Financial Statements of

INTELIGO BANK LTD.

Year ended December 31, 2011

INTELIGO BANK LTD.

Financial Statements

Year ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To: The Shareholder of
Inteligo Bank Ltd.

We have audited the accompanying financial statements of Inteligo Bank Ltd. ("the Bank"), which comprise the statement of financial position as at December 31, 2011, and the statements of income, 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 Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of 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, 2011, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG

April 18, 2012

INTELIGO BANK LTD.

Statement of Financial Position

December 31, 2011, with corresponding figures as at December 31, 2010
(Expressed in thousands of United States dollars)

	Note		2011	2010
Assets				
Cash		$	11	8
Deposits with banks:				
Demand deposits			6,265	24,596
Time deposits			25,446	101,722
Total deposits with banks			31,711	126,318
Total cash and deposits with banks	5, 11		31,722	126,326
Securities at fair value	6, 18		70,939	110,675
Securities available-for-sale	6, 18		363,889	100,095
Total securities	19		434,828	210,770
Loans	7, 18		199,065	150,998
Less: allowance for loan losses	7		(480)	(480)
Loans, net			198,585	150,518
Furniture, equipment and improvements	8		5,488	2,586
Securities sold pending settlement	9		171	405
Accrued interest receivable			5,300	2,876
Other assets	10,18		15,892	8,395
Total assets		$	691,986	501,876

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, continued

December 31, 2011, with corresponding figures as at December 31, 2010
(Expressed in thousands of United States dollars)

	Note		2011	2010
Liabilities and Equity				
Liabilities				
Deposits:				
Demand	18	$	232,743	117,252
Time	11		343,990	267,181
Total deposits			576,733	384,433
Accrued interest payable			3,994	3,435
Other liabilities			8,716	2,020
Total liabilities			589,443	389,888
Equity:				
Share capital	12		20,000	20,000
Unrealized gain on available-for-sale securities			3,214	17,491
Retained earnings			79,329	74,497
Total equity			102,543	111,988
Commitments and contingencies	16			
Total liabilities and equity		$	691,986	501,876

Approved on behalf of the Board of Directors on April 18, 2012 by the following:

Roberto Hoyle
Director

Reynaldo Roisenvit
Director

INTELIGO BANK LTD.

Statement of Income

Year ended December 31, 2011, with corresponding figures for 2010
(Expressed in thousands of United States dollars)

	Note		2011	2010
Interest income:				
Loans	18	$	12,985	8,751
Securities			5,484	1,543
Deposits with banks			82	169
Total interest income			18,551	10,463
Interest expense			(10,832)	(9,418)
Net interest income			7,719	1,045
Income (expense) from financial services and other items:				
Dividend income			2,265	3,101
Gain on financial instruments, net	6, 14, 18		14,720	28,126
Impairment loss on securities available-for-sale	6,14		(2,500)	(11,752)
Commission income	17, 18		16,702	13,277
Commission and other expense			(1,023)	(678)
Other income			241	472
Income from financial services and other items			30,405	32,546
General and administrative expenses:				
Salaries and other employee expenses	15, 18		5,600	4,600
Rent	16		227	234
Professional fees	18		5,738	4,813
Depreciation and amortization	8		285	188
Other	15		2,242	1,968
Total general and administrative expenses			14,092	11,803
Share of profit of equity-accounted investees			-	783
Net income		$	24,032	22,571

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, 2011, with corresponding figures for 2010
(Expressed in thousands of United States dollars)

	Note		2011	2010
Net income		$	24,032	22,571
Other comprehensive income				
Fair value reserve (available-for-sale securities):				
Net change in fair value			1,122	13,956
Net change in fair value transferred to profit or loss	6, 14		(15,399)	(3,181)
Other comprehensive (loss)/ income for the year			(14,277)	10,775
Total comprehensive income for the year		$	9,755	33,346

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

INTELIGO BANK LTD.
Statement of Changes in Equity

Year ended December 31, 2011, with corresponding figures for 2010
(Expressed in thousands of United States dollars)

