Ajman Bank PJSC

Financial statements
For the year ended 31 December 2012

Ajman Bank PJSC

Financial statements
For the year ended 31 December 2012

Contents	*Page*
Directors' report	1
Independent auditors' report	2
Statement of financial position	3
Statement of income	4
Statement of comprehensive income	5
Statement of changes in shareholders' equity	6
Statement of cash flows	7
Notes	8-51

Directors' report

The Directors submit their report dealing with the activities of Ajman Bank PJSC ("the Bank") for the year ended 31 December 2012.

Principal activities

The principal activities of the Bank are undertaking banking, financing and investing activities through various Islamic financing modes such as Mudaraba, 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 and results of the Bank for the year ended 31 December 2012 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 2012.

Directors

The following were the Directors of the Bank for the year ended 31 December 2012:

H.E.SheikhAmmar 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
Mr. Mohammed Hussain Al Shaali

Auditors

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

By order of the Board of Directors

Director
[Date] 13 FEB 2013

P O Box 3800
Level 32, Emirates Towers
Sheikh Zayed Road
Dubai
United Arab Emirates

Telephone +971 (4) 403 0300
Fax +971 (4) 330 1515
Website www.ae-kpmg.com

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 2012, the statements of comprehensive income (comprising a statement of income and a separate statement of comprehensive income), changes in equity and cash flows statement for the year then ended, and notes to the financial statements, 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 control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law no.8 of 1984 (as amended), Union Law no.10 of 1980 and the Articles of Association of the Bank; 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 Laws and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG
Vijendranath Malhotra
Registration No: 48B
Dated: 13 FEB 2013

Ajman Bank PJSC

Statement of financial position
As at 31 December

	Note	2012 AED'000	2011 AED'000
ASSETS			
Cash and balances with the Central Bank of the UAE and other banks	*7*	222,443	168,367
Wakala deposits with banks and other financial institutions		96,800	263,909
Investments in Islamic financing and investments products	*8*	4,537,559	2,940,866
Investment securities	*9*	430,953	385,907
Investment property	*10*	49,961	49,961
Property and equipment	*11*	47,488	62,207
Other assets	*12*	104,535	128,730
Total assets		5,489,739	3,999,947
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Customer deposits	*13*	4,337,807	2,626,711
Due to banks		405	270,771
Other liabilities	*14*	96,377	104,112
Total liabilities		4,434,589	3,001,594
Shareholders' equity			
Share capital	*15*	1,000,000	1,000,000
Statutory reserve	*16*	6,502	3,150
Fair value reserve		7,570	(15,706)
Retained earnings		41,078	10,909
Total shareholders' equity		1,055,150	998,353
Total liabilities and shareholders' equity		5,489,739	3,999,947

The notes on pages 8 to 51 form integral part of these financial statements.

1 3 FEB 2013

These financial statements were approved by the Board of Directors on ________ and signed on their behalf by:

Chairman

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

	Note	**2012 AED'000**	2011 AED'000
Income			
Income from investments in			
Islamic financing and investment products	*17*	**216,863**	196,897
Income from investment securities		**41,738**	30,200
Fees and other income		**32,462**	19,177
		291,063	246,274
Depositors' share of profits		**(63,750)**	(66,296)
Net income		**227,313**	179,978
Expenses			
Staff costs	*18*	**(102,357)**	(96,785)
General and administrative expenses	*19*	**(44,379)**	(42,633)
Depreciation	*11*	**(16,839)**	(17,616)
Impairment charge for Islamic financing and investment products	*8*	**(30,217)**	(15,988)
Profit for the year		**33,521**	6,956
Earnings per share – Basic (AED)	*22*	**0.034**	0.007

The notes on pages 8 to 51 form integral 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

	Note	2012 AED'000	2011 AED'000
Profit for the year		**33,521**	6,956
Other comprehensive income			
Fair value gain/(loss) on available for sale investment securities	9	**23,276**	(15,545)
Other comprehensive income for the year		**23,276**	(15,545)
Total comprehensive income for the year		**56,797**	(8,589)

