Credit Europe Bank (Dubai) Ltd

Consolidated financial statements

For the year ended 31 December 2011

Credit Europe Bank (Dubai) Ltd

Consolidated financial statement

For the year ended 31 December 2011

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Independent Auditor's Report

The Shareholders
Credit Europe Bank (Dubai) Ltd

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidate financial statements that give a true and fair view 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

KPMG LLP
26 April 2012

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Consolidated statement of financial position
As at 31 December 2011

	Notes	2011 USD'000	2010 USD'000
ASSETS			
Cash		-	2
Due from banks	*4*	**114,488**	12,348
Loans and advances to customers	*5*	**84,128**	282,154
Financial investments	6	**9,520**	19,341
Property and equipment	*7*	**428**	749
Intangible assets	*8*	-	82
Other assets	*9*	**426**	354
Total assets		**208,990**	315,030
LIABILITIES			
Due to banks	*10*	**125,847**	225,981
Due to customers	*11*	**21,704**	32,670
Other liabilities	*12*	**515**	825
Total liabilities		**148,066**	259,476
EQUITY			
Share capital	*13*	**30,000**	30,000
Retained earnings		**30,924**	25,554
		60,924	55,554
TOTAL EQUITY AND LIABILITIES		**208,990**	315,030

The notes set out on page 6 to 36 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors 26 APR 2012 and signed on their behalf by:

Ahmed Chandio
Chief Financial Officer

Cenk Atmaca
Senior Executive Officer

The report of the Independent auditors is set out on page 1.

Consolidated statement of comprehensive income
For the year ended 31 December 2011

	Notes	2011 USD '000	2010 USD'000
Interest income	14	11,016	21,585
Interest expense	15	(6,316)	(9,161)
Net interest income		4,700	12,424
Fee income		3,095	1,513
Net trading (loss)/gain	16	(248)	3,130
Gain on sale of financial investments		813	430
Other operating income		1,509	1,206
Operating income		9,869	18,703
Gain on disposal of subsidiary	25	20	-
Administrative expenses	17	(4,257)	(5,896)
Depreciation and amortisation	7,8	(262)	(567)
Net Profit for the year		5,370	12,240
Other comprehensive income		-	-
Total comprehensive income for the year		5,370	12,240

The notes set out on page 6 to 36 are an integral part of these consolidated financial statements.

The report of the Independent auditors is set out on page 1.

Consolidated statement of changes in equity
For the year ended 31 December 2011

	Share capital USD'000	Retained earnings USD'000	Total USD'000
Balance at 1 January 2010	30,000	13,314	43,314
Total comprehensive income for the year			
Profit for the year	-	12,240	12,240
Balance at 31 December 2010	30,000	25,554	55,554
Balance at 1 January 2011	30,000	25,554	55,554
Total comprehensive income for the year			
Profit for the year	-	5,370	5,370
Balance at 31 December 2011	**30,000**	**30,924**	**60,924**

The notes set out on page 6 to 36 are an integral part of these consolidated financial statements.

The report of the Independent auditors is set out on page 1.

Consolidated statement of cash flows
For the year ended 31 December 2011

	Note	2011 USD' 000	2010 USD'000
Operating activities			
Profit for the year		5,370	12,240
Adjustments for:			
Depreciation and amortisation		262	567
Loss on sale of property and equipment		23	-
Gain on sale of subsidiary		(20)	-
Operating profit before working capital changes		5,635	12,807
Movement in operating assets			
Net change in due from banks		(104,288)	102,934
Net change in loans and advances to customers		159,839	(76,445)
Net change in other receivables		(72)	359
Net change in due to banks		66,398	39,468
Net change in due to customers		(10,966)	17,307
Net change in other payables		(211)	(468)
Cash generated from operating activities		116,335	95,962
Investing activities			
Net sale/(purchase) of financial investments		9,821	(231)
Acquisition of property and equipment		(6)	(421)
Proceeds from sale of property and equipment		124	-
Proceeds from sale of subsidiary		229	-
Cash generated from/(used in) investing activities		10,168	(652)
Financing activity			
Net change in term loan from Parent Bank		(128,298)	(96,012)
Net cash used in financing activity		(128,298)	(96,012)
Net changes in cash and cash equivalent		(1,795)	(702)
Cash and cash equivalent at beginning of year		1,953	2,655
Cash and cash equivalent at end of year	*18*	158	1,953

The notes set out on page 6 to 36 are an integral part of these consolidated financial statements.

The report of the Independent auditors is set out on page 1.

1. Corporate information

Credit Europe Bank (Dubai) Ltd ("the Bank") was established in the Dubai International Finance Center ("DIFC") on 24 September, 2008. The Bank was granted Category 1 banking license under the Article 48 of the Regulatory Law 2004 issued by the Dubai Financial Service Authority ("DFSA").

On 29 July 2009, the Bank set up a wholly owned subsidiary, Credit Plus (Gulf) Limited, a company incorporated in the UAE. During the year, the Bank sold its 100% holding in Credit Plus (Gulf) Limited to Credit Europe Bank N.V. The consolidated financial statements of the Bank as at and for the year ended 31 December 2011 comprise of the Bank and the result of its subsidiary (collectively referred "the Group") till 29 October 2011.

