45,000	45,000	-	-	-	-	-	244,646
Excess of loss premiums	947,518	993,660	87,971	81,063	142,733	131,148	45,617	40,227	912,687	721,417	21,549	1,987,451
Employees and administrative expenditures related to underwriting accounts	156,245	165,222	28,991	36,532	30,797	14,748	6,475	7,157	244,549	146,670	17,860	519,231
Other expenses	1,824,355	1,959,036	175,507	151,666	326,005	258,921	66,633	67,338	1,259,460	949,471	59,657	3,818,231
Total Expenses	80,697	235,489	138,761	71,859	19,916	36,127	120,175	92,837	19,700	(10,781)	1,918	388,120
Net Written Profit (Loss)												475,698

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EURO ARAB INSURANCE GROUP

(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - JORDAN

STATEMENT OF UNDERWRITING REVENUES FOR LIFE INSURANCE ACTIVITIES

	For the Year Ended	
	December 31,	
	2018	2017
	JD	JD
Written Premiums:		
Direct business	1,921,723	1,656,617
Gross Written Premiums	1,921,723	1,656,617
<u>Less: Foreign re-insurers' share</u>	<u>(1,334,841)</u>	<u>(1,188,493)</u>
Net Written Premiums	586,882	468,124
 <u>Add: Mathematical reserve - beginning of the year</u>	 346,103	 354,503
<u>Less: Re-insurers' share</u>	<u>(274,335)</u>	<u>(306,981)</u>
Net Mathematical Reserve - Beginning of the Year	71,768	47,522
 <u>Less: Mathematical reserve - end of the year</u>	 353,977	 346,103
Re-insurers' share	<u>(253,493)</u>	<u>(274,335)</u>
Net Mathematical Reserve - End of the Year	100,484	71,768
Net Change in Mathematical Reserve	<u>(28,716)</u>	<u>(24,246)</u>
Net Revenue from the Written Premiums	<u>558,166</u>	<u>443,878</u>

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EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - JORDAN

STATEMENT OF PAID CLAIMS COST FOR LIFE INSURANCE ACTIVITIES

	For the Year Ended	
	December 31,	
	2018	2017
	JD	JD
Paid claims	1,066,205	1,513,961
<u>Less: Foreign re-insurers' share</u>	<u>(860,831)</u>	<u>(1,291,936)</u>
Net Paid Claims	<u>205,374</u>	<u>222,025</u>
<u>Add: Reported claims reserve - end of the year</u>	634,449	661,182
<u>Add: Un-reported claims reserve - end of the year</u>	20,000	20,000
<u>Less: Re-insurers' share</u>	<u>(516,193)</u>	<u>(549,255)</u>
Net Claims Reserve - End of the Year	<u>138,256</u>	<u>131,927</u>
Net reported claims - end of the year	118,256	111,927
Net un-reported claims - end of the year	20,000	20,000
<u>Less: Reported claims reserve - beginning of the year</u>	661,182	952,870
Net reported claims reserve - beginning of the year	20,000	-
Re-insurers' share	<u>(549,255)</u>	<u>(811,894)</u>
Net Claims Reserve - Beginning of the Year	<u>131,927</u>	<u>140,976</u>
Net reported claims reserve - beginning of the year	111,927	140,976
Un-reported claims reserve - beginning of the year	20,000	-
Net Change in Claims Reserve	<u>6,329</u>	<u>(9,049)</u>
Net Paid Claims Cost	<u>211,703</u>	<u>212,976</u>

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EURO ARAB INSURANCE GROUP

(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - JORDAN

STATEMENT OF UNDERWRITING PROFIT FOR LIFE INSURANCE ACTIVITIES

	For the Year Ended	
	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>JD</u>	<u>JD</u>
Net revenue from the written premiums	558,166	443,878
<u>Less:</u> Net paid claims cost	<u>(211,703)</u>	<u>(212,976)</u>
	346,463	230,902
<u>Add:</u> Received commissions	1,025	372
Insurance policies issuance fees	35,195	28,211
Other revenue	-	1
Total Revenue	<u>382,683</u>	<u>259,486</u>
<u>Less:</u> Insurance policies obtaining cost	<u>(5,894)</u>	<u>(4,378)</u>
Employee and administrative expenditure related to underwriting accounts	(127,636)	(117,220)
Other expenses	<u>(85,739)</u>	<u>(81,361)</u>
Total Expenses	<u>(219,269)</u>	<u>(202,959)</u>
Net Underwriting Profit	<u>163,414</u>	<u>56,527</u>

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EURO ARAB INSURANCE GROUP  
(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - JORDAN

STATEMENT OF FINANCIAL POSITION FOR LIFE INSURANCE ACTIVITIES

<u>ASSETS</u>	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>JD</u>	<u>JD</u>
<u>Investments:</u>		
Deposits at banks	105,700	105,700
Total Investments	105,700	105,700
Accounts receivable - Net	328,659	310,047
Re-insurance and insurance companies' accounts - receivable	503,767	402,298
Other assets	6,156	50,110
Property and equipment	284	597
TOTAL ASSETS	944,566	868,752
<u>LIABILITIES AND HEAD OFFICE'S EQUITY</u>		
<u>LIABILITIES:</u>		
Accounts payable	207,750	90,129
Re-insurance and insurance companies' accounts - payable	1,229,077	727,272
Other liabilities	62,121	60,815
<u>TECHNICAL RESERVES:</u>		
Mathematical reserve - net	100,484	71,768
Claims reserve - net	138,257	131,927
Total Technical Reserves	1,737,689	1,081,911
<u>HEAD OFFICE'S EQUITY:</u>		
Head Office's current account	(956,537)	(269,686)
Net underwriting profit	163,414	56,527
(Deficit) in Head Office's Equity	(793,123)	(213,159)
TOTAL LIABILITIES - NET AFTER (DEFICIT) IN HEAD OFFICE'S EQUITY	944,566	868,752

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**EURO ARAB INSURANCE GROUP**  
**(A PUBLIC SHAREHOLDING LIMITED COMPANY)**  
**AMMAN – JORDAN**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. General**

Euro Arab Insurance Company was established in 1996 and registered as a Jordanian public company according to the provisional Companies Law No. (1) for the year 1989 and (Amended) Jordan Insurance Regulatory Act (9) of 1995 with a capital of JD 2 million, divided into (2) million shares. The Company was registered in the public shareholding companies register at the Ministry of Industry and Trade in Jordan under No. (304) on January 8, 1996. Moreover, the Company's name was changed, on June 24, 2002, from Amman Insurance Company Ltd to the current name, and its capital was increased in stages over the past years to become JD 8 million, divided into 8 million shares.

The Company conducts all types of insurance: life, motor, marine, transport, fire and other damages to properties, and medical liability.

The accompanying financial statements for the year ended December 31, 2018 were approved by the Board of Directors in their meeting held on February 11, 2019, and are subject to the approval of the General Assembly of shareholders.

**2. Accounting Policies**

**Basis of Preparation**

- The financial statements have been prepared in accordance to the interpretations issued by the International Accounting Standards; enacted local laws and regulations; as well in accordance to the regulated Jordanian Insurance Commission forms.
- The financial statement has been prepared in accordance to the historical cost convention except for the financial assets at fair value through profit and loss which is stated at fair value at the date of issuing the financial statement, moreover; the hedged financial assets and liabilities have been stated at the fair value.
- The financial statements functional and reporting currency is Jordanian Dinar.
- The accounting policies adopted for the current year are consistent with those applied in the year ended December 31, 2017, except for what has been mentioned in note (3-A) and (3-B).

**Segment Information**

- The business segments represents a set of assets and operations that jointly provide products /or services subjected to risks and returns different from those related to other business sectors, which is measured in accordance to the reports used by the executive manager and the Company's main decision maker.
- The geographic sector contribute to provide products /or services in a specific economic nature subjected to risks and returns different from those in other sectors contributing in other economic natures.

**Financial Instruments**

Initial recognition and measurement:

Financial assets and liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual regulations.

Financial assets and financial liabilities are initially measured at fair value. Moreover, transaction costs directly attributable to the acquisition or issue of financial assets and liabilities are added or deducted to/from the fair value of the financial assets or financial liabilities, due to necessity at the initial recognition. The transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized directly in the statement of income.

If the transaction price is different from the fair value at initial recognition, the Company treats the variance as follows:

- If fair value is determined at an active market price for identical assets or liabilities or based on a valuation method that uses only observable inputs in the market, the difference in profit or loss is recognized on initial recognition (i.e., gain or loss on the first day).
- In all other cases, fair value is adjusted to the transaction price (that is, the first day gain or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be taken to the statement of income on a rational basis, only to the extent that a change in factor (including time) is taken into account by the market participants when pricing the asset or liability or when this instrument is derecognized.

### **Financial Assets**

#### **Initial recognition**

All financial assets are recognized on the trade date when the purchase or sale of a financial asset under a contract requires the terms of delivery of the financial asset within a time frame determined by the relevant market. Moreover, the financial asset is initially measured at fair value plus transaction costs except for those financial assets classified as at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial assets designated at fair value through profit or loss are recognized in the statement of income.

#### **Subsequent measurement**

Measurement of all recognized financial assets within the scope of IFRS 9 requires subsequent measurement at amortized cost or fair value based on the entity's business model for managing financial assets and their contractual cash flows characteristics.

Specifically:

- Financing instruments held in the business model for collecting contractual cash flows which has contractual cash flows that are only principal and interest payments on the principal outstanding, which are subsequently measured at amortized cost; and
- Financing instruments held in the business model for both collecting contractual cash flows and selling debt instruments that has contractual cash flows that are only principal and interest payments on the principal outstanding which are subsequently measured at fair value through other comprehensive income;
- All other financing instruments (such as debt instruments managed at fair value /or held for sale) and investments in equity are subsequently measured at fair value through profit or loss.

However, after initial recognition of the financial asset, the company may make an irrevocable choice/or designation concerning the financial asset on an individual basis, as follows:

- The Company may make an irrevocable choice to include in other comprehensive income the subsequent changes in the fair value of the equity investment not held for trading or potential replacement recognized by the acquirer within the business combinations to which IFRS 3 applies; and

The Company may irrevocably determine the financial instruments that fulfill the standards of amortized cost or fair value through other comprehensive income and are measured at fair value through profit or loss if it significantly eliminates or reduces the accounting mismatch (referred to as the fair value option).

#### Debt Instruments at Amortized Cost or at Fair Value through Comprehensive Income

The Company evaluates the classification and measurement of the financial asset based on the contractual cash flow characteristics and the Company's business model for asset management.

For an asset classified at amortized cost or at fair value through comprehensive income, its contractual terms should result in cash flows that are only principal and interest payments on the principal outstanding.

For the purpose of testing the principal and interest payments on the principal outstanding, the asset is the fair value of the financial asset at initial recognition. This principal amount may change over the life of the financial asset (for example, if there is a principal repayment). Interest consists of the allowance for the time value of money, the credit risk associated with the original amount outstanding over a given period of time, and other basic lending options and risks, as well as the profit margin. An assessment of the principal and interest payments is made for the principal amount outstanding in the currency in which the financial asset is evaluated.

Contractual cash flows represent the principal and interest payments on the principal outstanding and are consistent with the underlying funding arrangement. Contractual terms involving exposure to risks or fluctuations in contractual cash flows unrelated to the underlying financing arrangement, such as exposure to changes in equity prices or commodity prices, do not result in contractual cash flows that are only from principal and interest payments. A financial asset granted or acquired may also be the primary financing arrangement regardless of whether it is a loan in its legal form.

#### Evaluating the Business Model

Evaluation of business models for the management of financial assets is essential for the classification of financial assets. Moreover, the Company defines business models at a level that reflects how the groups of financial assets are managed together to achieve a particular business objective. In this regard, the Company's business model does not depend on the management's intentions concerning an individual instrument, and therefore, the business model is evaluated at a group level and not on an instrument-by-instrument basis.

The Company adopts more than one business model to manage its financial instruments that reflect how the Company manages its financial assets to generate cash flows. In addition, the Company's business models determine whether cash flows will result from the collection of contractual cash flows or/ the sale of financial assets, or/ both.

The Company takes into account all relevant information available when conducting an evaluation of the business model. However, this assessment is not done on the basis of scenarios that the Company does not expect to occur reasonably, such as the so-called "worst case" or "stress state" scenarios. The Company also takes into account all available relevant evidence such as:

- The portfolio stated policies and objectives and the application of those policies whether the management strategy focuses on obtaining contractual revenues, maintaining a specific profit rate, matching the period of financial assets with the period of financial liabilities that finance those assets, or achieving cash flows through the sale of assets;
- How to evaluate the performance of the business model and financial assets held in this business model and to report to key management personnel;
- Risks affecting the performance of the business model (and the financial assets of that model), in particular the manner in which such risks are managed; and
- How to compensate business managers (for example, whether compensation is based on the fair value of the assets managed or on the contractual cash flows received).

Upon initial recognition of the financial asset, the Company determines whether the newly recognized financial assets are part of an existing business model or whether they reflect the beginning of a new business model. The Company evaluates its business models in each reporting period to determine whether business models have changed since the prior period.

When a debt instrument measured at fair value through comprehensive income is derecognised, the cumulative gain / loss previously recognized in comprehensive income is reclassified as equity to the statement of income. On the other hand, for equity investments measured at fair value through comprehensive income, the cumulative gain / loss previously recognized in comprehensive income is not subsequently reclassified to the statement of income but transferred directly to equity.

Debt instruments that are subsequently measured are carried at amortized cost or at fair value through comprehensive income for impairment testing.