	Share Capital	Unrealized Gain on Available-for-sale Securities	Retained Earnings	Total
Balance as of December 31, 2009	$ 20,000	6,716	71,926	98,642
Total comprehensive income for the year:				
Net income for the year	-	-	22,571	22,571
Other comprehensive income:				
Available-for-sale securities:				
Net change in the fair value	-	13,956	-	13,956
Net change in the fair value transferred to profit or loss	-	(3,181)	-	(3,181)
Total other comprehensive income	-	10,775	-	10,775
Total comprehensive income for the year	-	10,775	22,571	33,346
Transactions with owners, recorded directly in equity:				
Dividends paid (note 12)	-	-	(20,000)	(20,000)
Total transactions with owners	-	-	(20,000)	(20,000)
Balance as of December 31, 2010	$ 20,000	17,491	74,497	111,988
Total comprehensive income for the year:				
Net income for the year	-	-	24,032	24,032
Other comprehensive income:				
Available-for-sale securities:				
Net change in the fair value	-	1,122	-	1,122
Net change in the fair value transferred to profit or loss	-	(15,399)	-	(15,399)
Total other comprehensive loss	-	(14,277)	-	(14,277)
Total comprehensive income for the year	-	(14,277)	24,032	9,755
Transactions with owners, recorded directly in equity:				
Dividends declared (note 12)	-	-	(19,200)	(19,200)
Total transactions with owners	-	-	(19,200)	(19,200)
Balance as of Decembre 31, 2011	$ 20,000	3,214	79,329	102,543

The statement of changes in 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, 2011, with corresponding figures for 2010
(Expressed in thousands of United States dollars)

	Note		2011	2010
Cash flows from operating activities				
Net income		$	24,032	22,571
Adjustments to reconcile net income to cash (used)/ provided by operating activities:				
Depreciation and amortization			285	188
Net gain on financial instruments, net of impairment loss			(12,220)	(15,982)
Gain on sale of equity accounted investees			-	(392)
Share of profit in equity accounted investees			-	(783)
Interest income			(18,551)	(10,463)
Interest expense			10,832	9,418
			4,378	4,557
Changes in operating assets and liabilities:				
Time deposits			-	215
Securities			36,558	(7,571)
Loans			(48,067)	(49,967)
Deposits			192,300	45,526
All other assets			(7,262)	(1,148)
All other liabilities			3,497	766
Cash provided/ (used) by operations			181,404	(7,622)
Interest received			16,127	9,743
Interest paid			(10,273)	(9,049)
Net cash provided/ (used) by operating activities			187,258	(6,928)
Cash flows from investing activities				
Acquisition of securities available-for-sale			(359,927)	(76,918)
Proceeds from sale of securities available-for-sale			97,253	81,911
Proceeds from sale of equity accounted investees			-	12,000
Purchase of furniture, equipment and improvements			(3,188)	(2,542)
Net cash (used)/ provided by investing activities			(265,862)	14,451
Cash flows from financing activities				
Dividends paid			(16,000)	(20,000)
Cash used by financing activities			(16,000)	(20,000)
Net decrease in cash and cash equivalents			(94,604)	(12,477)
Cash and cash equivalents at beginning of year			126,306	138,783
Cash and cash equivalents at end of year	5	$	31,702	126,306

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. ("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 Inteligo Group Corp. (formerly, IFH International Corp.), an entity incorporated under the laws of the Republic of Panama. Inteligo Group Corp. 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 Superintendence of Banks of Panama through resolution No. 26-96 of December 1996. The banking operations in Panama (primarily, lending and borrowing activities) are subject to regulatory requirements and supervision of the Superintendence of Banks 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 April 18, 2012.

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, if any, 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 judgement, complexity or estimation uncertainty, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

For the year ended on December 31, 2011, the Bank applied IAS 24 (revised in 2009) – Related Party Disclosures: the amendments modify the definition of a related party and provide certain exemptions from the disclosure requirements for government-related entities.

(b) Foreign Currency Translation

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

2. Basis of Preparation and Summary of Significant Accounting Policies, continued

(b) Foreign Currency Translation, continued

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 the statement of 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.

(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 Instruments

<u>Non- derivative Financial Instruments</u>

Classification

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 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.

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

(e) Financial Instruments, continued

Non- derivative Financial Instruments, continued

Classification, continued

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 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 are non-derivative financial assets with fixed or determinable payments and fixed maturities that 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 assets are those non-derivative financial assets that are not classified as financial assets at fair value, loans and receivables or held-to-maturity assets.

Recognition

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.

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.

Measurement

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.

Available-for-sale financial assets are subsequently carried at fair value. 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 equity in “Unrealized gain on available-for-sale securities”.

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

(e) Financial Instruments, continued

Measurement, continued

When an investment is derecognized or impaired the cumulative gain or loss in other comprehensive income 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 the statement of income.

All financial liabilities are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Fair value measurement principles

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 analyses, option pricing models and other valuation techniques commonly used by market participants. For unquoted equity instruments whose fair value cannot 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.

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

(e) Financial Instruments, continued

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.

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”.

Impairment of Financial Assets

(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.

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

(e) Financial Instruments, continued

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.

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, equipment or improvement 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 administers 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 related party is a person or entity that is related to the Bank, including:

(a) A person or a close member of that person's family is related to the Bank if that person:

(i) has control or joint control over the Bank;

(ii) has significant influence over the Bank; or

(iii) is a member of the key management personnel of the Bank or of a parent of the Bank.

