

**Deposit Insurance Fund for Islamic Banks
Legal entity
Amman-The Hashemite Kingdom of Jordan**

**Financial Statements and
Independent Auditor's Report
for the period from inception on April 1, 2019
to December 31, 2019**

**Deposit Insurance Fund for Islamic Banks
Legal entity
Amman-The Hashemite Kingdom of Jordan**

INDEX

	<u>PAGE</u>
Independent auditor's report	-
Statement of financial position as at December 31, 2019	1
Statement of revenues and expenses for the period from inception on April 1, 2019 to December 31, 2019	2
Statement of changes in equity for the period from inception on April 1, 2019 to December 31, 2019	3
Statement of cash flows for the period from inception on April 1, 2019 to December 31, 2019	4
Notes to the financial statements for the period from inception on April 1, 2019 to December 31, 2019	5-11

105180666

Independent auditor's report

To Messrs. Board of Directors
Deposit Insurance Fund for Islamic Banks
Legal entity
Amman - The Hashemite Kingdom of Jordan

Opinion

We have audited the financial statements of Deposit Insurance Fund for Islamic Banks (legal entity), which comprise the statement of financial position as at December 31, 2019, and the statements of revenues and expenses, changes in equity and cash flows for the period from inception on April 1, 2019 to December 31, 2019, and notes to the financial statements comprising significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects of the financial position of the fund as at December 31, 2019, and of its financial performance and its cash flows for the period then ended in accordance with Islamic Shari'ah rules and principles as endorsed by the company's Shari'ah Supervisory Board and in accordance with Accounting Standards for Islamic Financial Institution issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Islamic Shari'ah rules and principles as determined by the Shari'ah Supervisory Board in accordance with Accounting Standards for Islamic Financial Institution issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

The fund has proper accounting records which are, in all material respects, consistent with the accompanying financial statements, accordingly, we recommend to approve these financial statements by the board of directors.

Talal Abu-Ghazaleh & Co. International


Aziz Abdelkader

License # (867)

Amman, June 18, 2020



Deposit Insurance Fund for Islamic Banks
Legal entity
Amman-The Hashemite Kingdom of Jordan

Statement of financial position as at December 31, 2019

	<u>Notes</u>	<u>2019</u>
ASSETS		JD
Current Assets		
Current account at Central Bank of Jordan		10,401,172
TOTAL ASSETS		10,401,172
LIABILITIES AND EQUITY		
Liabilities		
Accrued expenses		1,000
TOTAL LIABILITIES		1,000
EQUITY		
Capital	3	550,000
Reserves	4	9,850,172
Total Equity		10,400,172
TOTAL LIABILITIES AND EQUITY		10,401,172

The accompanying notes form part of these financial statements

Deposit Insurance Fund for Islamic Banks
Legal entity
Amman-The Hashemite Kingdom of Jordan

Statement of revenues and expenses for the period from inception on April 1, 2019 to December 31, 2019

	<u>Notes</u>	<u>For the period from inception on April 1, 2019 to December 31, 2019</u>
		JD
Membership fees	5	9,857,611
Administrative expenses	6	<u>(7,439)</u>
Surplus		<u><u>9,850,172</u></u>

The accompanying notes form part of these financial statements

Deposit Insurance Fund for Islamic Banks
Legal entity
Amman-The Hashemite Kingdom of Jordan

Statement of changes in equity for the period from inception on April 1, 2019 to December 31, 2019

	<u>Capital</u>	<u>Reserves</u>	<u>Total</u>
	JD	JD	JD
Capital paid	550,000	-	550,000
Surplus	-	9,850,172	9,850,172
Balance as at December 31, 2019	<u>550,000</u>	<u>9,850,172</u>	<u>10,400,172</u>

The accompanying notes form part of these financial statements

Deposit Insurance Fund for Islamic Banks
Legal entity
Amman-The Hashemite Kingdom of Jordan

Statement of cash flows for the period from inception on April 1, 2019 to December 31, 2019

	For the period from inception on April 1, 2019 to December 31, 2019
Cash Flows From Operating Activities	JD
Surplus	9,850,172
Changes in operating assets and liabilities:	
Accrued expense	1,000
Net cash from operating activities	9,851,172
Cash Flows From Financing Activities	
Capital paid	550,000
Net cash from financing activities	550,000
Net change in cash and cash equivalents	10,401,172
Cash and cash equivalents - end of year	10,401,172

