Ajman Bank PJSC
(Public Joint Stock Company)

Directors' report and financial statements for the year ended 31 December 2010

Ajman Bank PJSC

Directors' report and financial statements for the year ended 31 December 2010

PricewaterhouseCoopers
Emaar Square
Building 4
Level 8
P.O. Box 11987, Dubai
United Arab Emirates
Telephone +971 (0)4 3043100
Facsimile +971 (0)4 3469150

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 statement of financial position as of 31 December 2010 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, 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 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.

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 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 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 at 31 December 2010 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 report that:

(i) we have obtained all the information we considered necessary for the purpose of our audit;

(ii) 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;

(iii) the Bank has maintained proper books of account and the financial statements are in agreement therewith;

(iv) the financial information included in the Directors' report is consistent with the books of account of the Bank; and

(v) 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 2010.

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
8 March 2011

Warwick Hunt
Registered Auditor Number 643
Dubai, United Arab Emirates

Ajman Bank PJSC

Statement of financial position

	Note	31 December 2010 AED'000	31 December 2009 AED'000
ASSETS			
Cash and balances with the Central Bank of the UAE	6	130,310	72,756
Investments in Islamic financing instruments	7	2,786,313	1,724,002
Investment securities	8	169,039	43,468
Investment property	9	49,961	-
Property and equipment	10	66,234	65,607
Other assets	11	32,489	22,120
Total assets		3,234,346	1,927,953
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Customer deposits	12	2,022,249	786,657
Placements by banks	13	140,596	81,015
Other liabilities	14	61,381	55,311
Provision for employees' end of service benefits	15	3,178	1,901
Total liabilities		2,227,404	924,884
Shareholders' equity			
Share capital	16	1,000,000	1,000,000
Statutory reserve	17	2,454	2,050
Fair value reserve		(161)	-
Retained earnings		4,649	1,019
Total shareholders' equity		1,006,942	1,003,069
Total liabilities and shareholders' equity		3,234,346	1,927,953

These financial statements were approved by the Board of Directors on 3 February 2011 and signed on its behalf by:

Chairman

Chief Executive Officer

Ajman Bank PJSC

Income statement

	Note	Year ended 31 December 2010 AED'000	Period from 8 January 2007 to 31 December 2009 AED'000
Income			
Income from investments in Islamic financing instruments	19	113,927	110,619
Income from investment securities		14,433	9,442
Fees and other income		16,109	8,764
Fair value gain on donated investment property	9	49,961	57,992
		194,430	186,817
Depositors' share of profits		(37,366)	(12,091)
Net income		157,064	174,726
Expenses			
Staff costs	20	(90,748)	(102,185)
General and administrative expenses	21	(42,797)	(53,489)
Depreciation	10	(14,361)	(10,269)
Impairment charge for credit losses (net)	7	(5,124)	(7,650)
Profit for the year / period		4,034	1,133
Earning per share – Basic (AED)	24	0.0040	0.0011

Ajman Bank PJSC

Statement of comprehensive income

	Note	Year ended 31 December 2010 AED'000	Period from 8 January 2007 to 31 December 2009 AED'000
Profit for the year / period			
Other comprehensive income		4,034	1,133
Fair value loss on available for sale investment securities	8	(161)	-
Other comprehensive income for the year / period		(161)	-
Total comprehensive income for the year / period		3,873	1,133

The accompanying notes 1 to 25 form an integral part of these financial statements.

Ajman Bank PJSC

Statement of changes in shareholders' equity

	Share capital AED'000	Net initial public offering surplus AED'000	Statutory reserve AED'000	Retained earnings AED'000	Fair value reserve AED'000	Total AED'000
Issue of shares (Note 16)	1,000,000	-	-	-	-	1,000,000
Surplus from initial public offering (Note 18)	-	1,936	-	-	-	1,936
Profit for the period	-	-	-	1,133	-	1,133
Transfer to statutory reserve (Notes 17 and 18)	-	(1,936)	2,050	(114)	-	-
At 31 December 2009	1,000,000	-	2,050	1,019	-	1,003,069
Profit for the year	-	-	-	4,034	-	4,034
Fair value loss on available for sale investment securities	-	-	-	-	(161)	(161)
Transfer to statutory reserve (Note 17)	-	-	404	(404)	-	-
At 31 December 2010	1,000,000	-	2,454	4,649	(161)	1,006,942

The accompanying notes 1 to 25 form an integral part of these financial statements.

