Audited Financial Statements

Inteligo Bank Ltd.

Year ended December 31, 2012
with Independent Auditors' Report

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Independent Auditors' Report

The Shareholder and Directors
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, 2012, and the statement of income, statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Inteligo Bank Ltd. as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of Inteligo Bank Ltd. for the year ended December 31, 2011 were audited by another auditor who has expressed an unmodified opinion on those statements on April 18, 2012.

Ernst & Young

March 25, 2013

Inteligo Bank Ltd.
Statement of Financial Position
December 31, 2012

(Amounts expressed in thousands of US$ dollars)

Notes		**2012** **US$ 000**	2011 US$ 000
	ASSETS		
	Cash and deposits with banks		
	Cash	**11**	11
	Deposits with banks:		
	Demand deposits	**45,322**	6,265
	Time deposits	**32,953**	25,446
5		**78,286**	31,722
	Securities:		
6, 20	Securities at fair value	**32,820**	70,939
6, 20	Securities available for sale	**391,569**	363,889
		424,389	434,828
7	Loans, net	**322,522**	198,585
		322,522	198,585
8	Furniture, equipment and improvements, net	**5,830**	5,488
9	Securities sold pending settlement	**1,644**	171
	Accrued interest receivable	**6,536**	5,300
10	Other assets	**11,039**	15,892
		25,049	26,851
	TOTAL ASSETS	**850,246**	691,986

The accompanying notes are an integral part of these financial statements.

Notes		2012 US$ 000	2011 US$ 000
	LIABILITIES AND SHAREHOLDER'S EQUITY		
	Liabilities		
	Deposits:		
	Demand	**212,920**	232,743
11	Time	**425,212**	343,990
		638,132	576,733
12	Borrowings	**65,052**	-
	Accrued interest payable	**4,357**	3,994
	Other liabilities	**9,391**	8,716
		13,748	12,710
	Total liabilities	**716,932**	589,443
	Shareholder's Equity		
13	Share capital	**20,000**	20,000
	Unrealized gain on available for sale securities	**26,017**	3,214
	Retained earnings	**87,297**	79,329
	Total Shareholder's Equity	**133,314**	102,543
	TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**850,246**	691,986

Approved on behalf of the Board of Directors on March 25, 2013, by the following:

Roberto Hoyle
Director

Reynaldo Roisenvit
Director

Inteligo Bank Ltd.
Statement of Income
For the year ended
December 31, 2012

(Amounts expressed in thousands of US$ dollars)

Notes		**2012**	2011
		US$ 000	US$ 000
	Interest income:		
	Interest on loans	**15,892**	12,985
	Interest on securities	**12,276**	5,484
	Interest on deposits with banks	**2,418**	82
	Total interest income	**30,586**	18,551
	Interest expense	**(15,260)**	(10,832)
	Net interest income	**15,326**	7,719
	Income (expense) from financial services and other items:		
	Dividend income	**1,894**	2,265
15	Gain on financial instruments, fair value	**6,791**	(3,179)
15	Gain on financial instruments, available for sale	**12,711**	17,899
6	Impairment loss on securities available for sale	**(356)**	(2,500)
	Commision income	**17,924**	16,702
	Commision and other expense	**(776)**	(1,023)
	Other income	**258**	241
	Total income from financial services and other items, net	**38,446**	30,405
	General and administrative expenses:		
16	Salaries and employee benefits	**6,722**	5,600
17	Rent	**256**	227
	Professional fees	**6,071**	5,738
8	Depreciation and amortization	**309**	285
16	Other	**3,046**	2,242
	Total general and administrative expenses	**16,404**	14,092
13	**Net profit**	**37,368**	24,032

The accompanying notes are an integral part of these financial statements.

