

# **Ajman Bank PJSC**

Financial statements  
For the year ended 31 December 2011

# **Ajman Bank PJSC**

## **Financial statements**

*For the year ended 31 December 2011*

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## **Directors' report**

The Directors submit their report dealing with the activities of Ajman Bank PJSC ("the Bank") for the year ended 31 December 2011.

## **Principal activities**

The principal activities of the Bank are undertaking banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Wakala, Sukuk, Mudarba and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia'a principles and within the provisions of its Memorandum and Articles of Association.

## **Financial position and results**

The financial position and results of the Bank for the year ended 31 December 2011 are set out in the accompanying financial statements.

## **Dividend**

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011.

## **Directors**

The following were the Directors of the Bank for the year ended 31 December 2011:

H.E. Sheikh Ammar Bin Humaid Al Nuaimi - Chairman  
H.E. Sheikh Ahmed Bin Humaid Al Nuaimi - Deputy Chairman  
H.E. Sheikh Rashid Bin Humaid Al Nuaimi  
Dr. Ali Rashid Abdulla Al Nuaimi  
Mr. Ali Bin Abdullah Al Hamrani  
Mr. Salem Rashid Al Khudur  
Mr. Yousef Ali Fadil Bin Fadil

## **Auditors**

The auditors, KPMG, have expressed their willingness to continue in office.

By order of the Board of Directors

Director  
[Date]

02 FEB 2012



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United Arab Emirates

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## **Independent auditors' report**

The Shareholders  
Ajman Bank PJSC

### **Report on the financial statements**

We have audited the accompanying financial statements of Ajman Bank PJSC ("the Bank"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income (comprising a separate statement of income and a statement of comprehensive income), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

### **Report on other legal and regulatory requirements**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Bank, and the contents of the Directors' report which relate to these financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2011, which may have had a material adverse effect on the business of the Bank's or its financial position.

KPMG  
Vijendranath Malhotra  
Registration No: 48B

02 FEB 2012

# Ajman Bank PJSC

## Statement of financial position

As at 31 December

	<i>Note</i>	<b>2011</b> <b>AED'000</b>	2010 AED'000
<b>ASSETS</b>			
Cash and balances with the Central Bank of the UAE	7	<b>168,367</b>	130,310
Investments in Islamic financing and investment products	8	<b>3,204,775</b>	2,786,313
Investment securities	9	<b>385,907</b>	169,039
Investment property	10	<b>49,961</b>	49,961
Property and equipment	11	<b>62,207</b>	66,234
Other assets	12	<b>128,730</b>	32,489
<b>Total assets</b>		<b>3,999,947</b>	3,234,346
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Customer deposits	13	<b>2,626,711</b>	2,022,249
Wakala deposits by banks	14	<b>270,771</b>	140,596
Other liabilities	15	<b>97,408</b>	61,381
Provision for employees' end of service benefits	16	<b>6,704</b>	3,178
<b>Total liabilities</b>		<b>3,001,594</b>	2,227,404
<b>Shareholders' equity</b>			
Share capital	17	<b>1,000,000</b>	1,000,000
Statutory reserve	18	<b>3,150</b>	2,454
Fair value reserve		<b>(15,706)</b>	(161)
Retained earnings		<b>10,909</b>	4,649
<b>Total shareholders' equity</b>		<b>998,353</b>	1,006,942
<b>Total liabilities and shareholders' equity</b>		<b>3,999,947</b>	3,234,346

The notes on pages 8 to 52 form part of these financial statements.

These financial statements were approved by the Board of Directors on 2<sup>nd</sup> Feb.2012 and signed on their behalf by:

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Chairman

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Chief Executive Officer

The independent auditors' report is set out on page 2.

# Ajman Bank PJSC

## Statement of income

For the year ended 31 December

	<i>Note</i>	<b>2011</b> <b>AED'000</b>	2010 AED'000
<b>Income</b>			
Income from investments in			
Islamic financing and investment products	19	<b>196,897</b>	113,927
Income from investment securities		<b>30,200</b>	14,433
Fees and other income		<b>19,177</b>	16,109
Fair value gain on investment property	10	-	49,961
		<b>246,274</b>	194,430
Depositors' share of profits		<b>(66,296)</b>	(37,366)
Net income		<b>179,978</b>	157,064
<b>Expenses</b>			
Staff costs	20	<b>(96,785)</b>	(90,748)
General and administrative expenses	21	<b>(42,633)</b>	(42,797)
Depreciation	11	<b>(17,616)</b>	(14,361)
Impairment charge for Islamic financing and investment products	8	<b>(15,988)</b>	(5,124)
<b>Profit for the year</b>		<b>6,956</b>	4,034
<b>Earnings per share – Basic (AED)</b>	24	<b>0.0070</b>	0.0040

The notes on pages 8 to 52 form part of these financial statements.

The independent auditors' report is set out on page 2.

# Ajman Bank PJSC

## Statement of comprehensive income For the year ended 31 December

	<i>Note</i>	<b>2011</b> <b>AED'000</b>	2010 AED'000
Profit for the year		<b>6,956</b>	4,034
<b>Other comprehensive income</b>			
Fair value loss on available for sale investment securities	9	<b>(15,545)</b>	(161)
Other comprehensive expense for the year		<b>(15,545)</b>	(161)
Total comprehensive (expense)/income for the year		<b>(8,589)</b>	3,873

The notes on pages 8 to 52 form part of these financial statements.

The independent auditors' report is set out on page 2.

# Ajman Bank PJSC

## Statement of changes in shareholder's equity For the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total share holders' equity AED'000
At 1 January 2010	1,000,000	2,050	-	1,019	1,003,069
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	4,034	4,034
Other comprehensive expense	-	-	(161)	-	(161)
Total comprehensive income for the year	-	-	(161)	4,034	3,873
<b>Transactions with owners recorded directly in equity</b>					
Transfer to statutory reserve	-	404	-	(404)	-
Total transactions with owners	-	404	-	(404)	-
At 31 December 2010	<u>1,000,000</u>	<u>2,454</u>	<u>(161)</u>	<u>4,649</u>	<u>1,006,942</u>
At 1 January 2011	1,000,000	2,454	(161)	4,649	1,006,942
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	6,956	6,956
Other comprehensive expense	-	-	(15,545)	-	(15,545)
Total comprehensive income for the year	-	-	(15,545)	6,956	(8,589)
<b>Transactions with owners recorded directly in equity</b>					
Transfer to statutory reserve	-	696	-	(696)	-
Total transactions with owners	-	696	-	(696)	-
<b>At 31 December 2011</b>	<u><b>1,000,000</b></u>	<u><b>3,150</b></u>	<u><b>(15,706)</b></u>	<u><b>10,909</b></u>	<u><b>998,353</b></u>

The notes on pages 8 to 52 form part of these financial statements.

The independent auditors' report is set out on page 2.

**Ajman Bank PJSC**  
**Statement of cash flows**  
For the year ended 31 December

	<i>Note</i>	<b>2011</b> <b>AED'000</b>	2010 AED'000
Profit for the year		<b>6,956</b>	4,034
Adjustments for:			
Depreciation		<b>17,616</b>	14,361
Impairment charge for Islamic financing and investment products		<b>15,988</b>	5,124
Provision for employees' end of service benefits		<b>4,345</b>	1,673
Property and equipment written-off		-	1,966
Fair value gain on investment property		-	(49,961)
Operating profit before changes in operating assets and liabilities		<b>44,905</b>	(22,803)
<b>Changes in operating assets and liabilities:</b>			
Change in investments in			
Islamic financing and investment products		<b>(434,450)</b>	(1,067,435)
Change in statutory deposit with the Central Bank of the UAE		<b>(43,239)</b>	(13,666)
Change in other assets		<b>(96,241)</b>	(10,369)
Change in customer deposits		<b>604,462</b>	1,235,592
Change in wakala deposits by banks		<b>130,175</b>	59,581
Change in other liabilities		<b>36,027</b>	6,070
Payment of employees' end of service benefits		<b>(819)</b>	(396)
Net cash inflows from operating activities		<b>240,820</b>	186,574
<b>Investing activities:</b>			
Purchase of investment securities		<b>(232,413)</b>	(125,732)
Purchase of property and equipment		<b>(13,589)</b>	(16,954)
Net cash used in investing activities		<b>(246,002)</b>	(142,686)
Net increase in cash and cash equivalents		<b>(5,182)</b>	43,888
Net cash and cash equivalents at the beginning of the year		<b>68,821</b>	24,933
Cash and cash equivalents at the end of the year	7	<b>63,639</b>	68,821

The notes on pages 8 to 52 form part of these financial statements.

