Financial Statements of

INTELIGO BANK LTD.

Year ended December 31, 2010

INTELIGO BANK LTD.
Table of Contents

Year ended December 31, 2010

KPMG
PO Box N 123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

Telephone 242 393 2007
Fax 242 393 1772
Internet www.kpmg.com.bs

INDEPENDENT AUDITORS' REPORT

To: The Shareholder of
Inteligo Bank Ltd. (formerly Blubank Ltd.)

We have audited the accompanying financial statements of Inteligo Bank Ltd. (formerly BluBank Ltd.) ("the Bank"), which comprise the statement of financial position as at December 31, 2010, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Bank, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2010, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG

March 15, 2011

INTELIGO BANK LTD.

Statement of Financial Position

Year ended December 31, 2010, with corresponding figures as at December 31, 2009
(Expressed in thousands of United States dollars)

Assets	Note	2010	2009
Cash		8	7
Deposits with banks:			
Demand deposits		24,596	95,106
Time deposits		101,722	43,905
Total deposits with banks		126,318	139,011
Total cash and deposits with banks	5	126,326	139,018
Securities at fair value	6	110,675	90,301
Securities available-for-sale	6	100,095	91,134
Total securities	18,19	210,770	181,435
Investment in associates	8,18	0	10,825
Loans	7, 18,19	150,998	101,032
Less: allowance for loan losses		(480)	(481)
Loans, net		150,518	100,551
Furniture, equipment and improvements	9	2,586	232
Securities sold pending settlement	10	405	2,628
Accrued interest receivable	18	2,876	2,156
Other assets	18	8,395	5,024
Total assets		501,876	441,869

The statement of financial position should be read along with the accompanying notes which are an integral part of the financial statements.

INTELIGO BANK LTD.
Statement of Financial Position

December 31, 2010, with corresponding figures as at December 31, 2009

(Expressed in thousands of United States dollars)

Liabilities and Equity	Note	2010	2009
Liabilities			
Deposits:			
Demand	18	117,252	143,167
Time	11	267,181	195,740
Total deposits	19	384,433	338,907
Securities purchased pending settlement	10	0	20
Accrued interest payable		3,435	3,066
Other liabilities		2,020	1,234
Total liabilities		389,888	343,227
Equity:			
Share capital	12	20,000	20,000
Unrealized gain on available-for-sale securities		17,491	6,716
Retained earnings		74,497	71,926
Total equity		111,988	98,642
Commitments and contingencies	16		
Total liabilities and equity		501,876	441,869

Approved on behalf of the Board of Directors on March 15, 2011 by the following:

Roberto Hoyle
Director

Reynaldo Roisenvit
Director

INTELIGO BANK LTD.

Statement of Income

Year ended December 31, 2010, with corresponding figures for 2009

(Expressed in thousands of United States dollars)

	Note	2010	2009
Interest income:			
Loans	18	8,751	7,086
Deposits with banks		169	83
Securities		1,543	1,568
Total interest income		10,463	8,737
Interest expense		(9,418)	(7,979)
Net interest income		1,045	758
Reversal of allowance for loan losses	7	0	300
Net interest income , after provisions		1,045	1,058
Income (expense) from financial services and other items:			
Dividend income		3,101	2,351
Gain on financial instruments, net	8,14,18	28,126	18,792
Impairment loss on financial assets	6	(11,752)	0
Comission income	18	13,277	9,210
Comission and other expense		(678)	(563)
Other income		472	235
Income from financial services and other items		32,546	30,025
General and administrative expenses:			
Salaries and other employee expenses	15,18	4,600	3,383
Rent		234	218
Professional fees	18	4,813	4,068
Depreciation and amortization	9	188	223
Other	15	1,968	2,036
Total general and administrative expenses		11,803	9,928
Share of profit (loss) of equity accounted investees	8	783	(272)
Net income		22,571	20,883

The statement of income should be read along with the accompanying notes which are an integral part of the financial statements.

INTELIGO BANK LTD.

Statement of Comprehensive Income

Year ended December 31, 2010 with corresponding figures for 2009
(Expressed in thousands of United States dollars)

	Note	2010	2009
Net income		22,571	20,883
Other comprehensive income			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		25,708	19,103
Net change in fair value transferred to profit or loss	6, 14	(14,933)	(3,761)
Other comprehensive income for the period		10,775	15,342
Total comprehensive income for the period		33,346	36,225

The statement of comprehensive income should be read along with the accompanying notes which are an integral part of the financial statements.

INTELIGO BANK LTD.

Statement of Changes in Equity

Year ended December 31, 2010 with corresponding figures for 2009
(Expressed in thousands of United States dollars)

	Share Capital	Unrealized gain (loss) on available-for-sale Securities	Retained Earnings	Total
Balance as of December 31, 2008	20,000	(8,626)	56,043	67,417
Total comprehensive income for the year:				
Net income 2009	0	0	20,883	20,883
Other comprehensive income:				
Available-for-sale financial assets:				
Net change in the fair value	0	19,103	0	19,103
Net change in the fair value transferred to profit or loss	0	(3,761)	0	(3,761)
Total other comprehensive income	0	15,342	0	15,342
Total comprehensive income for the period	0	15,342	20,883	36,225
Transactions with owners, recorded directly in equity:				
Dividends paid	0	0	(5,000)	(5,000)
Total transactions with owners	0	0	(5,000)	(5,000)
Balance as of December 31, 2009	20,000	6,716	71,926	98,642
Total comprehensive income for the year:				
Net income 2010	0	0	22,571	22,571
Other comprehensive income:				
Available-for-sale financial assets:				
Net change in the fair value	0	25,708		25,708
Net change in the fair value transferred to profit or loss	0	(14,933)	0	(14,933)
Total other comprehensive income	0	10,775	0	10,775
Total comprehensive income for the period	0	10,775	22,571	33,346
Transactions with owners, recorded directly in equity:				
Dividends paid	0	0	(20,000)	(20,000)
Total transactions with owners	0	0	(20,000)	(20,000)
Balance as of Decembre 31, 2010	20,000	17,491	74,497	111,988

The statement of equity should be read along with the accompanying notes which are an integral part of the financial statements.

