DEPOSIT INSURANCE FUND FOR ISLAMIC BANKS

LEGAL ENTITY

FINANCIAL STATEMENTS

31 DECEMBER 2021

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Ernst & Young Jordan
P.O.Box 1140
Amman 11118
Jordan

Tel : 00 962 6580 0777/00 962 6552 6111
Fax: 00 962 6553 8300
www.ey.com/me

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

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 2021, 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 2021, 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.

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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.

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- 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.

For and on behalf of Ernst & Young – Jordan

Osama Shakhatreh
License No. 1079

ERNST & YOUNG
Amman - Jordan

Amman – Jordan
4 April 2022

Deposit Insurance Fund For Islamic Banks
Legal Entity
Statement of Financial Position
As at 31 December 2021

	Notes	31 December 2021	31 December 2020
		JD	JD
Assets			
Current assets			
Current account at Central Bank of Jordan		26,386,080	26,342,068
Non Current Assets			
Financial assets at amortized cost	4	17,579,000	-
Total Assets		43,965,080	26,342,068
Liabilities and Equity			
Liabilities			
Accrued expenses		1,000	1,000
Total Liabilities		1,000	1,000
Equity			
Paid in Capital	5	550,000	550,000
Reserves	6	43,414,080	25,791,068
Total equity		43,964,080	26,341,068
Total liabilities and equity		43,965,080	26,342,068

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 2021

	Notes	2021	2020
		JD	JD
Membership fees	7	17,635,409	15,953,571
Administrative expneses	8	(12,397)	(12,675)
Excess of revnues over expenses for the year		17,623,012	15,940,896

Deposit Insurance Fund For Islamic Banks
Legal Entity
Statement of Changes in equity
For the year ended 31 December 2021

	Paid in Capital*	Reserves	Total
	JD	JD	JD
For year ended 31 December 2021			
Balance at 1 January 2021	550,000	25,791,068	26,341,068
Excess of revnues over expenses	-	17,623,012	17,623,012
Balance as at 31 December 2021	550,000	43,414,080	43,964,080
For period ended 31 December 2020			
Balance at 1 January 2020	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

* 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.

Deposit Insurance Fund For Islamic Banks
Legal Entity
Statement of Cash flows
For the year ended 31 December 2021

	2021	2020
	JD	JD
Excess of revnues over expenses	17,623,012	15,940,896
Investing activities		
Purchase of financial assets at amortized cost	(17,579,000)	-
Net cash used in investing activities	(17,579,000)	-
Net increase cash and cash equivalents	44,012	15,940,896
Cash and cash equivalents, beginning of the year	26,342,068	10,401,172
Cash and cash equivalents, end of the year	26,386,080	26,342,068

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 2020, except for the adoption of the following standards:

Islamic Financial Accounting Standard 32 (Ijarah)

Islamic Financial Accounting Standard No. (32) "Ijarah" replaces Financial Accounting Standard No. (8) "Ijarah and Ijarah Muntahia Bittamleek". The standard sets out the principles relating to the recognition, measurement, presentation and disclosure of various types of leases as lessors and lessees.

The Fund has applied the requirements of Islamic Financial Accounting Standard No. (32) and there is no effect from the application of this standard on the Fund's financial statements, as part of the standard has replaced International Financial Reporting Standard No. (16), which was previously applied from the date of 1 December 2019.

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 statement of revenues and expenses.

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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at amortized cost

Financial assets are measured at amortized cost only if these assets are held within a business model whose objective is to hold the assets to collect their contractual cash flows which represent fixed or determinable payments for the capital and profits of these assets.

Assets at amortized cost is recorded at cost upon purchase plus acquisition expenses and re-evaluated at the end of the current period using the effective profit rate method. Any gains or losses resulting from the amortization process appear in the statement of revenues and expenses, and any impairment in its value is recorded in the statement of revenues and expenses.

The amount of impairment in the value of these assets represents the difference between the value recorded in the records and the present value of the expected cash flows discounted at the original effective profit rate, so that any provision for expected credit losses calculated from it is deducted from the value of these assets. No financial assets may be reclassified to/from this item

In the event of selling any of these assets financed by the fund's own funds - before their maturity date, the result of the sale is recorded in the statement of comprehensive income in a separate item and that is disclosed.

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) Financial Assets at Amortized Cost

	31 December 2021	31 December 2020
	JD	JD
"Sukuk" National Electric Power Company (Credit)	8,150,497	-
"Sukuk" National Electric Power Company (Mutual)	9,428,503	-
Total	17,579,000	-

(5) 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.

(6) Reserves

The amounts accumulated in this item represent the transfer of surplus revenues over expenditures during the years.

