Ajman Bank PJSC
(Public Joint Stock Company)

Directors' report and financial statements for the period from 8 January 2007 to 31 December 2009

Ajman Bank PJSC

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Report of the Directors' for the period from 8 January 2007 to 31 December 2009

The Directors submit their report dealing with the activities of Ajman Bank PJSC ("the Bank") for the period ended 31 December 2009, together with the audited financial statements of the Bank for the period from 8 January 2007 to 31 December 2009.

Principal activities

The principal activities of the Bank are undertaking banking, financing and investing activities through various Islamic instruments such as Murabaha, Wakala, Sukuk 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 of the Bank at 31 December 2009, together with its statements of income, changes in shareholders' equity and cash flow for the period from 8 January 2007 to 31 December 2009, are set out in the accompanying financial statements.

Dividend

The Directors do not recommend the payment of a dividend in respect of the period from 8 January 2007 to 31 December 2009.

Directors

The following were the Directors of the Bank during the period from 8 January 2007 to 31 December 2009:

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, PricewaterhouseCoopers, have expressed their willingness to continue in office.

By order of the Board of Directors

____

Director
21 February 2010

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the shareholders of Ajman Bank PJSC

Report on the financial statements

We have audited the accompanying financial statements of Ajman Bank PJSC ("the Bank") which comprise the balance sheet as of 31 December 2009 and the income statement, statement of changes in shareholders' equity and cash flow statement for the period from 8 January 2007 to 31 December 2009 and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 whether the financial statements are free of 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 the 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 audit opinion.

PRICEWATERHOUSECOOPERS

Independent auditors' report to the shareholders of Ajman Bank PJSC (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009 and its financial performance and its cash flows for the period from 8 January 2007 to 31 December 2009 in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

i. As required by the UAE Federal Law No (8) of 1984, as amended, we report that:

ii. we have obtained all the information we considered necessary for the purpose of our audit;

iii. the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the Bank;

iv. the Bank has maintained proper books of account and the financial statements are in agreement therewith;

v. the financial information included in the Directors' report is consistent with the books of account of the Bank; and

vi. nothing has come to our attention, which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2009.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
4 March 2010

Amin H Nasser
Registered Auditor Number 307
Dubai, United Arab Emirates

Ajman Bank PJSC

Balance sheet at 31 December 2009

	Note	AED'000
ASSETS		
Cash and balances with the Central Bank of the UAE	4	72,756
Investments in Islamic financing instruments	5	1,724,002
Investment security held-to-maturity	6	43,468
Property and equipment	7	65,607
Other assets	8	22,120
Total assets		1,927,953
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Customer deposits	9	786,657
Placements by banks	10	81,015
Other liabilities	11	55,311
Provision for employees' end of service benefits	12	1,901
Total liabilities		924,884
Shareholders' equity		
Share capital	13	1,000,000
Statutory reserve	14	2,050
Retained earnings		1,019
Total shareholders' equity		1,003,069
Total liabilities and shareholders' equity		1,927,953

These financial statements were approved by the Board of Directors on 21 February 2010 and signed on its behalf by:

....
Chairman

....
Chief Executive Officer

The accompanying notes 1 through 23 form an integral part of these financial statements.

Ajman Bank PJSC

Income statement for the period from 8 January 2007 to 31 December 2009

	Note	AED'000
Income		
Income from investments in Islamic financing instruments	16	110,619
Gain on land donated by the Government of Ajman	20	57,992
Income from investment security		9,442
Fees and other income		8,764
		186,817
Depositors' share of profits		(12,091)
Net income		174,726
Expenses		
Staff costs	17	(102,185)
General and administrative expenses	18	(53,489)
Depreciation	7	(10,269)
Impairment charge for credit losses (net)	5	(7,650)
Profit for the period		1,133
Earning per share – Basic (AED)	21	0.0011

The accompanying notes 1 through 23 form an integral part of these financial statements.