The notes on pages 8 to 51 form integral 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 2011	1,000,000	2,454	(161)	4,649	1,006,942
Total comprehensive income					
Profit for the year	-	-	-	6,956	6,956
Other comprehensive income	-	-	(15,545)	-	(15,545)
Total comprehensive income for the year	-	-	(15,545)	6,956	(8,589)
Transactions with owners recorded directly in equity					
Transfer to statutory reserve	-	696	-	(696)	-
Total transactions with owners	-	696	-	(696)	-
At 31 December 2011	1,000,000	3,150	(15,706)	10,909	998,353
At 1 January 2012	1,000,000	3,150	(15,706)	10,909	998,353
Total comprehensive income					
Profit for the year	-	-	-	33,521	33,521
Other comprehensive income	-	-	23,276	-	23,276
Total comprehensive income for the year	-	-	23,276	33,521	56,797
Transactions with owners recorded directly in equity					
Transfer to statutory reserve	-	3,352	-	(3,352)	-
Total transactions with owners	-	3,352	-	(3,352)	-
At 31 December 2012	**1,000,000**	**6,502**	**7,570**	**41,078**	**1,055,150**

The notes on pages 8 to 51 form integral 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

	Note	2012 AED'000	2011 AED'000
Cash flow from operating activities:			
Profit for the year		**33,521**	6,956
Adjustments for:			
Depreciation		**16,839**	17,616
Impairment charges for Islamic financing and investment products		**30,217**	15,988
Property and equipment written-off		**1,737**	-
Operating profit before changes in operating assets and liabilities		**82,314**	40,560
Changes in operating assets and liabilities:			
Change in investments in Islamic financing and investment products		**(1,626,910)**	(1,235,804)
Change in Wakala deposits with banks and other financial institutions		**167,109**	801,354
Change in statutory deposit with the Central Bank of the UAE		**(26,092)**	(43,239)
Change in other assets		**24,195**	(96,241)
Change in customer deposits		**1,711,096**	604,462
Change in due to banks		**(270,366)**	130,175
Change in other liabilities		**(7,735)**	39,553
Net cash inflows from operating activities		**53,611**	240,820
Cash flow from investing activities:			
Change in investment securities		**(21,770)**	(232,413)
Change in property and equipment		**(3,857)**	(13,589)
Net cash used in investing activities		**(25,627)**	(246,002)
Net increase / (decrease) in cash and cash equivalents		**27,984**	(5,182)
Cash and cash equivalents at the beginning of the year		**63,639**	68,821
Cash and cash equivalents at the end of the year	7	**91,623**	63,639

The notes on pages 8 to 51 form integral part of these financial statements.

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

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, 1st 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.

In addition to its main office in Ajman, the Bank operates through 10 branches and 1 pay office 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, Mudaraba, Musharaka, 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. 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"), and comply with the guidance from 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:

- Investment securities 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.

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 accounting policies set out below have been applied consistently to all periods presented in these 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 for another party. All assets and liabilities in the statement of financial position are financial instruments, except property and equipment, prepayments, advance receipts and shareholders' equity.

Classification

Financial instruments are categorised 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.

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) loans and advances, (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. Repayments, usually in installments, are 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 ascertain 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 realised 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 for 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 prorate basis.

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 by purchasing asset from the Bank, 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 placement by banks are recognised on the date at which they are originated.

The Bank initially recognises 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 derecognised 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 amortised 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 amortisation using the effective profit method of any difference between the initial amount recognised 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.

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 using 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 market data inputs) 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 and prices. 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 also 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 4.

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 recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised 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 recognised 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, calculated using the instrument's original effective profit rate. Short-term (up to one year maturity) balances are stated on a gross basis.

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 amortised 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 recognised 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 recognised on a gross basis.

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 recognised 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 recognised amounts and it intends either to settle on a net basis or to realise 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.

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:

	Years
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.

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 present value calculation, including the use of recent arm's length market transactions, as applicable.

