

**Ajman Bank PJSC  
(Public Joint Stock Company)**

**Interim financial statements  
for the period from 8 January 2007 to  
30 September 2009**

# **Ajman Bank PJSC**

## **Interim financial statements for the period from 8 January 2007 to 30 September 2009**

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## Review report to the Directors of Ajman Bank PJSC

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### Introduction

We have reviewed the accompanying interim balance sheet of Ajman Bank PJSC ("the Bank") as of 30 September 2009 and the related interim statements of income, changes in shareholder's equity and cash flows for the period from 8 January 2007 to 30 September 2009. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the Bank as of 30 September 2009, and of its financial performance and its cash flows for the period from 8 January 2007 to 30 September 2009 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers  
2 November 2009



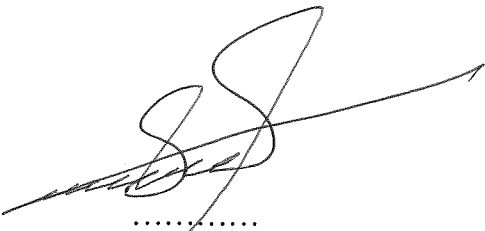
Paul Suddaby  
Registered Auditor Number 309  
Dubai, United Arab Emirates

# Ajman Bank PJSC

## Interim balance sheet at 30 September 2009

|                                                    | Note | AED'000          |
|----------------------------------------------------|------|------------------|
| <b>ASSETS</b>                                      |      |                  |
| Cash and balances with the Central Bank of the UAE | 4    | 65,148           |
| Investments in Islamic financing instruments       | 5    | 1,562,548        |
| Investment security held-to-maturity               | 6    | 42,997           |
| Property and equipment                             | 7    | 59,509           |
| Other assets                                       | 8    | 27,867           |
| <b>Total assets</b>                                |      | <u>1,758,069</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>        |      |                  |
| <b>Liabilities</b>                                 |      |                  |
| Due to the Central Bank of the UAE                 | 4    | 21,805           |
| Customer deposits                                  | 9    | 683,512          |
| Placements by banks                                | 10   | 27,500           |
| Provision for employees' end of service benefits   |      | 1,529            |
| Other liabilities                                  | 11   | 53,190           |
| <b>Total liabilities</b>                           |      | <u>787,536</u>   |
| <b>Shareholders' equity</b>                        |      |                  |
| Share capital                                      | 12   | 1,000,000        |
| Net initial public offering surplus                | 14   | 1,936            |
| Retained deficit                                   |      | (31,403)         |
| <b>Total shareholders' equity</b>                  |      | <u>970,533</u>   |
| <b>Total liabilities and shareholders' equity</b>  |      | <u>1,758,069</u> |

These interim financial statements were approved on 2 November 2009 and signed on behalf of the Board of Directors by:

  
.....  
Chairman

  
.....  
Acting Chief Executive Officer

# Interim income statement for the period from 8 January 2007 to 30 September 2009

|                                                          | Note | Three month<br>period ended<br>30 September<br>2009<br>AED'000 | Period from 8<br>January<br>2007 to<br>30 September<br>2009<br>AED'000 |
|----------------------------------------------------------|------|----------------------------------------------------------------|------------------------------------------------------------------------|
| <b>Income</b>                                            |      |                                                                |                                                                        |
| Income from investments in Islamic financing instruments | 15   | 16,286                                                         | 95,623                                                                 |
| Income from investment security                          |      | 3,877                                                          | 8,367                                                                  |
| Fees and other income                                    |      | 2,067                                                          | 3,952                                                                  |
|                                                          |      | <u>22,230</u>                                                  | <u>107,942</u>                                                         |
| Depositors' share of profits                             |      | (3,847)                                                        | (7,914)                                                                |
| Net income                                               |      | <u>18,383</u>                                                  | <u>100,028</u>                                                         |
| <b>Expenses</b>                                          |      |                                                                |                                                                        |
| Staff costs                                              | 16   | (17,040)                                                       | (82,613)                                                               |
| General and administrative expenses                      | 17   | (7,608)                                                        | (41,312)                                                               |
| Depreciation                                             | 7    | (2,950)                                                        | (7,006)                                                                |
| Impairment charge for credit losses                      |      | (500)                                                          | (500)                                                                  |
| Loss for the period                                      |      | <u>(9,715)</u>                                                 | <u>(31,403)</u>                                                        |
| Loss per share – Basic (AED)                             | 20   | <u>(0.01)</u>                                                  | <u>(0.03)</u>                                                          |