Ajman Bank PJSC

Cash flow statement for the period from 8 January 2007 to 31 December 2009

	AED'000
Operating activities	
Profit for the period	1,133
Adjustments for:	
Depreciation	10,269
Provision for impairment	7,650
Provision for employees' end of service benefits	2,157
	21,209
Changes in operating assets and liabilities:	
Investment in Islamic financing instruments	(1,731,652)
Statutory deposit with the Central Bank of the UAE	(47,823)
Other assets	(22,120)
Customer deposits	786,657
Placements by banks	81,015
Other liabilities	55,311
Payment of employees' end of service benefits	(256)
Net cash used in operating activities	(857,659)
Investing activities	
Purchase of an investment security	(43,468)
Purchase of property and equipment	(75,876)
Net cash used in investing activities	(119,344)
Financing activities	
Issue of shares	1,000,000
Net initial public offering surplus	1,936
Net cash provided by financing activities	1,001,936
Net increase in cash and cash equivalents	24,933
Cash and cash equivalents at the end of the period (Note 4)	24,933

1 Incorporation and principal activities

Ajman Bank PJSC ("the Bank") is incorporated as a Public Joint Stock Company. The Bank has its registered office at Ajman Free Zone, Block C, Level 13, Al Mina Road, P.O. Box 7770, Ajman, United Arab Emirates ("UAE") and 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.

Although the Bank commenced operations in December 2008, it commenced incurring pre-operating expenses from 8 January 2007 and, accordingly, these financial statements cover the period commencing 8 January 2007 and include pre-operating expenses incurred from that date.

The principal activities of the Bank are undertaking banking, financing and investing activities through various Islamic instruments such as Murabaha, Wakala, Sukuk 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 Summary of significant accounting policies

The significant accounting policies adopted by the Bank in the preparation of these financial statements are set out below:

Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed under the relevant accounting policies.

Standard, amendments and interpretations to published standards that are not yet effective

The following new standard, amendments and interpretations to existing standards that have been published, are effective for the Bank's accounting period commencing on 1 January 2010, and have not been early adopted by the Bank.

- IFRS 7, 'Financial instruments – Disclosures' (amendment) (effective for annual periods commencing 1 January 2009).
- IFRS 8, 'Operating segments' (effective for annual periods commencing 1 January 2009).
- IAS 23 (amendment), 'Borrowing costs' (effective for annual periods commencing 1 January 2009).
- IFRS 2 (amendment) 'Share-based payment' (effective for annual periods commencing 1 January 2009).

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

Standard, amendments and interpretations to published standards that are not yet effective (continued)

- IAS 1 (amendment), 'Presentation of financial statements' (effective for annual periods commencing 1 January 2009).
- IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements' (effective for annual periods commencing 1 January 2009).
- IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective for annual periods commencing 1 January 2009).
- IAS 36 (amendment), 'Impairment of assets' (effective for annual periods commencing 1 January 2009).
- IAS 38 (amendment), 'Intangible assets' (effective for annual periods commencing 1 January 2009).
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective for annual periods commencing 1 January 2009).
- IAS 31 (amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective for annual periods commencing 1 January 2009).
- IAS 40 (amendment), 'Investment property' (and consequential amendments to IAS 16) (effective for annual periods commencing 1 January 2009).
- IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective for annual periods commencing 1 July 2009).
- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective for annual periods commencing 1 July 2009).
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective for annual period commencing 1 March 2007).
- IFRIC 13, 'Customer loyalty programmes' (effective for annual periods commencing 1 July 2008).
- IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction' (effective for annual period commencing 1 January 2008).
- IFRIC 12, 'Service concession arrangements' (effective for annual periods commencing 1 January 2009).

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

Standard, amendments and interpretations to published standards that are not yet effective (continued)

Management has assessed the impact of the above new standard, amendments and interpretations to published standards on its financial statements and has concluded that they are either not relevant or material to the Bank's financial statements, except for the amendment to IAS 1 and IFRS 8. The amendment to IAS 1 will affect the presentation of the statement of changes in equity and of comprehensive income and does not impact the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. IFRS 8 is a disclosure standard and its application will be reflected in the Bank's financial statements for the year ending 31 December 2010.

Foreign currencies

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Arab Emirate Dirhams ("AED"), which is the Bank's functional and presentation currency.

