

## INDEPENDENT AUDITOR'S REPORT

**TO THE BOARD OF DIRECTORS  
DEPOSIT INSURANCE CORPORATION  
LEGAL CORPORATION WITH FINANCIAL  
AND ADMINISTRATIVE INDEPENDENCE  
AMMAN - THE HASHEMITE KINGDOM OF JORDAN**

We have audited the accompanying financial statements of Deposit Insurance Corporation (Legal Corporation with Financial and Administrative Independence), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation (Legal Corporation with Financial and Administrative Independence) as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Talal Abu-Ghazaleh & Co. International**

**Steve S. Karadsheh**

**(License # 756)**

**Amman, January 29, 2008**

**DEPOSIT INSURANCE CORPORATION  
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**EXHIBIT-A**

**BALANCE SHEET AS AT DECEMBER 31, 2007**

<b>ASSETS</b>	<b><u>NOTES</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>Current Assets</b>		<b>JD</b>	<b>JD</b>
Cash at Central Bank of Jordan	3	33,746	134,543
Accrued bonds and deposit interests		1,432,356	1,421,797
Other debit balances	4	6,942	10,760
<b>Total Current Assets</b>		<b><u>1,473,044</u></b>	<b><u>1,567,100</u></b>
<b>Non-current Assets</b>			
Investments in held to maturity bonds	5	112,194,000	87,494,000
Softwares in progress	6	10,125	-
Property and equipment	7	4,827,384	4,948,205
<b>Total Non-current Assets</b>		<b><u>117,031,509</u></b>	<b><u>92,442,205</u></b>
<b>TOTAL ASSETS</b>		<b><u>118,504,553</u></b>	<b><u>94,009,305</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Other credit balances	8	73,042	34,461
<b>EQUITY</b>			
Capital	9	3,200,000	3,200,000
Reserves	10	115,231,511	90,774,844
<b>Total Equity</b>		<b><u>118,431,511</u></b>	<b><u>93,974,844</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>118,504,553</u></b>	<b><u>94,009,305</u></b>

**THE ACCOMPANYING NOTE CONSTITUTE AN INTEGRAL  
PART OF THESE FINANCIAL STATEMENTS**

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**EXHIBIT-B**

**STATEMENT OF REVENUES AND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>NOTES</u>	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		<b>JD</b>	<b>JD</b>
Membership fees	11	18,740,989	16,582,020
Bonds interest		6,495,987	4,770,025
Bank interest		190,969	100,438
<b>Total revenues</b>		<b>25,427,945</b>	<b>21,452,483</b>
Deduct: Administrative expenses	12	(971,278)	(639,906)
<b>Surplus</b>		<b>24,456,667</b>	<b>20,812,577</b>

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**EXHIBIT-C**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Capital</u>	<u>Reserves</u>	<u>Total</u>
	JD	JD	JD
Balance as at January 1, 2006	3,200,000	69,962,267	73,162,267
Surplus	-	20,812,577	20,812,577
<b>Balance as at December 31, 2006</b>	<b>3,200,000</b>	<b>90,774,844</b>	<b>93,974,844</b>
Surplus	-	24,456,667	24,456,667
<b>Balance as at December 31, 2007</b>	<b>3,200,000</b>	<b>115,231,511</b>	<b>118,431,511</b>

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**EXHIBIT-D**

**CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31,2007**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>JD</b>	<b>JD</b>
Surplus	24,456,667	20,812,577
<b>Adjustments for:</b>		
Depreciation	144,557	25,239
Interest revenues	(6,686,956)	(4,870,463)
<b>Changes in operating assets and liabilities:</b>		
Other debit balances	3,818	(936)
Other credit balances	38,581	(129,245)
<b>Net cash from operating activities</b>	<b><u>17,956,667</u></b>	<b><u>15,837,172</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments in held to maturity bonds	(24,700,000)	(19,592,310)
Interest received	6,676,397	3,920,617
Building in progress	-	(1,209,900)
Softwares in progress	(10,125)	-
Purchase of property and equipment	(23,736)	(207,732)
Proceeds from sale of property and equipment	-	3,890
<b>Net cash from investing activities</b>	<b><u>(18,057,464)</u></b>	<b><u>(17,085,435)</u></b>
<b>Net change in cash</b>	<b><u>(100,797)</u></b>	<b><u>(1,248,263)</u></b>
Cash - beginning of the year	134,543	1,382,806
<b>Cash - end of the year</b>	<b><u>33,746</u></b>	<b><u>134,543</u></b>
<b>Information about non cash transaction</b>		
Transfer from building under progress to property	-	3,575,614

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. LEGAL STATUS AND ACTIVITIES**

The Corporation was established by virtue of law number 33 for the year 2000 on September 17, 2000.