(b) An entity is related to the Bank if any of the following conditions applies:

(i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(vi) The entity is controlled or jointly controlled by a person identified in (j)(a).

(vii) A person identified in (j)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between the Bank and a related party, regardless of whether a price is charged.

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

(k) New Standards and Interpretations not yet Adopted

A number of new standards, amendments to standards and interpretations are effective for the annual periods beginning on or after January 1, 2011, 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 instruments (2009),* published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized 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 IAS 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.

  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.

  In October 2010, IFRS 9 (2010) was issued and expanded IFRS 9 (2009) by including also guidance on classification and measurement of financial liabilities.

  The standard is effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted.

  The Bank is currently in the process of evaluating the potential effect of this standard.

(Expressed in thousands of United States dollars)

3. Financial Risk Management

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. 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 monitoring of the risk administration policies for 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 when the respective financial asset was acquired or originated by the Bank.

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

	2011	**2010**
Deposits with banks	31,711	126,318
Securities	434,828	210,770
Loans	198,585	150,518
Accrued interest receivable	5,300	2,876
Other assets	15,892	8,395
Securities sold pending settlement	171	405
Total	686,487	499,282

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 Superintendence of Banks of Panama. Exposure limits are applied to individuals and economic groups.
- The Bank limits exposure by sector and geographic location.

3. Financial Risk Management, continued

(a) Credit Risk, continued

Credit Policies

The credit policies of the Bank include 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 loans. 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 responsible for implementing of the policies approved by the Board.
- The Credit Committee is responsible for risk management policies, including the establishment of authorization limits to approve and renew credit facilities, and establishment of 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 Panama. The limits considered are primarily individual exposures to related parties and economic sector and geographic concentrations.

As of December 31, 2011 the Bank was not in compliance with certain prudential norms established by The Central Bank of The Bahamas in respect of the Bank which limit investment in securities of a single issuer and investment in related parties to no more than 15% and 25% of the Bank's capital, respectively. As of December 31, 2011, the Bank had an investment in a single issuer and a related party totaling $15,452 and $29,281, respectively, which represents 15.06% and 28.55% of the Bank's capital, respectively. Furthermore, the Central Bank of The Bahamas requires banks to have a general allowance for loan losses of not less than 1% of the total loan portfolio less cash collateralized loans, which amounts to approximately $899 (2010: $709). Based on management's assessment, the required total allowance for loan losses calculated in accordance with IFRS as at December 31, 2011 amounted to $480 (2010: $480). However, subsequent to year end, in March 2012, the Bank, made an a adjustment of $411 and accounted for this additional provision as a reserve in the equity section of the statement of financial position by making an appropriation and transfer from retained earnings.

(Expressed in thousands of United States dollars)

3. Financial Risk Management, continued

(a) Credit Risk, continued

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

		Loans		Securities		Deposits with banks	
		2011	**2010**	**2011**	**2010**	**2011**	**2010**
Gross amount	$	199,065	150,998	434,828	210,770	31,711	126,318
Impairment allowance		(480)	(480)	-	-	-	-
Carrying amount	$	198,585	150,518	434,828	210,770	31,711	126,318

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	
		2011	**2010**	**2011**	**2010**	**2011**	**2010**
Concentration by Sector:							
Corporate	$	169,225	121,024	103,271	50,172	-	-
Consumer		26,036	17,208	-	-	-	-
Other sectors		3,804	12,766	331,557	160,598	31,711	126,318
	$	199,065	150,998	434,828	210,770	31,711	126,318
Geographic Concentration:							
Panama	$	55,917	53,263	-	-	687	596
The Caribbean		3,758	3,585	92,773	92,504	91	122
The United States of America		-	-	243,687	15,006	29,208	119,862
Europe		-	-	17,746	66,269	1,722	5,734
Peru		137,690	92,829	60,342	32,610	3	4
Other		1,700	1,321	20,280	4,381	-	-
	$	199,065	150,998	434,828	210,770	31,711	126,318

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

When evaluating credit risk, management considers the following:

- <u>Impairment of loans, securities and deposits with banks</u>

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

- <u>Financial assets past due but not impaired</u>

  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.

- <u>Renegotiated loans</u>

  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.

- <u>Impairment provisions</u>

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

3. Financial Risk Management, continued

(a) Credit Risk, continued

- Charge-off policy

  The Bank periodically reviews its loan portfolio to identify those loans that need to be written-off due to their uncollectibility and up to the amount not covered by the collateral. For unsecured consumer loans, write-offs are calculated based on the amount past due. In the case of secured loans, the write-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 or collateral held. 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 write-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 primarily of customers' deposits, securities and real-estate.