Inteligo Bank Ltd.
Statement of Comprehensive Income
For the year ended
December 31, 2012

(Amounts expressed in thousands of US$ dollars)

Notes		**2012** US$ 000	2011 US$ 000
	Net profit for the year	**37,368**	24,032
	Other comprehensive income:		
	Unrealized gain (loss) on available for sale securities:		
	Net change in fair value	**35,514**	1,122
6, 14	Net value transferred to profit	**(12,711)**	(15,399)
	Other comprehensive income (loss) for the year	**22,803**	(14,277)
	Total comprehensive income for the year	**60,171**	9,755

The accompanying notes are an integral part of these financial statements.

Inteligo Bank Ltd.
Statement of Changes in Shareholder’s Equity
For the year ended
December 31, 2012

(Amounts expressed in thousands of US$ dollars)

	Share Capital US$ 000	*Unrealized Gain (Loss) on Available for Sale Securities US$ 000*	*Retained Earnings US$ 000*	*Total Shareholder's Equity US$ 000*
At January 1, 2011	20,000	17,491	74,497	111,988
Net profit for the year	-	-	24,032	24,032
Other comprehensive income:				
Unrealized gain (loss) on available for sale securitites:				
Net change in fair value	-	1,122	-	1,122
Net value transferred to (loss)	-	(15,399)	-	(15,399)
Total comprehensive income for the year	-	(14,277)	24,032	9,755
Transactions with owners, recorded directly in equity:				
Dividends declared	-	-	(19,200)	(19,200)
At December 31, 2011	20,000	3,214	79,329	102,543
Net profit for the year	**-**	**-**	**37,368**	**37,368**
Other comprehensive income:				
Unrealized gain on available for sale securitites:				
Net change in fair value	**-**	**35,514**	**-**	**35,514**
Net value transferred to profit	**-**	**(12,711)**	**-**	**(12,711)**
Total comprehensive income for the year	**-**	**22,803**	**37,368**	**60,171**
Transactions with owners, recorded directly in equity:				
Dividends declared	**-**	**-**	**(29,400)**	**(29,400)**
At December 31, 2012	**20,000**	**26,017**	**87,297**	**133,314**

The accompanying notes are an integral part of these financial statements.

Inteligo Bank Ltd.
Statement of Cash Flows
For the year ended
December 31, 2012

(Amounts expressed in thousands of US$ dollars)

Notes		**2012**	2011
		US$ 000	US$ 000
	Cash flows from operating activities		
	Net profit	**37,368**	24,032
	Adjustments to reconcile net profit to net cash flows:		
8	Depreciation and amortization	**309**	285
	Net gain on financial instruments, net of impairment loss	**(12,711)**	(12,220)
	Interest income	**(30,586)**	(18,551)
	Interest expense	**15,260**	10,832
	Operating results before working capital changes	**9,640**	4,378
	Securities at fair value	**38,089**	36,558
	Loans	**(123,937)**	(48,067)
	Deposits	**61,399**	192,300
	All other assets	**3,874**	(7,262)
	All other liabilities	**(5,326)**	3,497
	Net cash flows generated from operations	**(16,261)**	181,404
	Interest received	**29,350**	16,127
	Interest paid	**(14,689)**	(10,273)
	Net cash flows provided by operating activities	**(1,600)**	187,258
	Cash flows from investing activities		
	Acquisition of securities available for sale	**(245,689)**	(359,927)
	Proceeds from sale of securities available for sale	**253,555**	97,253
8	Purchase of furniture, equipment an improvements	**(1,145)**	(3,188)
	Net cash flows provided by (used in) investing activities	**6,721**	(265,862)
	Cash flows from financing activities		
12	Net proceeds from issue of new borrowings	**65,052**	-
	Interest paid	**(209)**	-
13	Dividends paid	**(23,400)**	(16,000)
	Net cash flows (used in) financing activities	**41,443**	(16,000)
	Net increase (decrease) in cash and cash equivalents	**46,564**	(94,604)
	Cash and cash equivalents at January 1	**31,702**	126,306
	Cash and cash equivalents at December 31	**78,266**	31,702

The accompanying notes are an integral part of these financial statements.