The principal activities of the Group are accepting deposits, providing credit, arranging credit or deals in investment, advising on financial products or credit, dealing in investment as agent and arranging custody. The principal activity of the subsidiary is disclosed in note 25.

The Bank is a wholly owned subsidiary of Credit Europe Bank NV (the "Parent Bank") which is established in Amsterdam, Netherlands. Fiba Holding AS, a company established in Turkey, is the ultimate Parent Bank. Credit Europe Bank N.V. was founded as a specialised trade finance bank with an aim to actively participate in the wholesale financing of international trade. In later years, the Parent Bank started retail banking activities including saving accounts, mortgage loans, consumer loans and credit cards.

The Bank is in the process of changing its legal structure from subsidiary to branch of Credit Europe Bank N.V. The registered address of the Bank is Level 7, Office 7, Al Fattan Currency House, P.O. Box 506719, Dubai, United Arab Emirates.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Basis of measurement

The consolidated financial statements are presented in U.S Dollar ("USD"), which is the functional currency of the Group, and are prepared on a historical cost basis except for derivative financial instruments and available-for-sale financial investments, which are measured at fair value.

c) Significant accounting judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2. Basis of preparation *(continued)*

c) Significant accounting judgements and estimates *(continued)*

The most significant use of judgements and estimates are as follows:

i) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

ii) *Impairment losses on loans and advances*

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the profit or loss. In particular, judgement by the management is required of the amount and timing of future cash flows when determining the level of allowance required for problem loans. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except to the fact that the Company has adopted IAS 24 "Related party disclosures" (revised) effective 1 January 2011. IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government related entities. Management has assessed the impact of this new standard and believes that changes have no significant effect on the Group's financial statements.

a) Basis of consolidation

i) Subsidiary

Subsidiary is an entity controlled by the Group. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

ii) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency using rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transactions.

Translation differences in the profit and loss are generally included in "net trading income".

3. Summary of significant accounting policies *(continued)*

c) Financial Instruments

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

Date of recognition

The Group initially recognises loans and advances, and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit and loss) are initially recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in case of financial assets and financial liabilities not classified at fair value through profit and loss, any directly attributable incremental costs of acquisition or issue.

Measurement classifications

The Group classifies its financial assets and liabilities into the following measurement ('valuation') categories:

i) ***Due from banks and Loans and advances to customers***

Due from banks and loans and advances to customers (excluding the trading loans) are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial Investments – available-for-sale', or 'Financial assets designated at fair value through profit and losses. After initial measurement, amounts due from banks and loans and receivables from customers are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the profit or loss. The losses arising from impairment are recognised in the profit or loss in 'Impairment'.

ii) ***Due to banks and other payables***

Due to banks and other payables, which are not designated at fair value through profit or loss, are classified as liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash.

After initial measurement, due to banks and other payables are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

3. Summary of significant accounting policies *(continued)*

c) Financial instruments *(continued)*

iii) *Held to maturity financial investments*

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale

Held to maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Group from classifying investment securities as held to maturity for the current and following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal;
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonable anticipated.

iv) *Available for sale financial investments*

Available for sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Interest income is recognised in profit or loss using the effective interest rate method.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available for sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Derecognition of financial assets and liabilities

Financial assets

The Group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and transferred substantially all risks and rewards; or
- the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred control of the asset and not retained substantially all risks and rewards.

3. Summary of significant accounting policies *(continued)*

c) Financial instruments *(continued)*

Derecognition of financial assets and liabilities *(continued)*

Financial assets *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

Fair value

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

Impairment

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments.

3. Summary of significant accounting policies *(continued)*

c) Financial instruments *(continued)*

Impairment *(continued)*

Financial assets at amortised cost

For amounts due from banks, loans and receivables from customers and held to maturity financial investments, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

When any part of a claim is deemed uncollectible or forgiven, a write-off is charged to the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective evaluation of impairment aims to establish portfolio provisions for losses incurred but not yet identified. By definition these are losses which cannot yet be attributed to particular transactions. Therefore this provision is derived from the portfolio analysis, which is based on the homogenous exposure structures of the financial assets being analysed. Financial assets are grouped on the basis of their credit risk characteristics such as asset type, geographical location, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the year on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly, by means of the back testing to reduce any differences between loss estimates and actual loss experience.

Available for sale financial investments

In the case of debt securities classified as available-for-sale, if there is an objective evidence that available for sale debt securities are impaired, the cumulative loss that has been recorded in other comprehensive income is re-classified to profit or loss. The cumulative loss is measured as the difference between the

3. Summary of significant accounting policies *(continued)*

c) Financial instruments *(continued)*

Impairment *(continued)*

Available for sale financial investments *(continued)*

acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in statement of comprehensive income.