Transactions denominated in foreign currencies are translated into AED at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with in the income statement.

Investments in Islamic financing instruments

All investments in Islamic financing instruments are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides funds directly to a customer with no intention of trading in the financial instrument. Investments in Islamic financing instruments is initially measured at fair value, and subsequently measured at amortized cost. Investments in Islamic financing instruments is reported net of impairment provisions.

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 its customer. The goods are sold to the customer with a mark-up. Repayment, usually in installments, is specified in the 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 (a lump sum of 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.

2 Summary of significant accounting policies (continued)

Investments in Islamic financing instruments (continued)

An Ijarah is a contract where the Bank buys and leases equipment or other assets to the business owner for rental income. The duration of the contracts as well as the rent must be set out in advance and mutually agreed.

Investment securities

Investment securities comprise Held-to-Maturity ("HTM") investments which are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount from the HTM category, the entire category would be reclassified as Available-For-Sale.

Regular-way purchases and sales of investment securities are recognized on the trade date, which is the date on which the Bank commits to purchase or sell the asset. HTM investment securities are initially recognized at fair value plus transaction costs and are subsequently measured at amortized cost. Investment securities are derecognized when the right to receive cash flows from the financial asset have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired if and only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the asset that can be reliably estimated. If there is objective evidence that an impairment loss on investments in Islamic financing instruments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective rate of return, including any amounts recoverable from guarantees and collateral, and is recognized in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the customer's credit rating), the previously recognized impairment loss is reversed through the income statement.

2 Summary of significant accounting policies (continued)

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.

Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method. The estimated useful lives, as follows:

	Years
Leasehold improvements	7
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment	3 - 7

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement, 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.

2 Summary of significant accounting policies (continued)

Customer deposits and placement by banks

Customer deposits and placements by banks are initially recognized at fair value and subsequently measured at amortized cost.

Revenue recognition

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

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.

Employee 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 balance sheet date.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash in hand, money in current and call accounts.

Government donations

Non-monetary assets in the form of land donated by the government are initially recognized at fair value and the resultant gain is credited to the income statement. Such amounts are classified to the appropriate asset category and are measured in accordance with the accounting policy relating to that particular asset category.

3 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 polices 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 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 risk that the Bank is exposed to are, credit risk and concentrations of 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.

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.

Audit, Risk & Compliance Committee of the Board ("ARCC")

This ARCC 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.

3 Financial risk management (continued)

Risk management structure (continued)

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.

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 do, 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.

Risk mitigation

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risk, profit rate risk, foreign exchange risk, equity risk, and operational risk.

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.

3 Financial risk management (continued)

Risk mitigation (continued)

Market risk is managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for expected movements in foreign exchange rates, bench mark profit rates and equities.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed in the context of the Bank's overall liquidity, with consideration being given to maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

Risk concentration

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. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk and concentrations of risk

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.

3 Financial risk management (continued)

Credit risk and concentrations of risk (continued)

Management of credit risk

The Bank's Risk Management Framework includes:

- establishment of an authorization structure and limits for the approval and renewal of credit 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 lending 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.

Impairment and provisioning policies

A provision is made against a specific asset/exposure when the relevant exposure or asset is considered impaired and the underlying security/collateral does not fully cover the exposure. A specific provision is established as soon as full recovery of an asset is considered doubtful. The specific provision amount is equal to the amount needed to reduce the carrying value of the asset to its expected recoverable amount.

3 Financial risk management (continued)

Credit risk and concentrations of risk (continued)

At 31 December 2009, the Bank's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	31 December 2009 AED'000
Balances with other banks	2,829
Investments in Islamic financing instruments	1,724,002
Investment security	43,468
Other assets	9,817
	1,780,116
Contingencies and commitments	237,159

The above table represents a worse case scenario of credit risk exposure of the Bank at 31 December 2009 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet at 31 December 2009.

At 31 December 2009, 68 % of the Bank's investments in Islamic financing instruments were concentrated with banks established in the UAE.