The accompanying notes form part of these financial statements

Deposit Insurance Fund for Islamic Banks
Legal entity
Amman-The Hashemite Kingdom of Jordan

Notes to the financial statements for the period from inception on April 1, 2019 to December 31, 2019

1. Legal status and activities

- The fund was established on April 1, 2019 as a legal entity by virtue of the amending law of the Deposit Insurance Corporation law number 8 for the year 2019, it will be managed by Deposit Insurance Corporation. The relationship between the fund and the corporation shall be on the basis of Wakalah bi al ajr "agency with fee", and all matters of this relationship shall be governed by a decision of the board. The fund's structure is compliant with the principles of Solidarity and cooperation Benefits (Takaful and Ta'awun). Therefore, the fund's financial resources that are paid by Islamic banks, deposit holders and the corporation shall be considered as Tabarru'.
- The Corporation aims, through the Deposit Insurance Fund for Islamic Banks; to protect depositors at Islamic banks by insuring their deposits under the provisions of this law, in order to encourage savings, promote confidence in the banking system and contribute to maintain banking and financial stability in the Kingdom. This is done by ensuring that depositors have access to their deposits in any Islamic bank to be liquidated within the limits set by the law, which aims in its entirety to compensate depositors up to fifty thousand Jordanian Dinars. Moreover, to urge senior depositors to impose their own and additional supervision on Islamic banks alongside the ongoing monitoring carried out by the Central Bank of Jordan.
- The financial resources of the Fund consist of the following:
 - Annual membership fees paid by Islamic banks
 - Returns on the investments of the Fund.
 - Any Qard Hasan received by the fund.
 - Any financial grants given to the Fund with the approval of the Central Bank's Board of Directors. The Council of Ministers' approval must be also obtained if the grant is given by a non-Jordanian agency.
- The fund of the Deposit Insurance Fund for Islamic Banks shall be transferred, in case of liquidation, to the Zakat Fund in the kingdom after covering all expenses and losses related to the Fund.
- The financial statements were approved by the Board of Directors in its session held on June 18, 2020.

2. Basis for preparation of financial statements and significant accountant policies

2-1 Basis for financial statement preparation

- Financial statements preparation framework

The financial statements have been prepared in accordance with Accounting Standards for Islamic Financial Institutions issued by Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI). In the absence of Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions relating to financial statements items, the International Financial Reporting Standards and related interpretations are applied in conformity with the Shari'ah standards, pending the promulgation of Islamic Standards therefor.

- Measurement bases used in preparing the financial statements

The financial statements have been prepared on the historical cost basis except for measurement of certain items at bases other than historical cost.

- Functional and presentation currency

The financial statements have been presented in Jordanian Dinar (JD) which is the functional currency of the entity.

2-2 Using of estimates

- When preparing of financial statements, management uses judgments, assessments and assumptions that affect applying the accounting policies and currying amounts of assets, liabilities, revenue and expenses. Actual result may differ from these estimates.
- Change in estimates are reviewed on a constant basis and shall be recognized in the period of the change, and future periods if the change affects them.
- For example, estimates may be required for expected credit losses, useful lives of depreciable assets, provisions, and any legal cases against the entity.

2-3 Application of new and modified International Financial Reporting Standards

New and modified standards adopted by the entity

-International Financial Reporting Standard No. (16)

As of January 1, 2019, the entity adopted the International Financial Reporting Standard No. (16) Lease contracts, which replaces:

- IAS 17 Leases.
- IFRIC- 4 Determining whether an Arrangement contains a lease.
- SIC-15 Operating Leases - Incentives.
- SIC-27 Evaluating the Substance of Transactions Involving the legal form of a lease.

The International Financial Reporting Standard No. (16) brings significant changes in accounting requirements and treatments of the operating leases, primarily for lessees, whereby all lease contracts were capitalized as assets and recognize an obligations against them with narrow exceptions to this recognition principle for leases where the underlying asset is of low value and for short term leases (i.e. those with a lease term of 12 months or less). The accounting treatment of the lease contracts has remains largely unchanged, as the lessor will continue to classify the lease contracts as either operating lease or finance lease, using principles similar to those in International Accounting Standard No. (17).