Reversal of impairment

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

d) Re-negotiated loans

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. The Group has a policy to transfer the loans from re-negotiated category to normal loans following the satisfactory performance of renegotiated terms for a period of 12 months.

e) Bank as a lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term and included in 'Other operating expenses.'

f) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, and amount due from / due to banks on demand.

g) Property and equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated on other assets using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Vehicles, equipments and fixtures	5-10 years
Leasehold improvements	5-10 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

h) Intangible Assets

Intangible assets mainly include the value of computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

3. Summary of significant accounting policies *(continued)*

h) Intangible Assets *(continued)*

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortization method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the profit or loss.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful life as follows:

Computer software	3 years

i) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

j) Provisions

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

k) Income taxes

The tax environment within the DIFC is governed by Article 14 of Law No. 9 of 2004. In common with the tax holidays offered to investors within other free zones, the DIFC also provides for a 50-year tax relief. According to Article 14 of Law No. 9 The Centre's Bodies and Centre Establishments and their employees shall be subject to a zero rate of tax for 50 (fifty) years from the date of enactment of related Law, including the income tax relating to their operations inside the Centre. The zero rate of tax will also extend to transfers of assets or profits or salaries in any kind of currency to any party outside the Centre for 50 (fifty) years from the date of enactment of related Law. It is permitted to renew the period for a similar period upon issuance of a resolution by the Ruler.

l) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria is used to recognise revenue:

3. Summary of significant accounting policies *(continued)*

l) Recognition of income and expenses *(continued)*

i) Interest income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or financial liability.

The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments of receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

ii) Fees and commissions

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees and commission income and expense for the provision of services over a period of time are generally recognised on an accrual basis. These fees include commission income for process of documentation, arrangement of finance and loan commitment fee. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate of the loan.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Management and service fees are recognised based on the applicable service contracts. Fee for bank transfers and other banking transaction services are recorded as income when collected.

Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

iii) Net trading income

Net trading income comprises gains less losses arising from changes in the fair value and disposal of financial assets and liabilities held for trading. Interest income or expenses on trading derivatives excluding the asset-liability management purpose derivative financial instruments are included within net trading income. Also, translation in foreign differences is presented in net trading income.

m) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

4. Due from banks

	2011 USD'000	2010 USD'000
Overnight, call and time deposits		
- with related parties	80,076	1,092
- with other banks	252	859
Discounted bills	34,160	10,397
	114,488	12,348

5. Loans and advances

	2011 USD'000	2010 USD'000
By nature of customer advances		
Term lending	84,128	282,154
By economic sector		
Commercial and industrial	84,128	282,154

6. Financial investments

	2011 USD'000	2010 USD'000
Held to maturity debt securities	9,520	17,336
Available for sale investments (note 6.1)	-	2,005
	9,520	19,341

6.1 AFS investments represents a portfolio of non-performing retail loans purchased from Credit Europe Bank, Romania by Credit Gulf Plus at their fair value. However these investments were sold during the year as a result of disposal of Credit Gulf (Plus) Limited, a wholly owned subsidiary of the Bank

7. Property and equipment

	Leasehold improvements USD'000	Vehicles, equipments and fixtures USD'000	Total USD'000
Cost			
At 1 January 2011	713	741	1,454
Additions	-	6	6
Disposals	-	(212)	(212)
At 31 December 2011	713	535	1,248
Accumulated depreciations			
At 1 January 2011	418	287	705
Charge for the year	66	114	180
Disposals	-	(65)	(65)
At 31 December 2011	484	336	820
Net book value at 31 December 2011	229	199	428
Cost			
At 1 January 2010	393	654	1,047
Additions	320	87	407
Disposals	-	-	-
At 31 December 2010	713	741	1,454
Accumulated depreciations			
At 1 January 2010	79	133	212
Charge for the year	339	154	493
Disposals	-	-	-
At 31 December 2010	418	287	705
Net book value at 31 December 2010	295	454	749

8. Intangible assets

	Software USD'000
Cost	
At 1 January 2011	231
Additions	-
At 31 December 2011	231
Accumulated amortisation	
At 1 January 2011	149
Charge for the year	82
At 31 December 2011	231
Net book value at 31 December 2011	-
Cost	
At 1 January 2010	217
Additions	14
At 31 December 2010	231
Accumulated amortisation	
At 1 January 2010	75
Charge for the year	74
At 31 December 2010	149
Net book value at 31 December 2010	82

9. Other assets

	2011 USD'000	2010 USD'000
Prepayment	361	196
Derivative financial instruments (note 23)	42	22
Other receivables	23	136
	426	354

10. Due to banks

	2011 USD'000	2010 USD'000
Loans from related party (note 10.1)	53,873	182,171
Money market borrowings from banks	71,627	43,810
Overdrawn Nostro account with the Parent Bank	347	-
	125,847	225,981

10.1 The loans from related party represents money market borrowings from Parent Bank, which carries an interest rate between 2.75% per annum to 5.35% per annum (2010: 2.50% - 5.02%) and repayable between 2 to 6 months (2010: 2 to 10 months).

11. Due to customers

	2011 USD'000	2010 USD'000
Current account	9,508	13,273
Time deposit	12,196	19,397
	21,704	32,670

Due to customers include USD 6.6 million (2010: USD 20.5 million) deposits held as security for credit facilities granted to customers.