INTELIGO BANK LTD.
Statement of Cash Flows

Year ended December 31, 2010, with corresponding figures for 2009
(Expressed in thousands of United States dollars)

	Note	2010	2009
Cash flows			
Net income		22,571	20,883
Adjustments to reconcile net income to cash (used)/ provided by operating activities:			
Depreciation and amortization		188	223
Reversal of allowance for loan losses		0	(300)
Unrealized gain on securities		(9,027)	(15,004)
Net gain on securities including impairment		(6,955)	(3,761)
Gain on sale of equity accounted investees		(392)	0
Share of (gain) /loss in equity accounted investees		(783)	272
Interest income		(10,463)	(8,737)
Interest expense		9,418	7,979
Changes in operating assets and liabilities			
Time deposits		215	(235)
Securities		(7,571)	(12,000)
Loans		(49,967)	(9,379)
Deposits		45,526	137,430
All other assets		(1,148)	653
All other liabilities		766	(6,199)
Cash (used)/ generated by operations		(7,622)	111,825
Interest received		9,743	9,102
Interest paid		(9,049)	(7,305)
Net cash (used)/ provided by operating activities		(6,928)	113,622
Investing activities			
Securities available- for- sale purchased		(76,918)	(57,075)
Proceeds from sale of securities available-for-sale		81,911	44,145
Proceeds from sale of equity accounted investees		12,000	0
Purchase of furniture, equipment and improvements		(2,542)	(150)
Cash flows provided / (used) by investing activities		14,451	(13,080)
Financing activities			
Dividends paid		(20,000)	(5,000)
Cash used by financing activities		(20,000)	(5,000)
Net (decrease)/ increase in cash and cash equivalents		(12,477)	95,542
Cash and cash equivalents at beginning of year		138,783	43,241
Cash and cash equivalents at end of year	5	126,306	138,783

The statement of cash flows should be read along with the accompanying notes which are an integral part of the financial statements.

1. General Information

Inteligo Bank Ltd. Ltd. ("the Bank") was incorporated under the laws of The Commonwealth of The Bahamas in 1995 and is licensed by The Central Bank of The Bahamas to conduct various types of banking, financing and investment activities. The registered office of the Bank is located at Seventeen Shop Building First Floor, Collins Avenue & Fourth Terrace, Centreville, Nassau, The Bahamas. The Bank is a wholly-owned subsidiary of IFH International Corp., an entity incorporated under the laws of the Republic of Panama. The Bank is ultimately owned by IFH Peru, Ltd.

The Bank has established a branch in Panama, Inteligo Bank Ltd. - Panama Branch ("the Branch") which was established on January 10, 1997 under the laws of the Republic of Panama. The Branch operates under an international license issued by the Superintendent of Banks of the Republic of Panama through resolution No. 26-96 of December 1996. The banking operations in Panama are subject to regulatory requirements and supervision of the Superintendent of Banks of the Republic of Panama, pursuant to Law Decree No. 9 of February 26, 1998 as modified by Law Decree No. 2 of February 22, 2008.

These financial statements were authorized for issuance by the Board of Directors on March 15, 2011.

2. Basis of preparation and Summary of Significant Accounting Policies

The significant accounting policies are summarized as follows:

(a) Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, trading securities and financial assets designated at fair value through profit or loss and all derivative contracts which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical 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, complexity or estimation uncertainty, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The Bank applies revised IAS 1 "Presentation of Financial Statements" ("IAS 1"), which became effective as of January 1, 2009. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(a) Basis of Preparation, continued

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 6.

(b) Foreign Currency Translation

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in United States dollars which is the Bank's functional currency.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the reporting date. Transactions in foreign currencies during the year are translated into the functional currency of the Bank, using the exchange rates prevailing at the dates of the transactions. The differences arising from such translation are recognized in the statement of income. Translation differences on non-monetary items, such as securities classified as available-for-sale financial assets, are recognized in other comprehensive income.

(c) Interest Income and Expense

Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(d) Fee and Commission Income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Fees and commissions arising from asset management services are recognized over the period the service is provided.

(e) Financial Assets

The financial assets of the Bank are classified into the following categories: financial assets at fair value; loans and receivables; held-to-maturity assets; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

Financial Assets at Fair Value

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as trading if acquired principally for the purpose of selling in the short term and as fair value through profit or loss if so designated by management on initial recognition. Derivatives are also categorized as held for trading unless they are designated as hedging instruments. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in the statement of income.

Trading securities include participation in mutual funds, shares, and bonds issued by private companies. These investments are acquired for the purpose of generating a profit from short-term fluctuations in price. Trading securities are presented at their fair value and unrealized gains or losses are included in the statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when money, goods or services are provided directly to a debtor with no intention of trading the receivable.

Held-to-maturity assets

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets prior to their scheduled maturity date, the entire category would be reclassified as available-for-sale.

Available-for-sale financial assets

Available-for-sale assets are those non-derivative financial assets that are not classified as financial assets at fair value, loans or held-to-maturity assets.

Purchases and sales of financial assets at fair value, held-to-maturity and available-for-sale are recognized on the trade date which is the date on which the Bank commits to purchase or sell the asset.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(e) Financial Assets, continued

Available-for-sale financial assets, continued

Loans and receivables are recognized when cash is advanced to the borrowers.

Financial assets are initially recognized at fair value plus transaction costs, for all financial assets not carried at fair value through profit or loss. Financial assets designated at fair value through profit or loss are initially recognized on the trade date at which time the Bank becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of financial assets carried at fair value through profit or loss are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and presented within in equity in "Unrealized gain (loss) on Available-for- sale securities". When an investment is derecognized or impaired the cumulative gain or loss in other comprehensive is transferred to profit or loss. However, interest calculated using the effective interest method is recognized in the statement of income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the Bank's right to receive payment is established. Foreign exchange gain or losses on available-for-sale equity instruments are recognized in other comprehensive income.

The fair values of quoted investments in active markets are based on current bid prices. If the market for unlisted securities is inactive, the Bank estimates fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For equity instruments whose fair value may not be measured in a reliable manner, these are carried at their cost less impairment.