The independent auditors' report is set out on page 2.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **1. Legal status and principal activities**

Ajman Bank PJSC (“the Bank”) is incorporated as a Public Joint Stock Company. The registered office of the Bank is located at A & F Towers, 1<sup>st</sup> Floor, Khalifa Street, P.O. Box 7770, Ajman, United Arab Emirates (“UAE”). The Bank was legally incorporated on 17 April 2008. The Bank was registered with the Securities and Commodities Authority (“SCA”) on 12 June 2008 and obtained a license from the Central Bank of the UAE to operate as a Head Office on 14 June 2008. On 1 December 2008, the Bank obtained a branch banking license from the Central Bank of the UAE and commenced operations on 22 December 2008. The shares of the Bank are listed on Dubai Financial Market.

In addition to its main office in Ajman, the Bank operates through 10 branches and 2 pay offices in UAE. The financial statements combine the activities of the Bank’s Head Office and its branches.

The principal activities of the Bank are undertaking banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Wakala, Sukuk, Mudarba and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia’a principles and within the provisions of its Memorandum and Articles of Association.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting standards (“IFRS”) as issued by International Accounting Standard Board (“IASB”), guidance of the Central Bank of UAE, Islamic Shari’a principles and applicable requirements of the Federal laws relating to Islamic Banks.

### **(b) Basis of measurement**

These financial statements are prepared under the historical cost basis, except for the following which are measured at fair value:

- financial assets available-for-sale; and
- investment property.

### **(c) Functional and presentation currency**

These financial statements are presented in United Arab Emirate Dirhams, which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **2. Basis of preparation *(continued)***

### **(d) Significant estimates and judgment**

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 3 (o).

## **3. Significant accounting policies**

The Bank has consistently applied the accounting policies and methods of computation used for the preparation of last audited annual financial statements for the year ended 31 December 2010. However, the Bank has adopted IAS 24 'Related Party Disclosures' in the preparation of these financial statements. This new and revised IAS which became applicable for the annual periods beginning on or after 1 January 2011, amends the definition of a related party and modifies certain related party disclosure requirements for government-related entity. It also affects the presentation and disclosure of these financial statements; however, do not affect the Bank's statement of financial position, statement of income or statement of changes in equity. The management has assessed the impact of this new standard and believes that changes have no significant effect on the Bank's financial statements.

### **(a) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset for the Bank and a financial liability or equity instrument of another party. All assets and liabilities in the statement of financial position are financial instruments, except property and equipment, intangible assets, prepayments, advance receipts and shareholders' equity.

#### ***Classification***

Financial instruments are categorized as follows:

*Financial assets at fair value through profit or loss (FVPL):* This category has two sub-categories: financial assets held-for-trading, and those designated to be fair valued through profit or loss at inception. The Bank has designated financial assets at fair value through profit or loss when the assets are managed, evaluated and reported internally on a fair value basis.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 3. Significant accounting policies *(continued)*

### (a) Financial instruments *(continued)*

#### *Classification (continued)*

*Islamic financing and investment products* in these financial statements are Murabaha, Wakala, Mudarba, Musharaka and Ijara with fixed and/or determinable payments. They arise when the Bank finances its customers or invests with its customers.

*Held-to-maturity (HTM) assets* are non-derivative financial assets with fixed or determinable payments and fixed maturities, where the Bank has the positive intent and ability to hold to maturity. Where the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category is to be re-classified as available-for-sale.

*Available-for-sale (AFS) assets* are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) Islamic financing and investment products, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

#### *Investments in Islamic financing and investment products*

The investments in Islamic financing and investment products of the Bank are represented by the following products:

**Murabaha** is a contract of sale between the Bank and its customer for the sale of goods at a price which includes a profit margin agreed by both parties. As a financing technique it involves the purchase of goods by the Bank as requested by the customer and with subsequent sale to the customer with a mark-up. Payments, usually in installments, are specified in the Murabaha contract.

**Wakala** involves the Bank providing a certain sum of money to an agent, who invests it according to specific conditions for a certain fee (lump sum money or a percentage of the amount invested). On maturity, the Bank receives the invested amount from the agent, along with the actual realized return.

**Mudaraba** is a contract between the Bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity. Any profits generated are distributed between the parties according to the profit shares that were pre-agreed upon at the time of entering into the contract. The Mudarib is responsible of all losses caused by his misconduct and negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

**Musharaka** is a contract between the Bank and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time period, during which the Bank enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a prorata basis.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 3. Significant accounting policies *(continued)*

### (a) Financial instruments *(continued)*

#### *Investments in Islamic financing and investment products (continued)*

**Ijarah** is a product where the Bank buys and leases equipment or other assets to the customers for rental income. The duration of the contract as well as the rent must be set out in advance and on a mutually agreed basis. When the Bank as lessor in an Ijarah transaction grants the customer the right to acquire the asset for a nominal consideration at the end of the Ijarah term, provided the customer, as lessee, has fulfilled all its obligations under the Ijarah agreement, the arrangement is classified as an Ijarah Muntahiya bitamleek (financial lease) and a receivable equal to the net investment in the lease is recognised and presented within investment in Islamic financing.

#### *Recognition and initial measurement*

A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Investment in Islamic financing and investment products, investment securities, customer deposits, and wakala deposits by banks are recognised on the date at which they are originated.

The Bank initially recognizes investment in Islamic financing and investment products, investment securities, customer deposits, and wakala deposits by banks on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

#### *Derecognition*

Financial assets are derecognized when the contractual rights to receive the cash flows from the financial asset have expired, or when the Bank has transferred substantially all the risks and rewards of ownership. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

#### *Subsequent measurement*

Subsequent to initial recognition, all financial instruments to be fair valued through profit or loss and available-for-sale assets are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in fair value measurement principles below.

All held-to-maturity financial instruments and investments in Islamic financing and investment products are measured at amortised cost using the effective profit method less impairment losses, if any.

#### *Amortized cost measurement principles*

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment losses. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **3. Significant accounting policies *(continued)***

### **(a) Financial instruments *(continued)***

#### ***Fair value measurement principles***

Fair value is the amount for which assets could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

When a market for a financial instrument is not active, the Bank establishes fair value using valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and net present value techniques. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of input used in making these measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Pursuant to disclosure requirements of IFRS 7 Financial Instruments: Disclosures, the Bank has disclosed the respective information under note 5.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **3. Significant accounting policies *(continued)***

### **(a) Financial instruments *(continued)***

#### ***Gains and losses on subsequent measurement***

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of income in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to the statement of income.

#### ***Impairment of financial assets***

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. Impairment loss is the difference between the net carrying value of an asset and its recoverable amount. Any such impairment loss is recognized in the statement of income. The recoverable amount of investments in Islamic financing and investment products is calculated as the present value of the expected future cash flows, using the product's original effective profit rate. Short-term (up to one year maturity) balances are not discounted.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the customer or issuer, default or delinquency by a customer, restructuring of investment in Islamic financing and investment products by the Bank on terms that the Bank would not otherwise consider, indications that a customer or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of customer or issuers, or economic conditions that correlate with defaults.