Ajman Bank PJSC

Statement of cash flows

	Year ended 31 December 2010	Period from 8 January 2007 to 31 December 2009
	AED'000	AED'000
Operating activities		
Profit for the year / period	4,034	1,133
Adjustments for:		
Depreciation	14,361	10,269
Provision for impairment	5,124	7,650
Provision for employees' end of service benefits	1,673	2,157
Property and equipment written-off	1,966	-
Fair value gain on investment property	(49,961)	-
	(22,803)	21,209
Changes in operating assets and liabilities:		
Investments in Islamic financing instruments	(1,067,435)	(1,731,652)
Statutory deposit with the Central Bank of the UAE	(13,666)	(47,823)
Other assets	(10,369)	(22,120)
Customer deposits	1,235,592	786,657
Placements by banks	59,581	81,015
Other liabilities	6,070	55,311
Payment of employees' end of service benefits	(396)	(256)
Net cash provided by / (used in) operating activities	186,574	(857,659)
Investing activities		
Purchase of investment securities	(125,732)	(43,468)
Purchase of property and equipment	(16,954)	(75,876)
Net cash used in investing activities	(142,686)	(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	43,888	24,933
Net cash and cash equivalents at the beginning of the year / period	24,933	-
Cash and cash equivalents at the end of the year / period (Note 6)	68,821	24,933

The accompanying notes 1 to 25 form an integral part of these financial statements.

1 Incorporation and principal activities

Ajman Bank PJSC ("the Bank") is incorporated as a Public Joint Stock Company. The previous registered office of the Bank was at Ajman Free Zone, Block C, Level 13, Al Mina Road, P.O. Box 7770, Ajman, United Arab Emirates ("UAE"). On 28 December 2010, the registered office of the Bank has changed to 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.

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 applied by the Bank in the preparation of these financial statements are set out below:

2.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention, as modified by the revaluation of investment property and available for sale investment securities.

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 in Note 4.

Standard, amendments and interpretations to published standards that are effective for the Bank's accounting period commencing 1 January 2010

The following standard, amendments and interpretations to existing standards are effective for the Bank's accounting period commencing 1 January 2010:

- IFRS 8, 'Operating segments'.
- IFRS 7, 'Financial instruments – Disclosures' (amendment).
- IAS 23 (amendment), 'Borrowing costs'.
- IFRS 2 (amendment) 'Share-based payment'

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Standard, amendments and interpretations to published standards that are effective for the Bank's accounting period commencing 1 January 2010 (continued)

- IAS 1 (amendment), 'Presentation of financial statements'.
- IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements.
- IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures').
- IAS 36 (amendment), 'Impairment of assets'.
- IAS 38 (amendment), 'Intangible assets.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement.
- IAS 31 (amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7).
- IAS 40 (amendment), 'Investment property' (and consequential amendments to IAS 16).
- 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').
- IAS 27 (Revised), 'Consolidated and separate financial statements'.
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.
- IFRIC 12, 'Service concession arrangements'.

Management has assessed the impact of the above standards, 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 which affects the presentation of the statement of changes in equity and of comprehensive income, amendments to IFRS 7 which requires the disclosure of fair value hierarchy and IFRS 8 which requires a "management approach" under which segmental information is presented on the same basis that is used for internal reporting purposes. The amendment to IAS 1, amendments to IFRS 7 and IFRS 8 do not impact the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. The application of the amendment to IAS 1, amendments to IFRS 7 and IFRS 8 has been adopted in the preparation of these financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Standard and amendment that are not yet effective

The following standard and amendment that have been published and are effective for the Bank's accounting periods commencing on or after 1 January 2011, but have not been early adopted by the Bank:

- IFRS 9, 'Financial instruments', introduces new requirements for classifying and measuring financial assets and financial liabilities and is likely to affect the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

  The Bank is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Bank's accounting for its available-for-sale financial debt securities, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011. This standard does not impact the recognition or measurement of transactions.

2.2 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 Dirham ("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 reporting date. The resulting exchange differences are dealt with in the income statement.

2 Summary of significant accounting policies (continued)

2.3 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 are 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.

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.

2.4 Investment securities

The Bank classifies its investment securities in the following categories: held-to-maturity investment securities and available-for-sale investment securities. Management determines the classification of its investments at initial recognition.

Held-to-maturity: Investment securities at Held-to-Maturity ("HTM") 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.