1. Corporate 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. (formely, IFH International Corp.), an entity incorporated under the laws of the Republic of Panama. Inteligo Group Corp. is ultimately owned by Intercorp Peru, Ltd (formely IFH Peru, Ltd.).

The Bank has established a branch in Panama ("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 Bank of Panama, pursuant to Law Decree No. 9 of February 26, 1998 as modified by Law Decree No.2 of February 22, 2008.

The financial statements were approved for issuance according to resolution of the Board of Directors of Inteligo Bank Ltd. on March 25, 2013.

2. Statement of Compliance

The financial statements of Inteligo Bank Ltd. have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board ("IASB").

3. Basis of Preparation of Financial Statements

3.1 Basis of presentation

The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of available-for-sale financial assets, trading securities and financial assets designated at fair value through profit or loss. The financial statements are prepared in United States of America dollars (US$) and all values are rounded to the nearest thousand (US$000) except when otherwise indicated. The Banks present its financial statements of financial position in order of liquidity.

3. Basis of Preparation of Financial Statements (continued)

3.2 Changes in accounting policies and disclosures

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 Presentation of Financial Statements require companies preparing financial statements in accordance with IFRSs to group together items within OCI (other comprehensive income) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. Annual periods beginning on or after 1 July 2012.

IAS 19 *Employee Benefits* (Revised)

The amendments to IAS 19 Employee Benefits, will provide investors and other users of financial statements with a much clearer picture of a company's current and future obligations resulting from the provision of defined benefit plans, and how these obligations will effect a company's financial position, financial performance and cash flows. This standard becomes effective for periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Applicable to annual reporting periods beginning on or after 1 January 2013.

IAS 32 *Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

3. Basis of Preparation of Financial Statements (continued)

IFRS 1 *Government Loans – Amendments to IFRS 1*

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance,* prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Bank.

IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

3. Basis of Preparation of Financial Statements (continued)

IFRS 10 *Consolidated Financial Statements,* IAS 27 *Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities*.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The standard is effective for annual periods beginning on or after 1 January 2013. Replaces IAS 31 Interests in Joint Ventures. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Bank financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact of this standard. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. Basis of Preparation of Financial Statements (continued)

IAS 1 ***Presentation of Financial Statements***

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 32 ***Financial Instruments, Presentation***

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 ***Interim Financial Reporting***

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

3.3 Significant accounting judgments and estimates

Judgment

The preparation of the financial statements in conformity with International Financial Reporting Standards requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates.

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.

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.

3. Basis of Preparation of Financial Statements (continued)

(a) Loan impairment allowance and losses

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

The Bank seeks to use collateral, where possible, to mitigate its risk on financial assets. The fair value and the total amount do not exceed the 60% market value of the investment portfolio given as guarantee. If the collateral market deteriorates, the Bank has the right to request a margin to the borrower on to proceed with the execution of the guarantees.

The Bank makes its 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.

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.

3. Basis of Preparation of Financial Statements (continued)

(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 determination of what significant or prolonged required judgment in making this judgment, the Bank evaluates, among factors, historical share price movement and duration and extend to which the fair value of an investment loss than it costs.

(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.

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 performance 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.

3. Basis of Preparation of Financial Statements (continued)

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.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

For presentation purposes, in its statement of cash flows, the Bank considers as cash and cash equivalents all highly liquid instruments with original maturities of three months or less. As of December 31, 2012, cash and cash equivalents are represented by cash and deposits with banks.

Fair value of financial instruments

Financial instruments are used by the Bank to manage market risk, facilitate customer transactions, hold proprietary positions and meet financing objectives. Fair value is determined by the Bank based on available listed market prices or broker price quotations. Assumptions regarding the fair value of each class of financial assets and liabilities are fully described in Note 20 to the financial statements.

Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available for sale and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Those categories are used to determine how a particular financial asset is recognized and measured in the financial statements.

Financial assets at fair value through profit or loss. This category has two subcategories:

- Designated upon initial recognition. The first includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss.