The Bank considers evidence of impairment for investments in Islamic financing and investment products and held-to-maturity investments securities at both a specific asset and collective level. All individually significant investments in Islamic financing and investment products and held-to-maturity investment securities are assessed for specific impairment. All individually significant investments in Islamic financing and investment products and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Investments in Islamic financing and investment products and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together investments in Islamic financing and investment products and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows calculated using the asset's original effective profit rate. Impairment losses are recognized in statement of income and reflected in an allowance account against Islamic financing and investment product's account. Profit on impaired assets continues to be recognized on a gross basis.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **3. Significant accounting policies *(continued)***

### **(a) Financial instruments *(continued)***

#### ***Impairment of financial assets (continued)***

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the statement of income.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in statement of income, and is removed from statement of other comprehensive income and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income and are reversed through the cumulative changes in fair value under equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in statement of income, then the impairment loss is reversed, with the amount of the reversal recognised in statement of income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

#### ***Offsetting***

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 3. Significant accounting policies *(continued)*

### (b) Property and equipment

#### ***Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

#### ***Subsequent costs***

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the statement of income as incurred.

#### ***Depreciation***

Depreciation is recognised in statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	<b>Years</b>
Leasehold improvements	7
Computers and software	3 to 7
Office furniture and equipment	5
Motor vehicles	5

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gain and losses on disposals are determined by comparing proceeds with the carrying amount. The differences are included in the statement of income.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of income, in the period in which they arise.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Bank's accounting policies.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 3. Significant accounting policies *(continued)*

### (c) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein is recognised in the statement of income.

All other repairs and maintenance costs are charged to the statement of income during the financial period in which they are incurred. The fair value of investment property is based on the nature, location and condition of the specific asset.

#### ***Fair value measurement***

The determination of fair values of investment property is based on quoted market prices or dealer price quotations traded in active markets. If quoted market prices are not available, the fair value of the investment property is estimated using pricing models or appropriate cash flow present value calculation techniques, including the use of recent arm's length market transactions, as applicable.

### (d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central and other banks and highly liquid financial assets with original maturities of less than three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

### (e) Customer deposits, wakala deposits by banks and other liabilities

Customer deposits, wakala deposits by banks and other liabilities are initially recognised at fair value and subsequently measured at amortised cost.

### (f) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by calculating the present value of expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (g) Revenue recognition

Income from investments in Islamic financing and investment products and investment securities, including fees which are considered an integral part of the effective profit of a financial instrument, are recognized in the statement of income using the effective profit method.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **3. Significant accounting policies *(continued)***

### **(h) Fees and other income**

Fees and other income from banking services provided by the Bank are recognized on an accrual basis when the service has been provided.

### **(i) Dividend income**

Dividend income is recognised when the Bank's right to receive the payment is established.

### **(j) Employees' benefits**

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

A provision is made based on the full amount of end of service benefits due to the non-UAE national employees in accordance with the UAE Labor Law, for their period of service up to the reporting date.

### **(k) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

### **(l) Foreign currency transactions**

Transactions denominated in foreign currencies are translated into AED at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in to AED at the foreign exchange rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into AED at the foreign exchange rates ruling on the date of the transaction. Realised and unrealised exchange gains and losses have been dealt within the statement of income.

### **(m) Donations received**

Donations are classified to the appropriate asset category and initially recognized and subsequently measured in accordance with the accounting policy relating to that particular asset category.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **3. Significant accounting policies *(continued)***

### **(n) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Bank's Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

### **(o) Critical accounting estimates and judgments**

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Bank's results and financial situation due to their materiality.

#### ***Impairment losses on investment in Islamic financing and investment products***

The Bank reviews its investment in Islamic financing and investment products portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of investments in Islamic financing and investment products before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment, similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### ***Held-to-maturity investment securities***

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an other than insignificant amount close to maturity – the Bank is required to reclassify the entire category as available for sale. Accordingly, the investment securities would be measured at fair value instead of amortised cost.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 3. Significant accounting policies *(continued)*

### (o) Critical accounting estimates and judgments *(continued)*

#### *Investment property*

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values have been determined using the residual method. The Residual method is applicable to properties where the value would be maximized if it were to be developed, redeveloped, or refurbished. To arrive at the current market value of the property in its existing state the estimated end development value is calculated, then all costs in carrying out the development are deducted, including cost of the physical construction, professional fees, financing, and developer's profit.

### (p) New standards and interpretations

A number of new standards, amendments to standards and interpretations that are issued but not yet effective for accounting period starting 1 January 2011, and have not been early adopted in preparing these financial statements:

IFRS – 9	Financial Instruments: Effective 1 January 2013;
IAS – 1	(Amendments to IAS 1) Presentation of Items of Other Comprehensive Income: Effective 1 July 2012;
IFRS – 10	Consolidated Financial Statements: Effective 1 January 2013;
IFRS – 11	Joint Arrangements: Effective 1 January 2013;
IFRS – 12	Disclosure of Interests in Other Entities: Effective 1 January 2013;
IFRS – 13	Fair Value Measurement: Effective 1 January 2013;
IAS – 19	(Amended 2011) Employee Benefits: Effective 1 January 2013;
IAS – 27	(2011) Separate Financial Statements: Effective 1 January 2013;
IAS – 28	(2011) Investments in Associates and Joint Ventures: Effective 1 January 2013.

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Bank or their impact is limited to the disclosures and presentation requirement in the financial statements except for IFRS 9 as stated below.

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39, key features of IFRS 9 are:

- IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.
- The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.
- The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of the Bank's operations, this standard is not expected to have a pervasive impact on the Banks's financial statements.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **4 Financial risk management**

The Bank's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, and is subject to risk limits and other controls.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realizable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

### *Risk Management Framework*

Risk management is carried out by the Risk Management Division under policies that are approved by the Board of Directors. The Risk Management Division is responsible for the independent review of risk management and the control environment. The most important types of risks that the Bank is exposed to are, credit and concentrations risk, market risk and liquidity risk. Market risk includes profit rate risk, currency risk and price risk. The Bank is also subject to operational risks. The independent risk control process does not however, monitor business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank's strategic planning process.

### **4.1 Risk management structure**

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks of the Bank.

#### *Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

#### *Executive committee*

Executive committee acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

#### *Audit committee*

The Audit committee consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **4 Financial risk management *(Continued)***

### **4.1 Risk management structure *(continued)***

#### *Sharia Board*

The Sharia Board is responsible for Sharia governance in terms of overview and approval of products and documentation in relation to Sharia compatibility and overall Sharia compliance.

#### *Risk & Compliance Committee of the Board ("RCC")*

This RCC assists the Board of Directors in discharging its responsibilities with respect to ensuring that the Bank's activities comply with the statutory laws and regulations, the system of internal control over financial reporting and with the Bank's code of conduct.

#### *Credit committee*

Credit committee manages the credit risk of the Bank by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the Islamic financing and investment products portfolio and the sufficiency of provisions thereof.

#### *Asset and Liability Committee ("ALCO")*

The objective of ALCO is to derive the most appropriate strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Bank's risk appetite and levels of exposure as determined by the Board of Directors.

#### *Human resource committee*

Human resource committee manages the resources, performance and requirement of individuals required by Bank on time to time basis.

#### *Risk Management Division ("RMD")*

The RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The RMD is also responsible for credit approval, credit administration, credit risk, market risk, operational risk and overall risk control.

#### *Internal audit*

Risk management processes at the Bank are audited periodically by the internal audit function which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of its assessments with management, and reports its findings and recommendations directly to the Audit Committee.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **4 Financial risk management *(Continued)***

### **4.2 Risk measurement and reporting systems**

The Bank measures risks using conventional qualitative methods for credit, market and operational risks. Further, the Bank also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Bank also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur or, in fact, occur.

Monitoring and controlling risks is primarily performed in relation to limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

### **4.3 Credit risk and concentrations of risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's investment in Islamic financing and investment products and investment securities.

#### ***Credit risk measurement***

The Bank's Risk Management Framework assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. The framework has been developed internally and combines statistical analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available data.