12. Other liabilities

	2011 USD'000	2010 USD'000
Deferred income	144	631
Derivative financial instrument (note 23)	215	159
Other payables and accruals	156	35
	515	825

13. Share capital

	2011 USD'000	2010 USD'000
Authorised		
100,000 ordinary shares at USD 1,000 each	100,000	100,000
Issued and paid up		
30,000 ordinary shares of USD 1,000 each	30,000	30,000

14. Interest income

	2011 USD'000	2010 USD'000
From:		
Financial investments	1,605	3,729
Due from banks	2,036	2,310
Loans and advances to customers	7,375	15,546
	11,016	21,585

15. Interest expense

	2011 USD'000	2010 USD'000
On:		
Due to banks	6,259	9,161
Due to customers	57	-
	6,316	9,161

Included in interest expenses are interest payable for term loans provided by related parties amounting to USD 3.89 million (2010: USD 2.05 million).

16. Net trading (loss)/gain

	2011 USD'000	2010 USD'000
Interest rate instruments and related derivatives	-	1,928
Foreign exchange differences	(248)	1,202
	(248)	3,130

17. Administrative expenses

	2011 USD'000	2010 USD'000
Staff costs – salaries and wages	2,234	2,569
Communication and information	365	441
Rent and maintenance	341	521
Management fees (note 17.1)	264	1,049
Other administrative fees	764	895
Others	289	421
Total	4,257	5,896
Number of staff as at 31 December	17	18

17.1 The management fee includes USD 0.25 million (2010: 0.25 million) in respect of Supervisory Board expenses and USD Nil (2010: 0.78 million) in respect of IT administration services fee paid to the Parent Bank.

18. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011 USD'000	2010 USD'000
Cash on hand	-	2
Due from banks	114,488	12,348
	114,488	12,350
Less: Discounted bills (note 4)	(34,160)	(10,397)
Deposits	(79,823)	-
Nostro Accounts	505	1,953
Overdrawn Nostros (note 10)	(347)	-
Cash and cash equivalents	158	1,953

19. Commitment and Contingencies

To meet the financial needs of customers the Group issues various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group. In many instances the amount recognised on the balance sheet for incurred obligation does not represent the loss potential of the arrangement in full.

Letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, advance payment guarantees, and endorsement liabilities from bills rediscounted.

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

At 31 December 2011, the Group's contingent liabilities are as follows:

	2011 USD'000	2010 USD'000
Commitments and contingencies		
Documentary credits and short-term trade related transactions	9,103	35,749
Letters of guarantees granted-others	125	37
Total non-cash loans	9,228	35,786

20. Related party transactions

The Group's ultimate parent company is FIBA Holding A.S. a Turkish joint stock company, which is ultimately controlled by a single individual, Mr. Hüsnü Özyeğin. All amounts stated in the table below relate to group companies controlled by Mr. Hüsnü Özyeğin.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group enters into transactions with its Parent Bank and other subsidiaries of the Group's ultimate Parent Bank, directors and senior management in the ordinary course of business. All the loans and advances to related parties are performing advances and are free of any provision for possible credit losses.

The related party balances and transaction are disclosed in the respective notes of these financial statements. The balances and transactions which are not disclosed anywhere else in these financial statements and set out below:

	2011 USD'000	2010 USD'000
Guarantees received	20,650	119,700

Key management compensation

Key management personnel are those persons, having authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. The staff costs pertaining to the key management were as follows:

	2011 USD'000	2010 USD'000
Salaries and wages	313,841	356,960
Retirement benefits	13	11
	313,854	356,971

21. Risk Management

This section provides details of the Group's financial risk management objectives and policies and describes the methods used by management to control risk. In addition this note includes a discussion of the extent to which financial instruments are used, the associated risks and the business purpose served.

The most important types of risk associated with financial instruments to which the Group is exposed are:

- credit risk
- liquidity risk
- market risk
- operational risk

Below is a discussion of the various risks the Group is exposed to as a result of its activities and the approach taken to manage those risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk constitutes the most significant risk of the Group and arises mainly from trade-finance, lending and treasury. To identify measure and manage its credit risk arising from all these activities, the Group has adequate methodologies, policies and procedures in place.

In order to ensure a high level centralised management of credit risk the Risk Committee is established on different levels, mainly Local Risk Committee, Amsterdam Credit Committee and International Credit Committee. The scope for review of the Local Risk Committee includes monitoring of credit portfolio of CEB Dubai's operation. On the Parent Bank level, International and/or Amsterdam Credit Committee reviews the risk profile of the consolidated portfolio of all the subsidiaries consolidated under the the Parent Bank. The International and/or Amsterdam Credit Committees monitors Group's credit risk, including the subsidiaries consolidated under the Parent Bank. Credit policies and procedures adopted for all entities.

Corporate credit risk is subject to capital-allocation and risk limits for mitigation purposes. These limits start at the borrowers' limit and evolve into portfolio-level concentration limits.

Credit limits are extended as secured and unsecured. Secured lines are against cash and cash equivalent types of collaterals, such as Letter of Guarantees and unsecured lines are against all other types of collaterals, including mortgages, equipment, pledge or assignment of trade receivables (title of goods), cheques, corporate and personal guarantees that are specifically stated on the credit approval form. Secured collaterals are managed and followed-up in processes fully supported by the Bank's corporate system by means of collateral transaction linkages, blocked accounts and system checking of collateralisation.

