

DISCLOSURE - AAL I - 1/2/2007

هيئة الأوراق المالية المالية الأردنية السديسوان ٢٠٠٢ الرقم التسلسلي ١٩٦٩ رقم الملف الجهة المختصة
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شركة الشرق العربي للتأمين

التاريخ : 2007/1/31  
اشارتنا : 07/26/ا

معالي الدكتور بسام الساكت الأكرم  
رئيس هيئة الأوراق المالية

تحية و احتراماً،

الموضوع: تصنيف القدرة المالية لشركة الشرق العربي للتأمين  
(Financial Strength Interactive Rating)

بالأشارة الى الموضوع اعلاه يسرني اعلامكم حصول شركة الشرق العربي للتأمين على تصنيف (very good) B+ من قبل وكالة التصنيف العالمية A.M. Best مع منظور مستقر (Stable Outlook)، مرفق طية التصنيف .

لقد عملت هيئة الأوراق المالية على توفير البيئة التشريعية المستقرة و المتطورة مما عزز الثقة بالقطاع، وشجع المستثمر على الأقبال بأرتياح بالغ نحو قطاع يعد اليوم من أكثر القطاعات الاقتصادية تنظيماً و تقدماً في المنطقة بفضل الجهود العظيمة التي بذلتها الهيئة برناستكم .

إن حصول شركتنا على هذا التصنيف يعتبر انجازاً هاماً و يعد قفزة نوعية غير مسبوقة ليس فقط للشركة، بل ايضاً لسوق التأمين الأردني بشكل عام و سيمكن هذا التصنيف الشرق العربي للتأمين من تحقيق ميزة تنافسية جوهريّة على المستوى المحلي و الاقليمي من عدة أبعاد أهمها :

- زيادة القدرة الأكتتابية للشركة سواء من حيث حجم الأخطار المسندة اليها أو الأمتداد الجغرافي لها .
- القوة التفاوضية مع معيدي التأمين و بالتالي الحصول على سعة اتفاقيات أكبر، وعمولات أعلى ، وشروط أفضل.
- الحصول على ثقة كبرى الشركات الوطنية التي تفضل التعامل مع شركات مصنفة .
- الجاهزية للمضي إقليماً .

و سيمكن هذا التصنيف شركتنا من ميزة تنافسية هامة عن كافة منافسينا في السوق المحلي ، كما ستؤسس هذه الخطوة نحو انطلاقة قوية ثابتة ، و سنمتلك من خلال هذا التصنيف قوة تفاوضية مع معيدي التأمين و فوق ذلك كله ثقة أكبر من عملانا و كبرى الشركات الوطنية على مستوى المملكة .

أتقدم اليكم و الى هيئة الأوراق المالية بجزيل الشكر و التقدير على جهودكم و التي لولاها لما كان لهذا الأتجاز أن يتحقق .

و تفضلوا بقبول فائق الاحترام ،،

المدير العام  
عصام عبدالخالق

- نسخة مركز ايداع الأوراق المالية.  
- بورصة عمان .

## **Best's Company Report for ARAB ORIENT INSURANCE COMPANY**

Non-Life Reinsurer

**P.O. Box 213590, Amman 11121, Jordan**

**Web:** [www.araborient.com](http://www.araborient.com)

**Tel:** 962-6-565-4550

**Fax:** 962-6-565-4551

**AMB#:** 78183

Report Revision Date: 06/08/2006

### **BEST'S RATING**

Based on our opinion of the company's Financial Strength, it is assigned a Best's Rating of B+ (Very Good). The company's Financial Size Category is Class IV.

### **RATING RATIONALE**

**Rating Rationale:** The rating of Arab Orient Insurance Company (Arab Orient) reflects the company's very good business profile, good operating performance and improving risk-adjusted capitalisation, providing a steady net premium growth of approximately 10% over the next two years and a capital increase up to JOD 10 million before year-end 2006.

Very good business profile -- A.M. Best believes that Arab Orient has a very good business profile in the Jordanian market, where, in 2005, it was the leading insurer with a market share of 8.4%. However, Arab Orient's premium income is likely to remain concentrated on medical and motor risks (comprising both third party liability and comprehensive), and which are expected to account for approximately 70-75% of gross premium income in 2006 and 2007 (compared to 74.4% in 2005). In A.M. Best's opinion, premium is forecast to grow at an annual rate of approximately 10% each year in 2006 and 2007, compared to a five year average of 53.3%.

Good operating performance -- A.M. Best believes that over the next two years, Arab Orient's operating performance is expected to remain good as a result of good projected underwriting profits (this is despite a modest projected investment yield of approximately 5%). In A.M. Best's opinion, Arab Orient's combined ratio is likely to increase to approximately 85-90% over the next two years (up from 84.4% in 2005), mainly driven by a projected increase in the expense ratio over the same period to a range of 2-5% (compared to 0.8% in 2005). This is expected to follow the likely increase in acquisition costs in a projected softening market and increase in competition. In A.M. Best's view, the company's loss ratio is likely to fall within the range of 85-87% (compared to 83.6% in 2005).