The Bank's exposure to credit risk is measured on an individual counterparty basis, as well as by group of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits have been established and are monitored in the light of changing counterparty and market conditions.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **4 Financial risk management *(Continued)***

### **4.3 Credit risk and concentrations of risk *(continued)***

#### ***Management of credit risk***

The Bank's Credit Risk Management Framework includes:

- Establishment of an authorization structure and limits for the approval and renewal of Islamic financing and investment facilities;
- Reviewing and assessing credit exposures in accordance with the authorization structure and limits, prior to facilities being sanctioned to customers; renewals and reviews of facilities are subject to the same review process;
- Diversification of Islamic financing and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the Bank's risk management strategy and market trends.

#### ***Risks relating to credit-related commitments***

The Bank makes available to its customers, guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfill certain obligations to other parties. These instruments expose the Bank to a similar risk to financing and investing assets and these are monitored by the same control processes and policies.

#### ***Concentration of credit risk***

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Bank monitors concentrations of credit risk by industry sectors and geographic location. Identified concentration of credit risk is controlled and managed accordingly.

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### Concentration of credit risk (continued)

By industry sectors

The following table breaks down the Bank's credit exposures on investments in Islamic financing and investment products, investment securities, balances with other banks and off balance sheet items categorized by industry sectors.

2011	On balance sheet items					
	Investment in Islamic financing and investment products AED'000	Investment securities AED'000	Balances with other banks AED'000	Total funded AED'000	Off balance sheet items AED'000	Total AED'000
Banks	490,260	46,243	14,278	550,781	-	550,781
Manufacturing	91,846	-	-	91,846	1,510	93,356
Electricity & water	-	-	-	-	-	-
Mining&Quarrying	188,474	-	-	188,474	-	188,474
Construction	352,246	97,421	-	449,667	99,949	549,616
Trade	229,850	-	-	229,850	200,595	430,445
Transport, storage & communication	91,241	-	-	91,241	9,787	101,028
Financial Institutions	289,591	-	-	289,591	25,000	314,591
Services	507,383	-	-	507,383	64,827	572,210
Government	177,256	-	-	177,256	20,488	197,744
Personal	620,629	-	-	620,629	23,984	644,613
Others	165,999	242,243	-	408,242	14,692	422,934
	<b>3,204,775</b>	<b>385,907</b>	<b>14,278</b>	<b>3,604,960</b>	<b>460,832</b>	<b>4,065,792</b>

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### Concentration of credit risk (continued)

By industry sectors (continued)

2010	On balance sheet items					
	Investment in Islamic financing and investment products AED'000	Investment securities AED'000	Balances with other banks AED'000	Total funded AED'000	Off balance sheet Items AED'000	Total AED'000
Banks	1,240,263	55,397	7,428	1,303,088	1,268	1,304,356
Manufacturing	80,704	-	-	80,704	1,472	82,176
Electricity & water	-	4,739	-	4,739	-	4,739
Mining&Quarrying	-	-	-	-	-	-
Construction	359,254	51,929	-	411,183	109,340	520,523
Trade	47,833	-	-	47,833	94,842	142,675
Transport, storage & communication	244,691	-	-	244,691	61,608	306,299
Financial Institutions	65,000	-	-	65,000	-	65,000
Services	116,884	-	-	116,884	17,086	133,970
Government	118,832	-	-	118,832	-	118,832
Personal	437,383	-	-	437,383	44,081	481,464
Others	75,469	56,974	-	132,443	55,254	187,697
Total exposures	<u>2,786,313</u>	<u>169,039</u>	<u>7,428</u>	<u>2,962,780</u>	<u>384,951</u>	<u>3,347,731</u>

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### Concentration of credit risk (continued)

By geographic location

Based on the domicile of the counterparties, the following table sets out the Bank's main credit exposures at their carrying amounts, categorized by geographical region:

#### On balance sheet items

	UAE AED'000	GCC AED'000	Others AED'000	Total AED'000
<b>2011</b>				
Due from banks	3,404	521	10,353	14,278
Investments in Islamic financing and investment products				
- Retail	492,274	-	-	492,274
- Corporate	1,978,519	58,728	-	2,037,247
- Treasury	418,179	257,075	-	675,254
Investment securities				
- Held-to-maturity	139,389	-	-	139,389
- Available-for-sale	231,638	-	-	231,638
Investment property	49,961	-	-	49,961
Other assets	124,251	4,479	-	128,730
<b>Total</b>	<b>3,437,615</b>	<b>320,803</b>	<b>10,353</b>	<b>3,768,771</b>
<b>2010</b>				
Due from banks	1,719	325	5,384	7,428
Investments in Islamic financing and investment products				
- Retail	466,314	-	-	466,314
- Corporate	946,737	68,000	-	1,014,737
- Treasury	1,140,000	165,262	-	1,305,262
Investment securities				
- Held-to-maturity	129,596	-	-	129,596
- Available-for-sale	39,443	-	-	39,443
- Investment property	49,961	-	-	49,961
Other assets	32,489	-	-	32,489
<b>Total</b>	<b>2,806,259</b>	<b>233,587</b>	<b>5,384</b>	<b>3,045,230</b>

At 31 December 2011, 5.94% (31 December 2010: 40%) of the Bank's investment in Islamic financing and investment products were concentrated with banks established in the UAE.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 4 Financial risk management *(Continued)*

### 4.3 Credit risk and concentrations of risk *(continued)*

#### *Concentration of credit risk (continued)*

*By geographic location*

#### **Off balance sheet items**

	<b>UAE</b>	<b>GCC</b>	<b>Others</b>	<b>Total</b>
<b>2011</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
Commitments	282,976	-	-	<b>282,976</b>
Letter of credit and guarantees	177,856	-	-	<b>177,856</b>
	-----	-----	-----	-----
Total	460,832	-	-	<b>460,832</b>
	=====	=====	=====	=====
<b>2010</b>	<b>UAE</b>	<b>GCC</b>	<b>Others</b>	<b>Total</b>
	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
Commitments	287,854	-	-	287,854
Letter of credit and guarantees	97,097	-	-	97,097
	-----	-----	-----	-----
Total	384,951	-	-	<b>384,951</b>
	=====	=====	=====	=====

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### Credit quality

The credit quality of the investment in Islamic financing and investment products is managed by the Bank using internal credit ratings. The risk rating system is used as a credit risk management tool whereby any risks are rated against a set of predetermined standards which also complies with the Central Bank guidelines.

#### Credit risk rating methodology

The Bank's credit risk rating methodology follows the categorization of credit risk assets under the following risk classification/grading system:

	2011 AED'000	2010 AED'000
Neither past due nor impaired	3,026,893	2,758,262
Past due but not impaired	173,021	27,473
Impaired	33,553	13,317
	<u>3,233,467</u>	<u>2,799,052</u>
Less: provision for impairment	(28,692)	(12,739)
	<u>3,204,775</u>	<u>2,786,313</u>
	<u>2011</u>	<u>2010</u>
	<u>AED'000</u>	<u>AED'000</u>
<i>Neither past due nor impaired:</i>		
AAA-BBB	1,646,300	1,030,747
BB-B	37,461	69,978
Not rated	1,343,132	1,657,537
	<u>3,026,893</u>	<u>2,758,262</u>
<i>Past due but not impaired:</i>		
AAA-BBB	119,220	-
BB-B	1,536	-
Not rated	52,265	27,473
	<u>173,021</u>	<u>27,473</u>
<i>Impaired:</i>		
Sub standard	11,722	1,853
Doubtful	3,817	2,733
Loss	18,014	8,731
	<u>33,553</u>	<u>13,317</u>

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### Credit quality (continued)

Individually impaired by industry sectors

	Overdue			Total AED'000
	90 - 120 days AED'000	120 - 180 days AED'000	More than 180 days AED'000	
<b>2011</b>				
Personal	2,973	2,303	17,572	22,848
Manufacturing	-	-	2,901	2,901
Trade	-	-	5,428	5,428
Services	-	135	-	135
Others	-	1,548	693	2,241
<b>Total</b>	<b>2,973</b>	<b>3,986</b>	<b>26,594</b>	<b>33,553</b>