21. Risk Management *(continued)*

Credit risk *(continued)*

For the purpose of properly identifying, measuring, monitoring, and controlling the Group's credit risks, the Risk Committee on a regular basis, depending on the level of consolidation, receives variety of reports, provided by the Risk Management,, covering:
- concentration of exposure to market sector;
- concentration of exposure on geographical basis;
- large customer group exposure;
- impaired assets and impairment allowances;
- specific segments of the Group's portfolio, (corporate, financial institutions and treasury);
- analysis of credit quality of assets.

Maximum credit exposure

The Bank identifies its maximum credit exposure as all transactions where losses might occur due to the fact that the counterparty may not fulfill its financial or other contractual obligations.

The table below provides the details about the Group's maximum exposure to credit risk, which arises from balance and off balance sheet items. The amount of exposure is shown gross, without taking account of any collateral or other credit enhancements, unless these credit enhancements qualify for offset in accordance with IAS 32.

	2011 USD'000	2010 USD'000
Assets		
Financial investments	9,520	19,341
Due from banks	114,488	12,348
Loans and advances	84,128	282,154
Other assets (excluding prepayment)	45	158
Total on balance sheet	208,181	314,001
Off balance sheet (note 19)	9,228	35,786
Total exposure	217,409	349,787

Concentration of Credit Risk

Concentration risk normally arises when number of counterparties operates in the same region or within the same economic sector, and thus is affected in the same extent to the economic, political and other conditions.

To measure, monitor and control the country concentration the Group is using a number of tools and limits, which are:
- Regular reporting to the Local Risk Committee, when outstanding risk exceeds 10% of the total credit exposure;
- Country Rating Model, which aims to evaluate risks of countries the Group is currently operating or is planning to make a business in;
- Country limits, which are established on consolidated level. Country limits are set by Financial Institutions Analysis Department and approved by the Central Credit Committee and are renewed on annual basis.

The next table shows the Group's exposure by geographical region. Exposure is allocated according to the risk country of the counterparty of the transaction, as defined in the internal Risk Country Assignment Procedure.

21. Risk Management *(continued)*

Credit risk *(continued)*

Analysis of exposure

	Assets				
	Due from Banks	Loans and advances to customers	Financial investments	Other assets	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
At 31 December 2011					
Turkey	29,572	-	-	-	29,572
Russia	-	-	9,520	-	9,520
European Union*	75,113	1,037	-	-	76,150
USA	48	-	-	-	48
East Asia	9,755	76,899	-	45	86,699
Singapore	-	6,192	-	-	6,192
	114,488	**84,128**	**9,520**	**45**	**208,181**
At 31 December 2010					
Turkey	2,148	64,839	3,533	-	70,520
Russia	-	-	13,802	-	13,802
European Union	1,092	6,680	2,006	22	9,800
USA	54	-	-	-	54
East Asia	9,054	206,366	-	136	215,556
Singapore		4,269	-	-	4,269
	12,348	**282,154**	**19,341**	**158**	**314,001**

* The exposure in European Union mainly represents exposure with the Parent Bank.

21. Risk Management *(continued)*

Credit risk *(continued)*

The table below provides an overview of the Groups' credit risk concentration in industry sector of its counterparties.

	31 December 2011			31 December 2010		
	On-balance sheet USD'000	Off-balance sheet USD'000	Total exposures USD'000	On-balance sheet USD'000	Off-balance sheet USD'000	Total exposures USD'000
Exposures to central government and financial institutions						
Exposure to financial institutions	124,009	5,212	129,221	40,231	4,502	44,733
Exposures to corporate clients						
Automotive and derivatives	-	-	-	4,118	-	4,118
Construction and installation	8,524	563	9,087	15,213	-	15,213
Fertilizers	-	-	-	-	-	-
Food, beverages and tobacco	-	-	-	-	-	-
Iron and steel	41,108	1	41,109	47,678	15,650	63,328
Paper and pulp	5,976	1	5,977	4,269	1,381	5,650
Textile, clothing, and ready made wearing		-		4,592	-	4,592
Tourism		-		7,945	-	7,945
Energy/Coal	9,556	-	9,556	29,638	4,978	34,616
Soft commodities and agricultural products	15,121	-	15,121	61,462	4,139	65,601
Oil sector	3,765	3,451	7,216	87,405	2,919	90,324
Others	122	-	122	11,450	2,217	13,667
	208,181	9,228	217,409	314,001	35,786	349,787

Past due and impaired

There are no past dues from the above exposures, and management has assessed no impairment is required as at 31 December 2011 (2010: nil).

Cash and cash equivalents

Cash and cash equivalents are maintained mainly with Parent Bank, and other banks with acceptable ratings.

Re-negotiated loans

There were re-negotiated loan amounting to USD 3.53 million (2010: nil) at the reporting date. The loan is secured against the stock of crude oil which is valued at USD 9 million near to the reporting date.

Collateral

The Bank in a normal course of business, obtain collateral over consignment of goods being imported and bill of lending is issued in the name of Bank. The fair value of the goods collateralised is greater than or equal to the credit limit provided to the customer.

21. Risk Management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group monitors its liquidity position on a daily basis and conducts regular liquidity stress testing. The board and senior management ensure that the Group's funding strategy and its implementation are consistent with their expressed risk tolerance. The Board delegates responsibility for establishing specific liquidity risk policies and practices to the Group Asset/Liability Committee ("ALCO"). ALCO is responsible for ensuring that measurement systems adequately identify and quantify the Group's liquidity exposure and that reporting systems communicate accurate and relevant information about the level and sources of that exposure.

