

## **AUDITOR 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 balance sheet of DEPOSIT INSURANCE CORPORATION (A LEGAL CORPORATION WITH FINANCIAL AND ADMINISTRATIVE INDEPENDANCE) as of December 31, 2005 , and the related statements of revenues and expenses, changes incorporation's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.**

**The opening balances are audited by another auditor who expressed an unqualified opinion as of March 30, 2005.**

**We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.**

**In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DEPOSIT INSURANCE CORPORATION (A LEGAL CORPORATION WITH FINANCIAL AND ADMINISTRATIVE INDEPENDANCE) as of December 31, 2005 and the results of its operations, changes in corporation's equity and cash flows for the year then ended in conformity with the International Financial Reporting Standards.**

Talal Abu-Ghazaleh & Co.  
Steve S. Karadsheh  
(License # 756 – Class A)

Amman, February 8, 2006

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

**EXHIBIT -A**

**BALANCE SHEET AS OF December 31, 2005**

	<u>NOTE</u>	<u>2005</u>	<u>2004</u>
		<i>JD</i>	<i>JD</i>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash at a bank	3	1,382,806	1,683,489
Other debit balances	4	481,775	320,508
<b>Total current assets</b>		<b><u>1,864,581</u></b>	<b><u>2,003,997</u></b>
<b>Non current assets</b>			
Investments in Held to maturity bonds	5	67,901,690	52,459,976
Building under progress	6	2,365,714	1,199,268
Property and equipment	7	1,193,988	1,208,999
<b>Total Non current assets</b>		<b><u>71,461,392</u></b>	<b><u>54,868,243</u></b>
<b>TOTAL ASSETS</b>		<b><u>73,325,973</u></b>	<b><u>56,872,240</u></b>
<b>LIABILITIES AND CORPORATION'S EQUITY</b>			
<b>Current Liabilities</b>			
<b>Other credit balances</b>	8	<b><u>163,706</u></b>	<b><u>80,148</u></b>
<b>CORPORATION'S EQUITY</b>			
Capital	9	3,200,000	3,200,000
Reserves – Exhibit " C "	10	69,962,267	53,592,092
<b>Total Corporation's equity</b>		<b><u>73,162,267</u></b>	<b><u>56,792,092</u></b>
<b>TOTAL LIABILITIES AND CORPORATION'S EQUITY</b>		<b><u>73,325,973</u></b>	<b><u>56,872,240</u></b>

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

**DEPOSIT INSURANCE CORPORATION  
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**EXHIBIT -B**

**STATEMENT OF REVENUES AND EXPENSES FOR THE Year Ended December 31, 2005**

	<u>NOTE</u>	<u>2005</u>	<u>2004</u>
		<i>JD</i>	<i>JD</i>
<b>REVENUES</b>			
Membership fees	11	13,569,736	12,131,992
Bonds Interest		3,117,906	2,433,512
Bank Interest		162,292	29,553
<b>Total revenue</b>		<b>16,849,934</b>	<b>14,595,057</b>
Deduct: administration expenses	12	(479,759)	(452,233)
<b>Surplus for the year – Exhibit C</b>		<b>16,370,175</b>	<b>14,142,824</b>

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**EXHIBIT -C**

**STATEMENT OF CHANGES IN CORPORATION EQUITY  
FOR THE YEAR ENDED DECEMBER 31,2005**

	<i>Capital JD</i>	<i>Reserves JD</i>	<i>Total JD</i>
<b>Balance as of January 1, 2004</b>	<b>2,900,000</b>	<b>39,449,268</b>	<b>42,349,268</b>
Increase in capital	300,000	-	<b>300,000</b>
Surplus of the year- Exhibit "B"	-	14,142,824	<b>14,142,824</b>
<b>Balance as of December 31, 2004 –Exhibit "A"</b>	<b>3,200,000</b>	<b>53,592,092</b>	<b>56,792,092</b>
Surplus of the year- Exhibit "B"	-	16,370,175	<b>16,370,175</b>
<b>Balance as of December 31, 2005 –Exhibit "A"</b>	<b>3,200,000</b>	<b>69,962,267</b>	<b>73,162,267</b>