  As at December 31, 2011, the Bank held collateral over loans to customers comprising primarily properties, debt instruments, equities, deposits and structured notes.

(b) Counterparty Risk

This is the risk that a counterparty does not comply with the settlement of a redemption, 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.

(Expressed in thousands of United States dollars)

3. Financial Risk Management, continued

(c) Liquidity and Financing Risk, continued

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 highly liquid 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.

The Bank's financial assets include unlisted equity investments, which generally are illiquid. In addition, the Bank holds investments in unlisted closed and open-ended investments funds, which may be subject to redemption restrictions such as side pockets or redemption gates. As a result, the Bank may not be able to liquidate some of its investments in these instruments in due time in order to meet its liquidity requirements. Refer to tables in note 3(e) on concentration of securities under "other market price risk" caption.

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:

	2011	**2010**
At year end	59%	64%
Average for the year	63%	68%
Maximum for the year	71%	85%
Minimun for the year	51%	63%

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.

(Expressed in thousands of United States dollars)

3. Financial Risk Management, continued

(c) Liquidity and Financing Risk, continued

Exposure to Liquidity Risk, continued

		Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Without maturity
2011								
Assets:								
Securities at fair value	$	70,939	165	-	-	-	-	70,774
Securities available- -for-sale		363,889	199,994	-	-	7,604	52,225	104,066
Loans		199,065	3,615	6,025	81,249	107,611	565	-
Demand and time deposits		31,711	31,691	-	20	-	-	-
Total assets	$	665,604	235,465	6,025	81,269	115,215	52,790	174,840
Liabilities:								
Deposits	$	576,733	259,502	40,993	248,312	27,592	334	-
Total liabilities	$	576,733	259,502	40,993	248,312	27,592	334	-
2010								
Assets:								
Securities at fair value	$	110,675	2,718	-	-	-	-	107,957
Securities available -for-sale		100,095	-	-	-	2,004	13,317	84,774
Loans		150,998	8,985	13,260	93,254	30,032	5,467	-
Demand and time deposits		126,318	126,318	-	-	-	-	-
Total assets	$	488,086	138,021	13,260	93,254	32,036	18,784	192,731
Liabilities:								
Deposits	$	384,433	147,370	37,286	175,020	19,594	5,163	-
Total liabilities	$	384,433	147,370	37,286	175,020	19,594	5,163	-

(d) Market Risk

Market risk is the risk that changes in market prices, foreign exchange rates, interest rates and equity prices, as well as changes in net asset values of unlisted closed and open-ended investment funds, 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.

Market Risk Administration

The Board of Directors has determined that market risk should be monitored directly by the Credit Risk Committee which 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.

(Expressed in thousands of United States dollars)

3. Financial Risk Management, continued

(d) Market Risk, continued

Market Risk Administration, continued

- *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 and periodically, 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.

		Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Without interest rate	Total
2011							
Assets:							
Deposits with Banks	$	31,691	-	20	-	-	31,711
Securities		165	-	-	59,829	374,834	434,828
Loans		3,615	6,025	81,249	108,176	-	199,065
Total assets	$	35,471	6,025	81,269	168,005	374,834	665,604
Liabilities:							
Deposits	$	26,758	40,993	248,312	27,927	232,743	576,733
Total liabilities	$	26,758	40,993	248,312	27,927	232,743	576,733
Net interest gap	$	8,713	(34,968)	(167,043)	140,078	142,091	88,871
2010							
Assets:							
Deposits with Banks	$	126,318	-	-	-	-	126,318
Securities		2,718	-	9,981	5,340	192,731	210,770
Loans		7,940	11,699	88,748	42,611	-	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

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.

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

As of December 31, 2011, the annual interest rates on deposits due to depositors ranged from 0.10% to 13.00% (2010: 0.25% to 13.00%).

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 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:

		100bp increase	100bp decrease
2011			
Deposits with banks	$	200	(200)
Loans		1,973	(1,973)
Securities		601	(601)
Deposits		(3,440)	3,440
Total	$	(666)	666
2010			
Deposits with banks	$	550	(550)
Loans		1,510	(1,510)
Securities		152	(152)
Deposits		(2,672)	2,672
Total	$	(460)	460

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 the Central Treasury Department, which uses investment securities, advances to banks, deposits with banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

- *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 summarizes the Bank's exposures to foreign currency exchange risk at December 31, 2011. Included in the table are the carrying amounts of the Bank's financial instruments, categorized by currency.

	2011		2010	
	Euros	**Soles**	**Euros**	**Soles**
Deposits with banks	1,311	-	1,258	1
Securities	1,889	5,318	2,011	23,093
Total assets	3,200	5,318	3,269	23,094
Demand deposits	1,060	-	966	-
Total liabilities	1,060	-	966	-

Soles is the currency used in Peru.