The accompanying notes 1 through 22 form an integral part of these interim financial statements

**Interim statement of changes in shareholders' equity for the period from 8 January 2007 to 30 September 2009**

|                                                | Share capital<br>AED'000 | Net initial<br>public<br>offering<br>surplus<br>AED'000 | Retained<br>deficit<br>AED'000 | Total<br>AED'000 |
|------------------------------------------------|--------------------------|---------------------------------------------------------|--------------------------------|------------------|
| Issue of shares (Note 12)                      | 1,000,000                | -                                                       | -                              | 1,000,000        |
| Surplus from initial public offering (Note 14) | -                        | 1,936                                                   | -                              | 1,936            |
| Loss for the period                            | -                        | -                                                       | (31,403)                       | (31,403)         |
| At 30 September 2009                           | <u>1,000,000</u>         | <u>1,936</u>                                            | <u>(31,403)</u>                | <u>970,533</u>   |

## Interim cash flow statement for the period from 8 January 2007 to 30 September 2009

AED'000

### Operating activities

|                                                  |          |
|--------------------------------------------------|----------|
| Loss for the period                              | (31,403) |
| Adjustments for:                                 |          |
| Depreciation                                     | 7,006    |
| Provision for employees' end of service benefits | 1,782    |
| Provision for staff benefits                     | 6,516    |
| Provision for impairment                         | 500      |
|                                                  | <hr/>    |
|                                                  | (15,599) |

### Changes in operating assets and liabilities:

|                                                    |             |
|----------------------------------------------------|-------------|
| Investment in Islamic financing instruments        | (1,563,048) |
| Statutory deposit with the Central Bank of the UAE | (48,222)    |
| Other assets                                       | (27,867)    |
| Customer deposits                                  | 683,512     |
| Placements by banks                                | 27,500      |
| Other liabilities                                  | 46,674      |
| Payment of employees' end of service benefits      | (253)       |
|                                                    | <hr/>       |
| Net cash used in operating activities              | (897,303)   |

### Investing activities

|                                       |           |
|---------------------------------------|-----------|
| Purchase of an investment security    | (42,997)  |
| Purchase of property and equipment    | (66,515)  |
|                                       | <hr/>     |
| Net cash used in investing activities | (109,512) |

### Financing activities

|                                           |           |
|-------------------------------------------|-----------|
| Issue of shares                           | 1,000,000 |
| Net initial public offering surplus       | 1,936     |
|                                           | <hr/>     |
| Net cash provided by financing activities | 1,001,936 |

|                                           |         |
|-------------------------------------------|---------|
| Net decrease in cash and cash equivalents | (4,879) |
|-------------------------------------------|---------|

### Cash and cash equivalents and bank overdraft at the end of the period (Note 4)

(4,879)

# **Ajman Bank PJSC**

## **Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009**

### **1 Incorporation and principal activities**

Ajman Bank PJSC (“the Bank”) is incorporated as a Public Joint Stock Company. The Bank has its registered office at Ajman Free Zone, Block C, Level 13, Al Mina Road, P.O. Box 7770, Ajman, United Arab Emirates (“UAE”) and was legally incorporated on 17 April 2008. The Bank was registered with the Securities and Commodities Authority (“SCA”) on 12 June 2008 and obtained a license from the UAE Central Bank 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.

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

### **2 Summary of significant accounting policies**

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

#### **Basis of preparation**

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

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

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

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

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

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 2 Summary of significant accounting policies (continued)

#### Basis of preparation (continued)

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

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

# **Ajman Bank PJSC**

## **Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

### **2 Summary of significant accounting policies (continued)**

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

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

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

#### **Foreign currencies**

Items included in the interim 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 Emirates Dirhams ("AED"), which is the Bank's functional and presentation currency.