- The entity has chosen to apply this standard with modified retrospective approach (without adjusting the comparative figures) which is allowed by the standard.
- The most important impact of IFRS (16) on lease contracts in terms of:

- Definition of lease contracts

What distinguishes this standard is the concept of control, whereby lease and service contracts are classified on the basis of whether the customer has control over the use of an identified asset for a period of time in exchange for a consideration and this is opposite to what IAS no. (17) emphasize on risks and incentives.

- Lessee's accounting treatments for lease contracts (operating lease)

What distinguishes this standard is the way the entity account for operating lease contracts as they are outside the financial statements.

Applying the standard to all lease contracts with the exception for leases where the underlying asset is of low value and for short term leases (i.e. those with a lease term of 12 months or less). the entity does the following:

- A recognition of the right-of-use assets and liabilities of the lease contracts in the statement of financial position initially at the present value of future lease payments.
- The depreciation of the right-of-use assets and profits is recognized on the lease liabilities in the income statement.
- In the statement of cash flows, the payments that reduces lease liability are classified within financing activities and the amounts related to the interest expense of the lease liabilities are

classified within operating or financing activities. As for short-term lease contracts or low-value leases (non-capitalized) contracts, they are classified under operating activities.
 -The principle amount of the lease contract within financing activities and profits on lease liabilities within operating activities.

For short-term lease contracts of one year or less, and lease contracts for low-value leased assets are recognized as an expense in the income statement on a straight-line basis.

The International Financial Reporting Standard No. (16) provides for testing the impairment of the right of use assets in accordance with Accounting Standard No. (36) Impairment of Assets, and this is different from the International Accounting Standard No. (17), which required recognition of a provision for onerous lease contracts.

- Lessee's accounting treatments for lease contracts (finance lease)

What distinguishes this standard is the residual value guarantees provided by the lessee to the lessor, whereby the expected amount to be paid is recognized as part of the lease liability, while International Accounting Standard No. (17) recognizes the maximum for the guaranteed amount.

- Based on management assessment there is no significant effect of applying IFRS (16) on the financial statements.

Standards and Interpretations issued but not yet effective

Standard number or interpretation	Description	Effective date
Accounting Standard No. (1) Presentation of financial statements. Accounting Standard No. (8) Accounting policies, changes in accounting estimates and errors	Definition of material Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.	January 1, 2020 or after
International Financial Reporting Standard (17) Insurance Contracts	IFRS (17) replaces IFRS (4), which requires measuring insurance liabilities at the present value of the consideration and provides a more consistent approach to measurement and presentation of all insurance contracts.	January 1, 2022 or after
Amendments to IFRS (3) Business Combinations.	Modifications to the definition of business. In order to be considered business it must be an integrated set of activities and assets and include as a minimum inputs and an objective process that together contribute greatly to the ability to create outputs. It should have the ability to contribute to the creation of outputs rather than the ability to create outputs	January 1, 2020 or after
Amendments to the International Financial Reporting Standard No. (10) Consolidated Financial Statements and International Accounting Standard No. (28) Associates and Joint Ventures.	These amendments relate to the sale or contribution of assets between the investor, the associate and / or the joint venture.	Undetermined date

2-4 Summary of significant accounting policies

- Financial instruments

Financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

- Financial assets

- A financial asset is any asset that is:
 - (a) Cash;
 - (b) An equity instrument of another entity;
 - (c) A contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity.
 - (d) A contract that will or may be settled in the entity's own equity instruments.

- Financial liabilities

- A financial liability is any liability that is:
 - (a) A contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity;
 - (b) A contract that will or may be settled in the entity's own equity instruments.
- Financial liabilities are initially recognized at fair value less transaction costs, directly attributable to the acquisition or issue of those liabilities, except for the financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value.
- After initial recognition, the entity measures all financial liabilities at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss which are measured at fair value and other determined financial liabilities which are not measured under amortized cost method.
- Financial liabilities at fair value through profit or loss are stated at fair value, with any resulting gain or loss from change in fair value is recognized through profit or loss.

