

**To the Board of Directors of Deposit Insurance Corporation
Amman – Jordan**

Introduction

We have audited the financial statements of Deposit Insurance Corporation (Legal Corporation with financial and administrative independence) which comprise the statement of financial position as at 31 December 2011 and the statements of Revenues and expenses, changes in equity and 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 (IFRS), 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 accompanying financial statements give a true and fair view of the financial position of the corporation as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

PricewaterhouseCoopers “Jordan”
Osama Marouf
License No. (477)

Amman, Jordan
3 May 2012

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

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

ASSETS	<u>NOTES</u>	<u>2011</u>	<u>2010</u>
		JD	JD
Cash at Central Bank of Jordan	4	1,063,756	383,551
Accrued interest on bonds and deposits		4,839,452	3,969,391
Investments in held to maturity bonds	5	270,783,630	223,061,175
Other debit balances		645,686	456,122
Property and equipment, net	6	4,429,871	4,574,540
TOTAL ASSETS		<u>281,762,395</u>	<u>232,444,779</u>
 LIABILITIES AND EQUITY			
Liabilities			
Other credit balances		15,716	25,259
 EQUITY			
Capital	7	3,300,000	3,300,000
Reserves	8	278,446,679	229,119,520
Total Equity		<u>281,746,679</u>	<u>232,419,520</u>
TOTAL LIABILITIES AND EQUITY		<u>281,762,395</u>	<u>232,444,779</u>

THE NOTES FROM 1 TO 11 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**DEPOSIT INSURANCE CORPORATION
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**STATEMENT OF REVENUES AND EXPENSES FOR THE YEAR ENDED
31 DECEMBER 2011**

	<u>NOTES</u>	<u>2011</u>	<u>2010</u>
Revenues		JD	JD
Membership fees	9	35,608,612	32,316,820
Interest on bonds		14,708,398	13,765,359
Interest on deposits		-	119,979
Interest on employees' loans		14,780	1,865
Total income		50,331,790	46,204,023
Less:			
Administrative expenses	10	(1,004,631)	(952,118)
Surplus of income over expenses		49,327,159	45,251,905

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STATEMENTS**

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**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED
31 DECEMBER 2011**

	<u>Capital</u>	<u>Reserves</u>	<u>Total</u>
	JD	JD	JD
2011			
Balance at 1 January 2011	3,300,000	229,119,520	232,419,520
Surplus of income over expenses	-	49,327,159	49,327,159
Balance at 31 December 2011	3,300,000	278,446,679	281,746,679
2010			
Balance at 1 January 2010	3,200,000	183,867,615	187,067,615
Increase in capital	100,000	-	100,000
Surplus of income over expenses	-	45,251,905	45,251,905
Balance at 31 December 2010	3,300,000	229,119,520	232,419,520

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>2011</u>	<u>2010</u>
	JD	JD
<u>OPERATING ACTIVITIES</u>		
Surplus of income over expenses	49,327,159	45,251,905
Adjustments for:		
Depreciation	146,753	147,835
Interest revenues	(14,708,398)	(13,885,338)
Changes in operating assets and liabilities:		
Accrued expenses and other credit balances	(9,543)	(8,210)
Net cash provided from operating activities	<u>34,755,971</u>	<u>31,506,192</u>
<u>INVESTING ACTIVITIES</u>		
Investments in financial assets held to maturity	(47,722,455)	(44,657,175)
Other debit balances	(189,564)	(264,256)
Interest received	13,838,338	13,360,384
Purchase of property and equipment	(2,084)	(113,975)
Net cash used in investing activities	<u>(34,075,765)</u>	<u>(31,675,022)</u>
<u>FINANCING ACTIVITIES</u>		
Increase in capital	-	100,000
Net (decrease) increase in cash and cash equivalents	680,206	(68,830)
Cash and cash equivalents at the beginning of the year	<u>383,551</u>	<u>452,381</u>
Cash and cash equivalents at the end of the year	<u>1,063,756</u>	<u>383,551</u>

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NOTES TO THE FINANCIAL STATEMENTS

(1) General

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

The major purpose of the Corporation is to protect depositors with banks by insuring their deposits in accordance with the provisions of the Corporation Law in order to encourage savings and strengthen confidence in the Kingdom's banking system. Consequently, the Corporation would promptly reimburse depositors of member banks within certain limits, if any member bank is liquidated, by reimbursing all small depositors up to JD 50,000 while encouraging large 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 50,000 or less, and up to JD 50,000 if the deposit exceeds JD 50,000, except for branches of Jordanian banks operating outside the Kingdom and Islamic banks licensed to operate in the Kingdom unless any one of them decides to join the Corporation.