Derivative Financial Instruments and Hedge Accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(e) Financial Assets, continued

<u>Derivative Financial Instruments and Hedge Accounting, continued</u>

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the statement of income under "Gain on financial instruments, net". Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are also included in "Gain on financial instruments, net".

<u>Impairment of Financial Assets</u>

(i) Assets carried at amortized cost (Loans and receivables and Held-to-Maturity Investments)

As of each reporting date, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are recognized 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 (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank 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 recognized are not included in a collective assessment of impairment.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(e) *Financial Assets, continued*

Impairment of Financial Assets, continued

(i) Assets carried at amortized cost (Loans and receivables and Held-to-Maturity Investments), continued

If there is objective evidence that an impairment loss on loans and receivables exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. The calculation of the present value of the estimated future cash flows of a collateralized 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.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans and historical loss experience for loans with similar credit risk characteristics.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized in the statement of income.

Management believes that the provision for loan losses is adequate. The regulatory agencies in certain jurisdictions, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require additions to the allowance to be recognized based on their evaluation of information available at the time of their examinations. Regulatory loan loss reserve requirements that exceed the Bank's provisions for loan losses are treated as an appropriation of retained earnings.

(ii) Assets carried at fair value (Available-for-sale Investments)

As of each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of income. Any subsequent recovery in the fair value of impaired equity instruments is recognized in other comprehensive income. However, if in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, then impairment loss is reversed through the statement of income.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(f) Investment in Associates

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognized at cost. The Bank's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the Bank's share of the income and expenses and equity movements of equity accounted investees after adjustments to align the accounting policies with those of the Bank from the date that significant influence commences until the date that significant influence ceases. When the Bank's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

(g) Furniture, Equipment and Improvements

Furniture, equipment and improvements are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost to their residual values over their estimated useful lives. Gains and losses on disposal of furniture and equipment are recognized in profit of loss and are determined by comparing the proceeds from disposal to the carrying amount. Repairs and renewals are charged to the statement of income when the expenditure is incurred. The estimated useful life of these assets is as follows:

Furniture	3 years
Equipment	3 and 5 years
Vehicles	5 years
Leasehold improvements	5 years

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Work in progress is stated at cost. Transfers are made to the relevant asset category as and when assets are available for their intended use.

(h) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and deposits with banks with original maturities of less than three months.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(i) Fiduciary Activities

The Bank manages and administer assets held in trust and other investment vehicles on behalf of investors. The assets held in trust and under administration are not included in these financial statements.

(j) Related parties

A party is related to the Bank if:

(i) Directly, or indirectly through one or more intermediaries, the party:
- Controls, is controlled by, or is under common control with, the Bank;
- Has an interest in the Bank that gives it significant influence over the Bank;

(ii) The party is a member of the Bank's key management personnel, including directors and officers of the Bank or its shareholder and parent companies;

(iii) The party is a close member of the family of any individual referred to in (ii) above;

(iv) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entities resides with, directly or indirectly, any individual referred to in (ii) or (iii) above.

(k) New standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the financial statements of the Bank with the exception of:

- IFRS 9 *Financial lnstruments,* published on November 12, 2009 as part of phase I of the lASB's comprehensive project to replace lAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in lAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at arnortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing lAS 39 categories of *held to maturity, available for sale and loans and receivables.* For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

2. Basis of preparation and summary of Significant Accounting Policies, continued

(k) New standards and interpretation not yet adopted, continued

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of the Bank's operations, this standard is expected to have a significant impact on the Bank's financial statements.

3. Financial Instrument Risk Management

A financial instrument is any contract that originates a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. The Bank's Statement of Financial Position is primarily comprised of financial instruments.

The Bank's Board of Directors is responsible for the establishment and vigilance of the risk administration policies of financial instruments. In order to manage and monitor the various risks the Bank is exposed to, the Board of Directors has created the Credit and Investment Committee, the Assets and Liabilities Committee, the Credit Risk Committee and the Audit Committee. These committees are engaged in managing these risks and in making periodic reviews. In addition, the Bank is subject to the regulations of The Central Bank of The Bahamas concerning the risks of liquidity, credit and levels of capitalization, among others.

The significant risks identified by the Bank are credit, counterparty, market, liquidity and financing risk, which are described as follows:

(a) Credit Risk

This is the risk that the debtor or issuer of a financial asset owned by the Bank does not fully and timely comply with any payment, in conformity with the terms and conditions agreed upon when the respective financial asset was acquired or originated by the Bank.

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(a) Credit Risk, continued

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		2010	2009
Deposits with banks	$	126,318	139,011
Securities		210,770	181,435
Investment in associates		0	10,825
Loans		150,518	100,551
Securities sold pending settlement		405	2,628
Total	$	488,011	434,450

To mitigate credit risk, the Bank's policies establish limits by country, industry, and debtor. The Committee appointed by the Board of Directors, periodically oversees the financial condition of debtors and issuers of financial instruments that involve risk for the Bank. To mitigate credit risk, the Bank's risk management policies establish the following:

- Financing granted by the Bank to its clients are within financing limits established by the Board of Directors, as well as the requirements established by The Central Bank of The Bahamas and the Superintendent of Banks of the Republic of Panama. Exposure limits are applied to individuals and economic groups.
- The Bank limits exposure by sector and geographic location.

Credit Policies

The credit policy of the Bank includes a series of rules and procedures which allow those persons involved in the credit process to have information on the procedures that must be followed to be in compliance with credit related functions. The Bank's view is that having comprehensive information when deciding to approve credit requests, is a key factor in making informed decisions and maintaining a healthy credit portfolio. All direct and indirect credits, as well as credit operations and guarantees classified as contingent assets are considered as part of the Bank's credit policy.

Establishment of authorization limits:

- The Board of Directors establishes credit policies and can delegate its authority to approve operating credits. The Board of Directors also establishes the authorization limits of officers, establishes procedures to monitor compliance, and can delegate these responsibilities to the Credit Committee and the Audit Committee.
- The Board of Directors establishes the authorization structure for the approval and renewal of credit facilities. The Credit Committee is in charge of the application of the policies approved by the Board.