(d) Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with Central and other banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value due to counterparty credit risk, 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 from banks and other liabilities

Customer deposits, wakala deposits from 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 calculated using the present value technique 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 recognised in the statement of income using the effective profit method.

3. Significant accounting policies *(continued)*

(h) Fees and other income

Fees and other income from banking services provided by the Bank are recognised 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 amortisation 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 USD at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into USD 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 USD 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 recognised and subsequently measured in accordance with the accounting policy relating to that particular asset category.

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.

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 maximised 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 are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early:

IAS 1 (Amendment)	Presentation of Financial Statements	(effective 1 July 2012)
IFRS 7 (Amendment)	Financial Instruments Disclosures	(effective 1 January 2013)
IFRS 13	Fair Value Measurement	(effective 1 January 2013)
IAS 19 (Amendment)	Employee Benefits	(effective 1 January 2013)
IAS 27 (Amendment)	Separate Financial Statements	(effective 1 January 2013)
IAS 28 (Amendment)	Investments in Associates and joint ventures	(effective 1 January 2013)
IAS 32 (Amendment)	Financial Instruments: Presentation	(effective 1 January 2014)
IFRS 9	Financial Instruments	(effective 1 January 2015)

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Bank has commenced the process of evaluating the potential effect of this standard but is waiting finalisation of the limited amendments before the evaluation can be completed.

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 minimise 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 analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realisable 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 ('EC')

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

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 internal controls over financial reporting process 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 financing 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.

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

The role of the internal audit department within the Bank is to provide independent and objective assurance that the process for indentifying, evaluating and managing significant risks faced by the Bank is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Bank's policies and procedures. To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

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 of extreme events which are unlikely to 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.

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 authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with the authorisation structure and limits, prior to facilities being sanctioned to customers; renewals and reviews of facilities are subject to the same review process;
- Diversification of 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.

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.

	On balance sheet items					
2012	**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	343,480	48,173	106,642	**498,295**	6,568	**504,863**
Manufacturing	108,699	-	-	**108,699**	18,852	**127,551**
Mining & Quarrying	188,308	-	-	**188,308**	-	**188,308**
Construction	354,559	87,728	-	**442,287**	119,217	**561,504**
Trade	430,885	-	-	**430,885**	275,258	**706,143**
Transport, storage & communication	208,836	-	-	**208,836**	74,278	**283,114**
Financial Institutions	54,702	29,545	-	**84,247**	20,000	**104,247**
Services	1,322,683	108,373	-	**1,431,056**	51,383	**1,482,439**
Government	267,242	68,885	-	**336,127**	89,797	**425,924**
Personal	1,120,900	-	-	**1,120,900**	22,212	**1,143,112**
Others	137,265	-	-	**137,265**	184,577	**321,842**
	4,537,559	**342,704**	**106,642**	**4,986,905**	**862,142**	**5,849,047**

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

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

Concentration of credit risk (continued)

By industry sectors (continued)

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	226,351	46,243	278,187	550,781	-	550,781
Manufacturing	91,846	-	-	91,846	1,510	93,356
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
Total exposures	2,940,866	385,907	278,187	3,604,960	460,832	4,065,792

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, categorised by geographical region:

On balance sheet items

2012	**UAE AED'000**	**GCC AED'000**	**Others AED'000**	**Total AED'000**
Wakala deposits with banks and other financial institutions	78,514	19,747	8,381	**106,642**
Investments in Islamic financing and investment products:				
- Retail	493,555	-	-	**493,555**
- Corporate	3,467,295	40,550	-	**3,507,845**
- Treasury	242,600	-	293,559	**536,159**
Investment securities:				
- Held-to-maturity	65,422	-	-	**65,422**
- Available-for-sale	277,282	-	-	**277,282**
Other assets	71,328	326	660	**72,314**
Total	**4,695,996**	**60,623**	**302,600**	**5,059,219**