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

#### **Investments in Islamic financing instruments**

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

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

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

# **Ajman Bank PJSC**

## **Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **Investments in Islamic financing instruments (continued)**

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

#### **Investment securities**

Investment securities comprise a Held-to-Maturity ("HTM") investment which is a non-derivative financial asset with fixed or determinable payments and 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, the entire category would be reclassified as Available-For-Sale.

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

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

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

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

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 2 Summary of significant accounting policies (continued)

#### Impairment of non-financial assets

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

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

#### Property and equipment

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

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

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

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

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

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

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

# **Ajman Bank PJSC**

## **Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **Customer deposits and placement by banks**

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

#### **Revenue recognition**

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

#### **Fees and other income**

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

#### **Employee benefits**

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

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

#### **Provisions**

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

#### **Cash and cash equivalents**

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

**Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

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

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

**Risk management structure**

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

*Board of Directors*

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

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

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

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 3 Financial risk management (continued)

#### Risk management structure (continued)

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

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

##### *Internal audit*

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

#### Risk measurement and reporting systems

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

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

#### Risk mitigation

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

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

# **Ajman Bank PJSC**

## **Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

### **3 Financial risk management (continued)**

#### **Risk mitigation (continued)**

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

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

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

#### **Risk concentration**

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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

##### *Credit risk measurement*

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

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

## **Ajman Bank PJSC**

### **Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

#### **3 Financial risk management (continued)**

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

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

The Bank's Risk Management Framework includes:

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

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

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

###### *Impairment and provisioning policies*

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

## Ajman Bank PJSC

### Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

#### 3 Financial risk management (continued)

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

At 30 September 2009, the Bank's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

|                                              | 30 September<br>2009<br>AED'000 |
|----------------------------------------------|---------------------------------|
| Balances with other banks                    | 2,647                           |
| Investments in Islamic financing instruments | 1,562,548                       |
| Investment security                          | 42,997                          |
| Other assets                                 | 10,191                          |
|                                              | <hr/>                           |
|                                              | 1,618,383                       |
|                                              | <hr/>                           |
| Contingencies and commitments                | 208,739                         |
|                                              | <hr/>                           |

The above table represents a worse case scenario of credit risk exposure of the Bank at 30 September 2009 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet at 30 September 2009.

At 30 September 2009, 85% of the Bank's investments in Islamic financing instruments were exposed to banks established in the UAE.

##### Investments in Islamic financing instruments

|                                | 30 September<br>2009<br>AED'000 |
|--------------------------------|---------------------------------|
| Neither past due nor impaired  | 1,558,370                       |
| Past due but not impaired      | 3,240                           |
| Impaired                       | 1,438                           |
|                                | <hr/>                           |
|                                | 1,563,048                       |
| Less: Provision for impairment | (500)                           |
|                                | <hr/>                           |
|                                | 1,562,548                       |
|                                | <hr/>                           |

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 3 Financial risk management (continued)

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

##### (a) 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:

|                        | 30 September<br>2009<br>AED'000 |
|------------------------|---------------------------------|
| Past due up to 30 days | 2,292                           |
| Past due 30 - 60 days  | 578                             |
| Past due 60-90 days    | 370                             |
|                        | <hr/>                           |
|                        | 3,240                           |
|                        | <hr/>                           |

##### (b) Investments in Islamic financing instruments impaired

|                                              | 30 September<br>2009<br>AED'000 |
|----------------------------------------------|---------------------------------|
| Investments in Islamic financing instruments | 1,438                           |

#### Investment in Islamic financing instruments renegotiated

There were no significant investments in Islamic financing instruments that were re-negotiated during the period ended 30 September 2009.

**Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

**3 Financial risk management (continued)**

**Market risk**

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

The trading market risk framework comprises the following elements:

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

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

*Profit rate risk*

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

The Bank is exposed to the effects of fluctuations in the prevailing levels of profit rates which arise from the investments of AED 1,563 million in Islamic financing instruments, AED 43 million in an investment security, AED 409 million in customer deposits and placements by banks of AED 28 million.