Available-for-sale: Investment securities at Available-For-Sale ("AFS") investments are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic instruments, (b) HTM investments or (c) financial assets at fair value through profit or loss.

Regular-way purchases and sales are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

2 Summary of significant accounting policies (continued)

2.4 Investment securities (continued)

Investment securities at HTM and AFS are initially recognised at fair value plus transaction costs. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Investment securities at HTM are subsequently carried at fair value. Investment securities at HTM are carried at amortised cost using the effective profit method. Gains and losses arising from changes in the fair value of Investment securities at AFS are recognised directly in equity, until the investment security is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for an investment security is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Profit earned whilst holding investment securities (sukuks) is reported as income from investment securities in the income statement.

The Bank assesses at each reporting date whether there is objective evidence that a investment security is impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for AFS, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. Impairment on other investment securities classified as available-for-sale and those held to maturity is assessed as outlined in the accounting policy of impairment of financial assets.

2 Summary of significant accounting policies (continued)

2.5 Impairment of financial assets

The Bank assesses at each reporting 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.

2.6 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.

2 Summary of significant accounting policies (continued)

2.7 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 reporting 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.

2.8 Investment property

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount 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.

2 Summary of significant accounting policies (continued)

2.8 Investment property (continued)

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

2.9 Customer deposits and placement by banks

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

2.10 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.

2.11 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.

2.12 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 reporting date.

2.13 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.

2.14 Cash and cash equivalents

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

2 Summary of significant accounting policies (continued)

2.15 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 the person or group that allocates resources to 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.

In accordance with IFRS 8, the Bank has the following business segments: retail banking, corporate banking and treasury.

2.16 Donations received

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

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.

3 Financial risk management (continued)

3.1 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.

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

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

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.

3.2 Risk measurement and reporting systems

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

3 Financial risk management (continued)

3.2 Risk measurement and reporting systems (continued)

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.

3.3 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.

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.

3.4 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.

3 Financial risk management (continued)

3.5 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.

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 lended 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)

3.5 Credit risk and concentrations of risk (continued)

At 31 December 2010, the Bank's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	31 December 2010 AED'000	31 December 2009 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other banks	7,428	2,829
Investments in Islamic financing instruments	2,786,313	1,724,002
Investment securities	169,039	43,468
Other assets	11,836	9,817
	2,974,616	1,780,116
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	384,951	237,159

The above table represents a worse case scenario of credit risk exposure of the Bank at 31 December 2010 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 2010.

At 31 December 2010, 40 % (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 2010 AED'000	31 December 2009 AED'000
Neither past due nor impaired	2,758,262	1,722,353
Past due but not impaired	27,473	6,450
Impaired	13,317	2,849
	2,799,052	1,731,652
Less: provision for impairment	(12,739)	(7,650)
	2,786,313	1,724,002

3 Financial risk management (continued)

3.5 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 2010 AED'000	31 December 2009 AED'000
Past due up to 30 days	18,871	4,530
Past due 31 to 60 days	6,497	1,470
Past due 61 to 90 days	2,105	450
	27,473	6,450

Investments in Islamic financing instruments individually impaired

At 31 December 2010, individually impaired investment in Islamic financing instruments amount to AED 13.3 million (31 December 2009: AED 2.8 million) and primarily arise from retail banking customers. Collateral obtained by the Bank against investments in Islamic financing instruments individually impaired include vehicles.

Investment in Islamic financing instruments renegotiated

During the year ended 31 December 2010, investments in Islamic financing instruments of AED 8.5 million (31 December 2009: Nil) were re-negotiated.

Investment securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2010 and 31 December 2009, based on external's ratings or their equivalent.

	31 December 2010 AED'000	31 December 2009 AED'000
A2	27,763	-
A3	27,633	-
B1	101,963	43,468
BBB	4,739	-
Unrated	6,941	-
Total	169,039	43,368

3 Financial risk management (continued)

3.5 Credit risk and concentrations of risk (continued)

Concentration of risks of financial assets with credit risk exposure

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 concentration of credit risk is controlled and managed accordingly.

Geographical risk concentration

The following table breaks down the Bank's main credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2010 and 31 December 2009.