(Expressed in thousands of United States dollars)

3. Financial Risk Management, continued

(e) Other Market Price Risk

Other market price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

The following table sets out the concentration of securities at the reporting date:

	2011 % of assets	2010 % of assets
Equity investments:		
Exchange traded equity investments	3.11	3.73
Unlisted private equity investments	3.17	3.22
Total equity investments	6.28	6.95
Mutual funds		
Funds invested with fund managers (1)	28.90	0.00
Unlisted closed and open-ended investments funds	19.01	32.00
Total mutual funds	47.91	32.00
Debt securities		
Exchange traded debt securities	6.29	1.78
Unlisted private debt securities	2.36	1.27
Total debt securities	8.65	3.05
Total investment assets	62.84	42.00

(1) Funds available with fund managers include cash and U.S. Treasury bills, as reported by fund managers at December 31, 2011.

Investment assets are placed in various industries. Some investments are placed in mutual funds which invest in particular sectors; other mutual funds, as well as equity investment vehicles, which invest in financial assets within certain risk profiles, regardless of the industry sector where they fall into.

Securities are concentrated in the following industries:

	2011 %	2010 %
Equity investments:		
Banks / financial services	4.55	16.13
Pharmaceutical	3.65	8.88
Fishing	0.66	-
Diversified (mining, energy, real-estate)	1.13	2.69
Mutual funds		
Banks / financial services	22.03	32.01
Mining	3.30	12.48
Biotechnology	2.90	12.00
Diversified (telecom, industrial, building materials, energy, leisure and entertainment, etc.)	2.03	3.63
Debt securities		
Banks / financial services	12.45	12.18
Energy	1.31	-
Funds invested with fund managers	45.99	-
	100.00	100.00

(Expressed in thousands of United States dollars)

3. Financial Risk Management, continued

(f) 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, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- 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 the Internal Audit department. The results of the Internal Audit department's reviews are discussed with the management of the business unit to which they relate, and summary reports are submitted to the Audit Committee and senior management of the Bank.

(g) 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 the Bank's approach to capital management from the 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, 2011 was 12.98% (2010: 21.77%).

	2011	**2010**
Total Eligible Capital	71,975	69,493
Total Risk Weighted Assets	555,685	319,214
Capital Adequacy ratio	**12.98%**	**21.77%**

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 of financial assets
- Note 6 Securities
- Note 7 Allowance for loan losses
- Note 19 Fair value of Financial Instruments

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 its best judgement 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.

(c) Fair value of financial instruments

The Bank determines some of the fair values of financial instruments using valuation techniques that use significant inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(Expressed in thousands of United States dollars)

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

For more complex instruments the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function, which is independent of front office management. Specific controls include: verification of observable pricing inputs and reperformance of model valuations; a review and approval process for new models and changes to such models; calibration and back testing of models against observed market transactions; review of significant unobservable inputs and valuation adjustments.

The economic environment prevailing during recent years has increased the degree of uncertainty inherent in these estimates and assumptions.

Fair value estimates are made at a specific date based on relevant market estimates and information about the financial instruments. The Bank holds financial instruments for which limited or no observable market data is available. Fair value measurements for these instruments fall within Level 3 of the fair value hierarchy of IFRS 7. These fair value measurements are based primarily upon management's own estimates and are often calculated based on the Bank's current pricing policy, the current economic and competitive environment, the characteristics of the instrument, credit, interest, and currency rate risks, and other such factors. Therefore, the results cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including discount rates, liquidity risks, and estimates of future cash flows could significantly affect the fair value measurement amounts.

5. Cash and Cash Equivalents

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

		2011	2010
Cash	$	11	8
Demand deposits with Banks		6,265	24,596
Time deposits with Banks		25,446	101,722
Cash and cash equivalents		31,722	126,326
Less: time deposits with bank with maturities greater than three months		(20)	(20)
Cash and cash equivalents in the statement of cash flows	$	31,702	126,306

At December 31, 2011, the annual interest rates on time deposits ranged from 0.04% to 1.00% (2010: 0.17% to 0.69%).

(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:

		2011	2010
Equity Shares and Mutual Funds	$	70,939	110,675
Total	$	70,939	110,675

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. In September, 2011, the Bank requested Compass to sell the total position held under their management. As a result, trading securities with a carrying value of $50,500 were sold. The Bank recognized a gain of $2,421 on this sale. The Bank intends to sell the remaining portfolio of $31,595 under management with Compass as at December 31st, 2011, during 2012.