Any violation of the Liquidity Policy and predefined limits is reported to ALCO. In case of limit excess during a market turmoil ALCO calls an immediate meeting to discuss following and other options to bring the liquidity at its desired levels through slow-down and/or stop entering into new commitments and increasing spreads to attract new long-term funds both on consumer and corporate side.

Liquidity gaps showing size and maturity mismatches of assets and liabilities also generate liquidity risk. Liquidity gap analysis is done on a regular basis to be submitted to ALCO. It distributes all on-balance sheet assets' and liabilities' expected cash flows in pre-defined maturity bands according to remaining maturity.

At 31 December 2011	Up to 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	No fixed maturities USD'000	Total USD'000
Assets					
Cash	-	-	-	-	-
Financial investments	32	642	8,846	-	9,520
Due from banks	62,875	51,108	-	505	114,488
Loans and advances	76,076	7,958	94	-	84,128
Property and equipment	-	-	-	428	428
Other receivables	42	-	-	384	426
Total assets	139,025	59,708	8,940	1,317	208,990
Liabilities					
Due to banks	108,872	16,975	-	-	125,847
Due to customers	14,890	-	-	6,814	21,704
Other payables	215	-	-	300	515
Total liabilities	123,977	16,975	-	7,114	148,066
Net liquidity gap	15,048	42,733	8,940	(5,797)	60,924

21. Risk Management *(continued)*

Liquidity risk *(continued)*

At 31 December 2010	Up to 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	No fixed maturities USD'000	Total USD'000
Assets					
Cash	-	-	-	2	2
Financial investments	-	5,237	14,104	-	19,341
Due from banks	1,510	8,887	-	1,951	12,348
Loans and advances	264,668	11,463	6,023	-	282,154
Property and equipment	-	-	-	749	749
Intangible assets	-	-	-	82	82
Other receivables	22	-	-	332	354
Total assets	**266,200**	**25,587**	**20,127**	**3,116**	**315,030**
Liabilities					
Due to banks	137,814	88,167	-	-	225,981
Due to customers	19,273	-	-	13,397	32,670
Other payables	159	-	-	666	825
Total liabilities	157,246	88,167	-	14,063	259,476
Net liquidity gap	108,954	(62,580)	20,127	(10,947)	55,554

The financial liabilities of the Group comprises mainly borrowings which are interest bearing with a maturity of less than 12 months, and other payables which are non interest bearing with a maturity of less than one year.

The following table provides the contractual cash flows for financial liabilities.

At 31 December 2011	Up to 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	No fixed maturities USD'000	Total USD'000	Carrying value USD'000
Due to banks	109,222	17,030	-	-	126,252	125,847
Due to customers	14,890	-	-	6,814	21,704	21,704
Other payables	215	-	-	300	515	515
Total liabilities	**124,327**	**17,030**	-	**7,114**	**148,471**	**148,066**
At 31 December 2010						
Due to banks	139,088	89,390	-	-	228,478	225,981
Due to customers	19,358	-	-	13,397	32,755	32,670
Other payables	159	-	-	666	825	825
Total liabilities	158,605	89,390	-	14,063	262,058	259,476

21. Risk Management *(continued)*

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments.

Market risk is monitored on a regular basis by the Group Risk Management Department at consolidated level according to methodologies, limits and contingency plan clearly specified in approved policies. Market risk related issues are analysed by the Risk Management department and discussed in weekly Risk Committee meetings, featuring the Head of Risk Management, risk analysts from the Risk Management Department and two Management Board members. Based on the proposal of the Risk Committee, the Board of Directors of the Group determines risk management strategies and policies for managing market risk and ensures periodic monitoring of the implementation of the strategies. Bank risk tolerance in the form of limits is determined in order to manage the market risk efficiently and to keep market risk within these limits. Risk limits are set by considering the primary risk factors and are subject to revision quarterly. In case of a limit breach, high level Risk Committee is convened in order to determine strategy and take necessary actions to restore the outstanding exposure within limits in a certain period of time.

Other market risk types like liquidity, re-pricing and interest rate risk of the banking book, are measured and monitored through sensitivity and gap analysis, detailed in subsequent sections.

Interest Rate Risk

One of the major risks for the Group is the interest rate risk of the banking book. The Group defines interest rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates.

Interest rate risk of the banking book is monitored on a regular basis by the Group Risk Management Department according to methodologies, limits and contingency plan clearly specified in an approved policy. Interest rate sensitivity of the banking book is calculated according to Economic Value approach and reported on a weekly basis to the Treasury Department, and on a monthly basis at consolidated level to the ALCO. In addition, interest rate risk is monitored by means of re-pricing gap analysis. In both interest sensitivity and re-pricing gap analyses, trading portfolio is excluded and the maturity schedule differentiates between floating/fixed rate assets and liabilities.

For assessing the interest rate sensitivity of the banking book, various scenarios, including parallel and non-parallel shifts as well as more sophisticated modeling of the yield curves, are employed to see the interest rate change effect on the Group's economic value.