The Council of Ministers decided on 5 December 2010 to raise the minimum insurance from JD 10,000 to JD 50,000 starting from 1 January 2011.

The Corporation is the sole liquidator and legal representative of any bank under liquidation.

(2) Summary Of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Financial statements are set out below, These policies have been consistently applied to all the years presented, unless otherwise stated,

2.1 Basis of preparation

The financial statements of Deposit Insurance Corporation, have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared under the historical cost convention.

The financial statements are presented in Jordanian Dinars

2.2 Changes in accounting policy and disclosures

New and amended standards adopted by the company

IAS 24, 'Related party disclosures' (revised 2009)

Amendments to IFRS 7, 'Financial instruments: Disclosures' on derecognition, effective 1 July 2011.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income.

2.3 Cash and Cash equivalents

Cash and cash equivalents comprise current account at Central Bank of Jordan.

2.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to revenues and expenses during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. as follows:

	<u>Depreciation Rate</u>
	%
Building	3
Vehicles	15
Computer and Telecommunication	10 - 25
Furnitures and Decorations	10 - 15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the statement of revenues and expenses.

2.5 Financial assets held to maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Corporation has the positive intention and ability to hold to maturity.

When investments are classified as held to maturity they are initially recognised at cost, being the fair value of consideration given including directly attributable transaction costs. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by

taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest method.

2.6 Revenue recognition

Revenue from membership fees, interest on deposits and interest on financial assets held to maturity are recognized when accrued.

(3) Financial Risk Management

3.1 Financial risk factors

The Corporation's activities expose it to a variety of financial risks: market risk (comprising, fair value and cash flow interest rate risk). The Corporation's overall risk management programme focuses on minimising potential adverse effects on the Corporation's financial performance.

a. Market risk

Foreign Currency risk

All Corporations' transactions are in Jordanian Dinar. Accordingly it is not exposed to foreign exchange risk

Cash flow and fair value interest rate risk

The corporation has interest bearing bonds and bills. All bonds and bills carry fixed interest rate risk.

b. 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 exposed to liquidity risk.

c. Credit risk

Credit risk in the corporation arises from the employees' loans and other debit balances. All cash and financial assets held to maturity are maintained in the Central Bank of Jordan. Accordingly the Corporation is not exposed to credit risk.

(4) Cash At Central Bank Of Jordan

	<u>2011</u>	<u>2010</u>
	JD	JD
Current account at Central Bank	<u>1,063,756</u>	<u>383,551</u>

(5) Financial Assets Held To Maturity

Financial assets held to maturity consist of the following:

	Maturity					
	2012	2013	2014	2015	2016	Total
	JD	JD	JD	JD	JD	JD
Treasury Bonds	88,200,000	69,354,000	33,000,000	11,300,000	7,200,000	209,054,000
Treasury Bills	2,884,800	-	-	-	-	2,884,800
Public Institutions Bonds	7,000,000	34,000,000	16,400,000	-	-	57,400,000
Public Institutions Bills	1,444,830	-	-	-	-	1,444,830
	<u>99,529,630</u>	<u>103,354,000</u>	<u>49,400,000</u>	<u>11,300,000</u>	<u>7,200,000</u>	<u>270,783,630</u>

- Interest rates on bonds are fixed and range between 4.2% to 7.9%
- Interest rates on bills are fixed and range between 3.8% to 4%
- None of these financial assets either past due nor impaired.