4. Summary of Significant Accounting Policies (continued)

- Held for trading. The second category includes financial assets that are held for trading. All derivatives (except those designated hedging instruments) and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking are held for trading.

Available for sale financial assets (AFS) are any non-derivative financial assets designated on initial recognition as available for sale. AFS assets are measured at fair value in the statement of financial position. Fair value changes on AFS assets are recognized directly in equity, through the statement of comprehensive income, except for interest on AFS assets (which is recognized in income on an effective yield basis), impairment losses, and (for interest-bearing AFS debt instruments) foreign exchange gains or losses. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available for sale financial asset is derecognized.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market, not held for trading, and not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Loans and receivables are measured at amortized cost using the effective interest rate method.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Held to maturity investments are measured at amortized cost. If an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years.

Financial Liabilities

The Bank recognizes, in compliance to IAS 39, two classes of financial liabilities:

- Other financial liabilities measured at amortized cost using the effective interest method.

Borrowings

After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate is included as finance costs in the statement of income.

4. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

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 value are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, including discounted cash flows 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.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments 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”.

Initial recognition and measurement

The Bank uses a classification of financial asset or a financial liability depending on the purposes for which they were acquired and their characteristics. All financial assets or liabilities are recorded at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit and loss, any directly attributable incremental costs of acquisition or issue. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of income. A regular way purchase or sale of financial assets and liabilities is recognized and derecognized using either trade date or settlement date accounting. The Bank has adopted the method of trade accounting to recognize its financial assets and liabilities; this method has been applied consistently for all purchases and sales of financial assets and liabilities that belong to the same category of financial asset and liabilities.

Financial assets and all financial liabilities have been recognized on the statement of financial position, including all derivatives as described in ‘Derivative financial instruments’ section.

4. Summary of Significant Accounting Policies (continued)

Measurement subsequent to initial recognition

Subsequently, the Bank measures their financial assets and liabilities (including derivatives) at fair value, with the following exceptions:

Loans and receivables, held to maturity investments, and non-derivative financial liabilities, which have been measured at amortized cost using the effective interest method.

Financial assets and liabilities that are designated as a hedged item or hedging instrument are subject to measurement under the hedge accounting requirements.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For its available-for-sale financial assets the Bank uses quoted market prices in an active market or dealer price, which are the best evidence of fair value, where they exist, to measure the financial instrument. The fair value of investment funds are determined by reference to the net asset values of the funds as provided by respective administrators of such funds.

Amortized cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income as gains and losses from investment securities.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Interest income and expense

Interest income and expense is recognized in the statement of income for all interest-bearing instruments on an accrual basis applying the effective yield method to the actual purchase price. Interest income includes coupons earned on fixed income investment and accredited discount on debt instruments. When a loan becomes of doubtful collection, it is written down to recoverable amount and interest income is thereafter recognized at the rate of interest which had been used to discount the future cash flows for the purpose of determining the recoverable amount.

4. Summary of Significant Accounting Policies (continued)

Fees and commissions income

Fees and commissions are generally recognized on an accrual basis once service has been rendered. Loan origination fees are deferred and recognized over the life of the loan.

Foreign currency operations

The Bank’s transaction is performed mostly in U.S. dollars, its functional and reporting currency. Foreign currency transactions are translated into U.S. dollars at the prevailing exchange rates on the date of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets are measured at the date of the statement of financial position and liabilities denominated in foreign currencies are recognized in the statement of income.

Translation differences on debt securities and other financial assets measured at fair value are included as foreign exchange income in the income statement with the exception of difference on foreign borrowing that provide an effective hedge against a net investment in a foreign security which are taken directly to equity until the disposal of net investment, at which time they are recognized in the statement of income.

Furniture, equipment and improvements

Furniture, equipment and improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the useful life of the assets as follows:

Furnitures and office equipments	2 to 3 years
Vehicles	5 years
Leasehold improvement	5 years

The carrying values of furniture, equipment and improvements are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible asset

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will generate economic benefits exceeding costs beyond one year, are recognized as intangible asset.