#### Reclassification

If the business model in which the Company retains financial assets changes, the financial assets that have been affected are reclassified. The classification and measurement requirements relating to the new class are effective from the first day of the first reporting period after the change in the business model resulting in the reclassification of the Company's financial assets. Changes in contractual cash flows are considered in the accounting policy for the adjustment and disposal of the financial assets described below.

#### Impairment

The Company recognizes the expected credit loss provisions on the following financial instruments that are not measured at fair value through the income statement:

- Balances and deposits with banks and financial institutions.
- Receivables and receivables from reinsurers.
- Financial assets at amortized cost (debt instruments).
- Checks under collection

No impairment loss is recognized in equity instruments.

The Company calculates the impairment of financial statements using the simplified method.

### Defining Default

The definition of default is very important in determining the expected credit loss. It is used to measure the value of credit loss, because default is a component of the probability of default that affects the measurement of credit losses.

### Impairment of financial assets

The company recognize the expected credit loss provision on receivable balances, cheques undercollection and re-insurances' receivable, and it's been revaluated and updated on the date of each report to reflect the credit sheet on the date of initial recognition for the related financial instruments.

The company records on a regular basis the expected credit loss over the lifetime of the receivable balances, cheques undercollection and re-insurances' receivable, and it's been evaluated for the financial assets using matrix provision depends on the groups previous expected credit loss, then its adjusted to fit with the factors relates to debtors and general economic factors, and it's been evaluated from the perspective of the current situation and future forecasting at the date of the report including time value of cash if its comes so.

In regarding to all other financial assets, the company record on regular basis the expected credit loss over their lifetime, upon substantial increase in credit risk from the date of Initial recognition, the expected credit loss compromises over their lifetime, which will arise from all default probability.

### Provision for the Expected Credit Losses

The Company has adopted the simplified method to recognize the expected credit losses over their lifetime concerning receivables, checks under collection, and reinsurers' receivable as permitted by IFRS 9. Accordingly, non-impaired receivables, checks under collection, and reinsurers' receivable that do not contain a significant component of finance have been classified within the second stage with the recognition of expected credit losses over their lifetime.

A provision for the expected long-term credit loss of a financial instrument should be recognized if the credit risk on that financial instrument increases substantially since initial recognition, and the expected credit loss is a potential weighted estimate of the present value of the credit loss. This value is measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of several future economic scenarios, discounted at the effective interest rate of the asset.

The Company assesses whether there is an objective evidence of impairment on an individual basis for each asset with an individual value and collectively for other assets that are not individually significant.

Provisions for loss of credit losses are presented as a reduction of the total carrying amount of financial assets at amortized cost.

### Adjustment and Derecognition of Financial Assets

An adjustment is made to the financial asset when the contractual terms that govern the cash flows of a financial asset are renegotiated or otherwise modified between the initial recognition and maturity of the financial asset. The adjustment affects the amount and / or timing of the contractual cash flows either immediately or at a future date.



When a financial asset is adjusted, the Company assesses whether such an adjustment results in derecognition. According to the Company's policy, the adjustment leads to derecognition when it causes a significant difference in terms.

If a financial asset is derecognized, the provision for expected credit losses at the derecognition date is re-measured to determine the net carrying amount of the asset at that date. The difference between the adjusted carrying amount and the fair value of the new financial assets with the new terms will result in a gain or loss on derecognition.

When the contractual terms of a financial asset are modified, and the adjustment does not result in derecognition, the Company determines whether the credit risk of the financial asset has increased significantly since initial recognition by comparing

- the probability of non-payment for the remaining period estimated on the basis of data at initial recognition and original contractual terms; with
- the probability of non-payment for the remaining period at the reporting date based on the modified terms.

When the adjustment does not result in derecognition, the Company calculates the adjustment gain / loss to compare the total carrying amount before and after the adjustment (except for the expected credit loss provision). The Company then measures the expected credit loss of the adjusted asset, as the expected cash flows arising from the adjusted financial asset are included in the expected cash deficit from the original asset.

#### Derecognition of Financial Assets

The Company derecognises a financial asset upon expiry of the contractual rights relating to the receipt of the cash flows from the asset, or when the entity has transferred the financial asset, together with all significant risks and rewards of ownership, to another entity. If the Company does not transfer or retain substantially the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its remaining interest in the transferred asset and the related liabilities that the Company may have to pay. If the Group retains substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the financial asset.

Upon derecognition of any financial asset measured at amortized cost, the difference between the carrying amount of the asset and the consideration received or receivable is recognized in the statement of income.

#### Write-off

The Company derecognises financial assets when there is information indicating that the debtor is experiencing financial difficulties, and there is no realistic probability of recovery, for example. Such derecognition also applies if the debtor is placed under liquidation, or he has filed for bankruptcy, or where trade receivables are past due for more than two years, whichever is earlier. The Company may continue to subject written-off financial assets to collection procedures, taking into account legal advice, where appropriate. Meanwhile, any recoveries are recognized in the statement of income.

#### **Financial Liabilities and Equity Instruments Issued by the Company**

##### Classification as Debt or Equity Instruments

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance matter of the contractual arrangements, the definitions of financial liabilities, and the equity instrument.

### Equity Instruments

An equity instrument is defined as a contract that evidences ownership of the remaining shares of an entity's assets after deducting all liabilities. The equity instruments issued are recorded with the proceeds received net of the direct issue cost.

### Financial Liabilities

All financial liabilities are subsequently measured at amortized cost using the effective yield method or at fair value through profit or loss. Financial liabilities that are not (i) a potential consideration for the acquire in a business combination, (ii) held for trading, or (iii) designated at fair value through profit or loss, are subsequently measured at amortized cost using the effective yield method.

Other accounts payable are initially classified as "financial liabilities" at fair value less transaction costs, whereas they are subsequently measured at amortized cost using the effective yield method. Interest expense is recognized on an effective yield basis except for short-term liabilities if the return recognition is insignificant.

The effective yield method is the method of calculating the amortized cost of a financial liability and allocating the expense over the period in question. The effective interest rate is the rate that exactly discounts the expected future cash payments within the expected life of the financial obligation or, where appropriate, a shorter period.

### Derecognition of Financial Liabilities

The Company derecognises financial liabilities when it is discharged from its obligations, or when such obligations are canceled or expired. The difference between the carrying amount of the derecognised financial liability and the consideration payable or payable is recognized in profit or loss.

### Foreign Exchange Gains and Losses

The carrying amount of financial assets recorded in a foreign currency is determined and translated at the rate prevailing at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of a specific hedging relationship, the currency exchange differences are recognized in the statement of income; and
- For debt instruments measured at fair value through comprehensive income that are not part of a specific hedging relationship, the exchange differences on the amortized cost of the debt instrument are recognized in the income statement. Other exchange differences in comprehensive income are recognized in the revaluation reserve; and
- if financial liabilities are part of a portfolio managed on a fair value basis, in accordance with a documented risk management or investment strategy; or
- if a derivative is included in the basic financial or non-financial contract, and the derivative is not closely related to the basic contract.

### **Fair Value**

Closing market prices (acquiring assets / selling liabilities) in active markets at the date of the financial statements represent the fair value of traded financial derivatives. In case declared market prices do not exist, some financial derivatives are not actively trading, or the market is inactive, fair value is estimated by one of several methods including the following:

- Comparing it with the market value of another financial asset with similar terms and conditions.
- Analyzing future cash flows and discounting the expected cash flows based on a rate used for similar instruments.
- Adopting option pricing models.

The valuation methods aim at providing a fair value reflecting market expectations, and take into consideration market factors, risks, and future benefits when estimating the derivatives value. Moreover, financial assets, the fair value of which cannot be reliably measured, are stated at cost less any impairment.

### **Real Estate Investments**

Real estate investments are stated at cost net of accumulated depreciation (excluding land). In addition, impairment in their value is taken to the statement of income. The operating revenues or expenses of these investments are included in the statement of income. Moreover, these investments (excluding land) are depreciated over their useful lives using the straight-line method at an annual rate of 2 %.

Real estate investments are evaluated according to the decisions issued by the Ministry of Industry and Trade and Insurance Management. Moreover, their fair value is disclosed in the financial statements.

### **Reinsurance and Reinsurers' Accounts**

The Company carries out reinsurance operations with other insurance and reinsurance companies and is exposed in many areas to certain levels of risk. Reinsurance operations include the relative share, excess loss agreements, facultative reinsurance, and other forms of reinsurance that essentially cover all types of insurance. Reinsurance contracts do not exempt the Company from its obligations to policyholders. Failure of reinsurers to meet their obligations may result in losses to the Company, and therefore, provisions are taken for the uncollectible amounts. The recoverable amount of the reinsurer is estimated in a manner commensurate with the Company's commitment for each claim.

Reinsurers' shares of insurance premiums and contributions, paid claims, technical provisions, and all the rights and obligations resulting from reinsurance based on agreements between the Company and reinsurers are accounted for on the accrual basis.

### **Reinsurers' Accounts**

Reinsurers' shares of insurance premiums and contributions, paid claims, technical provisions, and all the rights and obligations resulting from reinsurance based on agreements between the Company and reinsurers are accounted for on the accrual basis.

### **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 contracts, the Company reduces the present value of the contracts and records the impairment loss in the statement of income. The impairment is only recognized in the following two cases:

1. There is objective evidence resulting from an event that took place after recording the reinsurance assets confirming the Company's inability to recover all amounts according to the contracts terms.
2. The event has a reliably and clearly measurable effect on the amounts the Company will recover from reinsurers.

### **Acquisition Costs of Insurance Policies**

Acquisition costs represent the costs incurred by the Company against selling, underwriting, or starting new insurance contracts. The acquisition costs are recorded in the statement of income.

### **Property and Equipment**

Property and equipment are stated at cost net of accumulated depreciation and any accumulated impairment losses. Moreover, property and equipment (excluding land) are depreciated when they are ready for use based on the straight-line method over their estimated useful lives using the following annual depreciation rates. The depreciation expense is recorded in the statement of income:

	%
Buildings	2
Machinery, equipment, and furniture	25 - 9
Vehicles	15
Building improvements and decoration	20 - 2

Depreciation is calculated for readily usable property and equipment when they are being used for their intended use.

When the recoverable values of property and equipment is less than their carrying amounts, assets are written down to their recoverable values, and impairment losses are recorded in the statement of income.

The useful lives of property and equipment are reviewed at the end of each year. In case the expected useful life differs from previous estimates, the change in estimate is recorded in the following years, being a change in estimates.

Gains or losses on disposal of property and equipment, representing the difference between their sale proceeds and their carrying value, are recorded in the statement of income.

Property and equipment are derecognized when disposed of or when no future benefits are expected from their use or disposal.

### **Intangible Assets**

- Intangible assets obtained through merger are stated at fair value on their acquisition date. Intangible assets obtained through other than merger are stated at cost.
- Intangible assets are classified according to their estimated lives: definite or indefinite. Intangible assets with a definite useful life are amortized over their useful life, and amortization is recorded in the statement of income. Intangible assets with indefinite lives are reviewed for impairment at the date of the financial statements, and the impairment is recorded in the statement of income.

- Internally generated intangible assets are not capitalized by the Company but recorded in the income statement in the same year.
- Any indications to the impairment of these financial assets are reviewed as of the date of the financial statements. Moreover, the life estimate of those assets is reviewed, and any related adjustments are made in the subsequent years.

### **Computer Programs and Systems**

Software and computer systems are stated at cost on acquisition and amortized at 20% per annum.

### **Provisions**

Provisions are recognized when the Company has obligations on the date of the statement of financial position as a result of past events, it is probable to settle the obligation, and the amount of the obligation can be reliably estimated.

Amounts recognized as provisions represent the best estimate of the amounts required to settle the obligation as of the date of the financial statements, taking into consideration the risks and uncertainty relating to the obligation. When the provision amount is determined on the basis of the expected cash flows for the settlement of the current obligation, its current book value represents the present value of these cash flows.

When it is expected that some or all of the economic benefits required from other parties to settle the provision will be recovered, the receivable is recognized within assets if receipt of the compensations is actually certain and their values can be reliably measured.

### **Technical Reserves**

Technical reserves are taken and maintained according to the regulations of the Insurance Commission as follows:

1. The reserve for unearned premiums for general insurance activities is calculated according to the remaining days up to the expiry date of the insurance policy after the financial statements date on the basis of a 365-day year except for marine and land transport insurance in which the provision for unearned premiums is calculated on the basis of underwritten premiums of the valid policies on the date of the financial statements according to the laws, regulations, and instructions issued for this purpose.
2. The provision for reported claims is computed by determining the maximum amount of the total expected costs for each claim on an individual basis.
3. The premiums deficiency reserve and provision for incurred but not reported (IBNR) claims are calculated based on the Company's experience and estimates.
4. The reserve for unearned premiums for life insurance activities is calculated based on the Company's experience and estimates, as well as on the actuary's recommendation.
5. The mathematical reserve for life insurance policies is calculated based on the actuarial equations which are reviewed periodically by an independent actuary, as well as according to the instructions of the Insurance Commission.

### **Provision for End- of-service Indemnity**

The provision for employees' end- of-service indemnity is calculated in accordance with the Company's policy that complies with the Jordanian Labor Law.

The annual compensation paid to employees leaving the service is recognized in the provision for end-of-service indemnity when paid, and a provision for the liabilities incurred by the Company concerning the employees' end- of- service indemnity is taken to the statement of income.

### **Liability Adequacy Test**

All insurance claims are evaluated for sufficiency and suitability as of the statement of financial position date through calculating the present value of future cash flows for outstanding insurance contracts.

If the evaluation indicates that the present value of the insurance claims (varied and less convenient purchase expenditures and relevant intangible assets) is not enough compared to the expected future outflows, then the whole amount of deficit is taken to the statement of Income.