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**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005**

	2005	2004
	JD	JD
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus for the year	16,370,175	14,142,824
<b>Adjustments for:</b>		
Depreciation	16,102	14,563
Interest revenues	(3,280,198)	(2,463,065)
<b>Changes in operating assets and liabilities:</b>		
Other debit balances	883	70,045
Other credit balances	83,558	(7,202)
<b>Net cash provided by operating activities</b>	<b>13,190,520</b>	<b>11,757,165</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,091)	(567,811)
Purchase of investments in held to maturity bonds	(15,441,714)	(11,897,810)
Building under progress	(1,166,446)	(1,129,933)
Earned interest	3,118,048	2,440,584
<b>Net cash provided by investing activities</b>	<b>(13,491,203)</b>	<b>(11,154,970)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in capital	-	300,000
Received initiation fees in advance	-	(100,000)
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>200,000</b>
Net (decrease) increase in cash	(300,683)	802,195
Cash - beginning of the year	1,683,489	881,294
<b>Cash - end of the year - Exhibit "A"</b>	<b>1,382,806</b>	<b>1,683,489</b>

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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 Corporation protects depositors by insuring their deposits with banks 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 by Central Bank of Jordan. On the other hand, reimbursement is made to all small depositors up to JD 10,000 and grand depositors are encouraged to monitor banks with which they hold their deposits alongside of 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 unless anyone of them decided 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. 1/2006 held on March 20, 2006.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Investments in held to maturity bonds**

Investment in held to maturity bonds are booked at cost, and any premium (discount) is amortized according to effective interest rate method. Any impairment in the bonds value is deducted from the balance.

**B. Property and equipment**

Property and equipment - except land - are valued at cost less the accumulated depreciation and any impairment in value. The Corporation uses the straight-line method in depreciating its property and equipment over their estimated useful lives at the following annual rates:

Vehicles	15%
Computers and telecommunication equipment	10% - 25%
Furniture and fixtures	10%

If any of the property and equipment is disposed of, the recorded amount for the disposed asset and its accumulated depreciation on the date of disposition are omitted from the Corporation's records, and the result, whether income or loss, is posted to the statement of revenues and expenses.

Significant additions and improvements are capitalized at cost, while repair and maintenance expenses are charged to the current operations when incurred.

**C. Revenue recognition**

Revenues from membership fees, investment and bank interests are recognized when accrued.

#### **D. Financial Instruments**

Financial instrument is any contract that gives rise to both a financial asset of one enterprise and financial liability or equity instrument of another enterprise. The Corporation's financial instruments principally comprise of bank balances and investments.

The above paragraphs present the accounting policies applied on these financial instruments.

#### **3. CASH AT A BANK**

**This item consists of the following:**

	<u>2005</u>	<u>2004</u>
	JD	JD
Central Bank of Jordan - Deposit under note - JD	1,291,724	1,649,698
Central Bank of Jordan - Current account - JD	91,082	33,791
<b>Total</b>	<u>1,382,806</u>	<u>1,683,489</u>

#### **4. OTHER DEBIT BALANCES**

**This item consists of the following:**

	<u>2005</u>	<u>2004</u>
	JD	JD
Accrued interest income	471,951	309,801
Refundable deposits	5,688	5,688
Prepaid expenses	4,136	5,019
<b>Total</b>	<u>481,775</u>	<u>320,508</u>

#### **5. INVESTMENTS IN HELD TO MATURITY BONDS**

**This item consists of the following:**

	<u>2005</u>	<u>2004</u>
	JD	JD
Treasury bonds	63,894,000	42,894,000
Public corporations bonds	4,007,690	6,521,695
Development bonds	-	3,044,281
<b>Total</b>	<u>67,901,690</u>	<u>52,459,976</u>

#### **6. BUILDING UNDER PROGRESS**

This item represents what has been finished of the permanent Corporation's building in which agreement has been signed with a contractor on February 11, 2004, with a total amount of JD 2,852,077.