4. Summary of Significant Accounting Policies (continued)

Expenditures which enhance or extend the performance of computer software programmes beyond their original specifications are recognized as a capital improvement and therefore added to the original cost of the software. Computer software costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding 5 years.

Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to deliver such assets to customers, are excluded from these financial statements if the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

Income taxes

The Bank operations are tax exempted in both jurisdiction, the Bahamas Islands and in the Republic of Panama.

5. Cash and Deposits with Banks

	December 31,	
	2012	2011
	US$ 000	US$ 000
Cash	**11**	11
Demand deposits with banks	**45,322**	6,265
Time deposits with banks	**32,953**	25,446
Cash and cash equivalents	**78,286**	31,722
Less: time deposits with bank with maturities greater than three months	**(20)**	(20)
Cash and cash equivalents in the statement of cash flows	**78,266**	31,702

At December 31, 2012, the annual interest rates on time deposits ranged from 0.02% to 1.00% (2011 - 0.04% to 1.00%).

All counterparts are at least AA credit rating.

6. Securities

Securities are summarized as follows:

The portfolio of securities at fair value is shown below:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Secutities at fair value		
Equity shares and mutual funds	**32,385**	70,939
Derivatives	**435**	-
	32,820	70,939

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 US$50,500 were sold. The Bank recognized a gain of US$2,421 on this sale.

As of December 2012, the Bank liquidated a total of US$20,750 of the reaming position in Compass portfolio and recognized a gain of US$3,723. The balances as of December 31, 2012 of US$10,960 is in process of redemption total proceeds on these redemptions are expected to be received on the second quarters of 2013.

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 US$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 US$13,752.

During the year 2012, the Bank sold trading securities with a carrying value of US$51,710 (2011: US$72,525), and recognized gains of US$3,728 (2011: US$5,615).

The notional amount, is recorded as gross amount, is the amount of the derivative's underlying asset, referenced to rates or indexes and is the basis upon which changes in the value of derivatives are measured. The notional amount indicates the volume of transactions outstanding at year end and is indicative of neither the market risk nor the credit risk.

6. Securities (continued)

Securities Available for Sale

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

	2012					
	0-1 Year US$000	**1 - 5 Years US$000**	**5 - 10 Years US$000**	**More than 10 years US$000**	**With no Maturity US$000**	**Total US$000**
Equity shares and mutual funds	**-**	**-**	**-**	**-**	**128,422**	**128,422**
Corporate bonds	**29,112**	**67,888**	**166,117**	**-**	**-**	**263,117**
	29,112	**67,888**	**166,117**	**-**	**128,422**	**391,539**

	2011					
	0-1 Year US$000	1 - 5 Years US$000	5 - 10 Years US$000	More than 10 years US$000	With no Maturity US$000	Total US$000
Equity shares and mutual funds	199,994	-	-	-	104,066	304,060
Corporate bonds	-	7,604	27,747	24,478	-	59,829
	199,994	7,604	27,747	24,478	104,066	363,889

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 US$100,000.

During the current year, the Bank sold securities available for sale with a carrying value for US$253,556 (2011: US$79,354), and recognized gains of US$12,711 (2011: US$17,899).

The Bank has unquoted equity securities amounting to US$400 (2011: US$400) whose fair value cannot be reliably estimated. These securities are carried at cost.

During 2012, for securities available for sale, the Bank recognized impairment losses of US$356 (2011: US$2,500).

The interest rate on securities available for sale ranged from 4.75% to 9.75% (2011: 5.75% to 9.75%) per annum. Securities classified by type of interest are shown below:

	December 31,	
	2012 US$ 000	2011 US$ 000
Fixed rate	**50,739**	59,829
Without interest	**373,650**	374,999
	424,389	434,828

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

6. Securities (continued)

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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 of 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 close and open ended investment funds. 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 a 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 liquity and lack of transparency in the market of 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.

6. Securities (continued)

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.