The re-pricing gap analyses distribute all on-balance sheet assets' and liabilities' cash flows in pre-defined maturity bands according to remaining maturity, whilst differentiating between floating and fixed rate transactions and taking into account interest rate reset dates. The resulting gaps must remain within pre-defined limits.

Notes to the consolidated financial statements *(continued)*

21. Risk Management *(continued)*

Market Risk *(continued)*

Interest Rate Risk (continued)

At 31 December 2011	Up to 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Non interest bearing USD'000	Total USD'000
Assets					
Financial investments	32	642	8,846	-	9,520
Due from banks	62,875	51,108	-	505	114,488
Loans and advances	76,076	7,958	70	24	84,128
Property and equipment	-	-	-	428	428
Other receivables	42	-	-	384	426
Total assets	**139,025**	**59,708**	**8,916**	**1,341**	**208,990**
Liabilities					
Due to bank	108,872	16,626	-	349	125,847
Due to customers	12,196	-	-	9,508	21,704
Other payables	215	-	-	300	515
Total liabilities	**121,283**	**16,626**	**-**	**10,157**	**148,066**
On balance sheet gap	**17,742**	**43,082**	**8,916**	**(8,816)**	
Cumulative interest rate sensitivity gap	**17,742**	**60,824**	**69,740**	**60,924**	

Notes to the consolidated financial statements *(continued)*

21. Risk Management *(continued)*

Market Risk *(continued)*

Interest Rate Risk (continued)

At 31 December 2010	Up to 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Non interest bearing USD'000	Total USD'000
Assets					
Cash	-	-	-	2	2
Financial investments	-	5,237	14,104	-	19,341
Due from banks	1,510	8,887	-	1,951	12,348
Loans and advances	264,658	11,473	6,023	-	282,154
Property and equipment	-	-	-	749	749
Intangible assets	-	-	-	82	82
Other receivables	-	-	-	354	354
Total assets	266,168	25,597	20,127	3,138	315,030
Liabilities					
Due to bank	137,814	88,167	-	-	225,981
Due to customers	19,273	-	-	13,397	32,670
Other payables	159	-	-	666	825
Total liabilities	157,246	88,167	-	14,063	259,476
On balance sheet gap	108,922	(62,570)	20,127	(10,925)	
Cumulative interest rate sensitivity gap	108,922	46,352	66,479	55,554	

Interest rate risk is also assessed by estimating the impact of a possible change in interest rate. Assuming the fluctuation of 25 basis points in the interest rates the impact on the profit or loss and equity will be USD 157 thousand (2010: USD 166 thousand) based on the net cumulative interest bearing assets of USD 63.1 million (2010: USD 66.4 million).

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Position limit of the Group related with currency risk is determined according to foreign currency net position standard ratio determined by the DFSA regulations.

21. Risk Management *(continued)*

Market Risk *(continued)*

At 31 December 2011	USD USD'000	EUR USD'000	GBP USD'000	RON USD'000	OTHERS USD'000	TRY USD'000	Total USD'000
Assets							
Financial investments	9,520	-	-	-	-	-	9,520
Due from banks	110,432	198	3,541	13	272	32	114,488
Loans and advances	84,074	54	-	-	-	-	84,128
Property and equipment	428	-	-	-	-	-	428
Other receivables	228	-	-	-	198	-	426
Total assets	**204,682**	**252**	**3,541**	**13**	**470**	**32**	**208,990**
Liabilities							
Due to bank	62,397	59,910	3,540	-	-	-	125,847
Due to customers	19,186	2,519	-	-	-	-	21,705
Other payables	502	-	-	-	12	-	514
Total liabilities	**82,085**	**62,429**	**3,540**	-	12	-	**148,066**
Equity							
Share capital	30,000	-	-	-	-	-	30,000
Retained earnings	30,924	-	-	-	-	-	30,924
Total liabilities and shareholders' equity	**143,009**	**62,429**	**3,540**	-	12	-	**208,990**
On balance sheet FX position	61,672	(62,177)	1	13	458	32	
Net off balance sheet position	(61,873)	62,130	-	-	(463)	-	
Net FX position	**(201)**	**(47)**	**1**	**13**	**(5)**	32	

21. Risk Management *(continued)*

Market Risk *(continued)*

At 31 December 2010	USD USD'000	EUR USD'000	CHF USD'000	RON USD'000	AED USD'000	TRY USD'000	Total USD'000
Assets							
Cash	-	-	-	-	2	-	2
Financial investments	13,803	3,977	-	1,561	-	-	19,341
Due from banks	11,046	1,252	6	8	30	6	12,348
Loans and advances	253,623	19,989	-	-	-	8,542	282,154
Property and equipment	749	-	-	-	-	-	749
Intangible assets	82	-	-	-	-	-	82
Other receivables	354	-	-	-	-	-	354
Total assets	279,657	25,218	6	1,569	32	8,548	315,030
Liabilities							
Due to bank	114,950	111,016	-	-	15	-	225,981
Due to customers	26,222	6,448	-	-	-	-	32,670
Other payables	609	216	-	-	-	-	825
Total liabilities	141,781	117,680	-	-	15	-	259,476
Equity							
Share capital	30,000	-	-	-	-	-	30,000
Retained earnings	25,554	-	-	-	-	-	25,554
Total liabilities and shareholders' equity	197,335	117,680	-	-	15	-	315,030
On balance sheet FX position	82,322	(92,462)	6	1,569	17	8,548	
Net off balance sheet position	(87,976)	98,584	-	(1,572)	(463)	(8,498)	
Net FX position	(5,654)	6,122	6	(3)	(446)	50	

21. Risk Management *(continued)*

Market Risk *(continued)*

***Currency risk** (continued)*

The impact for the change of 1% in the foreign exchange rate of Euro against USD would be USD 0.04 thousand (2010: USD 61 thousand) based on net EUR foreign exchange exposure of USD 416 thousand long position (2010: USD 6,121 thousand long position).