### **Income Tax**

Income tax expenses represent amounts of accrued income tax and deferred tax.

#### **a. Accrued Taxes**

Income tax expenses represent accrued taxes and deferred taxes. They are determined based on taxable income. Moreover, taxable income differs from income declared in the statement of income, as declared revenue includes non-taxable revenue, tax expenses not deductible in the current year but deductible in the subsequent years, or accumulated losses acceptable by the tax authorities, or allowable for tax deduction purposes.

Taxes are calculated according to the tax rates prescribed by the prevailing laws, regulations, and instructions in Jordan.

#### **b. Deferred Taxes**

Deferred taxes are taxes expected to be paid or recovered as a result of temporary timing differences between the value of the assets and liabilities in the financial statements and the value of the taxable amount.

Deferred taxes are calculated according to the liability method in the statement of financial position, based on the tax rates expected to be applied at the tax liability settlement date, or the realization of the deferred tax assets.

The balances of deferred tax assets and liabilities are reviewed at the statement of financial position date and reduced in case they are (wholly or partially) not expected to be utilized, or the tax liability has been settled, or is no longer needed.

### **Offsetting**

Financial assets and financial liabilities are offset, and the net amount is reflected in the statement of financial position when there are binding legal rights to offset the recognized amounts, the Company intends to settle them on a net basis, or assets are realized and liabilities settled simultaneously.

## **Revenue Recognition**

### **a. Insurance Contracts**

Insurance premiums arising from insurance contracts are recorded as revenue for the year (earned insurance premiums) on the basis of the maturities of time periods and in accordance with the insurance coverage periods. Unearned insurance premiums from insurance contracts at the date of the statement of financial position are recorded as unearned insurance premiums within liabilities.

Claims and incurred losses settlement expenses are recorded in the statement of income based on the expected liability amount of the compensation relating to the insurance policyholders or other affected parties.

### **b. Dividends and Interest**

Dividends from investments are recorded when the right of the shareholders to receive dividends arises upon the related resolution of the General Assembly of Shareholders.

Interest income is calculated according to the accrual basis based on the maturities of the time periods, original principals, and earned interest rate.

### **c. Rental Income**

Rental income from real estate investments of operating lease contracts is recognized based on the straight-line method over the contract term. Moreover, other expenses are recognized on the accrual basis.

## **Recognition of Expenses**

All commissions and other costs relating to the acquisition of new or renewed insurance policies are amortized in the statement of income upon their occurrence. Other expenses are recognized on the accrual basis.

### **Insurance Compensations**

Insurance compensations represent paid claims for the period and the change in the claims reserve. Insurance compensations include all amounts paid during the year whether they relate to the current year or previous years. Moreover, outstanding claims represent the highest estimated amount for settlement of all claims resulting from events prior to the statement of financial position date but still unsettled at that date. Moreover, outstanding claims are calculated on the basis of the best information available at the date of the financial statements and include the provision for unreported claims.

### **Salvage and Subrogation Reimbursements**

Estimates of salvage and subrogation reimbursements are considered in the measurement of the insurance liability for claims.

### **General and Administrative and Employee Expenses**

All distributable general and administrative and employee expenses are allocated to the insurance branches separately. Moreover, around 80% of the undistributable general and administrative and employee expenses have been allocated to the various insurance departments based on the earned premiums of each department in proportion to total premiums.

### **Staff Expenses**

All employees' distributable expenses are charged to each insurance branch on the basis of the actual costs of each department. 80% of the non-distributable employees' expenses are distributed to the various insurance departments on the basis of the premiums earned for each department attributed to total premiums.

### 3. Application of New and Revised International Financial Reporting Standards

#### a. Amendments not having a material impact on the Company's financial statements:

The following new and revised IFRSs have been adopted and are effective for financial periods beginning on or after January 1, 2018 or thereafter in the preparation of the Company's financial statements that did not materially affect the amounts and disclosures in the financial statements for the year and prior years, which may have an impact on the accounting treatment of future transactions and arrangements:

New and Revised Standards  
Annual improvements to IFRSs  
issued between 2014 and 2016.

#### Amendments to the New and Revised International and Standards

Improvements include amendments to IFRS 1, *"Application of International Standards for the First Time"* and IAS 28 *"Investments in Associates and Joint Ventures (2011)"*.

The amendments clarify that the option of investment and other similar enterprises to measure investments in associates and joint ventures at fair value through the income statement is available separately for each associate or joint venture and that the selection should be made at initial recognition.

As for the option of an entity which is not an investment property, the fair value measurement applied by the associate and the joint venture that are an investment property shall be maintained when applying the equity method. The amendments provide a similar clarification that this option is available to each associate of an investment nature or a joint venture with an investment nature.

IFRIC 22: *"Foreign currency transactions and prepayments"*.

This interpretation deals with how to determine the "date of the transaction" for the purpose of determining the exchange rate to be used at the initial recognition of the asset, expense, or income when it is taken into account that this is paid or received in advance by a foreign operation that results in the recognition of non-monetary assets or non-monetary liabilities.

The interpretation determines that the transaction date is the date on which the non-monetary assets or non-monetary liabilities arising from the payment or receipt of payments are recognized in advance. If multiple payments or receipts are received in advance, the interpretation requires the Company to determine the transaction date for each payment or receipt of the cash consideration in advance.



## New and Revised Standards

## Amendments to the New and Revised International and Standards

This Interpretation relates to transactions made in foreign currency or parts of such transactions in the event that:

- A consideration in foreign currency or priced in foreign currency exists;
- An entity recognizes an asset that has been paid in advance or deferred income liabilities related to that consideration on a date prior to the recognition of the relevant assets, income, or expenses; and
- Prepaid assets or deferred income liabilities are not cash.

Amendments to IAS 40:  
*"Investment properties"*.

The amendments indicate that transfers to or from real estate investments require an assessment of whether the properties meet or no longer meet the definition of real estate investments and are backed up by observable evidence of a change in use. The amendments also indicate that the cases included in the standard are not comprehensive and that a change in use can be made with respect to the properties under construction (i.e. the change in use is not limited to completed properties)

Amendments to IFRS 2 *"Share-based payment"*.

These amendments relate to the classification and measurement of share-based payment transactions. These amendments clarify the following:

1. When estimating the fair value of a payment on the basis of shares paid in cash, accounting for the effects of the accrual and non-accrual provisions should be accounted for based on the same method used for share-based payments.
2. If the tax law/ laws require the Company to keep a certain number of equity instruments equal to the monetary value of the employee's tax liability to meet his tax obligations and then transfer it to the tax authority (usually cash), i.e. the share-based payment arrangement has a *"net settlement feature"*, this entire arrangement should be classified as a payment from equity, provided that the share-based payment may be classified as payment from equity even if the settlement feature was not included in the net.

## New and Revised Standards

## Amendments to the New and Revised International and Standards

3. The share-based payment adjustment should be accounted for to modify the transaction from a cash payment to a share-based payment as follows:

- a. Abrogation of the original obligation;
- b. Recognition of the share-based payment at the date of adjusting the fair value of the granted equity instrument to the extent that the services have been performed up to the date of the adjustment; and
- c. Recognition of any difference between the present value of the liability at the date of the adjustment and the amount recognized in equity in the statement of income.

Amendments to IFRS 4:  
*"Insurance contracts"*.

These amendments relate to the difference between the effective date of IFRS 9 and the new standard for insurance contracts.

IFRS 15 *"Revenue from Contracts with Customers"*.

IFRS 15 was issued in May 2014, which established a comprehensive model for enterprises to be used in accounting for revenue generated from contracts with customers. This standard will replace the current income recognition guidance, including IAS 18 *"Revenue"*, IAS 11 *"Construction Contracts and related Interpretations"* that an entity should recognize revenue to indicate the transfer of goods or services to the customer in an amount that reflects the consideration that the entity expects to receive for such goods or services. In particular, the standard provides a five-step approach to revenue recognition:

Step 1: Determining the contract (s) signed with the client.

Step 2: Defining performance obligations in the contract.

Step 3: Determining the selling price.

Step 4: Assigning a sale price to the performance obligations in the contract.

Step 5: Recognizing revenue when the entity meets (or fulfills) an obligation to perform.

Under this Standard, an entity recognizes revenue when (or at the time) it fulfills its performance obligation, that is, when control over the goods or services underlying the performance obligation is transferred to the customer. More mandatory guidelines have been added to the Standard to deal with specific scenarios. In addition, the standard requires comprehensive disclosures.

Amendments to IFRS 15

*"Revenue from Contracts with Customers"*.

These amendments relate to the clarification of three aspects of the standard (determination of performance obligations, client versus agent considerations, and licensing) and some transitional exemption for modified contracts and completed contracts.

b. Amendments to the Company's Financial Statements:

IFRS 9 "Financial Instruments"

IFRS 9 was issued in November 2009, and new requirements for the classification and measurement of financial assets were introduced. Subsequently, the Standard was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and the derecognition of financial liabilities. The Standard was amended in November 2013 to include new requirements for general hedge accounting. An amended version of the Standard was issued in July 2014 to include: (a) the requirements for impairment of financial assets; and (b) limited adjustments to the classification and measurement requirements by introducing the *"fair value through other comprehensive income" category of some simple debt instruments*.

IFRS 9 *"Financial Instruments"* issued by the International Accounting Standards Board (IASB) was adopted in July 2014. The initial date of implementation of this standard was December 1, 2018. The application of IFRS 9 led to changes in the accounting policies and amendments to the previously recognized amounts in the financial statements. Moreover, the Company has adopted IFRS 9 (first phase) of 2009 early, regarding the classification and measurement of financial assets since the beginning of 2010.

As required by the transitional provisions of IFRS 9, the Company has not restated the comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities have been recognized on the date of transition in the opening balances of retained earnings and non-controlling interests for the current period. The Company has also chosen to continue to apply the accounting requirements of IAS 39 *"Financial Instruments: Recognition and Measurement"*, concerning the application of IFRS 9.

IFRS 9 has resulted in changes in the accounting policies for the identification, classification, and measurement of financial assets and liabilities and the impairment in value of financial assets. IFRS 9 also modifies other standards that address financial instruments such as IFRS 7 *"Financial Instruments: Disclosures"*.

The final version of IFRS 9 includes the accounting requirements for financial instruments and supersedes IAS 39 *"Recognition and Measurement"*. The new version of the standard includes the following requirements:

**Classification and Measurement:**

Financial assets are classified based on the business model and contractual cash flow characteristics. The 2014 version provides a new classification of certain debt instruments that could be classified as *"financial assets at fair value through other comprehensive income"*. The financial liabilities are classified similarly to IAS 39, but there are differences in the requirements applied to the measurement of credit risk relating to the entity.

**Impairment:**

The 2014 version provided the "*expected credit loss*" model to measure the impairment loss of financial assets, and therefore, it is not necessary to increase the credit risk before recognizing the credit loss.

**Hedge accounting:**

The 2014 version provided a new model for hedge accounting designed to be more appropriate with how an entity manages risk when exposed to financial and non-financial hedging risks.

**Derecognition:**

The requirements for derecognition of financial assets and financial liabilities have been followed in accordance with IAS 39.

- The details of the accounting policies adopted by the Company and the significant estimates used by the Company's management in accordance with IFRS 9 as set out and applied in the current period are stated in Note (2). The disclosure regarding the impact of the adoption of the IFRS 9 on the Company is as follows:

December 31, 2018	Balance before Adjustment	Effect of Applying the Standard	Balance Adjusted
	JD	JD	JD
<u>Equity</u>			
Retained earnings	1,236,880	(204,568)	1,032,312
<u>Assets</u>			
Deposits at banks	17,614,117	(15,212)	17,598,905
Cheques under collection	604,852	(12,968)	591,884
Receivable-Net	5,501,860	(190,514)	5,311,346
Receivable for reinurance	855,057	(50,475)	804,582
Deferred tax income	735,676	64,601	800,277

Below are the expected credit loss as of December 31, 2018:

	As of December 31, 2018
	JD
Deposits at banks – Note 4	3,895
Cheques under collection – Note 9	(5,623)
Debtors – Net – Note 10	71,448
Re-insurances receivable – Note 11	898
	<u>70,618</u>

c. New and revised International Financial Reporting Standards issued and not yet effective:

The Company has not adopted the following new and amended IFRSs issued but not yet effective as at the date of the financial statements, and their details as follows:

New and Revised Standards	Amendments to new and revised IFRSs	Effective for annual periods beginning on or after
Annual improvements to IFRSs issued between 2015 and 2017	Improvements include amendments to IFRS 3 " <i>Business Combinations</i> ", (11) " <i>Joint Arrangements</i> ", and IAS 12 " <i>Income Taxes</i> " and IAS 23 " <i>Borrowing Costs</i> ".	January 1, 2019
IFRIC 23 "Uncertainty on the Treatment of Income Tax"	<p>The Interpretation clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax benefits and tax rates when there is uncertainty about the treatment of income tax under IAS 12 and specifically addresses:</p> <ul style="list-style-type: none"> <li>• whether the tax treatment should be considered in aggregate;</li> <li>• assumptions regarding the procedures for the examination of tax authorities;</li> <li>• determination of the taxable profit (tax loss), tax bases, unused tax losses, unused tax breaks, and tax rates; and</li> <li>• The impact of changes in facts and circumstances.</li> </ul>	January 1, 2019
IFRS 16 " <i>Leases</i> "	IFRS 16 defines how the reporting entity can recognize, measure, present, and disclose lease contracts. The Standard also provides a separate accounting model for lessees that requires the lessee to recognize the assets and liabilities of all lease contracts unless the lease is 12 months or less or the asset is of low value. Lessors continue to classify leases as operating or financing leases. IAS 16's on lessor accounting has not changed significantly compared to IAS 17.	January 1, 2019
Amendments to IFRS 9 " <i>Financial Instruments</i> "	These amendments relate to the benefits of prepayment with negative compensation, where the current requirements of IFRS 9 regarding the end-of-service rights have been amended to allow for the measurement at amortized cost (or based on the business model at fair value through other comprehensive income) even in the negative compensation payments.	January 1, 2019