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 3 Financial risk management (continued)

#### Market risk (continued)

##### *Profit rate risk (continued)*

During the period from 8 January 2007 to 30 September 2009, had the prevailing profit rates increased/decreased by 50 basis points, with all other variables remaining constant, the impact on the results and equity of the Bank would have been as follows:

| Product                                      | Benchmark                                | Impact on results and equity of the Bank                 |                                                                  |
|----------------------------------------------|------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------|
|                                              |                                          | Three month period ended<br>30 September 2009<br>AED'000 | Period from<br>8 January 2007 to<br>30 September 2009<br>AED'000 |
| Investments in Islamic financing instruments | ± 50 basis points change in profit rates | 1,953                                                    | 7,813                                                            |
| Investment security Held-To-Maturity         | ± 50 basis points change in profit rates | 54                                                       | 215                                                              |
| Customer deposits                            | ± 50 basis points change in profit rates | 511                                                      | 2,045                                                            |
| Placements by banks                          | ± 50 basis points change in profit rates | 34                                                       | 138                                                              |

##### *Currency risk*

During the period ended 30 September 2009, the Bank was not exposed to any significant foreign currency risk as a majority of its transactions were in the Bank's functional currency.

##### *Price risk*

During the period ended 30 September 2009, the Bank was not exposed to any significant price currency risk as it did not have any financial instruments that were sensitive to price risk.

## **Ajman Bank PJSC**

### **Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)**

#### **3 Financial risk management (continued)**

##### **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 21 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.

## Ajman Bank PJSC

### Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

#### 3 Financial risk management (continued)

##### Capital management

The Bank calculates its risk asset ratio in accordance with guidelines established by the Central Bank of the UAE, which prescribes a minimum ratio of 10 % 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:

|                               | 30 September<br>2009<br>AED'000 |
|-------------------------------|---------------------------------|
| <b>Tier 1 capital</b>         |                                 |
| Share capital                 | 1,000,000                       |
| Deductions from share capital | (29,467)                        |
|                               | <hr/>                           |
| Total capital                 | 970,533                         |
|                               | <hr/>                           |
| <b>Risk weighted assets</b>   |                                 |
| On balance sheet              | 648,280                         |
| Off balance sheet             | 208,019                         |
|                               | <hr/>                           |
| Total risk weighted assets    | 856,299                         |
|                               | <hr/>                           |
| <b>Risk asset ratio (%)</b>   | 113%                            |
|                               | <hr/> <hr/>                     |

## Ajman Bank PJSC

### Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

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

|                                                          | 30 September<br>2009<br>AED'000 |
|----------------------------------------------------------|---------------------------------|
| Cash and balances with Central Bank of the UAE           | 62,501                          |
| Balances with other banks                                | 2,647                           |
|                                                          | <hr/> 65,148                    |
| Less: Statutory deposit with the Central Bank of the UAE | (48,222)                        |
| Less: Due to the Central Bank of the UAE                 | (21,805)                        |
|                                                          | <hr/>                           |
| Cash and cash equivalents and bank overdraft             | <u>(4,879)</u>                  |

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

#### 5 Investments in Islamic financing instruments

|                                 | 30 September<br>2009<br>AED'000 |
|---------------------------------|---------------------------------|
| Wakala deposits with banks      | 1,075,000                       |
| Murabaha financing transactions | 393,097                         |
| Musharaka financing             | 40,608                          |
| Ijarah financing                | 46,241                          |
| Credit cards                    | 8,102                           |
| Less: provision for impairment  | (500)                           |
|                                 | <hr/> 1,562,548                 |

Investments in Islamic financing instruments carried an effective profit rate ranging between 0.35 % to 13.5 % per annum.

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 6 Investment security held-to-maturity

|              |                                 |
|--------------|---------------------------------|
|              | 30 September<br>2009<br>AED'000 |
| Listed sukuk | 42,997                          |

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

At 30 September 2009, the quoted market price of the sukuk was AED 52.8 million and the Bank expects to recover cash flows of AED 60 million from the redemption of the investment security on maturity.

The sukuk carried an effective profit rate of 16.4 % per annum.