(6) Property And Equipment

	Land	Building	Vehicles	Computers & Tele -communication equipment	Furniture & decoration	Total
	JD	JD	JD	JD	JD	JD
2011						
Cost						
At 1 January 2011	1,157,050	3,687,965	57,657	115,084	183,188	5,200,944
Additions	-	-	-	2,094	-	2,094
Deposals	-	-	-	(7,146)	-	(7,146)
At 31 December 2011	<u>1,157,050</u>	<u>3,687,965</u>	<u>57,657</u>	<u>110,032</u>	<u>183,188</u>	<u>5,195,892</u>
Accumulated depreciation						
At 1 January 2011	-	432,440	32,680	77,685	83,599	626,404
Depreciation	-	110,639	6,000	11,519	18,595	146,753
Related to disposal	-	-	-	(7,136)	-	(7,136)
At 31 December 2011	<u>-</u>	<u>543,079</u>	<u>38,680</u>	<u>82,068</u>	<u>102,194</u>	<u>766,021</u>
Net book value						
At 31 December 2011	<u>1,157,050</u>	<u>3,144,886</u>	<u>18,977</u>	<u>27,964</u>	<u>80,994</u>	<u>4,429,871</u>
2010						
Cost						
At 1 January 2010	1,157,050	3,581,805	57,657	107,386	183,071	5,086,969
Additions	-	106,160	-	7,698	117	113,975
At 31 December 2010	<u>1,157,050</u>	<u>3,687,965</u>	<u>57,657</u>	<u>115,084</u>	<u>183,188</u>	<u>5,200,944</u>
Accumulated depreciation						
At 1 January 2010	-	322,258	26,680	65,113	64,518	478,569
Depreciation	-	110,182	6,000	12,572	19,081	147,835
At 31 December 2010	<u>-</u>	<u>432,440</u>	<u>32,680</u>	<u>77,685</u>	<u>83,599</u>	<u>626,404</u>
Net book value						
At 31 December 2010	<u>1,157,050</u>	<u>3,255,525</u>	<u>24,977</u>	<u>37,399</u>	<u>99,589</u>	<u>4,574,540</u>

(7) Capital

This item consists of the following:

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

Total initiation fees amounted to JD 2,300,000 as of 31 December 2011 (2010: JD 2,300,000).

(8) 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 by its laws within 10 years of the law's effective date, or if a bank liquidation is decided, the Corporation's Board of Directors may increase the banks' annual membership fee to not more than double of 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 circumstance 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.

(9) Membership Fees

This item represents the amount of the bank annual membership fee paid to the Corporation at the rate of 0.25 % 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.

Membership fees are computed on cash collaterals in excess of the facilities guaranteed by the said collaterals

Total deposits subject to the provisions of the law amounted to JD 14,243,407,184 as of 31 December 2010(2009: JD 12,926,127,876).

(10) General And Administrative Expense

	<u>2011</u>	<u>2010</u>
	JD	JD
Salaries and wages	405,409	399,470
Contribution to social security	42,695	43,586
Contribution to end of service indemnity	118,010	55,923
Contribution to saving fund	31,987	31,958
Depreciation	146,753	147,835
Training and conferences	16,665	35,291
Medical	46,768	42,613
Media campaigns	10,937	1,021
Electricity and water	31,184	32,622
Security	19,480	23,922
Travel and transportation	8,798	18,323
Board of Directors remuneration	18,600	18,490
Cleaning	11,018	15,825
Subscriptions	15,104	13,345
Stationery	4,015	10,542
Maintenance	11,231	9,299
Postage, telephone, and internet	6,842	5,365
Insurance	6,660	7,415
Professional fees	8,515	10,050
Fuel	11,980	7,405
Overtime	4,372	4,996
Gardening	-	3,000
Buildings fees	2,880	2,880
Hospitality	2,483	3,174
Social committee	1,874	2,919
Consumables	435	1,558
Vacations payment	13,567	623
Miscellaneous	6,369	2,668
	<u>1,004,631</u>	<u>952,118</u>

(11) RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Government of the Hashemite Kingdom of Jordan and the public institutions in Jordan are related parties to the Corporation.

The Deposit Insurance Corporation had transactions with the Central Bank of Jordan within the ordinary course of business.

The following transactions were entered into with related parties:

	<u>2011</u>	<u>2010</u>
	JD	JD
Investment in bonds held to maturity	47,722,455	44,657,175
Interest on bonds held to maturity	14,708,398	13,765,359
Interest on deposits	-	119,979
	<u>62,430,853</u>	<u>58,542,513</u>

Year-end balances were as follows:

	<u>2011</u>	<u>2010</u>
	JD	JD
Cash at Central Bank	1,063,756	383,551
Accrued interest income on bonds	4,839,452	3,969,391
Investments in held to maturity bonds	<u>270,783,630</u>	<u>223,061,175</u>
	<u>276,686,838</u>	<u>227,414,117</u>
Compensation of key management	<u>186,400</u>	<u>177,285</u>