New and Revised Standards	Amendments to new and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 28 <i>"Investment in Associates and Joint Ventures"</i>	These amendments relate to long-term shares in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>"Financial Instruments"</i> to long-term interests in an associate or joint venture that forms part of the net investment in an associate or joint venture if the equity method has not been applied to it	January 1, 2019
Amendments to IAS 19 <i>"Employee Benefits"</i>	These relate to amendments to the plans, reductions, or settlements.	January 1, 2019
Amendments to IAS 1 <i>"Presentation of the Financial Statements"</i>	These amendments relate to the definition of materiality	January 1, 2020
Amendments to IFRS 3 <i>"Business Combinations"</i>	<p>These amendments clarify the definition of business, as the International Accounting Standards Board published the Revised Financial Reporting Framework. This includes the revised definitions of assets and liabilities as well as new guidance on measurement, derecognition, presentation, and disclosure.</p> <p>In addition to the amended conceptual framework, the IASB issued amendments to the guidelines on the conceptual framework in the IFRS Standards, which include amendments to IFRS 2, 3, 6 and 14; IAS 1, 34, 37 and 38; IFRIC 12, 19, 20, and 22 ; and Interpretations of the Standing Committee for the Interpretation of Standards No. 32 in order to update those statements with regard to references and quotations from the framework or to refer to a different version of the conceptual framework.</p>	January 1, 2020
IFRS 17 <i>"Insurance Contracts"</i>	<p>This provides a more consistent measurement and presentation approach to all insurance contracts. These requirements are aimed at achieving a consistent, principled accounting objective for insurance contracts. IFRS 17 replaces IFRS 4 <i>"Insurance Contracts"</i>.</p> <p>IFRS 17 requires measurement of insurance liabilities at the present value of payment.</p>	January 1, 2022

New and Revised Standards	Amendments to new and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 <i>"Consolidated Financial Statements"</i> and IAS 28 <i>"Investments in Associates and Joint Ventures (2011)"</i>	These amendments relate to the treatment of the sale or contribution of the investor's assets in the associate or joint venture.	The date of entry into force has been postponed indefinitely, and the application is still permitted.

Management expects to apply these new standards, interpretations, and amendments to the Company's financial statements when they are applicable. Moreover, the adoption of these new standards, interpretations, and amendments may have no material impact on the Company's financial statements in the initial application period except for the effect of the adoption of IFRS 16, as shown below:

#### **The effect of applying IFRS 16 "Leases"**

The Standard provides a comprehensive model for determining and treating lease arrangements in the financial statements of both lessors and lessees. It will also replace IAS 17 *"Leases"* and related interpretations when it becomes effective for the financial periods beginning on or after January 1, 2019.

As permitted by the transitional provisions of IFRS 16, the Company will not restate the comparative figures. Any changes in the carrying amount of assets and liabilities at the date of transition are recognized in the opening balances of the related balances.

There is no material difference between the accounting treatment in the lessor's books between IFRS 16 and IAS 17.

The change in the definition of the lease relates mainly to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the customer controls the use of a specific asset and the control is present if the customer has:

- The right to a substantial degree of all economic benefits arising from the use of specific assets; and
- The right to direct the use of this asset.

#### **Effect on the Accounting Treatment in the Lessee's Records Operating Leases**

Under IAS 16, the accounting treatment of leases previously classified as operating leases in accordance with IAS 17, which were classified as items outside the statement of financial position, has been changed.

In the initial application of IFRS 16 (except as referred to below), the Company will undertake the following for all leases:

- A. Recognition of "right to use" assets and lease commitments in the statement of financial position. These assets are initially measured on the basis of the present value of future cash flows paid.
- B. Recognition of the depreciation of "right to use" assets and interest on lease commitments in the statement of income.

- C. Separating the total amount of cash paid into a principal portion (shown under financing activities) and interest (presented under operating activities) in the statement of cash flows.

For short-term leases (12 months or less) and low-value asset leases (such as personal computers and office furniture), the Company will choose to recognize lease expenses on a straight-line basis as permitted by the IFRS 16. The Company's management believes that the impact of the adoption of IFRS 16 is immaterial and will not be reflected in the financial statements of the Company, as all leases are short term and are automatically renewed on an annual basis.

Recognition of lease obligation incentives previously recognized in respect of operating leases will be derecognised, and the amount will be calculated in the measurement of the leasehold assets and liabilities.

Under IAS 17, all lease payments relating to operating leases are recognized as part of the cash flows from operating activities. The effect of the changes under IFRS 16 will be to reduce cash generated from operating activities and increase the net cash used in financing activities with the same amount.

#### Finance Leases

The principal differences between IFRS 16 and IAS 17 in respect of previously existing advances under a finance lease are the measurement of residual value guarantees provided by the lessee to the lessor. IFRS 16 requires recognition as part of its lease obligation only the amount expected to be paid under the residual value guarantee, rather than the maximum secured amount as required by IAS 17. Upon initial request, the Company will state the equipment previously included in property, plant, and equipment under "right to use" assets and lease commitments, previously stated under borrowings, under a separate line item of the lease liabilities.

Based on the analysis of the Company's finance leases as at December 31, 2018 on the basis of the facts and circumstances prevailing at that date, this change was not considered to affect the amounts recognized in the Company's financial statements.

#### Effect on the Accounting Treatment in the Lessor's Records

Under IFRS 16, the lessor continues to classify leases as either financial leases or operating leases and account for these two types of leases differently. However, IFRS 16 has changed and expanded the scope of disclosures required, in particular on how the lessor manages the risks arising from its remaining share in the leased assets.

Under IAS 16, for the purposes of the intermediate lessor, the principal lease and sub-lease are considered as separate contracts.

The intermediate lessor should classify the sub-lease as operating or financial lease by reference to the original "right to use" arising from the principal lease (not by reference to the underlying asset as in the case of IAS 17).

Because of this change, the Company will classify some of its sub-lease agreements as financial leases. As required by IFRS 9, an allowance for credit losses recognized in the financial lease receivable will be recognized, and the leased assets and receivables from the finance lease will be derecognised. This change in accounting will result in a change in the timing of recognition of the related revenue.

Management expects to apply IFRS 16 in the financial statements of the Company for the period beginning January 1, 2019.



### Use of Estimates

Preparation of the financial statements and application of the accounting policies require the Company's management to perform estimates and judgments that affect the amounts of the financial assets and liabilities, and disclosures relating to contingent liabilities. These estimates and judgments also affect revenues, expenses, provisions and changes in the fair value shown within comprehensive income and shareholders' equity. In particular, management is required to issue significant judgments to assess future cash flows and their timing. The aforementioned estimates are based on several assumptions and factors with varying degrees of estimation and uncertainty. Moreover, the actual results may differ from the estimates due to changes resulting from the circumstances and situations of those estimates in the future.

We believe that the estimates within the financial statements are reasonable. The details are as follows:

- Management periodically reevaluates the productive lives of tangible and intangible assets for the purpose of calculating annual depreciation and amortization based on the general condition of those assets and estimates of their expected productive lives in the future. Any impairment loss is taken to the statement of income.
- The claims provision and technical provisions are taken based on technical studies, according to the instructions of the Insurance Commission, and based on actuarial studies.
- Calculation of the provision for expected credit losses requires management to use significant judgments and estimates to estimate the amounts and timing of future cash flows and the risk of an increase in the credit risk of financial instruments after initial recognition and based on future measurement information for expected credit losses. The expected credit loss is measured as an expected credit loss provision over the life of the asset.

Determination of the number and relative weight of scenarios, the outlook for each type of product / market, and the determination of future information relevant to each scenario: When measuring the expected credit loss, the Company uses reasonable and supported future information based on the assumptions of future variables of different economic variables and how these variables affect each other.

**Probability of Default:** The probability of default is a key input in measuring the expected credit loss. The probability of default is an estimate of the probability of default over a given period of time, which includes the calculation of historical data, assumptions, and expectations relating to future circumstances.

**Loss Given Default:** Loss Given Default (LGD) is an estimate of loss resulting from default. It is based on the difference between the contractual cash flows due and those that the financier expects to collect, taking into account the cash flows from the collateral (if any).

- **Revenue Recognition:** The Company's management uses significant estimates and assumptions to determine the amount and timing of the recognition of revenue under IFRS 15 *"Revenue from Contracts with Customers"*.

- Provision for Income Tax: The financial year is charged with its share from income tax according to the prevailing laws and regulations and IFRS, and the necessary tax provision is calculated and recorded accordingly.
- Real estate investments are valued on the bases and assumptions that rely mainly on market conditions and prices. The average of three estimates by accredited real estate experts was adopted, the latest of which was at the end of 2018.
- Management estimates the amounts expected to be recovered from the insurance companies and the Jordan Insurance Association for automobile accidents based on studies prepared by the Company's management and according to the available information and documents.
- Fair value hierarchy: The Company is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e. assessing whether inputs are observable and whether the unobservable inputs are significant, which require judgment and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability. When evaluating the fair value of the financial assets and liabilities, the Company uses market information when these are available. In case Level 1 inputs are not available, the Company deals with independent and qualified parties to prepare evaluation studies. Furthermore, the suitable evaluation methods and inputs used in preparing the evaluation studies are reviewed by management.

#### 4. Deposits at Banks

This item consists of the following:

	December 31, 2018		December 31, 2017	
	Deposits Maturing Within Three Months	Deposits Maturing after Three Months and up to One Year	Total	Total
	JD	JD	JD	JD
Inside Jordan	7,902,678	10,529,641	18,432,319	17,538,857
Outside Jordan	1,038,958	75,260	1,114,218	75,260
Expected credit losses (ECL) *	-	(19,107)	(19,107)	-
	<u>8,941,636</u>	<u>10,585,794</u>	<u>19,527,430</u>	<u>17,614,117</u>

\* Movement of the expected credit loss is as follow:

	For the Year Ended December 31,	
	2018	2017
	JD	JD
Balance at the beginning of the year	-	-
IFRS (9) Implementation-Note(3)	15,212	-
	<u>15,212</u>	-
Add: Addition during the year	3,895	-
Less: (Recovery) during the year	-	-
Balance at the End of the year	<u>19,107</u>	-

- During the year 2018, interest rates on deposits in Jordanian Dinar ranged from 5% to 7.25% (3.125% to 6.2% during the year 2017).

- Moreover, deposits collateralized to the order of the General Manager of the Insurance Commission in addition to his position amounted to JD 325,000 as of December 31, 2018 and 2017 for deposits maturing after more than three months.
- Restricted balances amounted to JD 1,200,000 by Societe General Bank Jordan and JD 1,000,000 by Bank of Jordan as of December 31, 2018 (JD 1,600,000 as of December 31, 2017), for credit facilities by two local bank, and the used facilities JD 1,655,646 as of December 31, 2018 (JD 939,928 as of December 31, 2017).
- All of the Company's deposits are in local and Arab banks.

#### 5. Financial Assets at Fair Value through Profit or Loss

This item consists of the following:

	Number of Shares	December 31, 2018 JD	Number of Shares	December 31, 2017 JD
<u>Inside Jordan:</u>				
<u>Quoted shares at Amman Stock Market:</u>				
Arab Jordan Investment Bank	300,000	384,000	187,050	327,338
Cairo Amman Bank	75,500	100,415	64,000	96,000
Jordan Petroleum Refinery Company	22,175	50,337	21,175	54,208
Specialized Investment Compound Co	120,000	96,000	50,000	43,000
Bank Al Etihad	20,000	32,000	17,800	28,836
Capital Bank	70,500	64,860	20,000	15,800
Arab Bank	1,566	9,725	2,574	14,414
Arab Union International Insurance Company	-	-	50	58
The Holy Land Insurance Company	50	35	50	35
Middle East Insurance Company	-	-	50	85
Jordan Insurance Company	100	273	100	165
United Insurance Company	-	-	100	163
National Insurance Company	200	232	200	240
Al-Manara Insurance PLC	-	-	72	30
First Insurance Co	-	-	50	28
Jordan International Insurance Co JIIC	50	19	50	26
Royal Arline Company	30,000	11,100	-	-
Jordanian Electronic Power Company	14,000	16,660	-	-
Bank of Jordan	20,000	49,000	-	-
		<u>814,656</u>		<u>580,426</u>

#### 6. Financial Assets at Amortized Cost

This item consists of the following:

	December 31	
	2018	2017
<u>Inside Jordan</u>	JD	JD
Arab Real Estate Development Company's debenture bonds *	300,000	300,000
<u>Less:</u> Expected credit losses	<u>(300,000)</u>	<u>(300,000)</u>
	-	-
Analysis of bills and bonds		
Fixed rate	<u>300,000</u>	<u>300,000</u>
	<u>300,000</u>	<u>300,000</u>

- \* During the year 2008, an agreement was signed between the Company and Arab Real Estate Development Company through the custodian (the Housing Bank for Trade and Finance). According to the agreement, the second party shall submit debenture bonds of JD 300,000 to the first party at an interest rate of 10%. These bonds matured on April 1, 2011, and have been renewed based on the General Assembly of debenture bondholders' approval to reschedule debenture bonds for three years ending on April 1, 2014. The bonds bear interest at a rate of 11%, and are payable in two installments maturing on April 1, and October 1, of the bond's term. The bonds are unquoted, and the bonds and full interest thereon not paid to the Company during the years ended December 31, 2018 and 2017. Moreover, a provision for the impairment in the full value of these bonds has been taken.