2011	**UAE AED'000**	**GCC AED'000**	**Others AED'000**	**Total AED'000**
Wakala deposits with banks and other financial institutions	267,313	521	10,353	278,187
Investments in Islamic financing and investment products:				
- Retail	492,274	-	-	492,274
- Corporate	1,978,519	58,728	-	2,037,247
- Treasury	154,270	257,075	-	411,345
Investment securities:				
- Held-to-maturity	139,389	-	-	139,389
- Available-for-sale	231,638	-	-	231,638
Other assets	78,723	4,479	-	83,202
Total	3,342,126	320,803	10,353	3,673,282

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

2012	**UAE AED'000**	**GCC AED'000**	**Others AED'000**	**Total AED'000**
Commitments	621,347	-	-	**621,347**
Letter of credit and guarantees	154,424	-	-	**154,424**
Others	86,371	-	-	**86,371**
Total	862,142	-	-	**862,142**

2011	**UAE AED'000**	**GCC AED'000**	**Others AED'000**	**Total AED'000**
Commitments	282,976	-	-	282,976
Letter of credit and guarantees	166,879	-	-	166,879
Others	10,977	-	-	10,977
Total	460,832	-	-	460,832

Credit quality

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

4 Financial risk management *(Continued)*

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

Credit risk rating methodology

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

	2012 AED'000	2011 AED'000
Neither past due nor impaired	4,299,502	2,762,984
Past due but not impaired	214,822	173,021
Impaired	82,144	33,553
	4,596,468	2,969,558
Less: provision for impairment	(58,909)	(28,692)
	4,537,559	2,940,866
Neither past due nor impaired:		
AAA-BBB	1,742,764	1,382,391
BB-B	50,000	37,461
Not rated	2,506,738	1,343,132
	4,299,502	2,762,984
Past due but not impaired:		
AAA-BBB	113,056	119,220
BB-B	-	1,536
Not rated	101,766	52,265
	214,822	173,021
Impaired:		
Substandard	2,484	2,973
Doubtful	32,206	3,986
Loss	47,454	26,594
	82,144	33,553

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

2012	Overdue 90 - 120 days AED'000	120 - 180 days AED'000	More than 180 days AED'000	Total AED'000
Personal	2,395	30,295	38,606	71,296
Manufacturing	-	-	557	557
Trade	89	130	8,036	8,255
Services	-	1,781	143	1,924
Others	-	-	112	112
Total	**2,484**	**32,206**	**47,454**	**82,144**

2011	Overdue 90 - 120 days AED'000	120 - 180 days AED'000	More than 180 days AED'000	Total AED'000
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
Total	2,973	3,986	26,594	33,553

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:

	2012 AED'000	2011 AED'000
Past due up to 30 days	**78,075**	121,240
Past due 31 to 60 days	**82,107**	7,702
Past due 61 to 90 days	**54,640**	44,079
	214,822	173,021

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:

	2012 AED'000	2011 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other banks	**106,642**	278,187
Investments in Islamic financing and investment products	**4,537,559**	2,940,866
Investment securities	**342,704**	371,027
Other assets	**72,314**	83,202
	5,059,219	3,673,282
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	**862,142**	460,832

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 due from 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.

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 mortgages which are updated when a financing 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	
	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000
Individually impaired				-
Property	40,071	-	40,173	-
Others	42,073	33,553	16,032	6,010
Gross amount	82,144	33,553	56,205	6,010
Impairment loss	(34,024)	(19,689)	-	-
Carrying amount	48,120	13,864	56,205	6,010
Past due but not impaired				-
Pledged deposits	2,120	-	700	-
Property	127,448	133,549	127,448	203,755
Others	85,254	39,472	20,402	12,698
Gross amount	214,822	173,021	148,550	216,453
Impairment loss	-	-	-	-
Carrying amount	214,822	173,021	148,550	216,453
			-	
Neither past due nor impaired				-
Pledged deposits	777,817	9,806	678,475	4,670
Debt / Equity securities	-	1,241	-	3,127
Property	576,443	464,539	538,360	626,175
Others	2,945,242	2,287,398	188,274	136,342
Gross amount	4,299,502	2,762,984	1,405,109	770,314
Collective impairment provision	(24,885)	(9,003)	-	-
Carrying amount	4,274,617	2,753,981	1,405,109	770,314
Total	4,537,559	2,940,866	1,609,864	992,777
Contingent liabilities				
Pledged deposits	61,630	-	40,640	-
Property	20,512	26,100	20,512	26,100
Others	158,653	151,756	-	-
Total	240,795	177,856	61,152	26,100