The major purposes of the Corporation are to protect depositors with banks by insuring their deposits in accordance with the provision of the Corporation law in order to encourage savings and strengthen confidence in the Kingdom's banking system. Consequently, the Corporation promptly reimburses depositors of member banks within certain limits, when any bank has been decided to be liquidated, which aims at reimbursing all small depositors up to JD 10,000 while encouraging grand depositors to monitor banks with which they hold their deposits alongside the continuous supervision by the Central Bank of Jordan.

According to the Corporation law, all deposits in Jordanian Dinars held with member banks are fully insured if the amount deposited is JD 10,000 or less, and up to JD 10,000 if the deposit exceeds JD 10,000, except for branches of Jordanian banks operating outside the Kingdom and Islamic banks licensed to operate in the Kingdom unless anyone of them decides to join the Corporation.

The Corporation is the sole liquidator and legal representative of any bank whose liquidation has been decided by Central Bank of Jordan.

The Corporation's Board of Directors approved the financial statements in its session No.1/2008 held on January 28, 2008.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared in accordance with International Financial Reporting Standards and the related interpretations issued by the International Financial Reporting Interpretations Committee. The following is a summary of the significant accounting policies applied:

**A. Basis of measurement**

The financial statements are prepared according to historical cost basis which is modified to other basis as mentioned below for some assets.

**B. Cash and cash equivalents**

Cash and cash equivalents comprise current accounts and demand deposits with banks.

**C. Held to maturity investments**

- Held- to- maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Corporation has the positive intention and ability to hold to maturity.
- Held- to- maturity investments are measured at amortized cost using the effective interest rate method.

**D. Projects in progress**

Amounts paid to construct a property or equipment item are charged first to projects in progress account. When project becomes ready to use, it is transferred to the related property and equipment caption.

**E. Property and equipment**

- Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated.

- The Corporation uses the straight – line method in depreciating its property and equipment over their estimated useful lives at the following annual rates:

Building	3%
Vehicles	15%
Computers and telecommunication equipment	10% - 25%
Furniture and decoration	10-15%

- An asset is impaired when its carrying amount exceeds its recoverable amount. If indication of such impairment exists, the asset is written down to its recoverable amount.
- The gain or loss arising from the disposal of an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. This gain or loss is included in the revenues and expenses statement.
- The costs of day- to- day repair and maintenance for the property and equipment are recognized in the statement of revenues and expenses as incurred.

#### F. Revenue recognition

Revenues from membership fees, investment in bonds and bank interests are recognized when accrued, provided that all of the following conditions have been satisfied:

- It is probable that the economic benefits associated with the transaction will flow to the Corporation.
- The amount of revenue can be measured reliably.

#### G. Financial instruments

- A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- The Corporation's financial instruments principally comprise cash and banks and investments.
- The above paragraphs present the accounting policies regarding these financial instruments.

### 3. CASH AT CENTRAL BANK OF JORDAN

This item consists of the following:

	<u>2007</u>	<u>2006</u>
	<b>JD</b>	<b>JD</b>
Current account - JD	28,625	19,339
Deposit- JD	5,121	115,204
<b>Total</b>	<b><u>33,746</u></b>	<b><u>134,543</u></b>

### 4. OTHER DEBIT BALANCES

This item consists of the following:

	<u>2007</u>	<u>2006</u>
	<b>JD</b>	<b>JD</b>
Prepaid expenses	6,077	5,072
Refundable deposits	865	5,688
<b>Total</b>	<b><u>6,942</u></b>	<b><u>10,760</u></b>

## 5. INVESTMENTS IN HELD TO MATURITY BONDS

This item consists of the following:

	<u>2007</u>	<u>2006</u>
	<u>JD</u>	<u>JD</u>
Treasury bonds	110,394,000	85,994,000
Public corporations bonds	1,800,000	1,500,000
<b>Total</b>	<b><u>112,194,000</u></b>	<b><u>87,494,000</u></b>

## 6. SOFTWARES IN PROGRESS

This item represents payments to purchase softwares and systems to each of the financial and administrative department and investment and finance units.

## 7. PROPERTY AND EQUIPMENT

a) Property and equipment are stated at the balance sheet date as follows:

	<u>Land</u>	<u>Building</u>	<u>Vehicles</u>	<u>Computers and Telecommunication Equipment</u>	<u>Furniture and Decoration</u>	<u>Total</u>
	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>	<u>JD</u>
<b>Cost</b>						
As at January 1, 2007	1,157,050	3,575,614	51,535	67,393	176,597	5,028,189
Additions during the year	-	3,738	-	15,014	4,984	23,736
<b>As at December 31, 2007</b>	<b><u>1,157,050</u></b>	<b><u>3,579,352</u></b>	<b><u>51,535</u></b>	<b><u>82,407</u></b>	<b><u>181,581</u></b>	<b><u>5,051,925</u></b>
<b>Accumulated Depreciation</b>						
As at January 1, 2007	-	-	41,929	29,213	8,842	79,984
Depreciation during the year	-	107,380	7,729	11,016	18,432	144,557
<b>As at December 31, 2007</b>	<b><u>-</u></b>	<b><u>107,380</u></b>	<b><u>49,658</u></b>	<b><u>40,229</u></b>	<b><u>27,274</u></b>	<b><u>224,541</u></b>
<b>Net Book Value</b>						
<b>As at December 31, 2007</b>	<b><u>1,157,050</u></b>	<b><u>3,471,972</u></b>	<b><u>1,877</u></b>	<b><u>42,178</u></b>	<b><u>154,307</u></b>	<b><u>4,827,384</u></b>
<b>As at December 31, 2006</b>	<b><u>1,157,050</u></b>	<b><u>3,575,614</u></b>	<b><u>9,606</u></b>	<b><u>38,180</u></b>	<b><u>167,755</u></b>	<b><u>4,948,205</u></b>