#### 7. Investment Property - Net

This item consists of the following:

	December 31	
	2018	2017
	JD	JD
Land *	753,216	753,216
Buildings *	130,696	112,396
Accumulated depreciation	(4,685)	(2,258)
Net Investment Property	<u>879,227</u>	<u>863,354</u>
Annual Depreciation Rate %	2	2

- The details of investment properties and information related to fair value levels as of December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Fair Values as of December 31, 2018	Fair Value as of December 31, 2017
	JD	JD	JD	JD	JD
Investment properties	-	1,570,817	-	-	1,570,817

- The fair value of investment properties was estimated by three certified real estate appraisers as of December 31, 2017, and the average of their estimates amounted to JD 1,570,817 according to the instructions and resolutions issued by insurance management.

#### 8. Cash on Hand and at Banks

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Cash on hand	48,752	1,771
Current accounts at banks	27,625	37,657
	<u>76,377</u>	<u>39,428</u>

#### 9. Cheques under Collection

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Cheques under collection *	643,767	604,852
Expected credit losses **	(7,345)	-
	<u>636,422</u>	<u>604,852</u>

- \* The maturities of cheques under collection of JD 641,457 extend to December 31, 2019, and of JD 2,310 to March 1, 2020.

\*\* Movement on the expected credit losses was as follows:

	For the Year Ended	
	December 31,	
	2018	2017
	JD	JD
Balance at the beginning of the year	-	-
IFRS (9) Implementation-Note(3)	12,986	-
	12,986	-
<u>Add:</u> Addition during the year	-	-
<u>Less:</u> (Recovery) during the year	(5,623)	-
Balance at the End of the year	7,345	-

10. Accounts Receivable - Net

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Policyholders (a)	6,850,166	4,795,205
Agents	1,371,271	1,093,396
Brokers	300,924	365,970
Employees	78,399	66,373
Others	64,545	37,453
	8,665,305	6,358,397
<u>Less:</u> Expected credit losses (b)	(1,118,499)	(856,537)
Accounts Receivable - Net	7,546,806	5,501,860

(a) These amounts represent debts with a repayment schedule after December 31, 2018 of JD 4,514,178 (JD 2,627,786 as of December 31, 2017).

(b) Movement on the expected credit losses was as follows:

	2018	2017
	JD	JD
Balance - beginning of the year	856,537	858,486
IFRS(9) Implementation-Note(3)	190,514	-
	1,047,051	858,486
<u>Add:</u> Additions during the year	71,448	-
<u>Less:</u> (Recovery) during the year	-	(1,949)
Balance - End of the Year	1,118,499	856,537

(c) The aging of receivables is as follows:

	December 31,	
	2018	2017
	JD	JD
Accounts receivable not due and scheduled	4,514,378	2,627,786
Less than 90 days	1,460,240	2,086,756
91 - 180 days	1,088,403	462,168
181 - 360 days	622,173	308,436
More than 360 days *	980,111	873,251
	8,665,305	6,358,397

\* This item includes an amount of JD 22,996, representing receivables due from Jordanian governmental entities as of December 31, 2018 and an amount of JD 61,761 which has been collected during the subsequent period.

# 11. Re-insurance and Insurance Companies' Accounts Receivable - Net

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Local insurance companies	808,517	857,497
Foreign re-insurance companies	83,851	153,905
	892,368	1,011,402
<u>Less: Expected credit losses *</u>	<u>(207,718)</u>	<u>(156,345)</u>
Re-insurance and Insurance Companies' Accounts Receivable - Net	684,650	855,057

- \* Movement on expected credit losses for re-insurance and insurance companies' accounts receivable - net as follow:

	2018	2017
	JD	JD
Balance - beginning of the year	156,345	152,076
IFRS(9)-Note(3)	50,475	-
	206,820	152,076
<u>Add: Additions during the year</u>	<u>898</u>	<u>4,269</u>
<u>Less: (Recovery) during the year</u>	<u>-</u>	<u>-</u>
Balance - End of the Year	207,718	156,345

The aging of re-insurance and insurance companies' accounts receivable is as follow:

	December 31,	
	2018	2017
	JD	JD
Less than 90 days	474,309	577,917
90 - 180 days	172,438	130,738
181 - 270 days	70,399	75,345
More than 360 days *	175,222	227,402
	892,368	1,011,402

- \* This amount includes JD 19,245 collected in the subsequent period.

## 12. Income Tax

### a. Income tax provision

- A final settlement has been reached with the Income and Sales Tax Department up to the year 2015. Moreover, the Company filed its income tax return for the year 2016 and 2017. However, no final settlement has been reached yet. Also the income tax for the year ended December 31, 2018 has been calculated according to the regulated income tax law, in the opinion of the Company's management and tax consultant, the provision is sufficient to meet any obligation as of December 31, 2018.

- Movement on the income tax provision was as follows:

	2018	2017
	JD	JD
Balance - beginning of the year	176,546	(24,713)
Income tax paid	(204,951)	(53,406)
Income tax paid for bank interest	(53,617)	-
Income tax expense for the year	307,501	254,665
Balance - End of the Year *	225,479	176,546

- Income tax in the statement of income represents the following:

	2018	2017
	JD	JD
Income tax for the year	307,501	254,665
Deferred tax assets	(106,475)	(64,577)
	<u>201,026</u>	<u>190,088</u>

- Summary of the reconciliation of accounting profit with taxable profit:

	2018	2017
	JD	JD
Declared accounting profit	896,926	815,322
Non-deductible expenses	1,782,245	1,403,642
Non-taxable income	(1,406,648)	(1,159,272)
Taxable Profit	<u>1,272,523</u>	<u>1,059,692</u>
Income Tax Rate %	<u>24%</u>	<u>24%</u>

**b. Deferred Tax Assets**

The details are as follows:

	December 31, 2018			December 31,	
				2018	2017
	Balance at the Beginning of the Year	Amounts Released	Amounts Added	Balance at Year-End	Deferred Tax
	JD	JD	JD	JD	JD
<b>Deferred Tax Assets</b>					
<u>Accounts Included</u>					
IFRS(9) Implementation-Net(note3)	269,169	-	-	269,169	64,601
Expected credit losses- Deposits for Banks	-	-	3,895	3,895	935
Expected credit losses-Cheques under collection	-	(5,623)	-	(5,623)	(1,350)
Expected credit losses-Receiveable	856,537	-	71,448	927,985	222,716
Impairment of re-insurance and insurance companies' accounts (debit)	156,345	-	898	157,243	37,738
Financial assets at fair value through profit or loss (Historical)	221,653	-	154,248	375,901	90,216
Impairment of financial assets at amortized cost	300,000	-	-	300,000	72,000
Unreported claims reserve	1,319,589	-	126,045	1,445,634	346,952
End-of-service indemnity provision	11,200	(780)	13,513	23,933	5,744
Other liabilities provision	200,000	-	80,000	280,000	67,200
	<u>3,334,493</u>	<u>(6,403)</u>	<u>450,047</u>	<u>3,778,137</u>	<u>906,752</u>
					<u>735,676</u>

- The deferred taxes were calculated according to the tax rates prescribed by the Income Tax Law at 24% as of December 31, 2018 and 2017.
- The movement on deferred tax assets was as follows:

	2018	2017
	Assets	Assets
	JD	JD
Balance - beginning of the year	735,676	671,099
IFRS(9) Implementation - Net (Note3)	64,601	-
	<u>800,277</u>	<u>671,099</u>
Additions	108,011	66,492
Released	(1,536)	(1,915)
Balance - End of the Year	<u>906,752</u>	<u>735,676</u>

In the opinion of the Company's management and its tax consultant, the Company will be able to benefit from the deferred taxes arising from the above provisions.

### 13. Property and Equipment - Net

The details of this item are as follows:

	Lands		Buildings		Machinery, Equipment and Furniture		Vehicles		Building Improvements and Decorations		Total	
	JD		JD		JD		JD		JD		JD	
<b>For the Year 2018</b>												
Cost:												
Balance at the beginning of the year	1,619,944		1,591,089		266,838		310,304		435,305		4,223,480	
Additions	-		-		13,383		7,250		303		20,936	
Balance at End of Year	1,619,944		1,591,089		280,221		317,554		435,608		4,244,416	
Accumulated Depreciation:												
Accumulated depreciation at the beginning of the year	-		224,780		194,985		248,055		314,047		981,867	
Depreciation for the year	-		31,822		27,870		11,455		62,438		133,585	
Accumulated Depreciation at End of Year	-		256,602		222,855		259,510		376,485		1,115,452	
Net Book Value of Property and Equipment	1,619,944		1,334,487		57,366		58,044		59,123		3,128,964	
<b>For the Year 2017</b>												
Cost:												
Balance at the beginning of the year	1,619,944		1,591,089		252,071		296,804		425,895		4,185,803	
Additions	-		-		14,767		13,500		9,605		37,872	
Balance at End of Year	1,619,944		1,591,089		266,838		310,304		435,500		4,223,675	
Accumulated Depreciation:												
Accumulated depreciation at the beginning of the year	-		192,958		166,016		232,623		252,601		844,198	
Depreciation for the year	-		31,822		28,969		15,432		61,446		137,669	
Accumulated Depreciation at End of Year	-		224,780		194,985		248,055		314,047		981,867	
Net Book Value of Property and Equipment	1,619,944		1,366,309		71,853		62,249		121,453		3,241,808	
Depreciation Rate %	-		2		9 - 25		15		2 - 20			

- Fully depreciated assets amounted to JD 362,909 as of December 31, 2018 (JD 355,322 as of December 31, 2017).



#### 14. Intangible Assets - Net

The movement was as follows:

	Computer Software's	
	2018	2017
	JD	JD
Balance - beginning of the year	28,695	39,954
Additions	-	7,500
Amortization	(18,630)	(18,759)
Balance - End of the Year	10,065	28,695
Annual Amortization Rate%	20	20

#### 15. Other Assets

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Accrued credit bank interests	362,266	316,953
Prepaid income tax - 5%	98,098	98,099
Prepaid expenses	31,584	68,295
Refundable deposits	6,082	5,874
Others	-	40,530
	498,030	529,751

#### 16. Mathematical Reserve - Net

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Balance - beginning of the year	71,768	47,522
Disposals	-	-
Additions	28,716	24,246
Net Mathematical Reserve - Net	100,484	71,768

#### 17. Due to Banks

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Local bank- overdraft *	713,948	939,928
Local bank- overdraft **	941,698	-
	1,655,646	939,928

\* This amount represents the balance of an overdraft facility granted to the Company by Societe General Bank Jordan at a ceiling of JD 1,200,000 against 100% cash collaterals and bears interest at 5.55% calculated on the daily balance, and interest is recorded at the end of every month. Moreover, the overdraft is due on July 26, 2019.

\*\* This amount represents the balance of an overdraft facility granted to the Company by Bank of Jordan at a ceiling of JD 2,000,000 against 100% cash collaterals. Moreover, the overdraft bears interest at 5.7% calculated on the daily balance, and interest is recorded at the end of every month. Moreover, the overdraft is due on September 28, 2019.

18. Accounts Payable

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Agents payable	61,633	92,907
Brokers payable	211,144	192,117
Policyholders	243,743	177,856
Car workshops and spare parts	407,031	451,233
Medical network	1,682,801	1,003,124
Employees payable	16,204	11,220
Others	57,370	53,785
	<u>2,679,926</u>	<u>1,982,242</u>

19. Re-insurance and Insurance Companies' Accounts - Payable

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Local insurance companies	74,679	80,182
Foreign re-insurance companies	2,134,764	795,332
	<u>2,209,443</u>	<u>875,514</u>

20. Other Provisions

This item consists of the following:

	December 31,	
	2018	2017
	JD	JD
Other liabilities provision *	280,000	200,000
End-of-service indemnity **	23,933	11,200
	<u>303,933</u>	<u>211,200</u>

- \* This item represents the provision taken by the Company to meet any litigations that might occur against it. The movement on the provision for other liabilities during the year was as follows:

	2018	2017
	JD	JD
Balance – beginning of the year	200,000	175,000
Additions during the year	80,000	25,000
Balance – End of the Year	<u>280,000</u>	<u>200,000</u>

- \*\* The movement on the provision for end-of-service indemnity was as follows:

	2018	2017
	JD	JD
Balance – beginning of the year	11,200	14,128
Additions during the year	13,513	3,102
Paid during the year	(780)	(6,030)
Balance – End of the Year	<u>23,933</u>	<u>11,200</u>

## 21. Other Liabilities

This item consists of the following

	December 31,	
	2018	2017
	JD	JD
Life insurance business secretaries *	55,051	55,051
Sales tax	86,396	115,594
Unearned rent revenue	10,885	34,467
Social security contributions	21,676	22,760
Income tax deposits	16,075	13,013
Shareholder's deposits	1,198	1,198
Financial stamps	12,461	9,874
Car accidents sufferers' fund	10,659	14,064
Checks safes not provided for disbursement **	348,916	240,007
Other liabilities	74,253	63,231
	<u>637,570</u>	<u>569,259</u>

\* This item represents amounts settled with reinsurers regarding some policies relating to under settlement policies related to prior policies.

\*\* This item represents checks received by suppliers and insurance policies beneficiaries not cashed yet.

## 22. Authorized and Paid – up Capital

- Authorized, subscribed, and paid – up capital amounted to JD 8 million, divided into 8 million shares, at a par value of JD 1 each as of December 31, 2018 and 2017.