For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties:

On balance sheet items

	UAE AED'000	GCC AED'000	Others AED'000	Total AED'000
31 December 2010				
Due from banks	1,719	325	5,384	7,428
Investments in Islamic financing instruments				
- Retail	466,314	-	-	466,314
- Corporate	946,737	68,000	-	1,014,737
- Treasury	1,140,000	165,262	-	1,305,262
Investment securities				
- Held-to-maturity	129,596	-	-	129,596
- Available-for-sale	39,443	-	-	39,443
Investment property	49,961	-	-	49,961
Other assets	32,489	-	-	32,489
Total	2,806,259	233,587	5,384	3,045,230

3 Financial risk management (continued)

3.5 Credit risk and concentrations of risk (continued)

Geographical risk concentration (continued)

On balance sheet items (continued)

	UAE AED'000	GCC AED'000	Others AED'000	Total AED'000
31 December 2009				
Due from banks	205	112	2,512	2,829
Investments in Islamic financing instruments				
- Retail	190,295	-	-	190,295
- Corporate	364,000	175	-	364,175
- Treasury	1,169,532	-	-	1,169,532
Investment securities				
- Held-to-maturity	43,468	-	-	43,468
- Available-for-sale	-	-	-	-
Other assets	22,120	-	-	22,120
Total	1,789,620	287	2,512	1,792,419

Off balance sheet items

	UAE AED'000	GCC AED'000	Others AED'000	Total AED'000
31 December 2010				
Commitments	287,854	-	-	287,854
Letter of credit and guarantees	97,097	-	-	97,097
	384,951	-	-	384,951
31 December 2009				
Commitments	225,221	-	-	225,221
Letter of credit and guarantees	11,938	-	-	11,938
	237,159	-	-	237,159

3 Financial risk management (continued)

3.5 Credit risk and concentrations of risk (continued)

Concentration of credit risk by industry

The following table breaks down the Bank's credit exposures on investments in Islamic financing instruments, investment securities, due from banks and off balance sheet items categorised by industry as of 31 December 2010 and 31 December 2009.

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

Ajman Bank PJSC

Notes to the financial statements for the year ended 31 December 2010
(continued)

3 Financial risk management (continued)

3.5 Credit risk and concentrations of risk (continued)

Concentration of credit risk by industry (continued)

	On balance sheet items					
	Investments in Islamic financing instruments	**Investment securities**	**Due from banks**	**Total funded**	**Off balance sheet Items**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2009						
Banks	1,100,850	-	2,829	1,103,679	38	1,103,717
Manufacturing	-	-	-	-	-	-
Electricity & water	-	-	-	-	-	-
Construction	40,608	-	-	40,608	80,059	120,667
Trade	8,000	-	-	8,000	15,003	23,003
Transport, storage & communication	168,543	-	-	168,543	40,100	208,643
Financial Institution	65,000	-	-	65,000	-	65,000
Services	-	-	-	-	500	500
Government	79,896	-	-	79,896	47,046	126,942
Personal	153,172	-	-	153,172	29,413	182,585
Others	107,933	43,468	-	151,401	25,000	176,401
Total exposures	1,724,002	43,468	2,829	1,770,299	237,159	2,007,458

3 Financial risk management (continued)

3.5 Credit risk and concentrations of risk (continued)

Individually impaired investments in Islamic financing instruments by industry

The breakdown of the gross amount of individually impaired investments in Islamic financing instruments by industry are as follows:

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

	Overdue			
	90 - 120 days	120 - 180 days	More than 180 days	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2009				
Personal	710	188	1,951	2,849

3.6 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)

3.6 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 2,786 million (2009: AED 1,724 million) in Islamic financing instruments, AED 169 million (2009: AED 43.5 million) in investment securities, customer deposits of AED 2,022 million (2009: AED 786.6 million) and AED 140.6 million (2009: AED 81 million) of placements by banks.

During the year ended 31 December 2010, had the prevailing profit rates increased/decreased by 50 basis points (31 December 2009: 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	
		Year ended 31 December 2010 AED'000	8 January 2007 to 31 December 2009 AED'000
Investments in Islamic financing instruments	± 50 basis points change in profit rates	13,932	8,612
Investment securities HTM	± 50 basis points change in profit rates	648	217
Investment securities AFS	± 50 basis points change in profit rates	197	-
Customer deposits	± 50 basis points change in profit rates	10,111	3,933
Placements by banks	± 50 basis points change in profit rates	703	405

3 Financial risk management (continued)

3.6 Market risk (continued)

Currency risk

During the year ended 31 December 2010, 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

The Bank is exposed to price risk arising from investment securities classified as AFS in the financial statements.