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 2012, individually impaired investment in Islamic financing and investment products amount to AED 82.1 million (31 December 2011: AED 33.6 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 2012, investments in Islamic financing and investment products of AED 153.7 million (31 December 2011: 18.8 million) were re-negotiated.

Credit risk in relation to cash and cash equivalents

The Bank held cash and cash equivalents of AED 91.6 million at 31 December 2012 (2011: AED 63.6 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 in between Aa2 and Caa2, based on ratings provided by rating agencies.

Investment securities

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

	2012 AED'000	2011 AED'000
A1	-	16,977
A2	-	819
A3	**28,882**	29,314
Baa1	**38,836**	-
Baa3	**22,007**	80,375
B1	**118,672**	163,587
B3	**55,422**	-
Unrated	**78,885**	79,955
Total	**342,704**	371,027

All of the investment securities (sukuks) as at 31 December 2012 classified as available for sale were neither past due nor impaired.

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 23 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 gross cash flows, whereas the Bank manages the inherent liquidity risk based on expected gross 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 debt securities (sukuk) for which there is an active and liquid market less any deposits from banks, securities (sukuk) issued, 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:

	2012	2011
At 31 December	**22.16 %**	32.98 %
Average for the year	**15.58 %**	41.68 %
Maximum month average	**23.15 %**	52.58 %
Minimum month average	**9.37 %**	32.22 %

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 % analysed 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 Standardised 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.

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:

	2012 AED'000	2011 AED'000
Tier 1 capital		
Share capital	1,000,000	1,000,000
Reserves	47,580	14,059
	1,047,580	1,014,059
Tier 2 capital		
General provision and fair value reserve	32,455	(6,703)
Total regulatory capital	1,080,035	1,007,356
Risk weighted assets		
Credit risk	4,098,597	3,375,832
Market risk	-	-
Operation risk	146,867	146,867
Total risk weighted assets	4,245,464	3,522,699
Capital adequacy ratio on regulatory capital	25.4%	28.6%
Capital adequacy ratio on Tier 1 capital	24.7%	28.8%

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) Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
31 December 2012						
Claims on sovereigns	284,919	-	284,919	-	284,919	-
Claims on PSE's	503,886	-	503,886	-	503,886	276,854
Claims on banks	564,796	-	564,796	-	564,796	331,355
Claims on securities firms	84,545	-	84,545	-	84,545	84,545
Claims on corporate	2,687,414	211,632	2,899,046	672,303	2,226,743	2,254,454
Claims included in the regulatory retail portfolio	558,877	-	558,877	6,370	552,507	471,837
Claims secured by residential property	111,504	-	111,504	500	111,004	38,852
Claims secured by commercial real estate	379,316	-	379,316	-	379,316	379,316
Past due investment in Islamic financing products	82,144	-	48,120	-	48,120	48,120
Higher-risk categories	49,961	-	49,961	-	49,961	74,942
Other assets	204,220	-	204,220	-	204,220	138,322
Total claims	**5,511,582**	**211,632**	**5,689,191**	**679,174**	**5,010,017**	**4,098,597**
Of which:						
Rated exposure	779,178	-	779,178	-	779,178	580,030
Unrated exposure	4,732,404	211,632	4,910,013	679,174	4,230,839	3,518,567
Total exposure	**5,511,582**	**211,632**	**5,689,191**	**679,174**	**5,010,017**	**4,098,597**

