DEPOSIT INSURANCE FUND FOR ISLAMIC BANKS

LEGAL ENTITY

FINANCIAL STATEMENTS

31 DECEMBER 2020

Ernst & Young Jordan
P.O. Box 1140
300 King Abdulla Street
Amman 11118
Jordan
Tel:00962 6 580 0777 /00962 6552 6111
Fax:00962 6 5538 300
www.ey.com

Building a better working world

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
Deposit Insurance Fund for Islamic Banks
Legal Entity
Amman- Jordan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Deposit Insurance Fund for Islamic Banks, (the Fund), which comprise the statement of financial position as at 31 December 2020, and the statement of revenues and expenses and statement of changes in equity and statement of cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Islamic Financial Accounting Standards as issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's 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* (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Jordan, 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.

Other Matter

The financial statements for the year ended 31 December 2019 were audited by another auditor and an unqualified opinion was issued on them on 18 June 2020.

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 Financial Accounting Standards as issued by the 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's 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.

Auditor's 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 auditor's 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 ISAs will always detect a material misstatement when it exist. 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 ISAs, 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 exist, we are required to draw attention in our auditor's 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 auditor's 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.

Amman – Jordan
16 May 2021

Ernst + Young

Deposit Insurance Fund For Islamic Banks
Legal Entity
Statement of Financial Position
As at 31 December 2020

	Notes	31 December 2020	31 December 2019
		JD	JD
Assets			
Current assets			
Current account at Central Bank of Jordan		26,342,068	10,401,172
Total Assets		26,342,068	10,401,172
Liabilities and Equity			
Liabilities			
Accrued expenses		1,000	1,000
Total Liabilities		1,000	1,000
Equity			
Paid in Capital	4	550,000	550,000
Reserves	5	25,791,068	9,850,172
Total equity		26,341,068	10,400,172
Total liabilities and equity		26,342,068	10,401,172

The attached notes from 1 to 13 form part of these financial statements

Deposit Insurance Fund For Islamic Banks
Legal Entity
Statement of Revenues and expenses
For the year ended 31 December 2020

	Notes	2020	For the period since inception 1 April 2019 until 31 December 2019
		JD	JD
Membership fees	6	15,953,571	9,857,611
Administrative expneses	7	(12,675)	(7,439)
Excess of revnues over expenses for the year		15,940,896	9,850,172

The attached notes from 1 to 13 form part of these financial statements

Deposit Insurance Fund For Islamic Banks
Legal Entity
Statement of Changes in equity
For the year ended 31 December 2020

	Paid in Capital*	Reserves	Total
For year ended 31 December 2020	JD	JD	JD
Balance at 1 January 2020			
Capital paid	550,000	9,850,172	10,400,172
Excess of revnues over expenses	-	15,940,896	15,940,896
Balance as at 31 December 2020	550,000	25,791,068	26,341,068
For period ended 31 December 2019			
Balance as on 1 April 2019 (upon incorporation)	-	-	-
Capital paid	550,000	-	550,000
Excess of revnues over expenses	-	9,850,172	9,850,172
Balance as at 31 December 2019	500,000	9,850,172	10,400,172

* This account represents non-refunds of JD 100,000 from each Islamic bank member at the Fund, in addition to a payment of JD 150,000 from the government's contribution to deposit insurance corporation’s capital.

The attached notes from 1 to 13 form part of these financial statements

Deposit Insurance Fund For Islamic Banks
Legal Entity
Statement of Cash flows
For the year ended 31 December 2020

	2020	For the period since inception 1 April 2019 until 31 December 2019
	JD	JD
Excess of revnues over expenses	15,940,896	9,850,172
Operating activities		
Working Capital Changes-		
Accrued expenses	-	1,000
Net cash from operating activities	15,940,896	9,851,172
Financing activities		
Capital paid	-	550,000
Net cash from financing activities	-	550,000
Net cash in cash and cash equivalents	15,940,896	10,401,172
Cash and cash equivalents, beginning of the year	10,401,172	-
Cash and cash equivalents, end of the year	26,342,068	10,401,172

The attached notes from 1 to 13 form part of these financial statements

(1) GENERAL

The fund was established on 1 April 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 strucutre 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 Donations (tabarru’).

The corporation aims, through the Deposit Insurance Fund for Islamic Banks; to protect depositors at Islamic banks by insuring their deposits under the provision of this law, in order to encourge 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 entirely 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 Cenrtal Bank of Jordan.

The financial resources of the Fund consist of the following:

- Annual membership fee 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.

(2) BASIS of PREPARATION of FINANCIAL STATEMENT

The accompanying financial statements of the Fund have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and in the absence of Financial 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’a standards, pending the promulgation of Islamic Standards therefor.

The financial statements have been prepared on a historical cost basis.