	31 December 2021	31 December 2020
	JD	JD
"Takaful" portfolio of Mutual Fund Accounts	23,285,102	13,755,168
"Takaful" portfolio of Credit Accounts	20,128,978	12,035,900
Total	43,414,080	25,791,068

(7) 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 2021	31 December 2020
	JD	JD
Membership fees of "Takaful" portfolio of Mutual Fund Accounts	9,536,638	8,513,615
Membership fees of "Takaful" portfolio of Credit Accounts	8,098,771	7,439,956
Total	17,635,409	15,953,571

(8) Administrative Expenses

	31 December 2021	31 December 2020
	JD	JD
Wakalah bi al ajr "agency with fee" for Deposit Insurance Corporation *	5,000	5,000
Professional fees	6,000	6,000
Advertisments and subscribtion to local newspapers	1,397	1,654
Stationery and printings	-	21
Total	12,397	12,675

* 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.

(9) 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.

(10) Contingent Liabilities

Credits and guarantees
The Fund does not have potential liabilities for credits and guarantees as of December 31, 2021 and December 31, 2020.

Cases against the Fund:
There are no cases brought against the Fund as of December 31, 2021 and December 31, 2020.

(11) 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, 2021 and 2020.

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 2021 and 2020 based on remaining contractual maturity and current market interest rates:

	Less than 3 months	Total
	JD	JD
As at 31 December 2021		
Accrued expenses	1,000	1,000
Total	1,000	1,000

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

(12) 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 43,964,080 as of December 31, 2021 compared to JD 26,341,068 as of December 31, 2020.

(13) STANDARDS ISSUED BUT NOT YET EFFECTIVE

Financial Accounting Standard 1 - Amended 2021 (Public Presentation and Disclosure in Financial Statements)

This Standard defines and improves the comprehensive presentation and disclosure requirements stipulated in line with international best practices and replaces the accounting standard Finance No.1.

The standard applies to all Islamic financial institutions and other institutions that follow the financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Financial Accounting Standard No. 1 - Amended 2021 is aligned with the amendments to the "Conceptual Framework for Financial Reporting of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)" (Amendment 2020) (Conceptual Framework). Amended Financial Accounting Standard No. 1 – 2021 will help prepare clear, transparent, and understandable financial statements, and in turn, will help users of financial statements to make better economic decisions.

This standard will be applied from 1 January 2023, with early application permitted.

Financial Accounting Standard No. 37 "Financial Reporting for Endowment Establishments"

This standard sets out the comprehensive accounting and financial reporting requirements for endowment institutions and similar institutions, including requirements for public presentation and disclosure and special presentation requirements such as yield requirements and basic accounting treatments related to some aspects of endowment institutions.

The principles contained in this standard are consistent with the principles and provisions of Sharia, and this helps to reach a better understanding of the information contained in the general-purpose financial statements and enhances the confidence of stakeholders in endowment institutions.

This standard will be applied as of 1 January 2022, with early application permitted. The newly established endowment foundation must apply this standard since its establishment.

Financial Accounting Standard No. 38 "(Promise), (Option), (Hedging)"

This standard describes the accounting and reporting principles and requirements for (promise), (option), and (hedging) arrangements for Islamic financial institutions. Many products such as Murabaha and Ijara offered by institutions incorporate the implementation of a promise or option in one way or another. An additional promise or option, that aligns with this Standard, is a promise or option associated with a Shariah-compliant arrangement concerning its structure that does not generate any asset or liability unless it turns into an impaired contract or liability.

(13) STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

Financial Accounting Standard No. 38 "(Promise), (Option), (Hedging)"(Continued)

On the other hand, a promise product or option is a stand-alone arrangement that is Shariah-compliant and is used either as a regular product or, sometimes, for hedging. It may take the form of a single transaction, series, or group of transactions and may transform into a future transaction or series of transactions, in line with Islamic Sharia principles and rules, such transactions emergence to an asset or liability for the parties, for the terms specified in this Standard.

This standard will be applied as of 1 January 2022 with early application permitted.

Financial Accounting Standard No. 39 "Financial Reporting on Zakat"

This standard improves and replaces the previously issued Financial Accounting Standard 9 "Zakat".

This standard aims to specify the accounting treatment of Zakat in the records of Islamic financial institutions, including presentation and disclosure in their financial statements.

The standard describes the applicable financial reporting principles based on the obligation of Islamic financial institutions to pay zakat. Additionally, if an Islamic financial institution is not required by law or its founding charter to pay zakat, it must still determine and disclose the amount of zakat due for the benefit of the various stakeholders.

This standard will be applied as of 1 January 2023, with early application permitted.

Financial Accounting Standard No. 40 "Financial Reporting for Islamic Finance Windows"

This standard improves and replaces FAS 18 "Islamic financial services provided by conventional financial institutions" and specifies financial reporting requirements applicable to conventional financial institutions that provide Islamic financial services.

This standard requires traditional financial institutions that provide Islamic financial services through Islamic financing windows to prepare and submit financial statements for Islamic financing windows aligned with the requirements of this standard and other financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This standard provides principles of financial reporting including presentation and disclosure requirements applicable to Islamic finance windows.

This standard will be applied as of 1 January 2024, on the financial statements of Islamic financing windows for conventional financial institutions, allowing the early application, taking into account the simultaneous application of Financial Accounting Standard No. 1 "Public Presentation and Disclosure in Financial Statements".