## 7. PROPERTY AND EQUIPMENT

Property and equipment are shown at the balance sheet date as follows:

	Lands	Vehicles	Computers and Telecommunication equipment	Furniture and Fixtures	Total
	JD	JD	JD	JD	JD
<b>Cost</b>					
Balance as of January 1, 2005	1,157,050	51,535	36,424	4,401	1,249,410
Additions during the year	-	-	1,091	-	1,091
<b>Balance as of December 31, 2005</b>	<b>1,157,050</b>	<b>51,535</b>	<b>37,515</b>	<b>4,401</b>	<b>1,250,501</b>
<b>Accumulated Depreciation</b>					
Balance as of January 1, 2005	-	26,468	13,578	365	40,411
Depreciation during the year	-	7,731	7,931	440	16,102
<b>Balance as of December 31, 2005</b>	<b>-</b>	<b>34,199</b>	<b>21,509</b>	<b>805</b>	<b>56,513</b>
<b>Net Book Value</b>					
Balance as of December 31, 2005-Exhibit "A"	<u>1,157,050</u>	<u>17,336</u>	<u>16,006</u>	<u>3,596</u>	<u>1,193,988</u>
Balance as of December 31, 2004-Exhibit "A"	<u>1,157,050</u>	<u>25,067</u>	<u>22,846</u>	<u>4,036</u>	<u>1,208,999</u>



## 8. OTHER CREDIT BALANCES

This item consists of the following:

	<u>2005</u>	<u>2004</u>
	<u>JD</u>	<u>JD</u>
Contract retention	144,041	75,056
Accrued expenses	19,665	5,092
<b>Total</b>	<b><u>163,706</u></b>	<b><u>80,148</u></b>

## 9. CAPITAL

This item consists of the following:

- 1) The sum of JD 1 million which has been paid by the government of Jordan.
- 2) A non-refundable initiation fee of JD 100,000 which should be paid by each bank contributed in the Corporation.

## 10. RESERVES

According to articles (18) and (19) of the Corporation's law, the Corporation must act to 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 which is within 10 years of the law's effective date or a bank liquidation is decided, the Corporation Board of Directors may increase the banks' annual membership fee to no more than double the annual membership fee for banks. However, if the Corporation's reserves exceed the established limit, the Corporation's Board of Directors may lower the annual membership fee or exempt banks from paying same for one year or more as the circumstances require.

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

## 11. MEMBERSHIP FEES

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

- 1) Government deposits.
- 2) Inter bank deposits.
- 3) Cash collaterals within the limits of the value of the extended facilities guaranteed by the said collaterals.
- 4) The credit balances in the overdraft facilities.

## 12. ADMINISTRATIVE EXPENSES

This item consists of the following:

	2005	2004
	JD	JD
Salaries and wages	234,796	211,349
Contribution of social security	25,593	23,157
Contribution in saving fund	19,801	17,942
Board of directors remuneration	18,600	18,306
End of services indemnity	15,970	19,906
Overtime	1,060	353
Social committee	634	-
Medical expenses	30,958	17,635
Training	30,785	5,166
Public awareness campaign	19,790	52,683
Travel and transportation	16,224	26,143
Depreciation	16,102	14,563
subscriptions	11,605	11,009
Professional fees	9,985	8,750
Stationery	7,160	6,450
Advertisement	4,679	1,871
Telephone , fax and internet	4,337	4,070
Entertainment	3,162	1,818
Insurance	3,050	2,684
Fuel	2,514	2,546
Maintenance	863	1,442
Miscellaneous	2,091	4,390
<b>Total</b>	<b>479,759</b>	<b>452,233</b>

## 13. FINANCIAL INSTRUMENTS

### a) Fair value

Book value of financial instruments which comprised of cash and investments are approximately equal to their fair values.

Notes to the financial statements indicated the fair value of those instruments. In addition, accounting policies in note (2) show methods used in evaluating those instruments

### b) Interest rate risk

Financial instruments in the balance sheet are not subject to interest rate risk with the exception of deposits and held to maturity investments.

## 14. COMPARATIVE FIGURES

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