## 23. Reserves

### Statutory Reserve

The amounts in this account represent appropriations from annual income before tax at 10% according to the Companies Law. This reserve may not be distributed to shareholders.

### Voluntary Reserve

The amounts accumulated in this account represent appropriations from annual income before tax at a rate not exceeding 20%. The voluntary reserve is used for the purposes decided by the Board of Directors. Moreover, the General Assembly of shareholders has the right to fully or partially distribute this amount as profits to shareholders.

## 24. Retained Earnings

The movement on this item was as follows:

	2018	2017
	JD	JD
Balance - beginning of the year	1,236,880	1,296,078
IFRS(9) Implementation - Net (Note3)	(204,568)	-
	<u>1,032,312</u>	<u>1,296,078</u>
Add: Income for the year	695,900	625,234
Less: Distributed income*	(400,000)	(600,000)
Transferred to statutory reserve	(92,893)	(84,432)
Balance – End of the Year	<u>1,235,319</u>	<u>1,236,880</u>

\* The General Assembly for shareholders has approved in their ordinary meeting held on April 29, 2018, the board of director's recommendation for cash dividend to the shareholders in an amount of JD 400,000 which represent 5% from the authorized and paid up capital (JD 600,000 from prior year)

25. Interest Revenue

This item consists of the following:

	<u>2018</u>	<u>2017</u>
	<u>JD</u>	<u>JD</u>
Interest income	<u>1,114,429</u>	<u>820,524</u>
	<u>1,114,429</u>	<u>820,524</u>

26. Net (Losses) Gain from Financial Assets and Investments

This item consists of the following:

	<u>2018</u>	<u>2017</u>
	<u>JD</u>	<u>JD</u>
Cash dividends	38,288	34,461
Unrealized (loss) in financial assets at fair value through profit or loss	(154,248)	(38,556)
Rental of real estate investments	34,467	10,710
Gain on sale of financial assets at fair value through profit or loss	30,325	57,473
	<u>(51,168)</u>	<u>64,088</u>

27. Other Revenue – Net

This item consists of the following:

	<u>2018</u>	<u>2017</u>
	<u>JD</u>	<u>JD</u>
Revenue related to underwriting accounts	<u>423,392</u>	<u>410,858</u>
	<u>423,393</u>	<u>410,858</u>

28. Employees' Expenses

This item consists of the following:

	<u>2018</u>	<u>2017</u>
	<u>JD</u>	<u>JD</u>
Salaries and bonuses	1,487,467	1,459,063
Company's share of social security contributions	176,813	178,738
Medical expense	64,873	61,650
Training and staff development	6,450	6,497
Travel and transportation	16,862	2,264
Provision for end-of-service indemnity	13,513	3,102
Others	3,321	6,073
Total	<u>1,769,299</u>	<u>1,717,387</u>
Employees' Expenses Allocated to Underwriting Accounts*	<u>1,575,154</u>	<u>1,528,173</u>
Employees' Expenses Unallocated to Underwriting Accounts	<u>194,145</u>	<u>189,214</u>

\* Expenses were allocated as follows:

	2018	2017
	JD	JD
Life	78,214	75,259
Motor	638,431	688,933
Marine and transportation	71,217	68,341
Fire and other damages to properties	105,684	102,742
Liability	33,776	31,514
Medical	631,876	545,766
Others	15,956	15,618
	<u>1,575,154</u>	<u>1,528,173</u>

## 29. General and Administrative Expenses

This item consists of the following:

	2018	2017
	JD	JD
Rent	8,856	9,048
Printing and stationery	35,506	26,982
Advertising and marketing	45,771	29,177
Bank interests	112,216	51,389
Bank charges and stamps	3,848	7,530
Water, electricity and heating	54,749	55,845
Maintenance	12,938	7,250
Post and telephone	28,717	33,829
Professional fees	13,095	12,000
Hospitality	31,349	18,329
Lawyers' fees and other professional expenses	169,482	108,869
Computer expenses and photos	58,216	67,544
Subscriptions	14,196	13,353
Board of Directors' transportation expenses	42,000	42,000
Government and other fees	46,345	39,491
Donations and favors	250	4,961
Cleaning	35,486	31,259
Cars expenses	46,311	48,116
Security and protection	48,350	46,200
Non-deductible sales tax	19,287	16,382
Other expenses	61,478	51,068
Total	<u>888,446</u>	<u>720,622</u>
Total General and Administrative Expenses		
Allocated to Underwriting Accounts *	<u>710,757</u>	<u>576,498</u>
Total General and Administrative Expenses		
Unallocated Underwriting Accounts	<u>177,689</u>	<u>144,124</u>

\* Expenses were allocated as follows:

	2018	2017
	JD	JD
Life	49,422	41,961
Motor	309,087	304,727
Marine and transportation	16,754	12,772
Fire and other damages	37,049	28,406
Liabilities	11,841	8,713
Medical	281,011	175,651
Others	5,593	4,318
	<u>710,757</u>	<u>576,498</u>

30. Other Expenses

This item consists of the following:

	2018	2017
	JD	JD
Board of Directors' remuneration	32,000	29,000
Other liabilities provision	80,000	28,904
Others	8,775	3904
	<u>120,775</u>	<u>57,904</u>

31. Earnings per Share for the Year

Earnings per share has been computed by dividing profit for the year over the average outstanding number of shares. The details are as follows:

	For the Year Ended December 31,	
	2018	2017
	JD	JD
Income for the year	695,000	625,234
Outstanding shares	<u>8,000,000</u>	<u>8,000,000</u>
Earnings per share for the Year – Basic and Diluted	<u>0/087</u>	<u>0/078</u>

32. Cash and Cash Equivalents

The details of this item are as follows:

	December 31,	
	2018	2017
	JD	JD
Cash on hand and at banks	76,377	39,428
Add: Deposits at banks maturing within three months	8,941,636	2,879,232
Net Cash and Cash Equivalents	<u>9,018,013</u>	<u>2,918,660</u>

33. Transactions with Related Parties

The Company entered into transactions with major shareholders, members of the Board of Directors, and executive management within its regular activities. All insurance credit granted to related parties that are considered operating, and no provisions were taken.

- The following is a summary of the transactions with related parties during the year:

Discription	Major	Board of	Executive	Total	
	Shareholders	Directors	Management	2018	2017
	JD	JD	JD	JD	JD
<u>Statement of Financial Position Items:</u>					
Accounts receivable	-	-	2,567	2,567	2,574
Accounts payables	-	36,764	21	36,785	35,171
<u>Income Statement Items:</u>					
Policies revenues	-	41,205	4,643	45,848	44,648
Paid expenses	-	2,682.	1,168	3,850	-

- The following is a summary of the benefits (salaries, bonuses, and other benefits) for executive management:

Description	2018 JD	2017 JD
Salaries and rewards	548,224	544,298
Board of Directors' transportation fees	42,000	42,000
	<u>590,224</u>	<u>586,298</u>

#### 34. The Fair Value of Financial Assets Not Stated at Fair Value in the Financial Statements

These financial investments include the real estate investments stated at cost and mentioned in Note (6) as follows:

	December 31, 2018		December 31, 2017	
	Fair value JD	Book value JD	Fair value JD	Book value JD
Investments properties -net	879,227	1,570,187	863,354	1,570,817

#### 35. Risk Management

##### First: Descriptive Disclosures:

Risk management is measurement and evaluation of risk and developing strategies to manage them. These strategies include transferring risks to another party, avoiding risks, and reducing their negative effects on the Company, in addition to accepting some or all of their consequences. Risk management can be categorized as follows:

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

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

Third: Risks arising from financial causes such as interest rate risks, credit risks, foreign currency risks, and market risks.

Fourth: Intangible risks not easily identifiable such as personnel knowledge risks that arise from the application of inadequate knowledge. This type of risks includes as well relationship risks arising from inefficient cooperation with clients. All these risks directly reduce the knowledge employee's productivity; detract from the effectiveness of expenditure, profit, and services; and negatively impact quality, reputation, and quality of gains.

The Company's risk management relies on prioritizing, so that risks with large losses and high probability of occurrence are treated first while risks with smaller losses and lower probabilities are treated later on.

### **Risk Management Policy**

#### **First: Planning and Preparation**

The Company prepared work plan and bases for the adoption and evaluation of risks through setting up a Risk Management Department to monitor the related performance.

#### **Second: Risk Determination**

Risks are events that cause problems upon occurrence. Therefore, it is necessary to identify such problems and their sources, as accidents arising from these sources may lead to new risks that can be dealt with before their occurrence. Moreover, there are several methods to identify risks such as identification on the basis of objectives, as each of the Company's sections has certain objectives it endeavors to achieve. In addition, any event that hampers the achievement of these objectives is considered a risk. Accordingly, this risk is studied and perused. Another type of risk identification is based on classification, which is a comprehensive classification of all potential sources of risks. Still, one more type of risks is the common risks of similar companies.

#### **Third: Dealing with Risks**

The Company deals with potential risks according to the following methods:

- Transfer: passing the risk to another party through contracts or financial protection.
- Avoidance: Refraining from engaging in activities that give rise to risks. Risk avoidance is an effective method for averting risk, but it deprives the Company from undertaking certain operations that may achieve profits for the Company.
- Mitigation: Reducing losses arising from risk occurrence.
- Acceptance: having a policy for the acquisition of unavoidable risks, as acceptance of small risks is an effective strategy.

#### **Fourth: Plan**

An easy-to-apply and clear plan for dealing with risks has been set up through pricing which relies on historical statistics to avoid the incurrences of risks in any of the insurance branches. The plan ensures that the premium is adequate to cover potential cumulative risks.

#### **Fifth: Implementation**

The Company's technical departments implement the plan, so that risk consequences can be mitigated. According to the plan, avoidable risks are avoided as well.

#### **Sixth: Reviewing and Evaluating the Plan**

The risks department follows up on the development in the Company and constantly develops and updates the plan.



## **Risk Management Arrangement**

### **Determinants**

Top priority is given to the risks department, a matter which affects the Company's productivity and profitability. Therefore, the risks department's task is to distinguish between actual risk and uncertainty. In addition, the risks department gives priority to risks with large losses and high probability of occurrence to avoid them.

### **Responsibilities of Risk Management**

- Updating risk data base constantly.
- Predicting potential risks.
- Cooperating with Executive Management to treat risks and mitigate riskiness.
- Preparing risk plans and reports continuously to avoid potential risks and reduce the probability of their occurrence.

### **Strategy for Dealing with Risks**

- Defining the Company's objectives.
- Clarifying strategies for achieving the Company's objectives.
- Identifying risks.
- Assessing risks.
- Finding methods for dealing with and avoiding risks.

## **Second: Quantitative Disclosures**

### **A. Insurance Risks**

#### **1. Insurance Risks**

Risks of any insurance policy represent the probability of occurrence of the insured event and uncertainty about the claim amount relating to the event. This is due to the nature of the insurance policy, as risks are both volatile and unexpected in connection with a certain type of insurance. In light of the probabilities theory of pricing and reserve, the key risks faced by the Company are that incurred claims and related payments may exceed the carrying amounts of insurance liabilities. This may take place if the probability and riskiness of the claims are greater than expected. In this regard, insured events are unstable and vary from year to year. Accordingly, estimates may differ from the related statistics. Moreover, studies have revealed that the more similar the insurance policies are, the closer the expectations to actual average losses become. Diversification of insured risks reduces the overall insurance loss probabilities.

The Company conducts all types of insurance-life, car, marine, transport, fire and other damages to properties, liability, medical, and aviation – through its main branch at Shmeisani and other branches and offices spread inside the Kingdom.

The Company, through its professional and administrative staff, provides the best service to its clients. A plan has been set to protect it from potential risks, natural or unnatural. This entails making available the necessary funds and equipment to ensure the Company's continuity and viability. Consequently, the dire need to have a strategy for risk management has arisen.