Price risk

Price risk is the risk of changes in the value of financial instruments other than due to changes in interest or foreign currency rates. The Bank is not significantly exposed to price risk.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events including legal and outsourcing risk but excluding business, strategy, and reputational risk.

CEB Dubai utilises the functionality of the operational risk managemt department which is established in CEB N.V. at Group level. Operational Risk Management ("ORM") department whose goal is to consolidate already existing ORM activities and coordinate implementation of the framework at locations where there was no prior ORM activity. The framework uses the Risk Control Self Assessment and Operational Loss database to identify risks and to establish risk mitigating action points,. There are ORM officers at each department ensuring that Operational Risk Management is embedded into the day-to-day operations. A new Product Approval process has also been introduced to the business to ensure that new products and thus processes are introduced in a well prepared manner by all parties involved.

22. Fair value

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

The following table compares the carrying amount of significant financial assets and liabilities measured at cost to estimated fair values:

	31 December 2011		31 December 2010	
	Carrying amount USD'000	Fair value USD'000	Carrying amount USD'000	Fair value USD'000
Financial assets				
Due from banks	114,488	114,488	12,347	12,347
Loans and advances	84,128	84,128	282,154	282,154
Financial investments	9,520	9,839	17,336	19,310
Financial liabilities				
Due to bank	125,847	125,847	225,981	225,981
Due to customers	18,292	18,292	32,670	32,670

22. Fair value *(continued)*

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which fair value measurement is categorized:

	31 December 2011			
	Level 1 USD '000	Level 2 USD '000	Level 3 USD '000	Total USD '000
Derivative financial assets		42	-	42
Derivative financial liability	-	(215)	-	(215)
Total	-	(173)	-	(173)

	31 December 2010			
	Level 1 USD '000	Level 2 USD '000	Level 3 USD '000	Total USD '000
Available for sale financial investments	-	-	2,006	2,006
Derivative financial assets		22	-	22
Derivative financial liability	-	(159)	-	(159)
Total	-	(137)	2,006	1,869

There are no transfers between level 3, level 2 and level 1 during the year.

The following table shows reconciliation from the beginning balances to the end balances for fair value measurement in level 3 of the fair value hierarchy.

	2011 USD '000	2010 USD '000
Opening	2,006	1,937
Sale of investments	(2,006)	-
Foreign exchange difference	-	69
	-	2,006

23. Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of an underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

	Notional Amount USD '000	Positive fair value USD '000	Negative fair value USD '000
31 December 2011			
Foreign currency swaps	62,593	42	215
Total	62,593	42	215

	Notional Amount USD '000	Positive fair value USD '000	Negative fair value USD '000
31 December 2010			
Foreign currency swaps	110,457	22	159
Forward contracts	217	-	-
Options Purchased	117,935	-	-
Options sold	(117,935)	-	-
Total	110,674	22	159

24. Capital adequacy

Regulatory capital

The Group's lead regulator, the Dubai Financial Services Authority (DFSA) sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are to:

- safeguard the Company's ability to continue as a going concern and increase the returns for the shareholders; and
- comply with regulatory capital requirements set by the DFSA.

24. Capital adequacy *(continued)*

In implementing current capital requirements, the Company assesses its capital resources in accordance with the guidelines issued by the DFSA prescribing the minimum capital adequacy requirements.

Summary data of regulatory capital managed as at year end was as follows:

	2011 USD'000	2010 USD'000
Tier 1 capital		
Share capital	30,000	30,000
Retained profits	30,924	25,554
	60,924	55,554
Tier 2 capital	-	-
Total Tier 1 and Tier 2 capital	60,924	55,554
Required	9,946	22,430

The Company has complied with all externally imposed capital requirements throughout the period.

25. Gain on disposal of subsidiary

The detail of the Bank's subsidiary is as follows:

Name of company	Principal activity	Country of incorporation	Effective ownership interest 2010	Effective ownership interest 2009
Credit Plus (Gulf) Ltd	Provision of managing Non-performing retail loans of Credit Europe Group	U.A.E.	100%	100%

The subsidiary was incorporated on 29 July 2009. On 29th October 2011, the Bank sold 100% of the share capital in Credit Plus (Gulf) Limited to Credit Europe Bank N.V. for a total consideration of USD 228,733.

This transaction resulted in a gain on sale of subsidiary of USD 20 thousand which is included in the consolidated statement of comprehensive income.

The details of assets and liabilities as follows:

Loans and Advances	38,187
Cash and cash equivalent transferred	702
Borrowings	(38,581)
Other liabilities	(99)
Total assets and liabilities sold - net	209
Sale consideration settled in cash	229