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(a) Credit Risk, continued

Establishment of authorization limits, continued:

As of December 31, 2010 the Bank was not in compliance with certain prudential norms established by The Central Bank of The Bahamas which limit investment in securities of a single issuer to no more than 15% of the Bank's capital. The excess in the limit is because of an increase in fair value. The investment is included in securities available-for-sale as disclosed in note 6.

- The Credit Committee is responsible for risk management policies, including the establishment of authorization limits to approve and renew credit facilities, and establishing limits for counterparty, geographic area and economic risk concentrations.

Concentration and Exposure Limits

The Bank defines limits according to prudential norms and guidelines established by The Central Bank of The Bahamas and the Superintendence of Banks of the Republic of Panama. The limits considered are primarily individual exposures to related parties and economic sector and geographic concentrations.

The following table analyzes the Bank's most significant financial instruments that are exposed to credit risk and their corresponding assessment:

		Loans		Securities		Deposits with banks	
		2010	2009	2010	2009	2010	2009
Gross amount	$	150,998	101,032	210,770	181,435	126,318	139,011
Impairment allowance		(480)	(481)	0	0	0	0
Carrying value	$	150,518	100,551	210,770	181,435	126,318	139,011

The Bank monitors the credit risk concentration by sector and geographic location. The analysis of credit risk concentration is shown below:

		Loans		Securities		Deposits with banks	
		2010	2009	2010	2009	2010	2009
Concentration by Sector:							
Corporate	$	121,024	74,682	50,172	62,043	0	0
Consumer		17,208	13,316	0	0	0	0
Other sectors		12,766	13,034	160,598	119,392	126,318	139,011
	$	150,998	101,032	210,770	181,435	126,318	139,011
Geographic Concentration:							
Panama	$	53,263	2,275	0	0	596	606
The Caribbean		3,585	6,204	92,504	64,721	122	105
The United States of America		0	4,228	15,006	17,387	119,862	132,998
Europe		0	0	66,269	53,913	5,734	5,298
Peru		92,829	88,125	32,610	44,374	4	4
Others		1,321	200	4,381	1,040	0	0
	$	150,998	101,032	210,770	181,435	126,318	139,011

The geographic concentration of loans is based on the debtor's location, and for securities it is based on the issuer's location.

3. Financial Instrument Risk Management, continued

(a) Credit Risk, continued

When evaluating credit risk, management considers the following:

- Impairment of loans, securities and deposits with banks

  Impairment of loans, securities and deposits with banks is determined by comparing the carrying value of the asset with its estimated recoverable amount.

- Financial assets past due but not impaired

  Loans and securities where contractual interest or principal payments are past due but are not considered to be impaired because of the level of security/ collateral available and the stage of collection of amounts owed to the Bank.

- Renegotiated loans

  Renegotiated loans are those for which a significant variation in the original credit terms has been formally documented, due to difficulties in the payment capacity of the debtor, and the result of the current assessment does not permit them to be classified as standard performing loans.

- Impairment provisions

  The Bank has established impairment provisions to cover losses incurred on the loan and securities portfolios.

- Charge-off policy

  The Bank periodically reviews its loan portfolio to identify those credits that need to be charged-off due to the non-recoverability of the balance and up to the amount not covered by the collateral. For unsecured consumer loans, charge-offs are calculated based on the amount past due. In the case of secured loans, the charge-off is calculated after considering the value of collateral held.

  The Bank periodically analyzes the loan portfolio to identify required impairment provisions calculated as the difference between the carrying value and the realizable value of security received.

  Impairment provisions are computed individually for loans with significant risks and collectively for groups of loans with similar credit risk characteristics.

  The Bank also uses estimates to establish general impairment provisions based on historical charge off rates. The methodology and assumptions used to make these estimates are reviewed periodically.

  The Bank holds guarantees and security for certain loans granted, comprised mainly of customers' deposits, securities, mortgages and other securities.

As at December 31, 2010, the Bank held collateral over loans to customers comprising primarily properties, debt instruments, equities, deposits and structured notes.

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(b) *Counterparty Risk*

This is the risk that a counterparty does not comply with the settlement of a purchase or sale of securities.

Risk management policies establish counterparty limits that determine the maximum amount of net exposure to transactions not yet liquidated that the Bank is permitted to have with a counterparty. The Assets and Liabilities Committee is responsible for identifying acceptable counterparties taking into consideration the counterparty's history with respect to the fulfillment of obligations, as well as indications of being able to comply with obligations in the future.

(c) *Liquidity and Financing Risk*

This is the risk that the Bank cannot comply with all of its obligations because of, among other reasons, an unexpected withdrawal of funds by depositors, the deterioration of the quality of the loan portfolio, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or the mismatch of long-term asset financing with short-term liabilities. The Bank manages its liquidity resources to honor liabilities at maturity under normal contractual terms.

Liquidity Risk Management

Risk management policies establish a liquidity limit in order to determine the amount of the Bank's assets that should be maintained in high liquidity instruments; as well as financing limits, leverage limits and duration limits.

The Board of Directors has established liquidity levels as to the minimum amount of available funds required to comply with such requirements and the minimum level of inter-banking facilities and other loan facilities that should exist to cover unexpected withdrawals. The Bank holds a short-term asset portfolio, comprised of loans and liquid investments to ensure sufficient liquidity.

Exposure to liquidity risk

A primary measure of liquidity is the Bank's net liquidity margin.

The Bank's liquidity index which is calculated by dividing liquid assets by total deposits is shown below:

	2010	2009
At year end	59%	67%
Average for the year	56%	57%
High for the year	68%	75%
Low for the year	39%	44%

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(c) Liquidity and Financing Risk, continued

The table below shows the undiscounted contractual cash flows of the Bank's significant financial instruments on the basis of the earliest possible contractual maturity at the reporting date. The expected cash flows of these instruments could differ significantly from this analysis: For example, demand deposits from customers are expected to maintain a stable or increasing balance.