The Bank's investment securities are publicly traded. The table below summarizes the impact of the increase / decrease of the prices of the Bank's investment securities portfolio, on the Bank's equity for the year ended 31 December 2010. The analysis is based on the assumptions that all other variables will remain constant.

	Benchmark	Impact on equity of the Bank	
		Year ended 31 December 2010	Period from 8 January 2007 to 31 December 2009
		AED'000	AED'000
Investment securities at AFS	± 5%	1,972	-

3.7 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.

3 Financial risk management (continued)

3.7 Liquidity risk (continued)

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

Non-derivative cash flows

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

3.8 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like yield curve or counterparty credit risk are Bloomberg and Reuters.

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
31 December 2010			
Investment securities at AFS	39,443	-	-
31 December 2009			
Investment securities at AFS	-	-	-

3 Financial risk management (continued)

3.9 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 2010 AED'000	31 December 2009 AED'000
Tier 1 capital		
Share capital	1,000,000	1,000,000
Reserves	7,103	3,069
Total capital	1,007,103	1,003,069
Risk weighted assets		
On balance sheet	2,018,016	792,753
Off balance sheet	94,696	-
Total risk weighted assets	2,112,712	792,753
Risk asset ratio (%)	47.7 %	126.5 %

3 Financial risk management (continued)

3.9 Capital management (continued)

Capital structure and capital adequacy as per Basel II requirement

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.

	2010 AED'000	2009 AED'000
Tier 1 capital		
Share capital	1,000,000	1,000,000
Reserves	7,103	3,069
	1,007,103	1,006,942
Tier 2 capital		
General provision and fair value reserve	2,108	-
Total regulatory capital	1,009,221	1,006,942
Risk weighted assets		
Credit risk	2,235,752	1,144,471
Market risk	-	-
Operation risk	107,814	89,180
Total risk weighted assets	2,343,566	1,233,651
Capital adequacy ratio on regulatory capital	42.9 %	81.6 %
Capital adequacy ratio on Tier 1 capital	43.1 %	81.6 %

3 Financial risk 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 2010						
Claims on sovereigns	76,621	-	76,621	-	76,621	-
Claims on PSE's	204,590	-	204,590	-	204,590	204,590
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	1,247,804	-	1,247,804	-	1,247,804	523,402
Claims on securities firms	65,000	-	65,000	-	65,000	65,000
Claims on corporate	913,154	64,933	978,087	169,500	808,587	859,930
Claims included in the regulatory retail portfolio	478,916	-	478,916	20,000	458,916	358,609
Claims secured by residential property	7,738	-	7,738	-	7,738	2,708
Claims secured by commercial real estate	45,000	-	45,000	-	45,000	45,000
Past due investment in Islamic instruments	13,317	-	2,848	-	2,848	2,848
Higher-risk categories	49,961	-	49,961	-	49,961	74,942
Other assets	144,984	-	144,984	-	144,984	98,723
Total claims	**3,247,085**	**64,933**	**3,301,549**	**189,500**	**3,112,049**	**2,235,752**
Of which :						
Rated exposure	377,686	-	377,686	-	377,686	291,529
Unrated exposure	2,869,399	64,933	2,923,863	189,500	2,734,363	1,899,223
Total exposure	**3,247,085**	**64,933**	**3,301,549**	**189,500**	**3,112,049**	**2,235,752**

3 Financial risk management (continued)

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

			Credit Risk Mitigation (CRM)			
	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion AED'000	Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
31 December 2009						
Claims on sovereigns	87,624	-	87,624	-	87,624	-
Claims on PSE's	64,175	-	64,175	-	64,175	64,175
Claims on multi lateral development banks	-		-	-	-	-
Claims on banks	1,102,803	-	1,102,803	-	1,102,803	521,415
Claims on securities firms	65,000	-	65,000	-	65,000	65,000
Claims on corporates	313,266	6,126	319,392	74,120	245,272	245,272
Claims included in the regulatory retail portfolio	185,286	-	185,286	-	185,286	149,204
Claims secured by residential property	2,600	-	2,600	-	2,600	910
Claims secured by commercial real estate	-	-	-	-	-	-
Past due investment in Islamic instruments	2,849	-	676	-	676	676
Higher-risk categories	-	-	-	-	-	-
Other assets	110,081	-	110,081	-	110,081	97,819
Total claims	**1,933,684**	**6,126**	**1,937,637**	**74,120**	**1,863,517**	**1,144,471**
Of which :						
Rated exposure	43,468	-	43,468	-	43,468	43,468
Unrated exposure	1,890,216	6,126	1,894,196	74,120	1,820,049	1,101,003
Total exposure	**1,933,684**	**6,126**	**1,937,637**	**74,120**	**1,863,517**	**1,144,471**

4 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 investments in Islamic financing instruments

The Bank reviews its investments in Islamic financing instruments portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, 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 instruments 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 borrowers 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. Were the net present value of estimated cash flows to differs by +/-1%, the impairment loss is to be estimated AED 133,000 higher or lower.

