

## 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 statement of financial position as at December 31, 2008, and the statement of revenue and expenses, statement of changes in equity and statement of cash flows 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, 2008, 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, February 25, 2009**

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

**STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2008**

<b>ASSETS</b>	<b>NOTES</b>	<b>2008</b>	<b>2007</b>
<b>Current Assets</b>		<b>JD</b>	<b>JD</b>
Cash at Central Bank of Jordan	3	408,671	33,746
Accrued bonds and deposit interests		2,413,598	1,432,356
Other debit balances	4	27,072	6,942
<b>Total Current Assets</b>		<b>2,849,341</b>	<b>1,473,044</b>
<b>Non-current Assets</b>			
Investments in held to maturity bonds	5	140,604,000	112,194,000
Softwares in progress	6	-	10,125
Property and equipment	7	4,751,523	4,827,384
<b>Total Non-current Assets</b>		<b>145,355,523</b>	<b>117,031,509</b>
<b>TOTAL ASSETS</b>		<b>148,204,864</b>	<b>118,504,553</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Other credit balances	8	16,572	73,042
<b>EQUITY</b>			
Capital	9	3,200,000	3,200,000
Reserves	10	144,988,292	115,231,511
<b>Total Equity</b>		<b>148,188,292</b>	<b>118,431,511</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>148,204,864</b>	<b>118,504,553</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, 2008**

	<u>NOTES</u>	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		<b>JD</b>	<b>JD</b>
Membership fees	11	21,410,812	18,740,989
Bonds interest		9,159,744	6,495,987
Bank deposit interest		155,471	190,969
Other revenues		21,254	-
<b>Total revenues</b>		<b>30,747,281</b>	<b>25,427,945</b>
Deduct: Administrative expenses	12	(990,500)	(971,278)
<b>Surplus</b>		<b>29,756,781</b>	<b>24,456,667</b>

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**EXHIBIT-C**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Capital</u>	<u>Reserves</u>	<u>Total</u>
	JD	JD	JD
Balance as at January 1, 2007	3,200,000	90,774,844	93,974,844
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>
Surplus	-	29,756,781	29,756,781
<b>Balance as at December 31, 2008</b>	<b>3,200,000</b>	<b>144,988,292</b>	<b>148,188,292</b>

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**EXHIBIT-D**

**STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31,2008**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>JD</b>	<b>JD</b>
Surplus	29,756,781	24,456,667
<b>Adjustments for:</b>		
Depreciation	142,806	144,557
Gain from sale of property and equipment	(21,254)	-
Interest revenues	(9,315,215)	(6,686,956)
<b>Changes in operating assets and liabilities:</b>		
Other debit balances	(20,130)	3,818
Other credit balances	(56,470)	38,581
<b>Net cash from operating activities</b>	<b><u>20,486,518</u></b>	<b><u>17,956,667</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in held to maturity bonds	(28,410,000)	(24,700,000)
Interest received	8,333,973	6,676,397
Softwares in progress	-	(10,125)
Purchase of property and equipment	(56,820)	(23,736)
Proceeds from sale of property and equipment	21,254	-
<b>Net cash from investing activities</b>	<b><u>(20,111,593)</u></b>	<b><u>(18,057,464)</u></b>
<b>Net change in cash</b>	<b><u>374,925</u></b>	<b><u>(100,797)</u></b>
Cash - beginning of the year	33,746	134,543
<b>Cash - end of the year</b>	<b><u>408,671</u></b>	<b><u>33,746</u></b>
<b>Information about non cash transaction</b>		
Transfer from software in progress to property	10,125	-
Transfer from building in 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.
- 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 under liquidation.
- The Corporation's Board of Directors approved the financial statements in its session No.1/2009 held on February 25, 2009.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared in accordance with International Financial Reporting Standards and the related interpretations originated 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 statement of revenues and expenses.
- 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, bank, 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>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Current account - JD	18,440	28,625
Deposit- JD	390,231	5,121
<b>Total</b>	<b><u>408,671</u></b>	<b><u>33,746</u></b>

### 4. OTHER DEBIT BALANCES

This item consists of the following:

	<u>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Prepaid expenses	26,207	6,077
Refundable deposits	865	865
<b>Total</b>	<b><u>27,072</u></b>	<b><u>6,942</u></b>

## 5. INVESTMENTS IN HELD TO MATURITY BONDS

This item consists of the following:

	<u>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Treasury bonds	129,904,000	110,394,000
Public corporations bonds	10,700,000	1,800,000
<b>Total</b>	<b><u>140,604,000</u></b>	<b><u>112,194,000</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, 2008	1,157,050	3,579,352	51,535	82,407	181,581	<b>5,051,925</b>
Additions during the year	-	2,453	40,000	23,312	1,180	<b>66,945</b>
Disposals	-	-	(33,878)	-	-	(33,878)
<b>As at December 31, 2008</b>	<b><u>1,157,050</u></b>	<b><u>3,581,805</u></b>	<b><u>57,657</u></b>	<b><u>105,719</u></b>	<b><u>182,761</u></b>	<b><u>5,084,992</u></b>
<b>Accumulated Depreciation</b>						
As at January 1, 2008	-	107,380	49,658	40,229	27,274	<b>224,541</b>
Depreciation during the year	-	107,424	4,900	11,885	18,597	<b>142,806</b>
Disposals	-	-	(33,878)	-	-	(33,878)
<b>As at December 31, 2008</b>	<b><u>-</u></b>	<b><u>214,804</u></b>	<b><u>20,680</u></b>	<b><u>52,114</u></b>	<b><u>45,871</u></b>	<b><u>333,469</u></b>
<b>Net Book Value</b>						
<b>As at December 31, 2008</b>	<b><u>1,157,050</u></b>	<b><u>3,367,001</u></b>	<b><u>36,977</u></b>	<b><u>53,605</u></b>	<b><u>136,890</u></b>	<b><u>4,751,523</u></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) 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:

	2008	2007
	JD	JD
Accrued expenses	12,732	72,642
Cash retentions	3,840	400
<b>Total</b>	<b>16,572</b>	<b>73,042</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, 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>2008</u>	<u>2007</u>
	<b>JD</b>	<b>JD</b>
Salaries and wages	33,211	307,648
Contribution to social security	34,552	32,867
Contribution to saving fund	26,348	25,455
Depreciation	142,806	144,557
Information campaign expenses	134,890	147,919
Medical	50,000	36,041
Contribution to end of service compensation	48,485	43,109
Electricity and water	30,640	24,609
Security	22,409	20,876
Travel and transportation	21,595	19,033
Training and conferences	21,333	33,666
Board of directors remunerations	18,600	18,355
Cleaning	17,911	18,549
Subscriptions	12,379	13,084
Fuel	8,934	7,905
Insurance	8,596	6,490
Professional fees	8,500	7,583
Stationery	8,366	10,034
Postage, telephone, and internet	6,739	7,045
Studies and consulting	6,006	23,884
Overtime	4,343	4,155
Entertainment	3,991	1,793
Buildings fees	2,880	-
Maintenance	2,856	2,784
Gardening	2,185	3,346
Social committee	1,517	1,855
Vacations payment	998	202
Advertisement	541	3,197
Consumables	285	932
Miscellaneous	4,604	4,305
<b>Total</b>	<b>990,500</b>	<b>971,278</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.