The financial statements have been presented in Jordanian Dinars "JD", which is the functional currency of the Fund.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Fund financial statements for the year ended 31 December 2019, except for the adoption of the following standards:

Islamic Financial Accounting Standard 30 (Impairment and Credit Losses and Onerous Commitments)

The 2014 International Financial Reports Standard (9) was implemented on the date of the mandatory application of the standard on January 1, 2018, where the Fund applied the requirements of the expected credit loss model under the instructions of the Central Bank of Jordan No. (13/2018) on June 6, 2018.

On January 1, 2020, the Fund applied the requirements of The Islamic Financial Accounting Standard (30) in compliance with the instructions of the Central Bank of Jordan (6/2020) on 5 July 2020 and did not result in any material differences from the International Financial Reporting Standard (9).

This standard defines accounting principles and disclosure requirements for reduced financial assets and expected credit losses on various credit exposures, investments, and other assets of Islamic financial institutions and related allocations in accordance with the best practices followed globally.

This standard also resulted in recommendations for changes and improvements in reserve accounting represented by risk reserves in accordance with Financial Accounting Standard 35", which must be adopted simultaneously with the same effective date as the 30 th financial accounting standard. Both financial accounting standard 30 and Financial Accounting Standard 35 replace the previous financial accounting standard No. 11 for "allocations and reserves."

Islamic Financial Accounting Standard 35 (Risk Reserves)

The standard provides a comprehensive model for recognition, measurement, presentation and clarification sought regarding risk reserves. The standard applies to risk reserves of Islamic financial institutions to mitigate exposure to credit risk, market risk, equity investment risk, rate of return or movable business risks face stakeholders.

The Fund has implemented the requirements of Financial Accounting Standard 35 on risk reserves and the implementation did not have an impact on the Fund’s financial statements.

Islamic Financial Accounting Standard 33 (Investing in Sukuk, Shares and Similar Instruments)

Financial Accounting Standard (33) "Investing in Sukuk, Shares and Similar Instruments" replaces Islamic Financial Accounting Standard No. 25, which identifies the types of main instruments for Shariah compliant investments and identifies accounting processes in accordance with the characteristics of the fund's business model under which investments are managed, and aims to establish principles for classification, recognition, measurement, presentation, disclosure of investment in sukuk, shares and other similar instruments.

The Fund has implemented the requirements of Islamic Financial Accounting Standard 33 for investments in sukuk, shares and similar instruments and the implementation did not have an impact on the Fund's financial statements.

Financial Accounting Standard 34 for the preparation of financial reports for sukuk-holders

This standard defines the accounting principles and financial reporting requirements for the underlying assets of the Sukuk instrument. It requires the source to prepare funding reports or asking to prepare it as needed under this standard.

The Fund has implemented the requirements of Islamic Financial Accounting Standard 34 for the preparation of financial reports for sukuk holders and the implementation did not have an impact on the Fund's financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents:
For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand and bank balances

Revenues and expenses recognition:
It is recognized that the annual membership fees collected from banks by law is two and a half per thousand of total deposits subject to the provisions of the law.

Other income is recognized according to the accrual basis.

Expenses are recognized according to the accrual basis.

Foreign Currencies:
Transactions in foreign currencies during the year are recorded at the exchange rates prevailing on the date of the transactions. The balances of financial assets and liabilities in foreign currencies are also transferred at the rates of exchange prevailing on the date of the statement of financial position.).

Any gains or losses are recognized within the income statement.

Provisions
Provisions are recognized when the fund has a present obligation (legal or constructive) at the date of the financial statements arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Fair value
The closing prices (purchase of assets / sale of liabilities) on the date of the financial statements in active markets represent the fair value of the instruments that have market prices. In the absence of advertised prices, no active trading of some instruments, or inactivity of the market, their fair value is estimated in a number of ways, including:

- comparing it to the current market value of a financial instrument that is substantially similar to it.
- Analyzing future cash flows and discounting the expected cash flows with a percentage used in a similar financial instrument.
- Option pricing models.

Valuation methods aim to obtain a fair value that reflects market expectations and takes into account the market factors and any expected risks or benefits when assessing the value of financial instruments.

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Fund intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(3) Use of ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in shareholders' equity and unrestricted account holders' equity. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ as a result of changes in conditions and circumstances of those estimates in the future.

(4) CAPITAL

This account represents non-refunds of JD 100,000 from each Islamic bank member of the Fund. In addition to a payment of 150,000 dinars from the government's contribution to the capital of deposit Insurance Corporation.