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) Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
31 December 2011						
Claims on sovereigns	108,847	-	108,847	-	108,847	-
Claims on PSE's	454,748	-	454,748	-	454,748	276,997
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 financing productss	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	155,891
Total claims	3,978,711	191,602	4,150,623	82,814	4,067,809	3,375,832
Of which :						
Rated exposure	474,717	-	-	-	-	474,718
Unrated exposure	3,503,994	191,602	4,150,623	82,814	4,067,809	2,901,114
Total exposure	3,978,711	191,602	4,150,623	82,814	4,067,809	3,375,832

5 Fair value measurement

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
31 December 2012			
Investment securities at AFS	365,531	-	-
31 December 2011			
Investment securities at AFS	246,518	-	-

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, auto finance and house mortgage;

- 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:

At 31 December 2012	Retail Banking AED'000	Corporate banking AED'000	Treasury AED'000	Others AED'000	Total AED'000
Net income from investment in Islamic financing and investment products	21,633	116,793	56,425	-	194,851
Impairment charges on Islamic financing products	(9,547)	(20,670)	-	-	(30,217)
Net fees and other income	4,915	22,196	5,351	-	32,462
Staff cost	(29,721)	(12,112)	(2,919)	(57,605)	(102,357)
General and administrative expenses	(18,559)	-	-	(25,820)	(44,379)
Depreciation and amortization expense	-	-	-	(16,839)	(16,839)
Operating (loss)/ profit	(31,279)	106,207	58,857	(100,264)	33,521
Total assets	493,554	3,507,845	1,063,912	424,428	5,489,739
Total liabilities	665,277	3,511,683	160,847	96,782	4,434,589

At 31 December 2011	Retail Banking AED'000	Corporate banking AED'000	Treasury AED'000	Others AED'000	Total AED'000
Net income from investment in Islamic financing and investment products	34,088	60,329	66,384	-	160,801
Impairment charges on Islamic financing products	(7,686)	(8,302)	-	-	(15,988)
Net fee and other income	5,257	11,619	2,301	-	19,177
Staff cost	(33,831)	(11,711)	(2,543)	(48,700)	(96,785)
General and administrative expenses	(11,899)	-	-	(30,734)	(42,633)
Depreciation and amortization expense	-	-	-	(17,616)	(17,616)
Operating (loss)/ profit	(14,071)	51,935	66,142	(97,050)	6,956
Total assets	492,274	2,037,247	1,061,246	409,180	3,999,947
Total liabilities	478,324	2,148,320	270,771	104,179	3,001,594

7 Cash and balances with the Central Bank of the UAE and other banks

	2012 AED'000	2011 AED'000
Cash and balances with the Central Bank of UAE	**212,601**	154,089
Balances with other banks	**9,842**	14,278
	222,443	168,367
Less: Statutory deposit with the Central Bank of UAE	**(130,820)**	(104,728)
Cash and cash equivalents	**91,623**	63,639

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

8 Investments in Islamic financing and investment products

	2012 AED'000	2011 AED'000
Wakala deposits	**73,209**	-
Murabaha financing transactions	**1,532,238**	1,407,596
Musharaka financing	**153,776**	94,016
Ijarah financing	**1,862,086**	750,739
Mudaraba financing	**952,101**	696,535
Credit cards	**23,058**	20,672
	4,596,468	2,969,558
Less: provision for impairment	**(58,909)**	(28,692)
Total	**4,537,559**	2,940,866

Impairment charges for Islamic financing and investment products

	2012 AED'000	2011 AED'000
Impairment charges - specific provision (note 8.1)	**14,335**	9,254
Impairment charges - collective provision (note 8.2)	**15,882**	6,734
	30,217	15,988

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

8.1 Movement of specific provision for impairment

	2012 AED'000	2011 AED'000
At 1 January	19,689	10,470
Charge for the year	14,335	9,254
Write-offs	-	(35)
At 31 December	34,024	19,689

8.2 Movement of collective provision for impairment

	2012 AED'000	2011 AED'000
At 1 January	9,003	2,269
Charge for the year	15,882	6,734
At 31 December	24,885	9,003
Total specific and collective provision	58,909	28,692

Investments in Islamic financing and investment products carried average effective profit rate, across the products at 5.38% (2011: 6.64%) per annum.