Improving risk-adjusted capitalisation -- A.M. Best believes that Arab Orient's risk-

adjusted capitalisation is likely to improve over the next two years from the insufficient levels of 2005, given the anticipated paid-up capital increase to JOD 10 million (from the current JOD 5 million) and a net premium growth of approximately 10% each year in 2006 and 2007. In A.M. Best's opinion, Arab Orient's risk-adjusted capitalisation in 2005 remained insufficient due to an excessive net premium growth of 29% with a negative impact on the small capital and surplus base of JOD 5.7 million the same year.

**Best's Rating: B+**

**Outlook: Stable**

## **FIVE YEAR RATING HISTORY**

<u>Date</u>	<u>Best's Rating</u>
06/02/06	B+

## **BUSINESS REVIEW**

Arab Orient Insurance Company (Arab Orient) is a non-life insurance company based in Jordan, where most of its business is written. Most of Arab Orient's premium income is generated through direct business, though there is an increasing focus on bancassurance (through branches of its parent company, Jordan Kuwait Bank). A.M. Best believes that Arab Orient has a very good business profile in the Jordanian market where it is the leading insurer by gross premium income and had a market share of 8.4% in 2005.

Over the next two years, A.M. Best believes that Arab Orient's gross premium income is likely to grow by approximately 10% each year, compared to 46.4% in 2005 and against a five year average of 53.3%. The significant growth over the last five years resulted from Arab Orient's acceptance since 2000 of medical risks. In A.M. Best's opinion, gross premium income is likely to account for approximately JOD 20 million in 2006, compared to JOD 18.2 million at year-end 2005.

Arab Orient writes business in medical insurance, motor, general accident, fire and marine lines. In A.M. Best's view, the company's business portfolio is likely to remain concentrated on medical and motor risks in 2006 and 2007 due to continuing demand in the domestic market and despite the company's efforts to reduce the high proportion of business emanating from medical insurance. In 2005, the breakdown of gross written premiums by business line was as follows: medical (46%), motor third party liability (16%), motor comprehensive (12%), general accident (12%), fire (10%) and marine (3%). A.M. Best believes that, over the next two years, premium spread by line of business is likely to remain similar, although the proportion of general accident risks is likely to increase slightly compared to a minor decline expected in medical risks.

A.M. Best believes that while Arab Orient was influenced by the softening market

conditions in 2005, it has nonetheless been able to maintain higher rates than the market average for its main lines of business. Medical market premium rates usually increase by approximately 2.5-5.0% annually, and are expected to maintain this growth over the next two years. Motor third party liability is compulsory and tariffed by the government. Given the increasingly competitive insurance market in the Middle East, A.M. Best believes that Arab Orient's premium rates are likely to soften in 2006 and 2007, although with no significant impact on overall premium income growth as the insurance market is anticipated to continue developing in the region.

## **FINANCIAL PERFORMANCE**

**Overall Earnings:** A.M. Best believes that Arab Orient's overall earnings will remain stable, with projected pre-tax profits of approximately JOD 2 million in 2006 and 2007 (which is a similar level to 2005). Over the next two years, Arab Orient's combined ratio is likely to be good and within the range of 85-90%, slightly higher than the 84.4% result in 2005 and due to a projected increase in the company's expense ratio. Furthermore, in A.M. Best's view, Arab Orient has a conservative investment strategy and its investment yield is expected to remain modest at approximately 5% over the next two years.

A.M. Best forecasts return on equity (ROE) to decline to a good range of approximately 10-15% (from the excellent level of 27.6% in 2005) as a result of an expected paid-up capital increase from the current level of JOD 5 million to JOD 10 million by the end of 2006. Return on premium (ROP) is likely to remain similar to its good five year average of 17%.

**Underwriting Income:** A.M. Best believes that Arab Orient's underwriting profits are likely to remain good in 2006 and 2007 and within the range of approximately JOD 1-1.5 million, compared to JOD 1.47 million in 2005.

In A.M. Best's opinion, Arab Orient's combined ratio is likely to increase to approximately 85-90% over the next two years as a result of a projected increase in the expense ratio over the same period to a range of between 2-5%. This is likely to be driven by both the expected reduction in commissions received from reinsurers due to increased competition and an increase in commissions paid to brokers due to softening market conditions. However, the increase is not expected to be significant as Arab Orient writes the majority of its business on a direct basis. During 2005, Arab Orient's expense ratio was 0.8%, as paid commissions decreased as a result of new and directly acquired business and a reduction of inward business from prior years was experienced. This is despite experiencing a drop in the proportion of received commissions due to a change in the mix of reinsurance by class. In A.M. Best's view, the company's loss ratio is likely to be within the range of 85-87%, compared to 83.6% in 2005 and a five-year average of 84.3%.