b) The final payment request regarding building construction has not been submitted by the contractor till the report date. It will be capitalized on the building when received.



## 8. OTHER CREDIT BALANCES

This item consists of the following:

	<u>2007</u>	<u>2006</u>
	JD	JD
Accrued expenses	72,642	34,011
Cash retentions	400	450
<b>Total</b>	<b><u>73,042</u></b>	<b><u>34,461</u></b>

## 9. CAPITAL

This item consists of the following:

- a) The sum of JD 1 million paid by the Government of Jordan.
- b) A non-refundable initiation fee of JD 100,000 paid by each member bank.

## 10. RESERVES

According to articles (18) and (19) of the Corporation's law, the Corporation must form reserves for itself amounting to 3% of total deposits that are subject to the provision of this law. If the Corporation's reserves do not reach the limit established in its laws within 10 years of the law's effective date, or if bank liquidation is decided before the Corporation's reserves reach the said limit, the Corporation's Board of Directors may increase the banks' annual membership fee to not more than double the annual membership fee. However, if the Corporation's reserves exceed the established limit, the Corporation's Board of Directors may decrease the annual membership fee or exempt banks from paying the fee for one year or more as the circumstances require.

The Corporation reserves consist of the annual membership fees paid by banks, the return on the investments and any other returns net of the Corporation's expenses.

## 11. MEMBERSHIP FEES

This item represents the amount of the bank annual membership fee paid to the Corporation at the rate of 2.5 per thousand of the total deposits that are subject to the provisions of the law. The following are excluded from the deposits subject to the provisions of the law:

- a) Government deposits.
- b) Inter bank deposits.
- c) Cash collaterals within the limits of the value of the extended facilities guaranteed by the said collaterals.
- d) Credit balances of overdraft facilities.

## 12. ADMINISTRATIVE EXPENSES

This item consists of the following:

	<u>2007</u>	<u>2006</u>
	<b>JD</b>	<b>JD</b>
Salaries and wages	307,648	268,382
Contribution to social security	32,867	28,894
Contribution to saving fund	25,455	21,967
Marketing campaign	147,919	20,942
Depreciation	144,557	25,239
End of service reward	43,109	46,201
Medical	36,041	34,139
Training	33,666	31,137
Electricity and water	24,609	14,929
Studies and consulting	23,884	-
Security	20,876	9,707
Travel and transportation	19,033	16,788
Cleaning	18,549	9,976
Board of directors remunerations	18,355	18,600
Subscriptions	13,084	11,904
Stationery	10,034	8,939
Fuel	7,905	7,017
Professional fees	7,583	7,513
Telephone, fax and internet	7,045	7,603
Insurance	6,490	5,160
Overtime	4,155	7,158
Gardening	3,346	11,044
Advertisement	3,197	3,589
Maintenance	2,784	2,539
Social committee	1,855	2,002
Entertainment	1,793	3,311
Consumables	932	2,845
Vacations pay	202	2,361
Gifts and donations	-	3,646
Miscellaneous	4,305	6,374
<b>Total</b>	<b>971,278</b>	<b>639,906</b>

### 13. FINANCIAL INSTRUMENTS

#### a) Fair value

- Carrying value of financial assets and liabilities are approximately equal to their fair values.
- Notes to the financial statements indicate the fair value of those instruments. In addition, some of the accounting policies in note (2) present methods used in evaluating those instruments.

#### b) Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It comprises the following risks:

##### – Currency risk

- Currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- The Corporation is not subject to currency risk.

##### – Interest rate risk

- Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- The financial instruments in the balance sheet are not subject to interest rate risk with the exception of deposits and held to maturity investments that are subject to interest rates prevailing in the market.

##### – Other price risk

- Other price risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar financial instruments traded in the market.
- The financial instruments in the balance sheet are not subject to other price risk with the exception of investments.

#### c) Credit risk

- Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- The Corporation maintains cash at financial institutions with suitable credit rating.

#### d) Liquidity risk

- Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.
- The Corporation is not subject to liquidity risk.

### 14. COMPARATIVE FIGURES

Some comparative figures were reclassified to conform to the current year financial statements presentation.