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Securities at fair value				
Equity shares	**-**	**8,320**	**-**	**8,320**
Compass portfolio	**915**	**-**	**-**	**915**
Participation in investment funds	**12,190**	**-**	**10,960**	**23,150**
Derivatives	**-**	**-**	**465**	**465**
	13,105	**8,320**	**11,425**	**32,850**
Securities available for sale				
Equity shares	**32,464**	**-**	**17,833**	**50,297**
Mutual funds	**-**	**-**	**78,125**	**78,125**
Corporate bonds	**205,683**	**57,434**	**-**	**263,117**
	238,147	**57,434**	**95,958**	**391,539**

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Securities at fair value				
Equity shares	-	6,067	-	6,067
Compass portfolio	-	-	31,595	31,595
Participation in investment funds	33,277	-	-	33,277
	33,277	6,067	31,595	70,939
Securities available for sale				
Equity shares	21,522	-	15,853	37,375
Mutual funds	199,994	33,704	32,987	266,685
Corporate bonds	43,533	10,020	6,276	59,829
	265,049	43,724	55,116	363,889

6. Securities (continued)

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

	2012		2011	
	Securities at Fair Value US$000	Securities Available for Sale US$000	Securities at Fair Value US$000	Securities Available for Sale US$000
Balance at January 1	**31,595**	**55,116**	13,752	72,309
Purchases	**-**	**47,967**	-	22,876
Settlements	**(18,624)**	**(24,491)**	-	(19,809)
Transfer from Level 2	-	-	31,595	(33,704)
Reclasifications	-	-	(13,752)	13,752
Total losses for the period recognized in profit and loss	**(1,576)**	-	-	-
Total gain or (losses) for the period recognized in other comprehensive income	-	**17,366**	-	(308)
	11,395	**95,958**	31,595	55,116

The table bellow represent an analysis of the securities at fair value and available for sale by rating agency designation at December 31, based on standard poor's rating or equivalent.

	2012				
	Federal Agencies. Notes US$000	US Corporate Bonds US$000	Non - US Corporate Bonds US$000	Equity Securities & Founds US$000	Total US$000
AAA	**83,283**				**83,283**
AA- to AA+	**-**	**18,483**	**5,003**	**-**	**23,486**
A- to A+	**-**	**18,255**	**13,528**	**-**	**31,783**
BBB- to BBB	**-**	**24,332**	**21,786**	**-**	**46,118**
Lower than BBB-	**-**	**84,592**	**-**	**-**	**84,592**
Unrated	**-**	**33,805**	**-**	**121,322**	**155,127**
	83,283	**179,467**	**40,317**	**121,322**	**424,389**

	2011				
	Federal Agencies. Notes-US US$000	US Corporate Bonds US$000	Non - US Corporate Bonds US$000	Equity Securities & Founds US$000	Total US$000
AAA	99,457	-	-	-	99,457
AA- to AA+	-	-	-	-	-
A- to A+	-	-	4,606	-	4,606
BBB- to BBB	-	-	20,266	-	20,266
Lower than BBB-	-	-	33,287	-	33,287
Unrated	-	-	13,748	263,464	277,212
	99,457	-	71,907	263,464	434,828

6. Securities (continued)

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, 2012, 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 using a linear approach (+200 and -200 basic points), as shown below:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Pharmaceutical	**8,170**	13,124
Biotechnology	**-**	1,226
Diversified debt instruments	**51,674**	212
	59,844	14,562

7. Loans

The position of the loan portfolio is summarized below:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Financial	**90,234**	53,985
Commercial	**30,793**	18,208
Industrial	**21,724**	19,722
Services	**41,060**	34,134
Construction and real estate	**39,525**	28,785
Fishing and agriculture	**17,704**	16,191
Consumer	**80,848**	25,844
Mortgages	**1,114**	2,196
	323,002	199,065
Less provision for loan losses	**480**	480
	322,522	198,585

At December 31, 2012, the annual interest rates on loans ranged from 0.65% to 14.5% (2011: 1.25% to 14.50%), and the weighted average interest rate was 5.64% (2011: 6.51%).