2010

		Total	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Without maturity
Assets:								
Securities at fair value	$	110,675	2,718	0	0	0	0	107,957
Securities available -for -sale	$	100,095	0	0	0	2,004	13,317	84,774
Loans	$	150,998	8,985	13,260	93,254	30,032	5,467	0
Time deposits		101,722	101,722	0	0	0	0	0
Total assets	$	463,490	113,425	13,260	93,254	32,036	18,784	192,731
Liabilities:								
Deposits		384,433	147,370	37,286	175,020	19,594	5,163	0
Total liabilities	$	384,433	147,370	37,286	175,020	19,594	5,163	0

2009

		Total	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Without maturity
Assets:								
Securities at fair value	$	90,301	0	0	0	0	2,349	88,785
Securities available - for- sale	$	91,134	5,350	0	0	0	0	84,951
Loans	$	101,032	4,224	10,628	64,472	16,465	5,243	0
Time deposits		43,905	43,905	0	0	0	0	0
Total assets	$	326,372	53,479	10,628	64,472	16,465	7,592	173,736
Liabilities:								
Deposits		338,907	163,751	36,558	129,648	4,026	4,924	0
Total liabilities	$	338,907	163,751	36,558	129,648	4,026	4,924	0

(d) Market Risk

Market risk is the risk that changes in market prices, foreign exchange rates, interest rates and equity prices may affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

Risk management policies provide for compliance limits by financial instrument, limits with respect to maximum loss amounts that trigger the settlement of positions that caused such loss; and the requirement that, except with the approval from the Board of Directors, substantially all assets and liabilities are denominated in United States dollars.

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(d) Market Risk, continued

Market Risk Administration

The Board of Directors has determined that market risk should be monitored directly by the Credit Risk Committee that is comprised of members of the Board of Directors and executive personnel. This committee is responsible for developing policies to administer market risk. In addition, this committee is responsible for review and approval of policy implementation.

- *Cash flow and fair value interest rate risk*

  Cash flow and fair value interest rate risk are the risks of fluctuation of both the future cash flows and the value of a financial instrument due to changes in market interest rates.

  The Bank establishes limits to interest rate risk that should be assumed, and weekly this exposure is monitored by the Risk Department and Risk Committee.

  The following table summarizes the Bank's exposure based on the re-pricing terms of interest rates of financial assets and liabilities.

				2010			
		Up to 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Without interest rate**	**Total**
Assets:							
Deposits with banks	$	126,318	0	0	0	0	126,318
Securities		2,718	0	9,981	5,340	192,731	210,770
Loans		7,940	11,699	88,748	42,611	0	150,998
Total assets	$	136,976	11,699	98,729	47,951	192,731	488,086
Liabilities:							
Deposits		58,849	52,602	147,209	8,521	117,252	384,433
Total liabilities	$	58,849	52,602	147,209	8,521	117,252	384,433
Net interest gap	$	78,127	(40,903)	(48,480)	39,430	75,479	103,653

				2009			
		Up to 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Without interest rate**	**Total**
Assets:							
Deposits with banks	$	139,011	0	0	0	0	139,011
Securities		5,350	0	2,348	0	173,737	181,435
Loans		2,750	4,012	52,267	42,003	0	101,032
Total assets	$	147,111	4,012	54,615	42,003	173,737	421,478
Liabilities:							
Deposits		2,924	2,991	97,979	91,846	143,167	338,907
Total liabilities	$	2,924	2,991	97,979	91,846	143,167	338,907
Net interest gap	$	144,187	1,021	(43,364)	(49,843)	30,570	82,571

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(d) Market Risk, continued

Exposure to market risk

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

- *Exchange rate risk*

This is the risk that the value of a financial instrument changes as a consequence of fluctuations in foreign currency exchange rates, and other financial variables, as well as the market participants' reactions to political and economic events.

The table below summarises the Bank's exposures to foreign currency exchange risk at December 31, 2010. Included in the table are the carrying amounts of the Bank's financial instruments, categorized by currency.

	2010		2009	
	Euros	**Soles**	**Euros**	**Soles**
Deposits with banks	1,258	1	2,434	0
Securities	2,011	23,093	2,200	5,722
	3,269	23,094	4,634	5,722
Demand deposits	966	0	2,394	0
Total liabilities	966	0	2,394	0

Soles is the currency used in Peru.

- *Cash flow and fair value interest rate risk*

The interest rate risk of the cash flow and the fair value is the risk of fluctuation due to changes in market interest rates. The interest rate risk is monitored periodically by the Risk Department and Risk Committee.

The net interest margin of the Bank may vary as a result of unexpected movements in interest rates.

As of December 31, 2010, the annual interest rate on deposits due to depositors ranged from 0.25% to 13.00% (2009: 2.00% to 10.00%)

In order to assess interest rate risks and their impact on the fair value of financial assets and liabilities, the Bank's management performs simulations to determine the sensitivity on financial assets and liabilities.

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(d) Market Risk, continued

Exposure to market risk, continued

The sensitivity analysis prepared by the Bank measures the impact on the Bank's financial instruments from increases and decreases in market interest rates (assuming asymmetrical movement in yield curves and all other variables, in particular foreign currency rates remain constant) as shown below:

2010		**100bp increase**	**100bp decrease**
Deposits with Banks	$	550	(550)
Loans		1,510	(1,510)
Securities		152	(152)
Deposits		(2,672)	2,672
Total	$	(460)	460
2009			
Deposits with Banks	$	443	(443)
Loans		1,010	(1,010)
Securities		24	(24)
Deposits		(1,957)	1,957
Total	$	(480)	480

The total impact shown above represents the net (gain)/loss impact on profit or loss.

Overall non-trading interest rate risk positions are managed by Central Treasury, which uses investments securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

(e) Operational Risk

Operational risk is the risk that losses may occur due to failure or weaknesses in the Bank's internal processes, persons or systems; and external events such as those from legal and regulatory requirements.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of the following standards:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action

(Expressed in thousands of United States dollars)

3. Financial Instrument Risk Management, continued

(e) Operational Risk, continued

- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where deemed effective

The policies established by the Bank are supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

(f) Capital Management

The Bank's policies on capital management are to maintain a robust capital base, with the ability to sustain the Bank's future growth. The Bank recognizes the need to maintain a balance between returns to shareholders and the adequacy of capital required by regulatory entities. There was no change to Bank's approach to capital management from prior year.