Trade payables and accruals

Trade payables and accruals are liabilities to pay for goods or services that have been received or supplied and have been either invoiced or formally agreed with the suppliers or not.

- Offsetting financial instruments

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, an entity currently has a legally enforceable right to set off amounts and intends either to settle in a net basis, or through realize the asset and settle the liability simultaneously.

- Cash and cash equivalents

Cash comprises cash on hand, current accounts and short term deposits at banks with a maturity date of three months or less, which are subject to an insignificant risk of changes in value.

- Revenue recognition

- The entity recognize revenue from sale of good and rendering of service when control is transferred to the customer.
- Revenues are recognized based on consideration specified in contract with customer that expected to be received excluding amounts collected on behalf of third parties.

- **Membership fees**

- Annual membership fees of banks are recognized at 2.5 per thousand of the total deposits subject to the provisions of this law with Islamic banks overtime, it is calculated and collected based on the year-end total of the following accounts:
 - 1- Credit accounts or their equivalents.
 - 2- Mutual Fund accounts or their equivalents.
- Private investment accounts or their equivalents shall be excluded from deposits subject to the provisions of the law.
- Two separate portfolios are established in the Fund, as follows:
 - "Takaful" Portfolio of Credit Accounts: the annual membership fees paid by Islamic banks for Credit Accounts or their equivalents, and for the portion of Mutual Fund Accounts-nonprofit sharing.
 - "Takaful" Portfolio of Mutual Fund Accounts: the annual membership fees paid by Islamic Banks shall be credited to the portfolio on behalf of the holders of Mutual Investment Accounts or their equivalents.

3. Capital

	<u>2019</u>
	JD
Non-refundable establishment fee (*)	400,000
Government's contribution in the Fund's capital	150,000
Total	<u><u>550,000</u></u>

(*) Non-refundable establishment fee of JD 100,000 is collected from every Islamic Bank member at the Fund.

4. Reserves

	<u>2019</u>
	JD
"Takaful" portfolio of Mutual Fund Accounts	5,248,317
"Takaful" portfolio of Credit Accounts	4,601,855
Total	<u><u>9,850,172</u></u>

5. Membership fees

The annual membership fees paid by Islamic banks of 2.5 per thousand of the total deposits subject to the provisions of this law. Membership fees consist of the following:

	<u>2019</u>
	JD
Membership fees of "Takaful" portfolio of Mutual Fund Accounts	5,252,281
Membership fees of "Takaful" portfolio of Credit Accounts	4,605,330
Total	<u><u>9,857,611</u></u>

6. Administrative expenses

	For the period from inception on April 1, 2019 to December 31, 2019
	JD
Wakalah bi al ajr "agency with fee" for Deposit Insurance Corporation	3,750
Professional fees	3,083
Advertisements and subscription to local newspapers	550
Stationery and printings	56
Total	7,439

7. Risk management

a) Capital risk (equity)

Reserves is managed properly to ensure continuing as a going concern while maximizing the return through the optimization of the center liabilities return.

b) Currency risk:

- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- The risk arises on certain transactions denominated in foreign currencies, which imposes sort of risk due to fluctuations in exchange rates during the year.
- Certain procedures to manage the exchange rate risk exposure are maintained.
- The entity is not exposed to currency risk.

c) Other price risk:

- Other price risk is 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 financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
- The risk arises from investing in equity investments. However, this risk is insignificant since no active trading on these investments is occurred.
- The entity is not exposed to other price risk.

d) Credit risk:

- Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Regularly, the credit ratings of debtors and the volume of transactions with those debtors during the year are monitored.
- Ongoing credit evaluation is performed on the financial condition of debtors.
- The carrying amount of financial assets recorded in the financial statements represents the maximum exposure to credit risk without taking into account the value of any collateral obtained.
- The entity is not exposed to credit risk.

e) **Liquidity risk:**

- Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.
- Liquidity risk is managed through monitoring cash flows and matching with maturity dates of the financial assets and liabilities.
- The following table shows the maturity dates of financial assets and liabilities as of December 31:

Description	Less than one year
	2019
Financial assets:	JD
Current account at Central Bank of Jordan	10,401,172
Total	10,401,172
Financial liabilities:	
Accrued expense	1,000
Total	1,000

8. **General**

These are the first audited financial statements issued by the fund.