(5) RESERVES

This item consists of the following:

	31 December 2020	31 December 2019
	JD	JD
"Takaful" portfolio of Mutual Fund Accounts	13,755,168	5,248,317
"Takaful" portfolio of Credit Accounts	12,035,900	4,601,855
Total	25,791,068	9,850,172

(6) MEMBERSHIP FEES

The Fund meets an annual subscription fee from Islamic banks of 2.5 per 1,000 of the total deposits subject to the provisions of Law No. (33) of 2000 and its amendments and the subscription fee consists as follows:

	31 December 2020	For the period since inception 1 April 2019 until 31 December 2019
	JD	JD
Membership fees of "Takaful" portfolio of Mutual Fund Accounts	8,513,615	5,252,281
Membership fees of "Takaful" portfolio of Credit Accounts	7,439,956	4,605,330
Total	15,953,571	9,857,611

(7) ADMINISTRATIVE EXPENSES

	31 December 2020	For the period since inception 1 April 2019 until 31 December 2019
	JD	JD
Wakalah bi al ajr "agency with fee" for Deposit Insurance Corporation *	5,000	3,750
Professional fees	6,000	3,083
Advertisments and subscribtion to local newspapers	1,654	550
Stationery and printings	21	56
Total	12,675	7,439

* These amounts represent the expenses of a (wakalah bi al ajr) paid annually in the amount of JD 5,000 to the Deposit Insurance Corporation.

(8) INCOME TAX

In accordance with the Deposit Insurance Corporation Act No. (33) of 2000 and its amendments, the Fund has been exempted from income tax, in accordance with Article (27) of the Act.

(9) CONTINGENT LIABILITIES

Credits and guarantees
The Fund does not have potential liabilities for credits and guarantees as of December 31, 2020 and December 31, 2019.

Cases against the Fund:
There are no cases brought against the Fund as of December 31, 2020 and December 31, 2019.

(10) Risk MANAGEMENT

Interest rate risk

The Fund is not exposed to interest rate risks on its assets that includes interest such as bank deposits.

The sensitivity of the comprehensive income list represents the impact of expected assumed interest rate changes on the Fund's one-year profit, calculated based on financial assets with a variable interest rate as at December 31, 2020 and 2019.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The fund is not exposed to credit risk as it maintains balances with leading banking institutions. (at the Central Bank of Jordan).

Liquidity risk

The Fund limits its liquidity risk by ensuring bank facilities are available.

The table below summarises the maturities of the Fund’s financial liabilities undiscounted as at 31 December 2020 and 2019 based on remaining contractual maturity and current market interest rates:

	Less than 3 months	Total
	JD	JD
As at 31 December 2020		
Accrued expenses	1,000	1,000
Total	1,000	1,000

	Less than 3 months	Total
	JD	JD
As at 31 December 2019		
Accrued expenses	1,000	1,000
Total	1,000	1,000

(11) CAPITAL MANAGEMENT

The main objective of managing the fund's capital is to ensure that appropriate capital ratios are maintained in a way that supports the fund's activity and maximizes equity.

The Corporation manages the capital structure and makes the necessary adjustments to it in light of changes in working conditions. The Corporation has not made any adjustments to the objectives, policies and procedures relating to capital structure during the current year and the previous year.

The items included in the capital structure are paid-up capital, reserves totalling JD 26,341,068 as of December 31, 2020 compared to JD 10,400,172 as of December 31, 2019.

(12) STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the financial statements are disclosed below.

Financial Accounting Standard 31 Investment Agency (Al-Wakala Bi Al-Istithmar)
This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi AlIstithmar) transactions and instruments, in the hands of both the Rab Al-Mal and the (Wakeel). this standard shall be effective beginning on or after 1 January 2021, with early adoption permitted.

The standard requires the Rab Al-Mal to evaluate the nature of the investment as either

a) a pass-through investment or
b) wakala venture.

A pass-through investment is an investment in which the involvement of the Wakeel, as well as, the options for transferability of the instrument are limited and the investor (Muakel) principally takes a direct exposure on the underlying assets. An investor (Muakel) shall apply the pass-through investment approach for its investments in an investment agency instruments; unless it opts to apply the wakala venture approach .

Under this approach, the principal (Muakel) shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

The principal (Muakel) may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions required under certain conditions.

Under this approach, an investment shall be accounted for in the books of the investor (Muakel) who applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share (Muakel) in profit or loss of the wakala venture.

From the agent (Wakeel) perspective, the standard requires that at inception of the transaction the agent (Wakeel) shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach where by virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet.

Financial Accounting Standard FAS 32 (Ijarah)

This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee.

This standard shall be effective beginning or after 1 January 2021, with early adoption permitted.

(13) IMPACT of the CORONA PANDEMIC (COVID-19) ON THE FUND

As a result of the continued impact of COVID-19 on the global economy and various business sectors and the accompanying restrictions and procedures imposed by the Jordanian government, neighbouring countries and the rest of the world, the Fund's activities may be affected by global developments that currently affect various economic and geographical sectors.

The COVID pandemic has not had a substantial impact on the FUND's activities. The Fund's management considers that it retains the liquidity necessary to meet its obligations upon maturity for at least one year from the date of these financial statements.