Investments in Islamic financing instruments

	31 December 2009 AED'000
Neither past due nor impaired	1,722,399
Past due but not impaired	6,450
Impaired	2,803
	1,731,652
Less: Provision for impairment	(7,650)
	1,724,002

3 Financial risk management (continued)

Credit risk and concentrations of risk (continued)

Investments in Islamic financing instruments past due but not impaired

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

	31 December 2009 AED'000
Past due up to 30 days	4,530
Past due 31 to 60 days	1,470
Past due 61 to 90 days	450
	6,450

Investment in Islamic financing instruments renegotiated

There were no significant investments in Islamic financing instruments that were re-negotiated during the period ended 31 December 2009.

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.

3 Financial risk management (continued)

Market risk (continued)

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 of AED 1,724 million in Islamic financing instruments, AED 43.5 million in an investment security, customer deposits of AED 786.6 million and AED 81 million of placements by banks.

During the period from 8 January 2007 to 31 December 2009, had the prevailing profit rates increased/decreased by 50 basis points, with all other variables remaining constant, the impact on the results and equity of the Bank would have been as follows:

Product		Impact on results and equity of the Bank Period from 8 January 2007 to 31 December 2009 AED'000
Investments in Islamic financing instruments	± 50 basis points change in profit rates	8,612
Investment security HTM	± 50 basis points change in profit rates	217
Customer deposits	± 50 basis points change in profit rates	3,933
Placements by banks	± 50 basis points change in profit rates	405

3 Financial risk management (continued)

Market risk (continued)

Currency risk

During the period ended 31 December 2009, the Bank was not exposed to any significant foreign currency risk as a majority of its transactions were in the Bank's functional currency.

Price risk

During the period ended 31 December 2009, the Bank was not exposed to any significant price currency risk as it did not have any financial instruments that were sensitive to price risk.

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 22 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.

3 Financial risk management (continued)

Capital management

The Bank calculates its risk asset ratio in accordance with guidelines established by the Central Bank of the UAE, which prescribes a minimum ratio of 11 % of total capital to total risk-weighted assets. This ratio complies with the assessment of capital adequacy ratio under the Basel I Accord and is calculated as follows:

	31 December 2009 AED'000
Tier 1 capital	
Share capital	1,000,000
Reserves	3,069
Total capital	1,003,069
Risk weighted assets	
On balance sheet	792,753
Off balance sheet	-
Total risk weighted assets	792,753
Risk asset ratio (%)	126.5 %

4 Cash and balances with the Central Bank of the UAE

	31 December 2009 AED'000
Cash and balances with the Central Bank of the UAE	69,927
Balances with other banks	2,829
	72,756
Less: Statutory deposit with the Central Bank of the UAE	(47,823)
Cash and cash equivalents	24,933

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

5 Investments in Islamic financing instruments

	31 December 2009 AED'000
Wakala deposits with banks	1,100,850
Murabaha financing transactions	437,562
Musharaka financing	40,608
Ijarah financing	143,952
Credit cards	8,680
Less: provision for impairment and charge for period	(7,650)
	1,724,002

Investments in Islamic financing instruments carried an effective profit rate ranging from 0.25 % to 13.5 % per annum.

6 Investment security held-to-maturity

	31 December 2009 AED'000
Listed sukuk	43,468

The sukuk is issued by an institution based in the UAE, which was rated 'B1' by Moody's.

At 31 December 2009, the quoted market price of the sukuk was AED 46.8 million and the Bank expects to recover cash flows of AED 60 million from the redemption of the investment security on maturity in 2012.

The sukuk carried an effective profit rate of 16.29 % per annum.

Notes to the financial statements for the period from 8 January 2007 to 31 December 2009 (continued)

7 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
Cost						
Additions and balance at 31 December 2009	33,087	12,318	967	24,951	4,553	75,876
Depreciation						
Charge for the period and balance 31 December 2009	(3,803)	(1,523)	(237)	(4,706)	-	(10,269)
Net book amount						
At 31 December 2009	29,284	10,795	730	20,245	4,553	65,607

8 Other assets

	31 December 2009 AED'000
Accrued income on investments in Islamic financing instruments	9,639
Accrued income on investment security	178
Prepaid rent	9,176
Staff advances	967
Other assets	2,160
	22,120

9 Customer deposits

	31 December 2009 AED'000
Current accounts	270,756
Savings accounts	11,613
Mudaraba deposits	285,212
Wakala deposits	150,537
Escrow accounts	68,539
	786,657

At 31 December 2009, the Bank's customer deposits carried an effective profit rate of 1.45 % to 5.5 % per annum.