9 Investment securities

	2012 AED'000	2011 AED'000
Held to maturity – sukuks	65,422	139,389
Available for sale - listed sukuks	277,282	231,638
Available for sale - listed Islamic securities	88,249	14,880
	430,953	385,907

Held to maturity

At 31 December 2012, the quoted market price of the held to maturity sukuks was AED 65.7 million (31 December 2011: AED 139.3 million) and the Bank expects to recover cash flows of AED 65.6 million (31 December 2011: AED 145.2 million) from the redemption of the held to maturity sukuks on maturity.

Available for sale

During the year ended 31 December 2012, the Bank recognized fair value profit on available for sale investments of AED 23.3 million in the fair value reserve (31 December 2011: fair value loss AED 15.5 million).

10 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.

Notes *(forming part to these financial statements)*

11 **Property and equipment**

	Lease hold improvements	Furniture, fittings and equipment	Vehicles	Computer equipment and software	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost						
Balance at 1 January 2011	31,372	13,849	1,026	28,382	15,268	89,897
Additions	1,128	1,336	224	2,813	8,088	13,589
Transfers from capital work in progress	11,743	4,309	-	3,441	(19,493)	-
Write-off	-	-	-	-	-	-
Balance at 31 December 2011	44,243	19,494	1,250	34,636	3,863	103,486
Balance at 1 January 2012	44,243	19,494	1,250	34,636	3,863	103,486
Additions	411	346	-	1,447	1,778	3,982
Transfers from capital work in progress	436	-	-	-	(436)	-
Write-off	(2,149)	-	-	-	-	(2,149)
Disposal	-	(498)	-	-	-	(498)
At 31 December 2012	**42,941**	**19,342**	**1,250**	**36,083**	**5,205**	**104,821**
Depreciation						
Balance at 1 January2011	(7,708)	(4,103)	(439)	(11,413)	-	(23,663)
Charge for year	(5,788)	(3,347)	(231)	(8,250)	-	(17,616)
Write-off	-	-	-	-	-	-
At 31 December 2011	(13,496)	(7,450)	(670)	(19,663)	-	(41,279)
Charge for year	(6,603)	(4,026)	(251)	(5,960)	-	(16,839)
Write-off	412	-	-	-	-	412
Disposal	-	374	-	-	-	374
At 31 December 2012	**(19,687)**	**(11,102)**	**(921)**	**(25,623)**	-	**(57,333)**
Net book value						
At 31 December2012	**23,254**	**8,240**	**329**	**10,460**	**5,205**	**47,488**
At 31 December2011	30,747	12,044	580	14,973	3,863	62,207

12 Other assets

	2012 AED'000	2011 AED'000
Accrued income on investments in Islamic financing and investment products	**31,111**	27,258
Accrued income on investment securities	**2,600**	4,273
Prepaid rent	**6,492**	9,916
Staff advances	**1,286**	1,830
Acceptances	**37,318**	49,927
Others	**25,728**	35,526
	104,535	128,730

13 Customer deposits

	2012 AED'000	2011 AED'000
Current accounts	**763,786**	589,630
Savings accounts	**166,786**	140,980
Mudaraba deposits	**198,658**	240,865
Wakala deposits	**3,144,772**	1,564,898
Escrow accounts	**53,294**	67,786
Margin accounts	**10,511**	22,552
	4,337,807	2,626,711

At 31 December 2012, the customer deposits' effective profit rate range from 0.67% to 2.64 % (31 December 2011: 1.6 % to 2.7 %) during the year.