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

	December 31,	
	2012	2011
	US$ 000	US$ 000
Fixed rate	**224,212**	129,942
Variable rate (Libor or prime)	**98,790**	69,123
	323,002	199,065

7. Loans (continued)

	December 31,	
	2012	2011
Loans are secured as follows:	**US$000**	US$000
Cash	**194,606**	109,134
Securities	**111,917**	73,149
Mortgages	**483**	687
Others	**15,330**	15,454
Without collateral	**666**	641
	323,002	199,065

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

	December 31,	
	2012	2011
	US$ 000	US$ 000
Balance at the end of year	**480**	480

During 2012 and 2011 no movement (increase or write-off) occurred.

At December 31, 2012, there were no past due, non accruing, impaired or renegotiated loans.

The table bellow represents an analysis of the loans, by the credit rating internal designation utilized by the Bank at December 31, based on the capacity of the obligator to meet its financial commitments:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Loans rating		
AAA	**323,002**	199,065

(Amount expressed in thousands of US$ dollars)

8. Furniture, Equipment and Improvements, Net

Furniture, equipment and improvements are show below:

December 31, 2012

	Leasehold Improvements	*Furniture and Equipment*	*Vehicles*	*Work in Progress*	*Total*
Cost					
At beginning of year	**26**	**897**	**50**	**4,977**	**5,950**
Additions	**3**	**120**	**60**	**962**	**1,145**
Reduction	**(26)**	**(130)**	**(50)**	**(494)**	**(700)**
At end of year	**3**	**887**	**60**	**5,445**	**6,395**
Accumulated depreciation and amortization					
At beginning of year	**26**	**392**	**44**	**-**	**462**
Depreciation and amortization for the year	**1**	**297**	**11**	**-**	**309**
Reduction	**(26)**	**(130)**	**(50)**	**-**	**(206)**
At end of year	**1**	**559**	**5**	**-**	**565**
Net balance	**2**	**328**	**55**	**5,445**	**5,830**

December 31, 2011

	Leasehold Improvements	*Furniture and Equipment*	*Vehicles*	*Work in Progress*	*Total*
Cost					
At beginning of year	26	679	50	2,112	2,867
Additions	-	323	-	2,865	3,188
Reduction	-	(105)	-	-	(105)
At end of year	26	897	50	4,977	5,950
Accumulated depreciation and amortization					
At beginning of year	20	227	34	-	281
Depreciation and amortization for the year	6	269	10	-	285
Reduction	-	(104)	-	-	(104)
At end of year	26	392	44	-	462
Net balance	-	505	6	4,977	5,488

Furniture and equipment includes software licenses with a cost of US$553 (2011: US$511). During 2012, the Bank adjusted US$494 from work in progress assets as they do not meet the Bank's policy of capitalization.

9. Securities Sold Pending Settlement and Securities 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.

10. Other Assets

Other assets are show below:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Accounts receivable	**8,816**	6,068
Receivable from SUNAT	**-**	6,248
Accrued commissions	**2,223**	3,576
	11,039	15,892

11. Time Deposits with Banks, Due to Depositors and Borrowings

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

	December 31,	
	2012	2011
	%	%
Deposits with banks:		
Interest rate range	**0.02% a 1.00%**	0.04% a 1.00%
Weighted average interest rate	**0.02%**	0.03%
Due to depositors:		
Non banks:		
Interest rate range	**0.10% a 13.00%**	0.10% a 13.00%
Weighted average interest rate	**3.15%**	3.32%

12. Borrowings

As of December 2012, credit facilities are as follow:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Credit facility	**40,000**	-
Outstanding balance revolving line of credit	**25,052**	-
	65,052	-

Under the line of credit the bank may borrow, repay and re-borrow up to a maximum of $50,000.00. Interest expense for the year was US$209. Bank borrowings are collateralized by portfolio investments.