The Central Bank of The Bahamas requires the Bank to maintain capital of not less than 8% of its risk weighted assets. The Bank's capital ratio at December 31, 2010 was 21.77% (2009: 27.92%).

	2010	2009
Total Eligible Capital	69,493	77,613
Total Risk Weighted Assets	319,214	277,946
Capital Adequacy ratio	**21.77%**	**27.92%**

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 2 (e) Impairment
- Note 7 Allowance for loan losses
- Note 19 Fair value of Financial Instruments

(Expressed in thousands of United States dollars)

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies, continued

The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Loan impairment provisions and losses

The Bank reviews its loan portfolio at least quarterly to determine if there is objective evidence of impairment in a loan or groups of loans which share similar credit risk characteristics.

The Bank makes it best judgment as to whether there is any observable data indicating that there is a measurable decrease in the recoverable amount of a portfolio of loans using estimates based on historical loss experience for loans with similar characteristics.

(b) Impairment of securities

The Bank determines that securities are impaired when there has been a significant and prolonged decline in the fair value as compared to the carrying value.

The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

5. Cash and Cash Equivalents

Cash and cash equivalents are detailed as follows for purposes of reconciliation with the statement of cash flows:

		2010	2009
Cash	$	8	7
Demand deposits with banks		24,596	95,106
Time deposits with banks		101,722	43,905
Cash and cash equivalents		126,326	139,018
Less: time deposits with bank with maturities greater than three months		(20)	(235)
Cash and cash equivalents in the statement of cash flows	$	126,306	138,783

At December 31, 2010, the annual interest rates on time deposits ranged from 0.17% to 0.69% (2009: 0.02% to 0.10%).

(Expressed in thousands of United States dollars)

6. Securities

Securities are summarized as follows:

Securities at Fair Value

The portfolio of securities at fair value is shown below:

		2010	2009
Trading Securities			
Equity Shares and Mutual Funds	$	110,675	90,301
Total	$	110,675	90,301

The Bank has signed agreements with Compass Group L.L.C ("Compass") that engages in managing a portion of the Bank's securities portfolio. Under this agreement, the Bank assumes all expenses related to or arising from each portfolio, including the compensation and performance fees and interest of financing granted by Compass to acquire the securities. As part of the agreement, the Bank may withdraw all or any portion of the assets in any portfolio at any time, in cash or in kind.

During the year 2010, the Bank sold trading securities with a carrying value of $6,405 (2009: $17,860), and recognized gains of $3,774 (2009: $27).

Securities Available-for-Sale

The portfolio and maturity analysis of securities available-for-sale is shown below:

		2010				
		0 – 1 year	1 – 5 years	5 – 10 years	More than 10 years and with no maturity	Total
Equity Shares and Mutual Funds	$	0	0	0	84,774	84,774
Corporate Bonds		0	2,004	13,317	0	15,321
Total	$	0	2,004	13,317	84,774	100,095

		2009				
		0 – 1 year	1 – 5 years	5 – 10 years	More than 10 years and with no maturity	Total
Equity Shares and Mutual Funds	$	0	0	45	88,741	88,786
Corporate Bonds		0	0	2,348	0	2,348
Total	$	0	0	2,393	88,741	91,134

During the current year, the Bank sold available-for-sale securities with a carrying value of $66,978 (2009: $44,145), and recognized gains of $14,933 (2009: $3,761).

(Expressed in thousands of United States dollars)

6. Securities, continued

The Bank has unquoted securities amounting to $400 (2009: $290) whose fair value cannot be reliably estimated. These securities are carried at cost.

During 2010, for certain available-for-sale securities, the Bank recognized an impairment loss of $11,752 in respect of certain mutual fund investments.

The interest rate on securities available-for-sale ranged from 5.75% to 8.625% (2009: 8.00% to 9.50%) per annum. Securities classified by type of interest are shown below

		2010	2009
Fixed rate	$	15,320	2,348
Variable rate (Libor or Prime)		0	5,350
Without interest		195,450	173,737
	$	210,770	181,435

The fair value of investments are determined in accordance with the following levels:

- Level 1 - quoted prices in active markets: financial instruments with quoted prices in active markets.
- Level 2 - Valuation techniques based on observable inputs, 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; quotes prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly unobservable from market data.
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumption are required to reflect differences between the instruments.

(Expressed in thousands of United States dollars)

6. Securities, continued

Description		Total	Level 1	Level 2	Level 3
			2010		
Securities at Fair Value					
Equity Shares	$	4,963	0	0	4,963
Compass portfolio		84,960	0	84,960	0
Participation in investment Funds		20,752	0	0	20,752
	$	110,675	0	84,960	25,715
Securities Available-for-sale					
Equity Shares	$	29,888	18,711	0	11,177
Mutual Funds		54,885	0	138	54,747
Corporate Bonds		15,322	4,382	8,935	2,005
	$	100,095	23,093	9,073	67,929

Description		Total	Level 1	Level 2	Level 3
			2009		
Securities at Fair Value					
Equity Shares	$	4,084	0	0	4,084
Compass portfolio		77,137	0	77,137	0
Participation in investment Funds		9,080	0	0	9,080
	$	90,301	0	77,137	13,164
Securities Available-for-sale					
Equity Shares	$	55,181	25,378	0	29,803
Mutual Funds		33,605	0	84	33,521
Corporate Bonds		2,348	0	0	2,348
	$	91,134	25,378	84	65,672

The table below includes a roll forward of financial instruments classified by the Bank within level 3 of the valuation hierarchy:

	2010		2009	
	Securities at Fair Value	Securities Available for Sale	Securities at Fair Value	Securities Available for Sale
Balance at January 1	13,164	65,672	4,595	44,751
Purchases	7,000	29,445	4,458	27,918
Settlements	(40)	(37,210)	0	(14,083)
Valuation	5,591	10,022	4,111	7,086
Balance at December 31	25,715	67,929	13,164	65,672

6. Securities, continued

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair value using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflect the price of the financial instruments at the reporting date, that would have been determined by market participants acting at arm’s length.