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 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.

4 Critical accounting estimates and judgments (continued)

Investment property

Management estimates the fair values of investment property by discounting expected net rentals at market yields. Where the market rentals assumed in the discounted cash flow analysis to differ by 10% per annum from management's estimates, the carrying amount of investment property would be an estimated AED 7 million lower or AED 9 million higher.

5 Segment analysis

During the year ended 31 December 2010, segment reporting by the Bank was prepared for the first time in accordance with IFRS 8, 'Operating segments'.

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. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

The Bank has three main business segments:

- Retail banking – incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, personal finance and house mortgage;
- Corporate banking – incorporating transactions with corporate bodies including government and public bodies and comprising of investments in Islamic instruments, 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 instruments 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 instruments, impairment charges on Islamic instruments, 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.

5 Segment analysis (continued)

Segment results of operations

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

At 31 December 2010	Retail banking AED'000	Corporate banking AED'000	Treasury AED'000	Others AED'000	Total AED'000
Net income from investment i Islamic financing instruments	25,555	16,366	49,073	-	90,994
Impairment charges on Islamic instruments	(5,124)	-	-	-	(5,124)
Net fee and commission income	5,595	9,156	1,358	-	16,109
Other income	-	-	-	49,961	49,961
Personnel expenses	(31,648)	(6,506)	(1,869)	(50,725)	(90,748)
General and administrative expenses	(13,720)	-	-	(29,077)	(42,797)
Depreciation and amortization expense	-	-	-	(14,361)	(14,361)
Operating profit / (loss)	(19,342)	19,016	48,562	(44,202)	4,034
Total assets	466,314	1,014,737	1,474,301	278,994	3,234,346
Total liabilities	416,824	1,606,794	140,596	63,190	2,227,404

At 31 December 2009	Retail banking AED'000	Corporate banking AED'000	Treasury AED'000	Others AED'000	Total AED'000
Net income from investmen Islamic financing instruments	767	912	106,291	-	107,970
Impairment charges on Islamic instruments	(2,322)	-	-	(5,328)	(7,650)
Net fee and commission income	656	7,905	203	-	8,764
Other income	-	-	-	57,992	57,992
Personnel expenses	(29,769)	(6,588)	(1,452)	(64,376)	(102,185)
General and administrative expenses	(7,753)	-	-	(45,736)	(53,489)
Depreciation and amortization expense	-	-	-	(10,269)	(10,269)
Operating profit / (loss)	(38,421)	2,229	105,042	(67,717)	1,113
Total assets	181,070	373,852	1,212,548	160,483	1,927,953
Total liabilities	255,205	531,452	81,015	57,212	924,884

6 Cash and balances with the Central Bank of the UAE

	31 December 2010 AED'000	31 December 2009 AED'000
Cash and balances with the Central Bank of the UAE	122,882	69,927
Balances with other banks	7,428	2,829
	130,310	72,756
Less: Statutory deposit with the Central Bank of the UAE	(61,489)	(47,823)
Cash and cash equivalents	68,821	24,933

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

7 Investments in Islamic financing instruments

	31 December 2010 AED'000	31 December 2009 AED'000
Wakala deposits with banks	1,065,263	1,100,850
Murabaha financing transactions	1,114,302	437,562
Musharaka financing	85,746	40,608
Ijarah financing	447,070	143,952
Mudaraba financing	68,549	-
Credit cards	18,122	8,680
Less: provision for impairment	(12,739)	(7,650)
	2,786,313	1,724,002

Movement of provision for impairment

	Year ended 31 December 2010 AED'000	8 January 2007 to 31 December 2009 AED'000
At 1 January	7,650	-
Increase in impairment	5,124	7,650
Write-off	(35)	-
At 31 December	12,739	7,650

Investments in Islamic financing instruments carried an effective profit rate ranging from 0.20% to 13.5 % (31 December 2009: 0.25 % to 13.5 %) per annum.