## 2. Claims Development

The table below illustrates the actual claims compared to the past four years' expectations based on the year in which the accident occurred as follows:

### Gross - Liability Insurance:

Year of Accident	2014					Total	
	& before	2015	2016	2017	2018	JD	JD
As of year-end	24,233	9,384	8,615	3,941	23,234		69,407
After one year	38,135	5,777	8,865	3,941	-		56,718
After two years	33,628	43,063	8,865	-	-		85,556
After three years	52,162	-	-	-	-		52,162
After four years	53,167	-	-	-	-		53,167
Current expectations of cumulative claims	53,167	43,063	8,615	3,941	23,234		132,020
Cumulative payments	45,467	5,777	8,615	3,941	22,485		86,285
Liabilities as stated in the statement of financial position	7,700	286	-	-	749		8,735
(Deficit) from the preliminary assessment of the provision	(28,943)	3,321	-	-	23,234		(2,388)

### Gross - Marine and Transportations Insurance:

Year of Accident	2014					Total	
	& before	2015	2016	2017	2018	JD	JD
As of year-end	281,977	56,898	138,855	151,977	193,678		823,385
After one year	244,673	62,521	132,980	96,575	-		536,749
After two years	144,842	62,553	132,980	-	-		340,375
After three years	144,884	62,053	-	-	-		206,937
After four years	144,955	-	-	-	-		144,955
Current expectations of cumulative claims	144,955	62,053	132,980	96,575	193,678		630,241
Cumulative payments	79,955	62,053	126,980	96,575	43,805		409,368
Liabilities as stated in the statement of financial position:	65,000	-	6,000	-	149,873		220,873
Excess in the preliminary estimate of the provision	137,022	(5,155)	5,875	55,402	193,678		386,822

### Gross - Motor Insurance:

Year of Accident	2014					Total	
	& before	2015	2016	2017	2018	JD	JD
As of year-end	13,672,815	9,301,887	10,405,545	9,299,842	9,287,577		51,967,666
After one year	14,422,150	11,054,851	9,062,426	11,229,224	-		45,768,651
After two years	14,590,837	10,379,103	9,729,273	-	-		34,699,213
After three years	13,782,876	10,621,438	-	-	-		24,404,314
After four years	13,921,389	-	-	-	-		13,921,389
Current expectations of cumulative claims	13,921,389	10,621,438	9,729,273	11,229,224	9,287,577		54,788,901
Cumulative payments	13,365,036	10,303,950	7,981,450	10,236,764	6,880,745		48,767,945
Liabilities as stated in the statement of financial position	556,353	317,488	1,747,823	992,460	2,406,832		6,020,956
Excess from the preliminary assessment of the provision	(248,574)	(1,319,551)	676,272	(1,929,382)	9,287,577		6,466,342

**Gross - Fire and Other Damages to Properties Insurance:**

2014

<b>Year of Accident</b>	2015	2016	2017	2018	Total
& before					
JD	JD	JD	JD	JD	JD
As of year-end	1,794,636	825,629	236,879	180,392	3,393,548
After one year	1,732,557	879,994	273,088	171,256	3,056,895
After two years	1,789,314	83,441	223,475	-	2,096,230
After three years	1,777,775	839,559	-	-	2,617,334
After four years	1,749,481	-	-	-	1,749,481
Current expectations of cumulative claims	1,749,481	839,559	223,475	171,256	3,339,783
Cumulative payments	1,374,389	667,746	205,176	161,895	2,540,677
Liabilities as stated in the statement of financial position	375,092	171,813	18,299	9,361	799,106
Excess in the preliminary estimate of the provision	45,155	(13,930)	13,404	9,136	409,777

**Gross- Medical Insurance**

2014

<b>Year of Accident</b>	2015	2016	2017	2018	Total
& before					
JD	JD	JD			JD
As of year-end	3,318,066	4,975,125	5,475,118	5,029,845	28,234,311
After one year	-	-	-	-	-
After two years	-	-	-	-	-
After three years	-	-	-	-	-
After four years	-	-	-	-	-
Current expectations of cumulative claims	3,318,066	4,975,125	5,475,118	5,029,845	28,234,311
Cumulative payments	3,318,066	4,975,125	5,475,118	5,029,845	27,311,808
Liabilities as stated in the statement of financial position:	-	-	-	922,503	922,503
Excess in the preliminary estimate of the provision	-	-	-	-	-

**Gross - Other Branches Insurance:**

Year of Accident	2014					Total	
	& before	2015	2016	2017	2018	JD	JD
As of year-end	422,387	76,032	27,239	18,062	326,598	870,318	
After one year	402,975	117,092	30,285	26,135	-	576,487	
After two years	387,756	76,092	30,285	-	-	494,133	
After three years	387,756	-	-	-	-	387,756	
After four years	164,951	-	-	-	-	164,951	
Current expectations of cumulative claims	164,951	76,092	30,285	26,135	326,598	624,061	
Cumulative payments	118,721	27,092	23,585	25,481	15,082	209,961	
Reported claims	46,230	49,000	6,700	654	311,516	414,100	
Excess in the preliminary estimate of the provision	257,436	(60)	(3,046)	(8,073)	326,598	572,855	

**Gross - Life Insurance:**

Year of Accident	2014					Total	
	& before	2015	2016	2017	2018	JD	JD
As of year-end	1,417,436	1,868,599	1,816,312	2,175,143	1,700,654	8,978,144	
After one year	-	-	-	-	-	-	
After two years	-	-	-	-	-	-	
After three years	-	-	-	-	-	-	
After four years	-	-	-	-	-	-	
Current expectations of cumulative claims	1,417,436	1,868,599	1,816,312	2,175,143	1,700,654	8,978,144	
Cumulative payments	1,417,436	1,868,599	1,816,312	2,175,143	1,066,205	8,343,695	
Liabilities as stated in the statement of financial position:	-	-	-	-	634,449	634,449	
Excess in the preliminary estimate of the provision	-	-	-	-	-	-	

### 3. Concentration of Insurance Risks

Concentration of assets and liabilities based on insurance type is as follows:

For the Year Ended December 31, 2018:

Type of Insurance	Motor	Marine	Fire and Other Damages to Properties	Aviation	Liability	Medical	Other Insurance	Life insurance	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD
Gross	12,481,304	364,821	1,511,195	368,036	213,413	5,588,316	538,211	1,008,426	22,073,722
Net	10,781,886	66,678	160,343	-	73,325	4,981,469	101,678	238,740	16,404,119

For the Year Ended December 31, 2017:

Type of Insurance	Motor	Marine	Fire and Other Damages to Properties	Aviation	Liability	Medical	Other Insurance	Life insurance	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD
Gross	12,306,684	285,844	1,354,177	-	220,292	3,990,018	429,445	1,027,285	19,613,745
Net	10,799,053	59,063	130,658	-	92,979	3,990,018	62,743	203,695	15,338,209

Concentration of the assets and liabilities according to the geographical distribution is as follows:

	December 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
<u>According to geographical area</u>				
Inside Jordan	33,505,589	5,611,328	30,357,845	3,959,356
Other Middle East countries	1,126,186	1,163,050	158,095	622,725
Europe	77,283	937,619	78,884	172,608
Africa	321	-	5	-
	<u>34,709,379</u>	<u>7,711,997</u>	<u>30,594,829</u>	<u>4,754,689</u>

Concentration of accounts receivable (before provision) and accounts payable according to sector is as follows:

	December 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
<u>According to Sector</u>				
Public	883,973	5,291	854,669	5,764
Private sector				
Companies and institutions	8,051,897	4,546,366	5,901,477	2,675,875
Individuals	621,603	337,712	613,653	176,117
	<u>9,557,473</u>	<u>4,889,369</u>	<u>7,369,799</u>	<u>2,857,756</u>

#### **4. Reinsurance Risks**

As with other insurance companies and for the purpose of reducing exposure to financial losses that may arise from large insurance claims, the Company, within its regular activities, enters into re-insurance contracts with other parties.

To mitigate its exposure to large losses resulting from insolvent re-insurance companies, the Company evaluates the financial position of the re-insurance companies it deals with. It also monitors risk concentrations arising from similar geographical areas, activities, or economic components of those companies. Moreover, the issued re-insurance contracts do not exempt the Company from its liabilities toward policyholders. Consequently, the Company remains liable for the balance of re-insured claims should the re-insurers default on the obligations related to the insurance policies.

#### **b. Financial Risks**

The risks the Company is exposed to hinge on the probability of inadequate return on the investments to finance the liabilities arising from the insurance policies and investments.

Moreover, the Company adopts financial policies to manage the various risks within a defined strategy. The Company management monitors and controls risks and performs the optimal strategic allocation of financial assets and financial liabilities. Risks include interest rate risks, credit risks, foreign currency risks, and market risks.

The Company adopts the financial hedging policy for financial assets and financial liabilities, when necessary. This hedging relates to expected future risks.

### **1. Market Risk**

Market risks are irregular risks that vary according industry and include price risks, commercial capability, and competition. These risks can be mitigated through diversifying the Company's investment portfolio. Moreover, risk can be estimated by means of standard deviation if the expected return on investments is equal. If, on the other hand, the expected return is unequal, the variance factor for each investment is calculated by dividing standard deviation by the expected return for each investment. The lower the standard deviation, the lesser the risk degree. Furthermore, the Company monitors the stock exchange prices and prices of securities held by the Company daily to take the necessary action at the end of each quarter of the fiscal year.

### **3. Interest Rate Risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Moreover, the Company manages interest rate risks through applying the sensitivity analysis of interest rate instruments in a manner that does not negatively affect net interest income.

The Company manages its interest rate risk regularly by evaluating the different alternatives such as refinancing and renewing current positions and alternative funding.

The sensitivity analysis below has been determined based on the exposure to deposits interest rates at the financial statements date. The analysis is prepared assuming that the amount of deposits at the statement of financial position date was outstanding for the whole year. A 0.5% increase or decrease is used, which represents management's assessment of the reasonable and probable net change in market interest rates.

	+0/5%		-0/5%	
	For the Year Ended December 31,			
	2018	2017	2018	2017
	JD	JD	JD	JD
Increase (decrease) in the income for the year	89,359	83,371	(89,359)	(83,371)
Net shareholders' equity	89,359	83,371	(89,359)	(83,371)

### **3. Foreign Currency Risks**

This risk represents the risk arising from the fluctuation in the value of financial instruments due the changes in foreign currency exchange rates. Most of the Company's assets and liabilities are funded in Jordanian Dinar or US Dollar. Moreover, the Company's management believes that the US Dollar foreign currency risk is immaterial as the Jordanian Dinar (the Company's functional currency) is pegged to the US Dollar. Consequently, the Company does not hedge the foreign currency risk for that reason as well as the following reasons:

- All of the Company's accounts with others, including re-insurers, are either in Jordanian Dinar or US Dollar.
- There are no accounts in other foreign currencies. However, the Company monitors the fluctuation in foreign currency exchange rates continuously.

The following illustrates the Company's major foreign currency risks:

	Foreign Currency		Jordanian Dinar	
	December 31,			
	2018	2017	2018	2017
Type of Currency:	JD	JD	JD	JD
US Dollar	1,577,379	117,013	1,119,939	83,079

Management believes that the Company's foreign currency risks and their impact on the financial statements are immaterial.

#### **4. Liquidity Risks**

The Company adopts an appropriate system to manage short-and long-term financing risks through holding adequate reserves, effective monitoring of expected cash flows, and matching the maturities of financial assets, on the one hand, and financial liabilities and technical commitments, on the other.

Liquidity risks represent the Company's inability to make available the necessary funding to meet its obligations on their due dates. To protect the Company against these risks, management diversifies the sources of funds, manages assets and liabilities, matches their maturities, and keeps an adequate balance of cash and cash equivalents and tradable securities.



## 5. Sensitivity of Insurance Risks

The sensitivity analysis of insurance risks has been performed through a 10% increase / decrease in premiums and compensations while holding all other variables constant. The impact on the income statement and shareholders' equity is as follows:

	For the Year Ended December 31, 2018					
	Effect of 10% Increase in Underwritten Net Premiums and Net			Effect of 10% Decrease in Underwritten Net Premiums and Net		
	Effect of 10% Increase on Profit for the Year before Tax			Effect of 10% Decrease on Profit for the Year before Tax		
	Effect on Shareholders' Equity *			Effect on Shareholders' Equity *		
	Compensations	Tax	Equity *	Compensations	Tax	Equity *
	JD	JD	JD	JD	JD	JD
<b>10% Premiums</b>						
Motor	1,096,486	1,122,762	853,299	(1,096,486)	(1,122,762)	(853,299)
Marine and transport	13,227	13,404	10,187	(13,227)	(13,404)	(10,187)
Fire and other damages	15,991	1,457	11,073	(15,991)	(1,457)	(11,073)
Aviation	-	-	-	-	-	-
Liability	14,815	16,805	12,771	(14,815)	(16,805)	(12,771)
Medical	1,019,012	975,498	741,378	(1,019,012)	(975,498)	(741,378)
Other branches	7,297	5,237	3,980	(7,297)	(5,237)	(3,980)
Life	58,688	55,817	42,421	(58,688)	(55,817)	(42,421)
						-
<b>Compensations</b>						
Motor	94,398	(968,538)	(736,089)	(94,398)	968,538	736,089
Marine and transport	2,075	(3,013)	(2,290)	(2,075)	3,013	2,290
Fire and other damages	1,219	(2,766)	(2,102)	(1,219)	2,766	2,102
Aviation	-	-	-	-	-	-
Liability	423	(448)	(340)	(423)	448	340
Medical	851,365	(906,996)	(689,317)	(851,365)	906,996	689,317
Other branches	878	(2,712)	(2,061)	(878)	2,712	2,061
Life	20,437	(21,170)	(16,089)	(20,537)	21,170	16,189

\* Net after deducting the income tax effect.

## 5. Sensitivity of Insurance Risks

The sensitivity analysis of insurance risks has been performed through a 10% increase / decrease in premiums and compensations while holding all other variables constant. The impact on the income statement and shareholders' equity is as follows:

	For the Year Ended December 31, 2017					
	Effect of 10%			Effect of 10%		
	Increase in	Effect of 10%		Decrease in	Effect of 10%	
	Underwritten	Increase on		Underwritten	Decrease on	
	Net Premiums	Profit for the	Effect on	Net Premiums	Profit for the	Effect on
	and Net	Year before	Shareholders'	and Net	Year before	Shareholders'
10%	Compensations	Tax	Equity *	Compensations	Tax	Equity *
<u>Premiums</u>	JD	JD	JD	JD	JD	JD
Motor	1,109,468	1,107,315	841,560	(1,109,468)	(1,107,315)	(841,560)
Marine and transport	9,697	8,814	6,698	(9,697)	(8,814)	(6,698)
Fire and other damages	11,934	9,740	7,403	(11,934)	(9,740)	(7,403)
Liability	17,147	14,832	11,273	(17,147)	(14,832)	(11,273)
Medical	681,473	544,092	413,510	(681,473)	(544,092)	(413,510)
Other branches	4,731	4,846	3,683	(74,731)	(4,846)	66,317
Life	46,812	44,388	33,735	(46,812)	(44,388)	(33,735)
<u>Compensations</u>						
Motor	975,879	(943,630)	(717,159)	(975,879)	943,630	717,159
Marine and transport	2,253	(4,344)	(3,301)	(2,253)	4,344	3,301
Fire and other damages	12,925	(514)	(390)	(12,925)	514	390
Liability	444	(683)	(519)	(444)	683	519
Medical	458,761	(485,743)	(369,165)	(458,761)	485,743	369,165
Other branches	957	(553)	(420)	(957)	553	420
Life	22,203	(21,298)	(16,186)	(22,203)	21,298	16,186

\* Net after deducting the income tax effect.