**Investment Income:** A.M. Best believes that Arab Orient's investment strategy is

likely to remain conservative over the next two years, with the majority of assets being held in cash or cash deposits (90%), bonds (8%) and the remainder (2%) in shares listed in the domestic stock market.

In A.M. Best's opinion, Arab Orient's net investment yield is likely to remain modest at approximately 5%, though increasing from 3.5% in 2005. Over recent years, the Central Bank of Jordan's key interest rates have been increasing; the three month Repo rate currently stands at 6.6% and the Overnight deposit window rate at 5.25%. Both these rates are considered as reference for Arab Orient's yield on deposits.

## CAPITALIZATION

**Overall Capitalization:** A.M. Best believes that Arab Orient's overall capitalisation is likely to significantly improve in 2006 and 2007 from the insufficient level in 2005. This is expected to be driven by both the projected capital increase to JOD 10 million at year-end 2006 (from the current level of JOD 5 million) and a steady annual premium growth of approximately 10% over the next two years. In A.M. Best's opinion, Arab Orient's risk-adjusted capitalisation in 2005 remained insufficient as a result of an excessive net premium growth of 29%, with a negative impact on the small capital and surplus base of JOD 5.7 million in the same year.

A.M. Best believes that Arab Orient's risk-adjusted capitalisation benefits from the prudent asset allocation to low risk investments, such as bank deposits. However, it is exposed to a high level of regional volatility.

Arab Orient's net probable maximum loss (PML) is very low due to its comprehensive reinsurance protection. However, in A.M. Best's opinion, the impact of a probable maximum loss event over the next two years is likely to increase significantly Arab Orient's credit risk exposure (mainly through its reinsurance recoverables).

**Reserve Quality:** Arab Orient's unearned premium reserves (UPR), outstanding loss reserves and incurred but not reported reserves (IBNR) at year-end 2005 are considered sufficient following an independent actuarial review. A.M. Best believes that Arab Orient's overall net loss reserves of JOD 2.8 million are adequate, though it believes that the JOD 10,000 IBNR for motor claims is low. In the same period, net unearned premium reserves accounted for JOD 3.9 million.

Arab Orient sets its IBNR for motor third party liability based on historical analysis and outstanding loss reserves, according to the estimations of loss adjusters. These estimations are then reviewed on a monthly basis. For all other lines, except medical cover, reserves are set following loss adjusters' surveys and the interaction between Arab Orient and its insureds. In 2005, IBNR were set solely for medical and motor risks, given that the majority of claims that relate to other lines of business are reported shortly after occurrence.

The tail of business for third party liability claims is approximately five years, with between 80-90% of claims being settled within one year of reporting, while claims for all other lines are settled in a shorter period of time.

## LIQUIDITY

**Overall Liquidity:** A.M. Best believes that Arab Orient has a good liquidity position as approximately 65-70% of its assets are expected to be held in liquid form. Just over 90% of the company's investments are held in cash or cash deposits. In A.M. Best's opinion, over the next two years Arab Orient's current liquidity ratio (measured by total investments over the sum of total liabilities less capital and surplus) is likely to increase to approximately 130%, compared to 79.2% in 2005. This significant improvement is a result of the expected capital increase.

### Source of Information: Audited Financial Statement

An independent audit of the company's affairs through December 31, 2005 was conducted by Deloitte & Touche.

### Summarized Accounts as of December 31, 2005

US \$ per Local Currency Unit 1.42146 = 1 Jordanian Dinar (JOD)

## STATEMENT OF INCOME

	12/31/2005 JOD(000)	12/31/2005 USD(000)
Technical account:		
Non-technical account:		
Net investment income	350	498
Realised capital gains/(losses)	331	471
Unrealised capital gains/(losses)	-113	-161
Other income/(expense)	-30	-43
Profit/(loss) before tax	2,009	2,856
Taxation	498	708
Profit/(loss) after tax	1,511	2,148
Transfer to reserves	1,451	2,063
Exceptional income/(expense)	-82	-117
Retained Profit/(loss) for the financial year	-22	-31
Retained Profit/(loss) brought forward	1,312	1,865
Retained Profit/(loss) carried forward	1,290	1,834