On February, 2011, the Bank signed agreements with a new portfolio manager under the scheme of managed accounts. Total amount invested in the portfolio is $25,000.

With effect from January 2011, the Bank reclassified certain securities at fair value, for which it had changed its business strategy such that it no longer holds these financial assets for the purpose of selling in the short term, to securities available-for-sale. The total reclassified amount was $13,752.

During the year 2011, the Bank sold trading securities with a carrying value of $72,525 (2010: $6,405), and recognized gains of $5,615 (2010: $3,774).

Securities Available-for-Sale

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

		0 – 1 year	1 – 5 years	5 – 10 years	More than 10 years	With no maturity	Total
2011							
Equity Shares and Mutual Funds	$	199,994	-	-	-	104,066	304,060
Corporate Bonds		-	7,604	27,747	24,478	-	59,829
Total	$	199,994	7,604	27,747	24,478	104,066	363,889
2010							
Equity Shares and Mutual Funds	$	-	-	-	-	84,774	84,774
Corporate Bonds		-	2,004	13,317	-	-	15,321
Total	$	-	2,004	13,317	-	84,774	100,095

(Expressed in thousands of United States dollars)

6. Securities, continued

During 2011, the Bank signed agreements with two new portfolio managers both under the scheme of managed accounts. The total amount invested in each portfolio was $100,000.

During the current year, the Bank sold securities available-for-sale with a carrying value of $79,354 (2010: $66,978), and recognized gains of $17,899 (2010: $14,933).

The Bank has unquoted equity securities amounting to $400 (2010: $400) whose fair value cannot be reliably estimated. These securities are carried at cost.

During 2011, for certain securities available-for-sale, the Bank recognized impairment losses of $2,500 (2010: $11,752).

The interest rate on securities available-for-sale ranged from 5.75% to 9.75% (2010: 5.75% to 8.625%) per annum. Securities classified by type of interest are shown below:

		2011	**2010**
Fixed rate	$	59,830	15,320
Variable rate (Libor or Prime)		-	-
Without interest		374,998	195,450
	$	434,828	210,770

Securities without interest include investments in unlisted closed and open ended investment funds.

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

- Level 1 – This category includes financial instruments with quoted prices in active markets.
- Level 2 - This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted 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 - 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 assumptions are required to reflect differences between the instruments.

  Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), references to the current fair value of other instruments that are substantially the same and discounted cash flow analysis. The chosen valuation techniques make maximum use of market inputs, rely as little as possible on estimates specific to the Bank, incorporate all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. 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.

6. Securities, continued

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 makes adjustments.

Examples of such adjustments are:

- Credit risk adjustment: An adjustment to reflect the credit quality of counterparties, investment funds.
- Market data / model uncertainty: an adjustment to reflect the uncertainty in the fair value based on observable market data such 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 on 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 mainly comprised of investments in closed and open-ended investment funds, 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 or fund’s financial situation and performance, risk profile, prospects and other factors as well as in terms of market valuations of similar listed entities in an active market.

- Debt 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.

(Expressed in thousands of United States dollars)

6. Securities, continued

		Total	Level 1	Level 2	Level 3
2011					
Securities at Fair Value					
Equity shares	$	6,067	-	6,067	-
Compass portfolio		31,595	-	-	31,595
Participation in investment funds		33,277	33,277	-	-
	$	70,939	33,277	6,067	31,595
Securities Available-for-sale					
Equity shares	$	37,375	21,522	-	15,853
Mutual funds		266,685	199,994	33,704	32,987
Corporate bonds		59,829	43,533	10,020	6,276
	$	363,889	265,049	43,724	55,116
2010					
Securities at Fair Value					
Equity shares	$	4,963	-	4,963	-
Compass portfolio		84,960	-	84,960	-
Participation in investment funds		20,752	7,000	-	13,752
	$	110,675	7,000	89,923	13,752
Securities Available-for-sale					
Equity shares	$	29,888	18,711	-	11,177
Mutual funds		54,885	-	138	54,747
Corporate bonds		15,322	8,937	-	6,385
	$	100,095	27,648	138	72,309

During the current year, due to changes in the composition of certain securities at fair value, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure fair values of these securities. Hence, securities with a carrying amount of $31,595, were transferred from Level 2 to Level 3 of the fair value hierarchy.

During the current year, due to changes in the available information for certain securities available-for-sale, quoted prices in active markets were available for the underlying assets of these securities. Hence, these securities, with a carrying amount of $33,704, were transferred from Level 3 to Level 2 of the fair value hierarchy.