The fair value of a portfolio of financial instruments traded in an active market is calculated as the product of the number of units and their trading price.

The valuation techniques used when market prices are unavailable incorporate certain assumptions that the Bank believes would be made by a market participant to establish fair value. When the Bank considers that there are additional considerations not included in the valuation model, it can make adjustments.

Examples of such adjustments are:

- Credit Risk Adjustment: An adjustment to reflect the credit quality of counterparties to OTC derivatives.
- Market data / model uncertainty: an adjustment to reflect the uncertainty in the fair value based on observable market data (example: as a result of the lack of liquidity), or in areas where the choice of valuation model is very subjective.
- Gain or loss on the first day: For financial instruments measured at inception on the basis of one or more significant observable inputs, the difference between the transaction price and the value model at inception (profit or loss the first day) is not recognized in the statement of income.

A detailed description of valuation techniques for financial instruments of particular interest are:

Private Capital

The positions of private capital of the Bank are generally classified as available for sale and are not traded in active markets. In the absence of an active market, fair value of an investment is calculated on the basis of an analysis of the investee's financial situation and results, risk profile, prospects and other factors as well as in terms of market valuations of similar listed entities in an active market or the price at which similar businesses have changed ownership.

(Expressed in thousands of United States dollars)

6. Securities, continued

Debt securities, treasury securities, other eligible securities, and shares

The fair value of these instruments is based on market values of exchanges, brokers, agents or industry group pricing services, when available. When not available, fair value is determined by reference to quoted market prices for similar instruments, adjusted as appropriate to the circumstances of the instruments.

The lack of liquidity and lack of transparency in the market for asset-backed securities has resulted in less observable data available. While quoted market prices are generally used to determine the fair value of these instruments, model valuations are used to verify the reliability of the limited market data available and to determine whether adjustments to quoted market prices are needed.

In the absence of market quotations, fair value is determined using valuation techniques based on calculating the present value of future cash flows of the assets. The inputs to these valuation techniques are derived from observable market data and, where applicable, assumptions concerning unobservable variables.

7. Loans

The composition of the loan portfolio is summarized below:

Sector		2010	2009
Financial	$	44,751	27,093
Commercial		15,692	11,375
Industrial		18,611	15,603
Services		26,429	10,834
Construction		16,645	18,300
Real Estate		126	0
Fishing		1,424	5,639
Agriculture		10,553	0
Consumer		15,462	11,905
Mortgages		1,305	283
	$	150,998	101,032

At December 31, 2010, the annual interest rates on loans ranged from 3.20% to 13.00% (2009: 3.50% to 14.50%), and the weighted average interest rate was 6.46% (2009: 7.41%).

The classification of the loan portfolio by type of interest rate is detailed as follows:

		2010	2009
Fixed rate	$	90,520	61,710
Variable rate (Libor or Prime)		60,478	39,322
	$	150,998	101,032

(Expressed in thousands of United States dollars)

7. Loans, continued

Loans secured with cash collateral amounted to $80,067 (2009: $51,543) and others are secured with securities, mortgages and other assets.

The movement of the allowance for loan losses is summarized below.

		2010	2009
Balance at beginning of year	$	481	782
Loans written-off		(1)	(1)
Reversal		0	(300)
Balance at end of year	$	480	481

At December 31, 2010, the Bank did not maintain delinquent, expired or renegotiated loans.

8. Investment in Associates

At December 31, 2010 the investments in associates are summarized as follows:

Associates	Activity		2010	2009
Compass Group	Investment Advisor	$	0	9,255
Investia Partner U.K. Limited	Investment Advisor		0	1,570
		$	0	10,825

In March 2010, the Bank sold its investments in the two associates, for a total consideration of $12,000. This sale resulted in a gain of $392 which is included in "Gain on financial instruments, net" the statement of income.

9. Furniture, Equipment and Improvements

Furniture, equipment and improvements are shown below:

		2010				
		Leadsehold Improvements	Furniture and Equipment	Vehicles	Work in progress	Total
Cost:						
At beginning of period	$	26	325	50	0	401
Additions		0	430	0	2,112	2,542
Sales and disposals		0	(76)	0	0	(76)
At end period	$	26	679	50	2,112	2,867
Accumulated depreciation:						
At beginning of period	$	15	130	24	0	169
Depreciation for the period		5	173	10	0	188
Sales and disposals		0	(76)	0	0	(76)
At end of period		20	227	34	0	281
Net balance	$	6	452	16	2,112	2,586

(Expressed in thousands of United States dollars)

9. Furniture, Equipment and Improvements, continued

		2009				
		Leadsehold Improvements	Furniture and Equipment	Vehicles	Work in progress	Total
Cost:						
At beginning of period	$	26	603	50	0	679
Additions		0	150	0	0	150
Sales and disposals		0	(428)	0	0	(428)
At end period	$	26	325	50	0	401
Accumulated depreciation:						
At beginning of period	$	10	350	14	0	374
Depreciation for the period		5	208	10	0	223
Sales and disposals		0	(428)	0	0	(428)
At end of period		15	130	24	0	169
Net balance	$	11	195	26	0	232

Furniture and equipment includes software licenses with a cost of $290 (2009: $73) and accumulated depreciation of $73 (2009: $27).

Work in progress includes cost incurred on the Bank's information technology project.

10. Securities Sold and Purchased Pending Settlement

The Bank recognizes each sale and purchase of financial instruments on the trade date. At such date, the purchased instrument is recognized as an asset (securities purchased pending settlement) and the instrument sold is recognized as a liability (securities sold pending settlement). The settlement of the transaction generally occurs within three working days following the trade date. The period between the trade date and the settlement date varies depending on the type of financial instrument traded and the regulations in effect when negotiation occurred.