### 7 Property and equipment

|                                                                    | Leasehold<br>Improvements<br>AED'000 | Furniture,<br>fittings<br>and<br>equipment<br>AED'000 | Vehicles<br>AED'000 | Computer<br>equipment<br>and<br>software<br>AED'000 | Capital<br>work in<br>progress<br>AED'000 | Total<br>AED'000 |
|--------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------|---------------------|-----------------------------------------------------|-------------------------------------------|------------------|
| <b>Cost</b>                                                        |                                      |                                                       |                     |                                                     |                                           |                  |
| Additions and<br>balance at 30<br>September<br>2009                | 30,597                               | 8,367                                                 | 797                 | 22,942                                              | 3,812                                     | 66,515           |
| <b>Depreciation</b>                                                |                                      |                                                       |                     |                                                     |                                           |                  |
| Charge for the<br>period and<br>balance at 30<br>September<br>2009 | (2,572)                              | (991)                                                 | (188)               | (3,255)                                             | -                                         | (7,006)          |
| <b>Net book<br/>amount</b>                                         |                                      |                                                       |                     |                                                     |                                           |                  |
| At 30<br>September<br>2009                                         | 28,025                               | 7,376                                                 | 609                 | 19,687                                              | 3,812                                     | 59,509           |

## Ajman Bank PJSC

### Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

#### 8 Other assets

|                                                                | 30 September<br>2009<br>AED'000 |
|----------------------------------------------------------------|---------------------------------|
| Accrued income on investments in Islamic financing instruments | 9,316                           |
| Accrued income on an investment security                       | 875                             |
| Prepaid rent                                                   | 5,625                           |
| Staff advances                                                 | 562                             |
| Other assets                                                   | 11,489                          |
|                                                                | <u>27,867</u>                   |

#### 9 Customer deposits

|                   | 30 September<br>2009<br>AED'000 |
|-------------------|---------------------------------|
| Current accounts  | 251,385                         |
| Savings accounts  | 9,312                           |
| Mudaraba deposits | 230,585                         |
| Wakala deposits   | 169,172                         |
| Escrow accounts   | 23,058                          |
|                   | <u>683,512</u>                  |

At 30 September 2009, the Bank's customer deposits carried an effective profit rate of 5.5 % per annum and had a concentration of AED 100 million to the real estate sector in the UAE.

#### 10 Placements by banks

|                            | 30 September<br>2009<br>AED'000 |
|----------------------------|---------------------------------|
| Wakala deposits from banks | <u>27,500</u>                   |

At 30 September 2009, placements by banks carried an effective profit rate of 0.15 % to 0.25 % per annum.

## Ajman Bank PJSC

### Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

#### 11 Other liabilities

|                                                                | 30 September<br>2009<br>AED'000 |
|----------------------------------------------------------------|---------------------------------|
| Managers' cheques                                              | 20,971                          |
| Provision for staff salaries and benefits                      | 8,540                           |
| Accrued profit on customer deposits and placements<br>by banks | 7,271                           |
| Other liabilities                                              | 16,408                          |
|                                                                | <u>53,190</u>                   |

#### 12 Share capital

|                                                                                          | 30 September<br>2009<br>AED'000 |
|------------------------------------------------------------------------------------------|---------------------------------|
| Authorized, issued and fully paid up share capital<br>1,000,000,000 shares of AED 1 each | <u>1,000,000</u>                |

#### 13 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. No transfer has been made for the current period as the transfer will be determined on the basis of the results of the Bank for the period ending 31 December 2009.

#### 14 Net initial public offering surplus

|                                                                        | 30 September<br>2009<br>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)                        |
|                                                                        | <u>1,936</u>                    |

The net initial public offering surplus of AED 1.9 million will be transferred to the statutory reserve (Note 13) on 31 December 2009.

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 15 Income from investments in Islamic financing instruments

|                                             | Three month<br>period ended<br>30 September<br>2009<br>AED'000 | Period from 8<br>January<br>2007 to<br>30 September<br>2009<br>AED'000 |
|---------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------------------|
| Income from Wakala deposits with banks      | 9,295                                                          | 80,738                                                                 |
| Income from Murabaha financing transactions | 5,264                                                          | 12,235                                                                 |
| Income from Musharakah financing            | 755                                                            | 1,217                                                                  |
| Income from Ijara financing                 | 972                                                            | 1,433                                                                  |
|                                             | <u>16,286</u>                                                  | <u>95,623</u>                                                          |