(Expressed in thousands of United States dollars)

6. Securities, continued

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

		2011		**2010**	
		Securities at Fair Value	**Securities Available for Sale**	**Securities at Fair Value**	**Securities Available for Sale**
Balance at January 1	$	13,752	72,309	9,042	55,724
Purchases		-	22,876	-	29,445
Settlements		-	(19,809)	-	(19,938)
Transfer from/ (to) Level 2		31,595	(33,704)	-	-
Reclassifications		(13,752)	13,752	-	-
Total gains or losses for the period recognized in profit and loss		-	-	4,710	-
Total gains or losses for the period recognized in other comprehensive income		-	(308)	-	7,078
Balance at December 31	$	31,595	55,116	13,752	72,309

The favorable and unfavorable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values using expected losses and risk-adjusted discount rates based on a what-if analysis for the principal risk factor of the models. Key inputs and assumptions used in the models at December 31, 2011, include expected declines of 10% in sales forecast for the products in the funds which invest in the pharmaceutical sector and biotechnology sector, and increases of 10%, and using an increase and decrease of the discount rate of 500 basis points. However, other than the value for the discount rate resulting from this sensitivity analysis, the discount rate use in the model is 12%, which is almost six times the market discount rate of 2.82%.

The Bank has invested in diversified debt instruments funds, in which the key risk factor is the discount rate used in the model. The discount rate is structured as a risk-free rate plus a credit spread. The favorable and unfavorable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values using expected losses and risk-adjusted discount rates based on a what-if analysis for the principal risk factor of the model (+200 and – 200 basic points), as shown below:

		Effect on other comprehensive income	
Sector		**2011**	**2010**
Pharmaceutical	$	13,124	(204)
Biotechnology		1,226	-
Diversified debt instruments		212	(222)
	$	14,562	(426)

(Expressed in thousands of United States dollars)

7. Loans

The composition of the loan portfolio is summarized below:

Sector		**2011**	**2010**
Financial	$	53,985	44,751
Commercial		18,208	15,692
Industrial		19,722	18,611
Services		34,134	26,429
Construction and real estate		28,785	16,771
Fishing and agriculture		16,191	11,977
Consumer		25,844	15,462
Mortgages		2,196	1,305
	$	199,065	150,998

At December 31, 2011, the annual interest rates on loans ranged from 1.25% to 14.50% (2010: 3.20% to 13.00%), and the weighted average interest rate was 6.51% (2010: 6.46%).

The classification of the loan portfolio by type of interest rate is summarized below:

		2011	**2010**
Fixed rate	$	129,942	90,520
Variable rate (Libor or Prime)		69,123	60,478
	$	199,065	150,998

Loans are secured as follows:

		2011	**2010**
Cash	$	109,134	80,067
Securities		73,149	64,693
Mortgages		687	568
Without collateral		16,095	5,670
		$ $199,065.00	150,998

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

		2011	**2010**
Balance at beginning of year	$	480	481
Loans written-off		-	(1)
Balance at end of year	$	480	480

At December 31, 2011, there were no past due, non-accruing, impaired or renegotiated loans.

(Expressed in thousands of United States dollars)

8. Furniture, Equipment and Improvements

Furniture, equipment and improvements are shown below:

		Leasehold Improvements	Furniture and Equipment	Vehicles	Work in progress	Total
2011						
Cost:						
At beginning of year	$	26	679	50	2,112	2,867
Additions		-	323	-	2,865	3,188
Sales and disposals		-	(105)	-	-	(105)
At end of year	$	26	897	50	4,977	5,950
Accumulated depreciation:	$					
At beginning of year		20	227	34	-	281
Depreciation for the year		6	269	10	-	285
Sales and disposals		-	(104)	-	-	(104)
At end of year		26	392	44	-	462
Net balance	$	-	505	6	4,977	5,488
2010						
Cost:						
At beginning of year	$	26	325	50	-	401
Additions		-	430	-	2,112	2,542
Sales and disposals		-	(76)	-	-	(76)
At end of year	$	26	679	50	2,112	2,867
Accumulated depreciation:						
At beginning of year	$	15	130	24	-	169
Depreciation for the year		5	173	10	-	188
Sales and disposals		-	(76)	-	-	(76)
At end of year	$	20	227	34	-	281
Net balance	$	6	452	16	2,112	2,586

Furniture and equipment includes software licenses with a cost of $511 (2010: $290) and accumulated depreciation of $199 (2010: $73).

9. 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.

(Expressed in thousands of United States dollars)

10. Other assets

Other assets are shown below:

		2011	2010
Accounts receivable and other	$	6,068	4,245
Receivable from SUNAT		6,248	-
Accrued commissions		3,576	4,150
	$	15,892	8,395

At December 31, 2011, the Bank has a receivable of $6,248 from Superintendencia Nacional de Aduanas y de Administración Tributaria of Peru ("SUNAT"), the Peruvian entity responsible for tax collections, in respect of a withholding tax on the proceeds from sale of certain investments.