11. Time Deposits with Banks and Due to Depositors

The annual interest rates on time deposits with banks and due to depositors are shown below:

	2010	2009
Deposits with banks:		
Interest rate range	0.17% to 0.69%	0.02% to 0.10%
Weighted average interest rate	0.28%	0.08%
Due to depositors:		
Non-bank:		
Interest rate range	0.25% to 13.00%	0.25% to13.00%
Weighted average interest rate	4.44%	2.89%

(Expressed in thousands of United States dollars)

12. Share Capital

At December 31, 2010, the Bank's capital is comprised of 20,000 (2009: 20,000), common shares issued and outstanding with a par value of $1 (2009: $1) each.

The shareholders approved a dividend payment of $20,000 in the annual shareholders' meeting of shareholders held on July 23, 2010.

13. Income Taxes

As of December 31, 2010 there was no income tax liability reflected in the financial statements, as there is no income tax imposed by the Government of The Commonwealth of The Bahamas. In accordance with the current fiscal regulations in Panama, the Branch is exempt from the payment of income taxes on profits derived from foreign operations. In addition, profits derived from interest earned on time deposits and interest earned from Panama Government securities are also exempt from the payment of income taxes.

14. Gain on Financial Instruments, Net

The net gain on financial instruments included in the statement of income is summarized as follows:

		2010	2009
Unrealized gain on securities at fair value	$	9,027	15,004
Realized gain on securities at fair value		3,774	27
Realized gain on securities available-for-sale		14,933	3,761
Realized gain on sale of equity accounted investees		392	0
Total		28,126	18,792

15. General and Administrative Expenses

		2010	2009
Salaries and other employees expenses:			
Salaries	$	2,464	2,037
Social secuirty		162	111
Employee benefits		1,747	1,113
Seniority premium and indemnity		93	15
Training		134	107
	$	4,600	3,383
Other expense:			
Repairs and maintenance	$	335	284
Communication and postage		123	114
Taxes		113	104
Electricity		47	39
Office supplies		63	29
Travel		520	473
Insurance		145	153
Others		622	840
	$	1,968	2,036

(Expressed in thousands of United States dollars)

16. Commitments and Contingencies

Commitments

In the normal course of business, the Bank has commitments and contingencies which are not reflected in the Statement of Financial Position that involve certain levels of credit and liquidity risks.

Letters of credit include certain exposure to credit loss in the event of non-compliance of the customer, net of collateral guarantees securing these transactions. The Bank's credit policies and procedures to approve these commitments are similar to those for extending loan facilities.

It is management's opinion that the Bank will not incur any losses from these commitments on behalf of customers. These commitments are summarized below:

		2010	2009
Stand-by letters of credit	$	12,759	10,312

As at December 2010 the Bank had outstanding revolving lines of credit available to its credit card customers of $4,987 (2009: $3,717). The unused portion of the total amount available aggregated approximately $4,111 (2009: $3,038). While these amounts represented the available lines of credit to customers, the Bank has not experienced, and does not anticipate, that all of its customers will exercise their entire available lines at any given point in time. The Bank generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

As of December 31, 2010, the Bank’s lease commitments include the rent of office space as summarized below:

Years	Amount
2011	107
2012	82

During 2010, the rent expense for the offices amounted to $104 (2009: $97).

17. Administration of Trust Contracts and Administration of Investment Funds

As of December 31, 2010, the Bank administered trust assets amounting to $2,997 (2009: $2,903), and securities on behalf of customers totaling $1,377 (2009: $1,080). These assets are not included in the statement of financial position.

(Expressed in thousands of United States dollars)

18. Balance and Transactions with Related Parties

The statement financial position and statement of income include balances and transactions with related parties, which are summarized as follows:

		Directors and Key Management Personnel		Related Companies	
		2010	2009	2010	2009
Assets:					
Securities	$	0	0	10,303	14,508
Loans		0	0	2,803	1,711
Investment in associates		0	0	0	10,825
Accrued interest receivable		0	0	0	70
Other assets		34	12	0	0
Liabilities:					
Demand deposits		0	0	11,783	54,848
Interest income:					
Loans	$	0	0	0	431
Income from financial services and other items:					
Commission income		0	0	94	219
Gain on financial instruments, net		0	0	4,904	0
General and administrative expenses					
Key management salaries		657	537	0	0
Professional fees		0	0	1,550	1,574

19. Fair Value of Financial Instruments

The following assumptions, when practical, have been made by management to estimate the fair value for each financial instrument category in the Statement of Financial Position.

(a) *Cash and cash equivalents/accrued interest receivable/accrued interest payable/other liabilities.*

For the financial instruments described above, the carrying values approximate their fair value due to their short-term nature.

(b) *Investments and securities*

For these securities, the fair value is based on published market price quotations, quotes from electronic pricing systems, net asset values provided by fund administrators and quotations provided by banks. Unquoted equity securities classified as available-for-sale, whose fair value cannot be reliably measured are carried at cost.

(Expressed in thousands of United States dollars)

19. Fair Value of Financial Instruments, continued

(c) Loans

The fair value of the loan portfolio was determined by discounting the future cash flows using interest rates that represent: (i) current market rates, and (ii) the future expected interest rates, for a term that takes into account the expected anticipated prepayments in the loan portfolio.

(d) Time deposits from customers

The fair value of these financial instruments was determined by discounting the future cash flows using interest rates that reflect: (i) current market rates, and (ii) the future expected interest rates, for a term that represents the remaining life of these instruments.

Fair value estimates are made at a specific date based on relevant market estimates and information about the financial instruments. These estimates do not reflect any premium or discount that could result from the offer to sell a specific financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and matters of significant judgment due to current market conditions that do not offer sufficient information to estimate and disclose the fair value of the financial instruments, therefore, these estimates cannot be determined with precision. Changes in the assumptions made could significantly affect the estimates.

The following table summarizes the carrying value and fair value of the Bank's significant financial assets and liabilities.

	2010		2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Assets:				
Cash & deposits	126,326	126,326	139,018	139,018
Securities	210,770	210,770	181,435	181,435
Loans	150,518	148,924	100,551	98,880
	487,614	486,020	421,004	419,333
Liabilities:				
Deposits	384,433	387,492	338,907	341,765