8 Investment securities

	31 December 2010 AED'000	31 December 2009 AED'000
Listed sukuks – Held to maturity	129,596	43,468
Listed sukuks – Available for sale	39,443	-
	169,039	43,468

Held to maturity

At 31 December 2010, the quoted market price of the held to maturity sukuks was AED 131.3 million (31 December 2009: AED 46.8 million) and the Bank expects to recover cash flows of AED 145.2 million (31 December 2009: AED 60 million) from the redemption of the held to maturity sukuks on maturity.

The sukuks carried an effective profit rate of 13.2 % (31 December 2009: 16.29 %) per annum.

Available for sale

During the year ended 31 December 2010, the Bank recognized fair value losses on available for sale sukuks of AED 161,000 in the fair value reserve.

9 Investment property

	2010 AED'000	2009 AED'000
At 1 January	-	-
Additions	-	8
Disposals	-	(58,000)
Fair value gains	49,961	57,992
At 31 December	49,961	-

During the year ended 31 December 2010, the Bank was donated a plot of land in Ajman from a member of the ruling family of Ajman, who is also a director of the Bank. The Bank has recognized fair value gains of AED 49.9 million arising from the valuation of the land at fair value.

On 28 September 2009, the Government of Ajman, a shareholder, granted a plot of land to the Bank which had a fair value of AED 49 million based on a valuation at that date. The Bank subsequently sold the investment property for an amount of AED 58 million.

10 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
Additions	1,143	1,200	59	3,431	11,121	16,954
Transfers from capital work in progress	75	331	-	-	(406)	-
Write-off	(2,933)	-	-	-	-	(2,933)
At 31 December 2010	31,372	13,849	1,026	28,382	15,268	89,897
Depreciation						
Charge for the period and balance 31 December 2009	(3,803)	(1,523)	(237)	(4,706)	-	(10,269)
Charge for year	(4,872)	(2,580)	(202)	(6,707)	-	(14,361)
Write-off	967	-	-	-	-	967
At 31 December 2010	(7,708)	(4,103)	(439)	(11,413)		(23,663)
Net book amount						
At 31 December 2010	23,664	9,746	587	16,969	15,268	66,234
At 31 December 2009	29,284	10,795	730	20,245	4,553	65,607

11 Other assets

	31 December 2010 AED'000	31 December 2009 AED'000
Accrued income on investments in Islamic financing instruments and investment securities	11,836	9,817
Prepaid rent	9,903	9,176
Staff advances	1,252	967
Other assets	9,498	2,160
	32,489	22,120

12 Customer deposits

	31 December 2010 AED'000	31 December 2009 AED'000
Current accounts	189,154	270,756
Savings accounts	152,515	11,613
Mudaraba deposits	247,795	285,212
Wakala deposits	1,386,037	150,537
Escrow accounts	46,748	68,539
	2,022,249	786,657

At 31 December 2010, the Bank's customer deposits carried an effective profit rate of 1.3 % to 4.18 % (31 December 2009: 1.45 % to 5.5 %) per annum.

At 31 December 2010, customer deposits of AED 189.5 million (31 December 2009: AED 74.1 million) were utilized to secure investments in Islamic financing instruments.

13 Placements by banks

	31 December 2010 AED'000	31 December 2009 AED'000
Wakala deposits from banks	140,596	81,015

At 31 December 2010, placements by banks carried an effective profit rate of 0.12 % to 0.45 % (31 December 2009: 0.35 % to 0.65 %) per annum.

14 Other liabilities

	31 December 2010 AED'000	31 December 2009 AED'000
Managers' cheques	12,866	23,109
Provision for staff salaries and benefits	15,603	10,377
Accrued profit on customer deposits and placements by banks	14,733	10,320
Other liabilities	18,179	11,505
	61,381	55,311

15 Provision for employees' end of service benefits

	31 December 2010 AED'000	31 December 2009 AED'000
At 1 January	1,901	-
Charge for the year / period (Note 20)	1,673	2,157
Payment during the period	(396)	(256)
At 31 December	3,718	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 2010, 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.

16 Share capital

	31 December 2010 AED'000	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	1,000,000

17 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.

18 Net initial public offering surplus

	31 December 2010 AED'000	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 was transferred to the statutory reserve on 31 December 2009.