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:

	2011	2010
Deposits with banks:		
Interest rate range	0.04% a 1.00%	0.17% to 0.69%
Weighted average interest rate	0.03%	0.28%
Due to depositors:		
Non-banks:		
Interest rate range	0.10% a 13.00%	0.25% to13.00%
Weighted average interest rate	3.32%	4.44%

12. Share Capital

At December 31, 2011, the Bank's capital is comprised of 20,000 (2010: 20,000), common shares issued and outstanding with a par value of $1 (2010: $1) each.

During the year ended December 31, 2011, the Bank declared a dividend of $19,200 (2010: $20,000) or $0.96 per share (2010: $10 per share).

13. Income Taxes

As of December 31, 2011 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 tax 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 is also exempt from the payment of income taxes.

(Expressed in thousands of United States dollars)

14. Gain on Financial Instruments, Net

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

		2011	2010
Unrealized (loss) gain on securities at fair value	$	(8,794)	9,027
Realized gain on securities at fair value		5,615	3,774
Realized gain on securities available-for-sale		17,899	14,933
Realized gain on sale of equity accounted investees		-	392
	$	14,720	28,126

The Bank transferred net gain and impairment loss totaling $15,399 (2010: $3,181) from other comprehensive income to profit or loss during the year. These were comprised of gains of $17,899 (2010: $14,933) and an impairment loss of $2,500 (2010: $11,752).

15. General and Administrative Expenses

		2011	2010
Salaries and other employees expenses:			
Salaries	$	2,832	2,464
Social security		185	162
Employee benefits		2,430	1,747
Seniority premium and indemnity		35	93
Training		118	134
	$	5,600	4,600
Other expenses:			
Repairs and maintenance	$	551	335
Communication and postage		127	123
Taxes and banking license fees		148	113
Electricity		51	47
Office supplies		69	63
Travel		436	520
Insurance		179	145
Other		681	622
	$	2,242	1,968

(Expressed in thousands of United States dollars)

16. Commitments and Contingencies

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 risk.

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:

		2011	**2010**
Stand-by letters of credit	$	6,304	12,759
Lines of credit to be disbursed		8,275	7,262

As at December 2011, the Bank had outstanding revolving lines of credit available to its credit card customers of $6,288 (2010: $4,987). The unused portion of the total amount available amounted to approximately $5,498 (2010: $4,111). While these amounts represent 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, 2011, the Bank's lease commitments include the rental of office space as summarized below:

Years		**Amount**
2012	$	119
2013		35

During 2011, the rental expense for office space amounted to $136 (2010: $104) and rental expense of other equipment amounted to $91 (2010: $130).

17. Administration of Trust Contracts and Administration of Investment Funds

As of December 31, 2011, the Bank administered trust assets amounting to $2,138 (2010: $2,997), and securities on behalf of customers totaling $1,741,736 (2010: $1,377,024). These assets are not included in the statement of financial position.

Administration services of trust assets and third party securities generate several types of commission income including, among others, fees relating to trading of structured notes based on a predetermined spread on face value of each particular note, fund entrance fees and custody fees which amounted to $14,664 in 2011 (2010: $12,617).

(Expressed in thousands of United States dollars)

18. Balance and Transactions with Related Parties

The statement of 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	
		2011	2010	2011	2010
Assets:					
Securities	$	-	-	29,281	10,303
Loans		-	-	2,803	2,803
Other assets		13	34	-	-
Liabilities:					
Demand deposits		-	-	27,197	11,783
Interest income:					
Loans		-	-	22	-
Income from financial services and other items:					
Commission income		-	-	141	94
Gain on financial instruments, net		-	-	-	4,904
General and administrative expenses					
Key management salaries		600	657	-	-
Professional fees		-	-	2,528	1,550

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 deposits with banks/accrued interest receivable/demand deposits due to customers/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, quotations provided by banks and estimates based on internal models of valuation.

Unquoted equity securities classified as available-for-sale, whose fair value cannot be reliably measured are carried at cost (see note 6 for further description of assumptions and valuation techniques).

(c) *Loans*

The fair value of the loan portfolio is 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.

(Expressed in thousands of United States dollars)

19. Fair Value of Financial Instruments, continued

(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.

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

		2011		2010	
		Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Assets:					
Cash and deposits	$	31,722	31,722	126,326	126,326
Securities		434,828	434,828	210,770	210,770
Loans, net		198,585	190,990	150,518	148,924
	$	665,135	657,540	487,614	486,020
Liabilities:					
Demand deposits	$	232,743	232,743	117,252	117,252
Time deposits		343,990	345,558	267,181	270,240
	$	576,733	578,301	384,433	387,492