14 Other liabilities

	2012 AED'000	2011 AED'000
Managers' cheques	**4,812**	7,466
Provision for staff salaries and benefits	**2,010**	2,363
Accrued profit on customer deposits and placements by banks	**20,153**	15,414
Acceptances	**37,318**	49,927
Other liabilities	**32,084**	28,942
	96,377	104,112

15 Share capital

	2012 AED'000	2011 AED'000
Authorised, issued and fully paid up share capital 1,000,000,000 (2011: 1,000,000,000) shares of AED 1 each	**1,000,000**	1,000,000

16 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.

17 Income from investments in Islamic financing and investment products

	2012 AED'000	2011 AED'000
Income from Wakala deposits	9,366	30,731
Income from Murabaha financing transactions	88,979	90,479
Income from Musharakah financing	8,242	6,228
Income from Ijara financing	68,532	46,980
Income from Mudaraba financing	41,744	22,479
	216,863	196,897

18 Staff costs

	2012 AED'000	2011 AED'000
Salaries and allowances	78,427	80,582
Other staff related cost	23,930	16,203
	102,357	96,785

19 General and administrative expenses

	2012 AED'000	2011 AED'000
Rental expenses	13,413	14,026
Marketing, designing, product development and communication expenses	6,285	8,121
Software license	3,453	4,401
Security services including cash in transit services	3,328	2,959
Consultancy expenses	483	704
Others	17,417	12,422
	44,379	42,633

20 Commitments and contingent liabilities

Capital commitments

At 31 December 2012, the Bank had outstanding capital commitments of AED 3.7 million (31 December 2011: AED 8.2 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:

	2012 AED'000	2011 AED'000
Commitments to extend credit	**621,347**	282,976
Letters of credit	**79,742**	101,237
Letters of guarantee	**74,682**	65,642
Islamic forward foreign exchange contracts	**123,274**	12,968
Others	**86,371**	10,977
	985,416	473,800

21 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. Following are other transactions and balances with related parties on mutually agreed terms:

Transactions

	2012			2011		
	Major Shareholders AED'000	**Director and other related parties AED'000**	**Total AED'000**	Major Shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositor's share of profit	925	10,392	11,317	6,642	12,593	19,235
Income from investment in Islamic financing and investment products	-	22,604	22,604	-	32,995	32,995
Rental expenses	-	2,697	2,697	-	2,668	2,668

Balances

	2012			2011		
	Major Shareholders AED'000	**Director and other related parties AED'000**	**Total AED'000**	Major Shareholders AED'000	Director and other related parties AED'000	Total AED'000
Investments in Islamic financing and investment products	-	687,902	687,902	-	122,775	122,775
Customer deposits	270,567	1,570,010	1,840,577	150,000	756,926	906,926

21 Related party transactions and balances *(continued)*

Compensation of directors and management personnel
Key management compensation is shown below:

	2012 AED '000	2011 AED '000
Short term employment benefits	**12,612**	16,605
Terminal Benefits	**687**	887
Total	**13,299**	17,492
Directors' Remuneration	**899**	706

Average effective profit rate against balances from related parties ranges from 3.5% to 8.2% (2011: 6.35% to 8.5%).

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

22 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.

	2012	2011
Profit for the year ended (AED in thousands)	**33,521**	6,956
Weighted average number of shares issued (in thousands)	**1,000,000**	1,000,000
Earnings per share – (AED)	**0.0335**	0.0070

23 Maturity profile of financial liabilities

	2012		
	Up to 1 year AED'000	1 – 5 years AED'000	**Total AED'000**
Customer deposits	4,337,807	-	**4,337,807**
Placements by banks	405	-	**405**
Other liabilities	91,256	5,121	**96,377**
	4,429,468	**5,121**	**4,434,589**
Commitments and contingent liabilities	**985,416**	-	**985,416**

	2011		
	Up to 1 year AED'000	1 – 5 years AED'000	Total AED'000
Customer deposits	2,626,711	-	2,626,711
Placements by banks	270,771	-	270,771
Other liabilities	97,408	6,704	104,112
	2,994,890	6,704	3,001,594
Commitments and contingent liabilities	473,800	-	473,800

24 Comparative figures

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