## ASSETS

	12/31/2005 JOD(000)	12/31/2005 % of total	12/31/2005 USD(000)
Cash & deposits with credit institutions	10,437	65.8	14,836
Bonds & other fixed interest securities	900	5.7	1,279
Shares & other variable interest instruments	50	0.3	71
<b>Liquid assets</b>	<b>11,387</b>	<b>71.8</b>	<b>16,186</b>
<b>Total investments</b>	<b>11,387</b>	<b>71.8</b>	<b>16,186</b>
Insurance/reinsurance debtors	3,803	24.0	5,406
Other debtors	214	1.3	304
<b>Total debtors</b>	<b>4,017</b>	<b>25.3</b>	<b>5,710</b>
Fixed assets	310	2.0	441
Prepayments & accrued income	78	0.5	111
Other assets	69	0.4	98
<b>Total assets</b>	<b>15,861</b>	<b>100.0</b>	<b>22,546</b>

## LIABILITIES

	12/31/2005 JOD(000)	12/31/2005 % of total	12/31/2005 USD(000)
<b>Capital</b>	<b>3,750</b>	<b>23.6</b>	<b>5,330</b>
<b>Paid-up capital</b>	<b>3,750</b>	<b>23.6</b>	<b>5,330</b>
Non-distributable reserves	515	3.2	732
Other reserves	174	1.1	247
Retained earnings	1,290	8.1	1,834
<b>Capital &amp; surplus</b>	<b>5,729</b>	<b>36.1</b>	<b>8,144</b>
Gross provision for unearned premiums	3,887	24.5	5,525
Gross provision for outstanding claims	2,816	17.8	4,003
<b>Total gross technical reserves</b>	<b>6,703</b>	<b>42.3</b>	<b>9,528</b>
Insurance/reinsurance creditors	2,182	13.8	3,102
Other creditors	592	3.7	842

Total creditors	2,774	17.5	3,943
Accruals & deferred income	49	0.3	70
Other liabilities	606	3.8	861
Total liabilities & surplus	15,861	100.0	22,546

## MANAGEMENT

A.M. Best believes that Arab Orient's management has successfully implemented its historic growth strategy through staff incentives and good workflow systems that allow Arab Orient to monitor risks as well as its up-to-date financial performance. Going forward, in A.M. Best's opinion, Arab Orient's management is likely to maintain its current pro-active approach, and endeavours through local and regional expansion, to take advantage of the growth potential in the Middle East.

## REINSURANCE

A.M. Best believes that Arab Orient has a comprehensive reinsurance programme with proportional, surplus and non proportional treaties and facultative cover for its various lines of business. Medical risks are protected by a 60% proportional treaty while fire, accident, engineering and marine cargo are covered by an 80% proportional treaty and a surplus treaty. An additional risk excess of loss cover is in place for marine and non-marine risks and a non-proportional catastrophe cover for JOD 9.5 million in excess of JOD 0.5 million. For motor risks, Arab Orient has a non-proportional cover comprising three layers.

## BALANCE SHEET ITEMS

	JOD (000)	JOD (000)	JOD (000)	JOD (000)	JOD (000)
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Liquid assets	11,387	8,669	7,206	4,744	3,767
Total investments	11,387	8,669	7,206	4,744	3,767
Total assets	15,861	14,717	13,082	8,222	5,920
Gross technical reserves	6,703	7,820	7,725	4,210	2,977
Net technical reserves	6,703	5,449	5,456	2,979	2,387
Total liabilities	10,132	10,075	9,640	5,298	3,650
Capital & surplus	5,729	4,642	3,442	2,924	2,270

## INCOME STATEMENT ITEMS

JOD (000)	JOD (000)	JOD (000)	JOD (000)	JOD (000)
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	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Gross premiums written	18,229	12,448	11,228	6,553	4,314
Net premiums written	10,148	7,876	7,181	3,778	2,940
Balance on technical account(s)	1,471	884	383	701	11
Profit/(loss) before tax	2,009	1,440	451	837	132
Profit/(loss) after tax	1,511	1,266	351	687	99

## LIQUIDITY RATIOS (%)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Total debtors to total assets	25.3	22.4	24.1	24.9	22.9
Liquid assets to net technical reserves	169.9	159.1	132.1	159.2	157.8
Liquid assets to total liabilities	112.4	86.0	74.8	89.5	103.2
Total investments to total liabilities	112.4	86.0	74.8	89.5	103.2

## PROFITABILITY RATIOS (%)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Loss ratio	83.6	85.0	93.0	72.0	83.8
Operating expense ratio	0.8	3.6	-0.5	6.6	17.8
Combined ratio	84.4	88.6	92.5	78.6	101.6
Other technical expense or (income) ratio	0.2	0.4	0.3	0.4	-4.4
Net investment income ratio	3.7	2.7	3.5	5.8	8.9
Operating ratio	81.0	86.3	89.3	73.2	88.3
Return on net premiums written	14.9	16.1	4.9	18.2	3.4
Return on total assets	9.3	8.6	3.0	9.2	1.9
Return on capital & surplus	27.6	29.7	10.1	25.1	4.4

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