19 Income from investments in Islamic financing instruments

	31 December 2010 AED'000	Period from 8 January 2007 to 31 December 2009 AED'000
Income from Wakala deposits with banks	41,805	89,416
Income from Murabaha financing transactions	40,599	16,067
Income from Musharakah financing	4,511	3,150
Income from Ijara financing	26,396	1,986
Income from Mudaraba financing	616	-
	113,927	110,619

20 Staff costs

	31 December 2010 AED'000	Period from 8 January 2007 to 31 December 2009 AED'000
Salaries and allowances	66,695	81,507
Outsourced staff costs	9,263	2,347
Provision for bonus	6,198	8,016
Contribution to pension fund	2,211	2,923
Staff training	750	752
Provision for employees' end of service benefits (Note 15)	1,673	2,157
Others	3,958	4,483
	90,748	102,185

21 General and administrative expenses

	31 December 2010 AED'000	Period from 8 January 2007 to 31 December 2009 AED'000
Rental expenses (Note 23)	14,169	14,039
Marketing, designing, product development and communication expenses	4,591	12,646
Outsourced expenses	45	4,611
Debit and credit card fee expenses	800	2,153
Consultancy expenses	1,519	5,223
Legal and professional fees	429	505
Others	21,244	14,312
	42,797	53,489

22 Commitments and contingent liabilities

Legal proceedings

At 31 December 2010, there were two legal proceedings pending against the Bank, one is from a former employee and the other arises from a lease agreement.

Litigation is subject to many uncertainties and the Bank cannot predict the outcome of individual matters with assurance. The Bank establishes provisions in connection with pending or threatened litigation if a loss is probable and can be reasonably estimated. It is possible that the Bank may be required to make payments in an amount that could not be reasonable estimated at 31 December 2010. Although the final resolution of any such matters could have a material effect on the Bank's operating result for a particular period, the Bank believes that based on information available at the present time adequate provisions have been made and the outcome of the two legal proceedings should not materially affect the Bank's financial position.

Subsequent to the year end, the Bank has been directed to pay the claim arising from the lease agreement, which has been fully provided in these financial statements.

Capital commitments

At 31 December 2010, the Bank had outstanding capital commitments of AED 3.8 million (31 December 2009: 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, the Bank had the following credit related commitments and contingent liabilities:

	31 December 2010 AED'000	31 December 2009 AED'000
Commitments to extend credit	287,854	225,221
Letters of credit	65,009	11,262
Letters of guarantee	32,088	676
	384,951	237,159

23 Related party transactions and balances

Related parties comprise the shareholders, directors and key management personnel, as well as businesses controlled by shareholders, directors and key management personnel and businesses over which they exercise significant influence. In addition to the disclosure in note 9, following are other transaction and balances with related party on mutually agreed terms.

	31 December 2010 AED'000	Period from 8 January 2007 to 31 December 2009 AED'000
Transactions		
Rental expenses (Note 21)	3,941	7,942
Depositors' share of profit	8,469	2,475
Remuneration to key management personnel	17,964	13,484
Income from investment in Islamic financing instruments	15,368	79

Balances

	31 December 2010 AED'000	31 December 2009 AED'000
Investment in Islamic financing instruments	165,205	22,164
Customer deposits	324,611	304,781

24 Earnings per share

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

	AED'000
Profit for the year ended 31 December 2010	4,034
Weighted average number of shares in issue	1,000,000,000
Earning per share – (AED)	0.0040
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 2010, there were no potentially dilutive shares.

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Notes to the financial statements for the year ended 31 December 2010 (continued)

25 Maturity profile of financial liabilities

	31 December 2010		
	Up to 1 year AED'000	1 – 5 years AED'000	Total AED'000
Customer deposits	2,036,195	-	2,036,195
Placements by banks	140,639	-	140,639
Other liabilities	61,381	-	61,381
Provision for employees' end of service benefits	-	3,178	3,178
	2,238,215	3,178	2,241,393
Commitments and contingent liabilities	384,951	-	384,951

	31 December 2009		
	Up to 1 year AED'000	1 – 5 years AED'000	Total AED'000
Customer deposits	791,768	-	791,768
Placements by banks	81,015	-	81,015
Other liabilities	55,311	-	55,311
Provision for employees' end of service benefits	-	1,901	1,901
	928,094	1,901	929,995
Commitments and contingent liabilities	237,159	-	237,159