### 16 Staff costs

|                                                  | Three month<br>period ended<br>30 September<br>2009<br>AED'000 | Period from 8<br>January<br>2007 to<br>30 September<br>2009<br>AED'000 |
|--------------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------------------|
| Salaries and allowances                          | 14,020                                                         | 65,073                                                                 |
| Outsourced staff costs                           | 855                                                            | 855                                                                    |
| Provision for bonus                              | 306                                                            | 6,516                                                                  |
| Contribution to pension fund                     | 553                                                            | 2,319                                                                  |
| Staff training                                   | 23                                                             | 675                                                                    |
| Provision for employees' end of service benefits | -                                                              | 1,782                                                                  |
| Others                                           | 1,283                                                          | 5,393                                                                  |
|                                                  | <u>17,040</u>                                                  | <u>82,613</u>                                                          |

## Ajman Bank PJSC

### Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

#### 17 General and administrative expenses

|                                                                         | Three month<br>period ended<br>30 September<br>2009<br>AED'000 | Period from<br>8 January<br>2007 to<br>30 September<br>2009<br>AED'000 |
|-------------------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------------------|
| Rental expenses (Note 19)                                               | 2,923                                                          | 10,725                                                                 |
| Marketing, designing, product development and<br>communication expenses | 1,215                                                          | 8,410                                                                  |
| Outsourced expenses                                                     | 956                                                            | 4,143                                                                  |
| Debit and credit card fee expense                                       | 232                                                            | 1,613                                                                  |
| Consultancy expenses                                                    | 155                                                            | 4,780                                                                  |
| Legal and professional fees                                             | 27                                                             | 360                                                                    |
| Others                                                                  | 2,100                                                          | 11,281                                                                 |
|                                                                         | <u>7,608</u>                                                   | <u>41,312</u>                                                          |

#### 18 Commitments and contingent liabilities

##### Capital commitments

At 30 September 2009, the Bank had outstanding capital commitments of AED 5.3 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 30 September 2009, the Bank had the following credit related commitments and contingent liabilities:

|                              | AED'000        |
|------------------------------|----------------|
| Commitments to extend credit | 199,433        |
| Letters of credit            | 1,415          |
| Letters of guarantee         | 2,567          |
|                              | <u>203,415</u> |

All the letters of credit and guarantee have been fully collateralized by customer deposits.

# Ajman Bank PJSC

## Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

### 19 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.

|                                          | Three month<br>period ended<br>30 September<br>2009<br>AED'000 | 8 January<br>2007 to<br>30 September<br>2009<br>AED'000 |
|------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------|
| <b>Transactions</b>                      |                                                                |                                                         |
| Rental expenses (Note 17)                | 1,033                                                          | 5,923                                                   |
| Remuneration to key management personnel | 1,879                                                          | 15,722                                                  |
| <b>Balances</b>                          |                                                                | 30 September<br>2009<br>AED'000                         |
| Customer deposits                        |                                                                | 169,149                                                 |

### 20 Earnings per share

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

|                                                              |                             |
|--------------------------------------------------------------|-----------------------------|
|                                                              | 30 September<br>2009<br>AED |
| Loss for the period from 8 January 2007 to 30 September 2009 | (31,403)                    |
| Weighted average number of shares in issue                   | 1,000,000,000               |
| Loss per share                                               | (0.03)                      |

At 30 September 2009, there were no potentially dilutive shares

## Ajman Bank PJSC

### Notes to the interim financial statements for the period from 8 January 2007 to 30 September 2009 (continued)

#### 21 Maturity profile of financial liabilities

|                                        | <u>30 September 2009</u> |                        | Total<br>AED'000 |
|----------------------------------------|--------------------------|------------------------|------------------|
|                                        | Up to 1 year<br>AED'000  | 1 – 5 years<br>AED'000 |                  |
| Due to the Central Bank of UAE         | 21,805                   | -                      | 21,805           |
| Customer deposits                      | 683,512                  | -                      | 683,512          |
| Placements by banks                    | 27,500                   | -                      | 27,500           |
| Other liabilities                      | 53,190                   | 1,529                  | 54,719           |
|                                        | <u>786,007</u>           | <u>1,529</u>           | <u>787,536</u>   |
| Commitments and contingent liabilities | <u>208,739</u>           | <u>-</u>               | <u>208,739</u>   |

#### 22 Comparatives

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