	Overdue			Total AED'000
	90 - 120 days AED'000	120 - 180 days AED'000	More than 180 days AED'000	
2010				
Personal	1,853	2,733	8,731	13,317

#### Past due but not impaired

Investments in Islamic financing and investment products less than 90 days past due are not considered impaired, unless information is available to indicate the contrary. Investments in Islamic financing and investment products past due but not impaired comprise:

	2011 AED'000	2010 AED'000
Past due up to 30 days	121,240	18,871
Past due 31 to 60 days	7,702	6,497
Past due 61 to 90 days	44,079	2,105
	<b>173,021</b>	<b>27,473</b>

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### Credit quality (continued)

##### Maximum exposure to credit risk

The maximum exposure to credit risk taking into account the worst case scenario before taking the benefit of any collateral held or other credit enhancements is as follows:

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>		
Balances with other banks	<b>14,278</b>	7,428
Investments in Islamic financing and investment products	<b>3,204,775</b>	2,786,313
Investment securities	<b>371,027</b>	169,039
Other assets	<b>83,202</b>	13,088
	<b>3,673,282</b>	2,975,868
	<hr/> <hr/>	<hr/> <hr/>
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	<b>460,832</b>	384,951
	<hr/> <hr/>	<hr/> <hr/>

#### Risk mitigation and collateral management

The Bank seeks to manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risk.

The amount and type of collateral depends on assessments of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees, pledge over listed shares and mortgage and liens over properties or other securities over assets. Collateral generally is not held against investments securities and Islamic financing and investment products with banks.

Management monitors the market value of collateral, and wherever necessary the Bank requests additional collateral in accordance with the underlying agreement, and considers collateral obtained during its review of the adequacy of the allowance for impairment losses.

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### Credit quality (continued)

Estimates of fair value are generally assessed on an annual basis except in the case of real estate finance which are updated when an Islamic financing transaction is individually assessed as impaired. In case of sukuk fair value estimates are reviewed at each reporting date. Market values of listed shares are monitored on a monthly basis and in the event of a shortfall, the Bank requests additional collateral in accordance with the underlying agreement with the customer. An estimate of fair value of collateral and other security enhancements held against Islamic financing and investment products are shown below.

Particulars	Islamic financing and investment products		Collaterals	
	2011 AED'000	2010 AED'000	2011 AED'000	2010 AED'000
<b>Individually impaired</b>				
Pledged deposits	-	-	-	-
Debt / Equity securities	-	-	-	-
Property	-	-	-	-
Others	33,553	13,317	6,010	2,926
	-----	-----	-----	-----
<b>Gross amount</b>	<b>33,553</b>	<b>13,317</b>	<b>6,010</b>	<b>2,926</b>
<b>Impairment loss</b>	<b>(19,689)</b>	<b>(10,470)</b>	<b>-</b>	<b>-</b>
	-----	-----	-----	-----
<b>Carrying amount</b>	<b>13,864</b>	<b>2,847</b>	<b>6,010</b>	<b>2,926</b>
	-----	-----	-----	-----
<b>Past due but not impaired</b>				
Pledged deposits	-	-	-	-
Debt / Equity securities	-	-	-	-
Property	133,549	-	203,755	-
Others	39,472	27,473	12,698	10,922
	-----	-----	-----	-----
<b>Gross amount</b>	<b>173,021</b>	<b>27,473</b>	<b>216,453</b>	<b>10,922</b>
<b>Impairment loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	-----	-----	-----	-----
<b>Carrying amount</b>	<b>173,021</b>	<b>27,473</b>	<b>216,453</b>	<b>10,922</b>
	-----	-----	-----	-----
<b>Neither past due nor impaired</b>				
Pledged deposits	9,806	121,694	4,670	73,500
Debt / Equity securities	1,241	-	3,127	-
Property	464,539	231,275	626,175	312,283
Others	2,551,307	2,405,293	136,342	162,460
	-----	-----	-----	-----
<b>Gross amount</b>	<b>3,026,893</b>	<b>2,758,262</b>	<b>770,314</b>	<b>548,243</b>
<b>Collective impairment provision</b>	<b>(9,003)</b>	<b>(2,269)</b>	<b>-</b>	<b>-</b>
	-----	-----	-----	-----
<b>Carrying amount</b>	<b>3,017,890</b>	<b>2,755,993</b>	<b>770,314</b>	<b>548,243</b>
	-----	-----	-----	-----
<b>Total</b>	<b>3,204,775</b>	<b>2,786,313</b>	<b>992,777</b>	<b>562,090</b>
	=====	=====	=====	=====
<b>Contingent liabilities</b>				
Pledged deposits	-	9,065	-	4,943
Property	177,856	88,032	26,100	48,000
	-----	-----	-----	-----
<b>Total</b>	<b>177,856</b>	<b>97,097</b>	<b>26,100</b>	<b>52,943</b>
	=====	=====	=====	=====

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.3 Credit risk and concentrations of risk (continued)

#### *Investments in Islamic financing and investment products individually impaired*

At 31 December 2011, individually impaired investment in Islamic financing and investment products amount to AED 33.6 million (31 December 2010: AED 13.3 million) and primarily arise from retail banking customers. Collateral obtained by the Bank against investments in Islamic financing and investment products individually impaired include vehicles.

#### *Investment in Islamic financing and investment products renegotiated*

At 31 December 2011, investments in Islamic financing and investment products of AED - 18.8 million (31 December 2010: 8.5 million) were re-negotiated.

#### *Credit risk in relation to cash and cash equivalents*

The Bank held cash and cash equivalents of AED 63.6 million at 31 December 2011 (2010: AED 68.8 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the Central Bank and other banks and financial institutions counterparties, which are rated BAA to A3, based on rating agencies ratings.

#### *Investment securities*

The table below presents an analysis of debt securities based on external's ratings or their equivalent.

	2011 AED'000	2010 AED'000
A1	16,977	-
A2	819	27,763
A3	29,314	27,633
Baa3	80,375	
B1	163,587	101,963
BBB	-	4,739
Unrated	79,955	6,941
Total	<u>371,027</u>	<u>169,039</u>

All of the investment securities (sukuks) as at 31 December 2011 classified as available for sale were neither past due nor impaired.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **4 Financial risk management *(Continued)***

### **4.4 Market risk**

Market risk arises from changes in market rates such as market price, foreign exchange and profit rate. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, currency rates and price movements. The Bank uses appropriate models, based on standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management.
- Independent mark-to-market valuations, reconciliation of positions and tracking of stop-losses for trading positions are performed on a timely basis.

The policies, procedures and the trading limits are set to ensure the effective implementation of the Bank's market risk policies. These policies are reviewed periodically to ensure they remain in line with the Bank's overall market risk policies.

#### ***Profit rate risk***

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period.

The Bank is exposed to the effects of fluctuations in the prevailing levels of profit rates which arise from the investments in Islamic financing and investment products amounting to AED 3,204 million (2010: AED 2,786 million), investment securities amounting to AED 385 million (2010: AED 169 million), customer deposits amounting to AED 2,626 million (2010: AED 2,022 million) and AED 271 million (2010: AED 140.6 million) from wakala deposits by banks.

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.4 Market risk (continued)

#### Profit rate risk (continued)

Sensitivity analysis (continued)

The amounts mentioned in the table below reflect an equal but opposite potential effect on profit and equity based on an assumed 50 basis point negative or positive movement in profit rates, with all other variables held constant:

Product		<i>Impact on equity of the Bank</i>	
		2011 AED'000	2010 AED'000
Investments in Islamic financing and investment products	± 50 basis points change in profit rates	<u>16,024</u>	<u>13,932</u>
Investment securities HTM	± 50 basis points change in profit rates	<u>696</u>	<u>648</u>
Investment securities AFS	± 50 basis points change in profit rates	<u>1,158</u>	<u>197</u>
Customer deposits	± 50 basis points change in profit rates	<u>13,134</u>	<u>10,111</u>
Wakala deposits by banks	± 50 basis points change in profit rates	<u>1,354</u>	<u>703</u>

#### Currency risk

At 31 December 2011, the Bank is not exposed to any significant foreign currency risk as a majority of its transactions were in the Bank's functional currency.