- The following table illustrates the maturities of financial liabilities, excluding technical reserves (based on the maturity remaining periods from the financial statements date):

<u>December 31, 2018</u>									
Liabilities:									
Up to	More than	More than	More than	More than one	More than	More than	More than	Without	Total
One Month	3 Months	6 Months	One Year	3 Years	3 Years	3 Years	3 Years	Maturity	JD
JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Due to a bank	-	1,655,646	-	-	-	-	-	-	1,655,646
Accounts payable	-	2,339,457	200,646	36,502	103,321	-	-	-	2,679,926
Re-insurance and insurance companies'									
accounts - payable	-	1,440,392	563,812	191,855	13,384	-	-	-	2,209,443
Other provisions	-	9,307	-	11,528	83,098	200	-	-	104,133
Income tax provision	-	225,479	-	-	-	-	-	-	225,479
Other liabilities	-	533,491	-	-	104,079	-	-	-	637,570
Total	-	6,203,772	764,458	239,885	303,882	200	-	-	7,512,197
Assets	5,221,201	9,265,513	6,909,777	8,380,754	942,239	3,989,895	-	-	34,709,379

<u>December 31, 2017</u>									
Liabilities:									
Up to	More than	More than	More than	More than one	More than	More than	More than	Without	Total
One Month	3 Months	6 Months	One Year	3 Years	3 Years	3 Years	3 Years	Maturity	JD
JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Due to a bank	-	939,928	-	-	-	-	-	-	939,928
Accounts payable	-	1,513,023	199,026	178,428	91,765	-	-	-	1,982,242
Re-insurance and insurance companies'									
accounts - payable	-	431,468	193,447	216,651	33,948	-	-	-	875,514
Other provisions	28,102	-	-	-	183,098	-	-	-	211,200
Income tax provision	-	176,546	-	-	-	-	-	-	176,546
Other liabilities	465,190	-	-	-	104,069	-	-	-	569,259
Total	493,292	3,060,965	392,473	395,079	412,880	-	-	-	4,754,689
Assets	2,879,232	3,568,407	17,416,935	2,567,483	620,712	3,542,060	-	-	30,594,829

#### 5. Share Price Risks

These risks represent the decrease in the share value due to the changes in the indicators level of subscribed shares in the Company's portfolio.

The following is the impact of a +5% or -5% change in the index of the stock exchange in which the shares are traded:

	Change in Index	Impact on Profit & Loss for the year 2018 Profit (Loss) JD	Impact on the Year's Profit & Loss 2017 Profit (Loss) JD
Stock Exchanges		40,733	29,021
Stock Exchanges		(40,733)	(29,021)

#### 6. Credit Risk

Credit risk relates to the other party's inability to meet its contractual obligations leading to the incurrence of losses by the Company. Moreover, the Company adopts a policy of dealing with creditworthy parties in order to mitigate the financial losses arising from defaults on liabilities. The Company does not follow a policy of taking guarantees against accounts receivable. Consequently, accounts receivable are not guaranteed.

The Company's financial assets consist primarily of holders of documents and financial investments at fair value through the statement of income, financial investments at amortized cost, property investments, cash and cash equivalents, and other debit accounts. Moreover, holders of documents represent debts due from the locally insured parties, governmental bodies, large projects, and external customers. In addition, the Company's management believes that the ratio of the debts owed to the Company is high. However, the probability of no collection of all or part of these debts is very low. Meanwhile, these debts represent significant concentration of credit risks in the customers' geographical areas. In this regard, stringent credit risks control is maintained, as each customer's account is monitored separately and constantly. Customers' concentration according to their geographical areas is as follows:

<u>Geographical Area</u>	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Inside Jordan	JD	JD
	7,546,806	5,501,860
	<u>7,546,806</u>	<u>5,501,860</u>

#### 7. Operating Risks

These risks arise from systems break down and international and unintentional human error. Moreover, these risks may affect the Company's reputation and financial losses. They can be avoided through segregating duties, implementing procedures to extract any information from the Company's systems, raising staff awareness, and training personnel.

#### 8. Legal Risks

These risks arise from lawsuits raised against the Company. To avoid these risks, the Company has set up an independent legal department to follow up on the Company's activities in line with the Insurance Commission's instructions.

### **36. Main Segments Analysis**

#### **a. Information on the Company's Operating Segments**

For managerial purposes, the Company was organized into two sectors:

1. The General Insurance Sector, which includes motor, marine transportation, aviation, fire and other damages to properties, liability, and medical; and
2. Other insurance sectors, which include investments and management of cash on behalf of the Company.

Moreover, transactions among the operational sectors are based on estimated market prices at the same terms used for others.

#### **b. Information on Geographical Distribution**

This note represents the geographical distribution of the Company's operations. Moreover, the Company conducts its operations mainly in the Kingdom, representing local operations.

The following is the distribution of the Company's revenue and capital expenditures according to geographical sector:

	Inside Jordan		Outside Jordan		Total	
	December 31,		December 31,		December 31,	
	2018	2017	2018	2017	2018	2017
	JD	JD	JD	JD	JD	JD
Total assets	33,519,690	30,411,517	1,189,689	183,312	34,709,379	30,594,829

  

	For the Year Ended December 31,					
	2018	2017	2018	2017	2018	2017
	JD	JD	JD	JD	JD	JD
	2018	2017	2018	2017	2018	2017
Total revenue	24,660,797	19,516,499	47,991	3,367	24,708,788	19,519,866
Capital expenditures	20,942	45,372	-	-	20,942	45,372

### **37. Capital Management**

#### **- Achieving Capital Management Objectives:**

The Company aims to achieve capital management objectives through growing the Company's operations; achieving surplus in operating profits and revenues; and optimally employing available resources. This is to achieve the targeted growth in shareholders' equity through growing the statutory reserve at 10% of realized profits and the voluntary reserve at no more than 20% (if necessary), as well as through retained earnings in case of achieving profits.

The Company takes into consideration that the size of capital should be compatible with the size and nature of risks that the Company is exposed to. This is carried out in a manner that does not contradict the regulations and instructions in force, and is reflected in the Company's strategies and budgets. Moreover, the effect on capital adequacy ratio is considered upon acquiring investments. In this respect, capital and its adequacy are monitored periodically.

In the opinion of the Company's Board of Directors, the Company's regulatory capital is adequate for the Company's operations.

- The solvency margin as of December 31, 2018 and 2017 is as follows:

	December 31,	
	2018	2017
	JD	JD
First: Available Capital:		
Authorized and paid-up capital	8,000,000	8,000,000
Statutory reserve	1,342,268	1,249,375
Voluntary reserve	15,676	15,676
Retained earnings	1,235,319	1,236,880
	<u>10,593,263</u>	<u>10,501,931</u>
Supplementary Capital:		
Increase in investment properties value	691,590	707,463
	<u>11,284,853</u>	<u>11,209,394</u>
Second: Required capital		
Capital required against assets risks	3,632,392	3,077,283
Capital required against underwriting liabilities	2,284,021	1,991,453
Capital required against reinsurers' risks	57,795	7,156
Capital required against life insurance	658,764	565,316
Total Required Capital	<u>6,632,971</u>	<u>5,641,207</u>
Third: Solvency margin ratio (available capital / required capital)	<u>170%</u>	<u>199%</u>

### **38. Assets and Liabilities Maturities**

The following table shows the analysis of assets and liabilities according to their expected period of recovery or settlement:

	Within One Year	More than One Year	Total
<u>December 31, 2018</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>
<b>Assets:</b>			
Deposits at banks	19,527,430	-	19,527,430
Financial assets at fair value through profit or loss	814,656	-	814,656
Financial assets at amortized cost	-	-	-
Investment property	-	879,227	879,227
Cash on hand and at banks	76,377	-	76,377
Cheques under collection	609,801	26,621	636,422
Accounts receivable – net	7,546,806	-	7,546,806
Re-insurance and insurance companies' accounts – receivable	684,650	-	684,650
Deferred tax assets	906,752	-	906,752
Property and equipment – Net	-	3,128,964	3,128,964
Intangible assets	-	10,065	10,065
Other assets	498,030	-	498,030
<b>Total Assets</b>	<b>30,664,502</b>	<b>4,044,877</b>	<b>34,709,379</b>
<b>Liabilities:</b>			
Unearned premiums reserve – net	9,009,815	-	9,009,815
Claims reserve – net	3,823,561	3,470,259	7,293,820
Mathematical reserve – net	100,484	-	100,484
Due to a bank	1,655,646	-	1,655,646
Accounts payable	2,575,603	104,323	2,679,926
Re-insurance and insurance companies' accounts – payable	2,196,060	13,383	2,209,443
Other provisions	92,733	211,200	303,933
Provision for income	225,479	-	225,479
Other liabilities	508,356	129,214	637,570
<b>Total Liabilities</b>	<b>20,187,737</b>	<b>3,928,379</b>	<b>24,116,116</b>
<b>Net</b>	<b>10,476,764</b>	<b>116,498</b>	<b>10,593,263</b>

	Within One Year	More than One Year	Total
	JD	JD	JD
<u>December 31, 2017</u>			
<b>Assets:</b>			
Deposits at banks	17,614,117	-	17,614,117
Financial assets at fair value through profit or loss	580,426	-	580,426
Financial assets at amortized cost	-	-	-
Investment property	-	863,354	863,354
Cash on hand and at banks	39,428	-	39,428
Cheques under collection	602,370	2,482	604,852
Accounts receivable – net	5,501,860	-	5,501,860
Re-insurance and insurance companies' accounts – receivable	855,057	-	855,057
Deferred tax assets	663,676	72,000	735,676
Property and equipment – net	37,872	3,203,741	3,241,613
Intangible assets - net	7,500	21,195	28,695
Other assets	529,751	-	529,751
<b>Total Assets</b>	<u>26,432,057</u>	<u>4,162,772</u>	<u>30,594,829</u>
<b>Liabilities:</b>			
Unearned premiums reserve – net	8,824,270	-	8,824,270
Claims reserve – net	2,808,054	3,634,117	6,442,171
Mathematical reserve – net	71,768	-	71,768
Due to a bank	939,928	-	939,928
Accounts payable	1,890,477	91,765	1,982,242
Re-insurance and insurance companies' accounts – payable	841,566	33,948	875,514
Other provisions	28,102	183,098	211,200
Provision for income	176,546	-	176,546
Other liabilities	465,190	104,069	569,259
<b>Total Liabilities</b>	<u>16,045,901</u>	<u>4,046,997</u>	<u>20,092,898</u>
<b>Net</b>	<u>10,386,156</u>	<u>115,775</u>	<u>10,501,931</u>

### **39. Lawsuits against the Company**

There are lawsuits against the Company claiming compensation on various accidents. Moreover, the lawsuits at courts with determined amounts totaled JD 2,740,433 as of December 31, 2018 (JD 3,021,543 as of December 31, 2017). In the opinion of the Company's management and its lawyer, no liabilities in excess of the provisions within the claims provision and other liabilities provision shall arise.

### **40. Contingent Liabilities**

The Company was contingently liable for bank guarantees of JD 959,573 as of December 31, 2018 (JD 755,042 as of December 31, 2017).

### **41. Subsequent Events**

In its meeting dated February 11, 2019, the Company's Board of Directors decided to recommend to the General Assembly of shareholders to distribute cash dividends at 4% of paid-up capital of JD/share 8 million totaling JD 320 thousand from retained earnings. The dividends are to be distributed to the shareholders in proportion to their shares. Moreover, dividends distribution is subject to the approval of the General Assembly of shareholders and Ministry of Industry and Trade – Insurance Management.



#### 42. Fair Value Hierarchy

##### A - The fair value of financial assets and financial liabilities of the Company specified at fair value on an ongoing basis:

Some financial assets and liabilities of the Company are evaluated at fair value at the end of each fiscal period. The following table shows the information about how to determine the fair value of these financial assets and liabilities (evaluation methods and inputs used).

Financial Assets/Financial Liabilities	Fair Value		The Level of Fair Value	Evaluation Method/Important Inputs		Relation between the Fair Value and the Important Intangible Inputs
	December 31,			Inputs used		
	2018	2017				
Financial Assets at Fair Value	JD	JD				
Financial Assets at Fair Value through Comprehensive Income						
Shares that have available market price	814,656	580,426	Level One	Stated Rates in financial markets	Not Applicable	Not Applicable
Total	814,656	580,426				

There were no transfers between Level 1 and Level 2 during the years 2018 and 2017.

##### B - The fair value of financial assets and financial liabilities of the Company (non-specific fair value on an ongoing basis):

Except for what is set out in the table below, we believe that the carrying amount of financial assets and liabilities shown in the financial statements of the Company approximates their fair value. Moreover, the Company's management believes that the carrying value of the items below is equivalent to their fair value. This is due to either short-term maturity or interest rate repricing during the year.

Financial Assets of Non-specified Fair Value	December 31, 2018		December 31, 2017	
	Book value	Fair Value	Book value	Fair Value
	JD	JD	JD	JD
Deposits at banks	19,527,430	19,889,696	17,614,117	17,931,070
Investments properties	879,227	1,570,817	863,354	1,570,817
Total Financial Assets of Non-specified Fair Value	20,406,657	21,460,513	18,477,471	19,501,887

The fair value of the financial assets and liabilities for Level 2 and Level 3 have been determined according to agreed pricing models, which reflect the credit risk of the parties dealt with.