10 Placements by banks

	31 December 2009 AED'000
Wakala deposits from banks	81,015

At 31 December 2009, placements by banks carried an effective profit rate of 0.35 % to 0.65 % per annum.

11 Other liabilities

	31 December 2009 AED'000
Managers' cheques	23,109
Provision for staff salaries and benefits	10,377
Accrued profit on customer deposits and placements by banks	10,320
Other liabilities	11,505
	55,311

12 Provision for employees' end of service benefits

	31 December 2009 AED'000
Charge for the period (Note 17)	2,157
Payment during the period	(256)
At 31 December	1,901

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2009, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 6%. Under this method an assessment has been made of an employee's expected service life with the Bank and the expected basic salary at the date of leaving the service.

13 Share capital

	31 December 2009 AED'000
Authorized, issued and fully paid up share capital 1,000,000,000 shares of AED 1 each	1,000,000

14 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.

15 Net initial public offering surplus

	31 December 2009 AED'000
Initial public offering fees collected at AED 0.02 per share	20,000
Less: Expenses incurred in connection with the initial public offering	(18,064)
	1,936

The net initial public offering surplus of AED 1.9 million has been transferred to the statutory reserve on 31 December 2009.

16 Income from investments in Islamic financing instruments

	Period from 8 January 2007 to 31 December 2009 AED'000
Income from Wakala deposits with banks	89,416
Income from Murabaha financing transactions	16,067
Income from Musharakah financing	3,150
Income from Ijara financing	1,986
	110,619

17 Staff costs

	Period from 8 January 2007 to 31 December 2009 AED'000
Salaries and allowances	81,507
Outsourced staff costs	2,347
Provision for bonus	8,016
Contribution to pension fund	2,923
Staff training	752
Provision for employees' end of service benefits (Note 12)	2,157
Others	4,483
	102,185

18 General and administrative expenses

	Period from 8 January 2007 to 31 December 2009 AED'000
Rental expenses (Note 20)	14,039
Marketing, designing, product development and communication expenses	12,646
Outsourced expenses	4,611
Debit and credit card fee expenses	2,153
Consultancy expenses	5,223
Legal and professional fees	505
Others	14,312
	53,489

19 Commitments and contingent liabilities

Capital commitments

At 31 December 2009, the Bank had outstanding capital commitments of AED 4.5 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 2009, the Bank had the following credit related commitments and contingent liabilities:

	AED'000
Commitments to extend credit	225,221
Letters of credit	11,262
Letters of guarantee	676
	237,159

20 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.

	Period from 8 January 2007 to 31 December 2009 AED'000
Transactions	
Rental expenses (Note 18)	7,942
Remuneration to key management personnel	13,484

During the period the Government of Ajman donated a plot of land to the Bank which has been recognized at fair value based on a valuation by the Ajman Lands Department. The resultant gain of AED 58 million has been recognized in the income statement and has been realized during the period on the subsequent sale of the land.

Balances

	31 December 2009 AED'000
Customer deposits by related parties	304,781

21 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 period.

	AED'000
Profit for the period from 8 January 2007 to 31 December 2009	1,133
Weighted average number of shares in issue	1,000,000,000
Earning per share – (AED)	0.0011

At 31 December 2009, there were no potentially dilutive shares

22 Maturity profile of financial liabilities

			31 December 2009
	Up to 1 year AED'000	1 – 5 years AED'000	Total AED'000
Customer deposits	786,657	-	786,657
Placements by banks	81,015	-	81,015
Other liabilities	55,311	-	55,311
Provision for employees' end of service benefits	-	1,901	1,901
	922,983	1,901	924,884
Commitments and contingent liabilities	237,159	-	237,159

23 Comparatives

There are no comparatives as this is the first reporting period of the Bank.