#### Price risk

Price risk is the possibility that investment prices will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular investment or index of prices.

The Bank manages the price risk by maintaining a diversified portfolio in terms of geographical and industry distribution.

The amounts mentioned in the table below reflect an equal but opposite potential effect on profit before tax and investment based on an assumed 5% strengthening or weakening in prices, with all other variables held constant:

	Benchmark	<i>Impact on equity of the Bank</i>	
		2011 AED'000	2010 AED'000
Investment securities at AFS	± 5%	<u>12,326</u>	<u>1,972</u>

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 4 Financial risk management *(Continued)*

### 4.5 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

#### *Non-derivative cash flows*

The table set out in Note 25 presents the cash flows payable by the Bank arising from remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade securities (sukuks) for which there is an active and liquid market less any deposits from banks, securities (sukuks) issued, other financing and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank of UAE. Details of the reported Bank's ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

	2011	2010
At 31 December	<b>32.98%</b>	68.64%
Average for the year	<b>41.68%</b>	88.31%
Maximum month average	<b>52.58%</b>	124.32%
Minimum month average	<b>32.22%</b>	53.42%

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **4 Financial risk management (Continued)**

### **4.6 Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk and Compliance Committee identifies and manages operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of Takaful.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

### **4.7 Capital management**

The Bank's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements. The Central Bank has set the capital adequacy ratio which is 12 % analyzed in two tiers, of which Tier 1 capital adequacy ratio must not be less than 8%. The Bank has complied with its capital adequacy calculation in accordance with Basel II Standardized Approach for credit, market and operational risks.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and collective impairment provision. The following limits have been applied for Tier 2 capital:
  - Total tier 2 capital shall not exceed 67% of tier 1 capital;
  - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
  - Collective impairment provision shall not exceed 1.25% of total risk weighted assets.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 4 Financial risk management *(Continued)*

### 4.7 Capital management *(continued)*

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 3 framework, as shown in the following table:

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
<b>Tier 1 capital</b>		
Share capital	<b>1,000,000</b>	1,000,000
Reserves	<b>14,059</b>	7,103
	<b>1,014,059</b>	1,007,103
<b>Tier 2 capital</b>		
General provision and fair value reserve	<b>(6,703)</b>	2,108
Total regulatory capital	<b>1,007,356</b>	1,009,211
<b>Risk weighted assets</b>		
Credit risk	<b>3,375,832</b>	2,235,752
Market risk	-	-
Operation risk	<b>146,867</b>	107,814
Total risk weighted assets	<b>3,522,699</b>	2,343,566
Capital adequacy ratio on regulatory capital	<b>28.6%</b>	43.1 %
Capital adequacy ratio on Tier 1 capital	<b>28.8%</b>	42.9 %

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.7 Capital management (continued)

Analysis of Bank's exposure based on Basel II standardized approach (continued)

	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion AED'000	Credit Risk Mitigation (CRM)			Risk weighted assets AED'000
			Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	
<b>31 December 2011</b>						
Claims on sovereigns	108,847	-	108,847	-	108,847	-
Claims on PSE's	454,748	-	454,748	-	454,748	276,997
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	505,907	-	505,907	-	505,907	200,346
Claims on securities firms	183,625	-	183,625	-	183,625	183,625
Claims on corporate	1,640,358	191,602	1,831,960	81,319	1,750,641	1,808,879
Claims included in the regulatory retail portfolio	534,131	-	534,131	1,495	532,636	418,286
Claims secured by residential property	36,069	-	36,069	-	36,069	12,624
Claims secured by commercial real estate	230,379	-	230,379	-	230,379	230,379
Past due investment in Islamic products	33,553	-	13,863	-	13,863	13,863
Higher-risk categories	49,961	-	49,961	-	49,961	74,942
Other assets	201,133	-	201,133	-	201,133	155,890
Total claims	3,978,711	191,602	4,150,623	82,814	4,067,809	3,375,831
Of which :						
Rated exposure	474,717	-	-	-	-	474,717
Unrated exposure	3,503,994	191,602	4,150,623	82,814	4,067,809	2,901,114
Total exposure	<b>3,978,711</b>	<b>191,602</b>	<b>4,150,623</b>	<b>82,814</b>	<b>4,067,809</b>	<b>3,375,831</b>

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 4 Financial risk management (Continued)

### 4.7 Capital management (continued)

Analysis of Bank's exposure based on Basel II standardized approach

	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion AED'000	Credit Risk Mitigation (CRM)			Risk weighted assets AED'000
			Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	
<b>31 December 2010</b>						
Claims on sovereigns	76,621	-	76,621	-	76,621	-
Claims on PSE's	204,590	-	204,590	-	204,590	204,590
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	1,247,804	-	1,247,804	-	1,247,804	523,402
Claims on securities firms	65,000	-	65,000	-	65,000	65,000
Claims on corporate	913,154	64,933	978,087	169,500	808,587	859,930
Claims included in the regulatory retail portfolio	478,916	-	478,916	20,000	458,916	358,609
Claims secured by residential property	7,738	-	7,738	-	7,738	2,708
Claims secured by commercial real estate	45,000	-	45,000	-	45,000	45,000
Past due investment in Islamic products	13,317	-	2,848	-	2,848	2,848
Higher-risk categories	49,961	-	49,961	-	49,961	74,942
Other assets	144,984	-	144,984	-	144,984	98,723
Total claims	3,247,085	64,933	3,301,549	189,500	3,112,049	2,235,752
Of which :						
Rated exposure	377,686	-	377,686	-	377,686	291,529
Unrated exposure	2,869,399	64,933	2,923,863	189,500	2,734,363	1,899,223
Total exposure	3,247,085	64,933	3,301,549	189,500	3,112,049	2,235,752

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 5 Fair value measurement

The financial assets measured at fair value are set out below:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
<b>31 December 2011</b>			
Investment securities at AFS	<b>246,518</b>	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>31 December 2010</b>			
Investment securities at AFS	39,443	-	-
	<u>          </u>	<u>          </u>	<u>          </u>

## 6 Segment analysis

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance.

The Bank has three main business segments:

- Retail banking – incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, personal finance and real estate finance;
- Corporate banking – incorporating transactions with corporate bodies including government and public bodies and comprising of investments in Islamic financing and investment products, deposits and trade finance transactions; and
- Treasury – incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the Central Bank of the UAE, none of which constitute a separately reportable segment.

As the Bank's segment operations are all financial with a majority of revenues deriving from income from investment in Islamic financing and investment products and the Executive Committee relies primarily on net income to assess the performance of the segment, the total income and expense for all reportable segments is presented on a net basis.

The Bank's management reporting is based on a measure of operating profit comprising income from investments in Islamic financing and investment products, impairment charges on Islamic financing and investment products, net fee and commission income, other income and expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 6 Segment analysis (Continued)

### Segment results of operations

The segment information provided to the Board for the reportable segments is as follows:

<b>At 31 December 2011</b>	<b>Retail banking AED'000</b>	<b>Corporate banking AED'000</b>	<b>Treasury AED'000</b>	<b>Others AED'000</b>	<b>Total AED'000</b>
Net income from investment in Islamic financing and investment products	34,088	60,329	66,384	-	<b>160,801</b>
Impairment charges on Islamic financing and investment products	(7,686)	(8,302)	-	-	<b>(15,988)</b>
Net fee and commission income	5,257	11,619	2,301	-	<b>19,177</b>
Other income	-	-	-	-	<b>-</b>
Personnel expenses	(33,831)	(11,711)	(2,543)	(48,700)	<b>(96,785)</b>
General and administrative expenses	(11,899)	-	-	(30,734)	<b>(42,633)</b>
Depreciation and amortization expense	-	-	-	(17,616)	<b>(17,616)</b>
Operating (loss)/ profit	<u><b>(14,071)</b></u>	<u><b>51,935</b></u>	<u><b>66,142</b></u>	<u><b>(97,050)</b></u>	<u><b>6,956</b></u>
Total assets	<u><b>492,274</b></u>	<u><b>2,037,247</b></u>	<u><b>1,061,246</b></u>	<u><b>409,180</b></u>	<u><b>3,999,947</b></u>
Total liabilities	<u><b>478,324</b></u>	<u><b>2,148,320</b></u>	<u><b>270,771</b></u>	<u><b>104,179</b></u>	<u><b>3,001,594</b></u>
<b>At 31 December 2010</b>	<b>Retail Banking AED'000</b>	<b>Corporate banking AED'000</b>	<b>Treasury AED'000</b>	<b>Others AED'000</b>	<b>Total AED'000</b>
Net income from investment in Islamic financing and investment products	25,555	16,366	49,073	-	90,994
Impairment charges on Islamic financing and investment products	(5,124)	-	-	-	(5,124)
Net fee and commission income	5,595	9,156	1,358	-	16,109
Other income	-	-	-	49,961	49,961
Personnel expenses	(31,648)	(6,506)	(1,869)	(50,725)	(90,748)
General and administrative expenses	(13,720)	-	-	(29,077)	(42,797)
Depreciation and amortization expense	-	-	-	(14,361)	(14,361)
Operating (loss)/ profit	<u><b>(19,342)</b></u>	<u><b>19,016</b></u>	<u><b>48,562</b></u>	<u><b>(44,202)</b></u>	<u><b>4,034</b></u>
Total assets	<u><b>466,314</b></u>	<u><b>1,014,737</b></u>	<u><b>1,474,301</b></u>	<u><b>278,994</b></u>	<u><b>3,234,346</b></u>
Total liabilities	<u><b>416,824</b></u>	<u><b>1,606,794</b></u>	<u><b>140,596</b></u>	<u><b>63,190</b></u>	<u><b>2,227,404</b></u>

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 7 Cash and balances with the Central Bank of the UAE

	2011 AED'000	2010 AED'000
Cash and balances with the Central Bank of UAE	154,089	122,882
Balances with other banks	14,278	7,428
	<u>168,367</u>	<u>130,310</u>
Less: Statutory deposit with the Central Bank of UAE	(104,728)	(61,489)
Cash and cash equivalents	<u>63,639</u>	<u>68,821</u>

Cash and cash equivalents and the statutory deposit are non-profit bearing.

## 8 Investments in Islamic financing and investment products

	2011 AED'000	2010 AED'000
Wakala deposits with banks	263,909	1,065,263
Murabaha financing transactions	1,407,596	1,114,302
Musharaka investment	94,016	85,746
Ijarah financing	750,739	447,070
Mudaraba investment	696,535	68,549
Credit cards	20,672	18,122
	<u>3,233,467</u>	<u>2,799,052</u>
Less: provision for impairment	(28,692)	(12,739)
Total	<u>3,204,775</u>	<u>2,786,313</u>

Impairment charges for Islamic financing and investment products

	2011 AED'000	2010 AED'000
Impairment charges - Specific provision (note 8.1)	9,254	2,855
Impairment charges - Collective provision (note 8.2)	6,734	2,269
	<u>15,988</u>	<u>5,124</u>

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 8 Investments in Islamic financing and investment products *(continued)*

### 8.1 Movement of specific provision for impairment

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
At 1 January	<b>10,470</b>	7,650
Charge for the year	<b>9,254</b>	2,855
Write-offs	<b>(35)</b>	(35)
	<u><b>19,689</b></u>	<u>10,470</u>

### 8.2 Movement of collective provision for impairment

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
At 1 January	<b>2,269</b>	-
Charge for the year	<b>6,734</b>	2,269
Write-off	<b>-</b>	-
	<u><b>9,003</b></u>	<u>2,269</u>
Total specific and collective provision	<u><b>28,692</b></u>	<u>12,739</u>

Investments in Islamic financing and investment products carried average effective profit rate, across the products at 6.64% (2010: 5.25%) per annum.

## 9 Investment securities

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
Held to maturity - listed sukuku	<b>139,389</b>	129,596
Available for sale - listed sukuku	<b>231,638</b>	39,443
Available for sale - listed equity investment	<b>14,880</b>	-
	<u><b>385,907</b></u>	<u>169,039</u>

### Held to maturity

At 31 December 2011, the quoted market price of the held to maturity sukuku was AED 139.3 million (31 December 2010: AED 131.3 million) and the Bank expects to recover cash flows of AED 145.2 million (31 December 2010: AED 145.2 million) from the redemption of the held to maturity sukuku on maturity.

The sukuku carried an effective profit rate of 15.5 % (31 December 2010: 13.2%) per annum.

### Available for sale

During the year ended 31 December 2011, the Bank recognized fair value losses on available for sale investments of AED 15.5 million in the fair value reserve.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 10 Investment property

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
At 1 January	<b>49,961</b>	-
Additions	-	-
Disposals	-	-
Fair value gains	-	49,961
At 31 December	<b><u>49,961</u></b>	<u>49,961</u>

In 2010, the Bank was donated a plot of land in Ajman from a member of the ruling family of Ajman, who is also a director of the Bank. The Bank has recognized fair value gains of nil (2010: AED 49.9 million arising from the valuation of the land at fair value).

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 11 Property and equipment

	Leasehold improvements AED'000	Furniture, fittings and equipment AED'000	Vehicles AED'000	Computer equipment and software AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost</b>						
Balance at 1 January 2010	33,087	12,318	967	24,951	4,553	75,876
Additions	1,143	1,200	59	3,431	11,121	16,954
Transfers from capital work in progress	75	331	-	-	(406)	-
Write-off	(2,933)	-	-	-	-	(2,933)
Balance at 31 December 2010	31,372	13,849	1,026	28,382	15,268	89,897
Balance at 1 January 2011	1,128	1,336	224	2,813	8,088	13,589
Additions	11,743	4,309	-	3,441	(19,493)	-
Transfers from capital work in progress	-	-	-	-	-	-
Write-off	-	-	-	-	-	-
<b>At 31 December 2011</b>	<b>44,243</b>	<b>19,494</b>	<b>1,250</b>	<b>34,636</b>	<b>3,863</b>	<b>103,486</b>
<b>Depreciation</b>						
Balance at 1 January 2010	(3,803)	(1,523)	(237)	(4,706)	-	(10,269)
Charge for year	(4,872)	(2,580)	(202)	(6,707)	-	(14,361)
Write-off	967	-	-	-	-	967
At 31 December 2010	(7,708)	(4,103)	(439)	(11,413)	-	(23,663)
Charge for year	(5,788)	(3,347)	(231)	(8,250)	-	(17,616)
Write-off	-	-	-	-	-	-
<b>At 31 December 2011</b>	<b>(13,496)</b>	<b>(7,450)</b>	<b>(670)</b>	<b>(19,663)</b>	<b>-</b>	<b>(41,279)</b>
<b>Net book value</b>						
<b>At 31 December 2011</b>	<b>30,747</b>	<b>12,044</b>	<b>580</b>	<b>14,973</b>	<b>3,863</b>	<b>62,207</b>
At 31 December 2010	23,664	9,746	587	16,969	15,268	66,234

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 12 Other assets

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
Accrued income on investments in Islamic financing and investment products	<b>27,258</b>	11,464
Accrued income on investment securities	<b>4,273</b>	372
Prepaid rent	<b>9,916</b>	9,903
Staff advances	<b>1,830</b>	1,252
Other assets (note 12.1)	<b>85,453</b>	9,498
	<b>128,730</b>	32,489

12.1 It includes acceptance amounting to AED 49.9 million (31 December 2010: Nil).

## 13 Customer deposits

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
Current accounts	<b>589,630</b>	189,154
Savings accounts	<b>140,980</b>	152,515
Mudaraba deposits	<b>240,865</b>	247,795
Wakala deposits	<b>1,564,898</b>	1,386,037
Escrow accounts	<b>67,786</b>	41,286
Margin accounts	<b>22,552</b>	5,462
	<b>2,626,711</b>	2,022,249

At 31 December 2011, the customers' deposit carried an average effective profit rate of 1.6 % to 2.7 % (31 December 2010: 1.3 % to 4.18 %) per annum.

## 14 Wakala deposits by banks

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
Wakala deposits from banks	<b>270,771</b>	140,596

At 31 December 2011, wakala deposits by banks carried an average effective profit rate of 0.38% to 0.95% (31 December 2010: 0.12 % to 0.45 %) per annum.

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 15 Other liabilities

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
Managers' cheques	<b>7,466</b>	12,866
Provision for staff salaries and benefits	<b>2,363</b>	15,603
Accrued profit on customer deposits and wakala deposits by banks	<b>15,414</b>	14,733
Other liabilities (note 12.1)	<b>72,165</b>	18,179
	<b>97,408</b>	61,381

## 16 Provision for employees' end of service benefits

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
At 1 January	<b>3,178</b>	1,901
Charge for the year	<b>4,345</b>	1,673
Payment during the year	<b>(819)</b>	(396)
At 31 December	<b>6,704</b>	3,178

## 17 Share capital

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
Authorized, issued and fully paid up share capital 1,000,000,000 (2010: 1,000,000,000) shares of AED 1 each	<b>1,000,000</b>	1,000,000

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## 18 Statutory reserve

The UAE Federal Law No (8) of 1984, as amended, and the UAE Union Law No. 10 of 1980, as amended, require that 10% of the net profit for the year is transferred to a statutory reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

## 19 Income from investments in Islamic financing and investment products

	2011 AED'000	2010 AED'000
Income from Wakala deposits	30,731	41,805
Income from Murabaha financing transactions	90,479	40,599
Income from Musharakah investments	6,228	4,511
Income from Ijara financing	46,980	26,396
Income from Mudaraba investments	22,479	616
	<u>196,897</u>	<u>113,927</u>

## 20 Staff costs

	2011 AED'000	2010 AED'000
Salaries and allowances	80,582	66,695
Other staff related cost	16,203	24,053
	<u>96,785</u>	<u>90,748</u>

## 21 General and administrative expenses

	2011 AED'000	2010 AED'000
Rental expenses	14,026	14,169
Marketing, designing, product development and communication expenses	8,121	4,591
Software license	4,401	2,143
Security services including cash in transit Services	2,959	1,664
Consultancy expenses	704	1,519
Others	12,422	18,711
	<u>42,633</u>	<u>42,797</u>

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **22 Commitments and contingent liabilities**

### **Legal proceedings**

At 31 December 2011, there were two legal proceedings pending against the Bank, one is from a former employee and the other arises from a customer claim.

Litigation is subject to many uncertainties and the Bank cannot predict the outcome of individual matters with assurance. The Bank establishes provisions in connection with pending or threatened litigation if a loss is probable and can be reasonably estimated. It is possible that the Bank may be required to make payments in an amount that could not be reasonable estimated at 31 December 2011. Although the final resolution of any such matters could have a material effect on the Bank's operating results for a particular period, the Bank believes that based on information available currently, adequate provisions have been made and the outcome of the two legal proceedings should not materially affect the Bank's financial position.

### **Capital commitments**

At 31 December 2011, the Bank had outstanding capital commitments of AED 8.2 million (31 December 2010: AED 3.8 million), which will be funded within the next one year.

### **Credit-related commitments and contingencies**

Credit-related commitments include commitments to extend credit which are designed to meet the requirements of the Bank's customers.

At 31 December, the Bank had the following credit related commitments and contingent liabilities:

	<b>2011</b>	2010
	<b>AED'000</b>	AED'000
Commitments to extend credit	<b>282,976</b>	287,854
Letters of credit	<b>112,214</b>	65,009
Letters of guarantee	<b>65,642</b>	32,088
	<b>460,832</b>	384,951

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 23 Related party transactions and balances

Related parties comprise the shareholders, directors and key management personnel, as well as businesses controlled by shareholders, directors and key management personnel and businesses over which they exercise significant influence. In addition to the disclosure in note 10, following are other transaction and balances with related parties on mutually agreed terms.

### Transactions

	2011			2010		
	Major Shareholders	Director and other related parties	Total	Major Shareholders	Director and other related parties	Total
	AED	AED	AED	AED	AED	AED
Depositor's share of profit	<u>6,642</u>	<u>12,593</u>	<u>19,235</u>	<u>4,183</u>	<u>4,286</u>	<u>8,469</u>
Income from investment in Islamic financing and investment products	<u>-</u>	<u>32,995</u>	<u>32,995</u>	<u>-</u>	<u>15,368</u>	<u>15,368</u>
Rental expenses	<u>-</u>	<u>2,668</u>	<u>2,668</u>	<u>-</u>	<u>3,941</u>	<u>3,941</u>
Remuneration of key management personnel	<u>-</u>	<u>17,918</u>	<u>17,918</u>	<u>-</u>	<u>17,964</u>	<u>17,964</u>

### Balances

	2011			2010		
	Major Shareholders	Director and other related parties	Total	Major Shareholders	Director and other related parties	Total
	AED	AED	AED	AED	AED	AED
Investments in Islamic financing and investment products	<u>-</u>	<u>122,775</u>	<u>122,775</u>	<u>-</u>	<u>165,205</u>	<u>165,205</u>
Customer deposits	<u>150,000</u>	<u>756,926</u>	<u>906,926</u>	<u>150,000</u>	<u>174,611</u>	<u>324,611</u>

# Ajman Bank PJSC

Notes *(forming part to these financial statements)*

## **23 Related party transactions and balances *(continued)***

Average effective profit rate against Islamic financing and investments with related parties ranges from 6.35% to 8.5% (2010: 6.35% to 8.5%). Balances are not secured and no guarantees have been obtained.

No impairment loss has been recognized against balances outstanding with key management personnel and other related parties.

## **24 Earnings per share**

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	<b>2011</b>	2010
Profit for the year ended (AED in thousands)	<b><u>6,956</u></b>	<u>4,034</u>
Weighted average number of shares in issued (in thousands)	<b><u>1,000,000</u></b>	<u>1,000,000</u>
Earnings per share – (AED)	<b><u>0.0070</u></b>	<u>0.0040</u>

# Ajman Bank PJSC

Notes (forming part to these financial statements)

## 25 Maturity profile of financial liabilities

	<b>2011</b>		
	Up to 1 year AED'000	1 – 5 years AED'000	<b>Total AED'000</b>
Customer deposits	2,626,711	-	<b>2,626,711</b>
Wakala deposits by banks	270,771	-	<b>270,771</b>
Other liabilities	97,408	-	<b>97,408</b>
Provision for employees' end of service benefits	-	6,704	<b>6,704</b>
	<b>2,994,890</b>	<b>6,704</b>	<b>3,001,594</b>
Commitments and contingent liabilities	<b>460,832</b>	-	<b>460,832</b>

  

	<b>2010</b>		
	Up to 1 year AED'000	1 – 5 years AED'000	Total AED'000
Customer deposits	2,022,249	-	2,022,249
Wakala deposits by banks	140,596	-	140,596
Other liabilities	61,381	-	61,381
Provision for employees' end of service benefits	-	3,178	3,178
	2,224,226	3,178	2,227,404
Commitments and contingent liabilities	384,951	-	384,951

## 26 Comparative figures

Certain comparative figures have been re-classified where necessary to conform to the current year's presentation.