	December 31,	
	2012	2011
	%	%
Borrowings		
Interest rate range	**0.71% a 0.74%**	0%
Weighted average interest rate	**0.73%**	0%

13. Share Capital

At December 31, 2012, the Bank's capital is comprised of 20,000 (2011: 20,000), common shares issued and outstanding with a par value of US$1 (2011: US$1) each.

During the year ended December 31, 2012, the Bank declared and paid dividend of US$29,400 and US$23,400 respectively (2011: US$19,200 and US$16,000, respectively) or US$1.47 per share (2011: US$0.96 per share).

14. Income Taxes

As of December 31, 2012 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.

15. Gain on Financial Instruments, Net

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

	December 31,	
	2012	2011
	US$ 000	US$ 000
Unrealized gain (loss) on securities at fair value	**3,063**	(8,794)
Realized gain on securities at fair value	**3,728**	5,615
Realized gain on securities available for sale	**12,711**	17,899
	19,502	14,720

The Bank transferred unrealized net gain and impairment loss totaling US$12,355 (2011: US$15,399) from other comprehensive income to profit or loss during the year. These were comprised of gain of US$12,711 (2011: US$17,899) and impairment loss of US$356 (2011: US$2,500).

16. General and Administrative Expenses

	December 31,	
	2012	2011
	US$ 000	US$ 000
Salaries and employee benefits:		
Salaries	**3,725**	2,832
Social security	**205**	185
Employee benefits	**2,623**	2,430
Seniority premium and indemnity	**42**	35
Training	**127**	118
	6,722	5,600
Other expenses:		
Repairs and maintenance	**669**	551
Communication and postage	**106**	127
Taxes and banking license fees	**131**	148
Electricity	**62**	51
Office supplies	**59**	69
Travel	**361**	436
Insurance	**244**	179
Other	**1,414**	681
	3,046	2,242

17. 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:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Stand by letters of credit	**8,201**	6,304
Lines of credit to be disbursed	**8,411**	8,275

17. Commitments and Contingencies (continued)

As at December 2012, the Bank outstanding revolving lines of credit available to its credit card customers of US$6,950 (2011: US$6,288). The unused portion of the total amount available amounted to approximately US$6,032 (2011: US$5,498). 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, 2012, the Bank's lease commitments include the rental of office space as summarized below:

Years	**Amount**
	US$000
2013	68

During 2012, the rental expense for office space amounted to US$139 (2011: US$136) and rental expense of other equipment amounted to US$117 (2011: US$91).

The Bank has in its plan to move its office to a new operations headquarters during 2013. The monthly rental cost is under negotiation.

18. Administration of Trust Contracts and Administration of Investment Funds

As of December 31, 2012, the Bank administered trust assets amounting to US$1,909 (2011: US$2,138), and securities on behalf of customers totaling US$2,252,324 (2011: US$1,741,736). These assets are not included in the statement of financial position.

Administration services of trust assets and third party securities generate several types of commissions 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 US$15,140 (2011: US$14,664).

19. 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*	
	2012	2011	**2012**	2011
	US$ 000	US$ 000	**US$ 000**	US$ 000
Assets				
Securities	**-**	-	**28,958**	29,281
Loans	**-**	-	**2,803**	2,803
Accrued interest	**-**	-	**22**	22
Other assets	**26**	13	**-**	-
Liabilities				
Demand deposits	**-**	-	**22,193**	27,197
Interest income:				
Loans	**-**	-	**37**	22
Income from financial services and other items:				
Commission income	**-**	-	**3**	141
General and administrative expenses				
Key management salaries	**600**	600	**-**	-
Professional fees	**-**	-	**3,339**	2,528

20. Fair Value of Financial Instruments

The following assumptions, when practical, have been made by management to estimate the fair value for each financial instruments 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.

20. Fair Value of Financial Instruments (continued)

b) Securities

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

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 rated, and (ii) the future expected interest rates, for a term that takes into account the expected anticipated prepayments in the loan portfolio.

d) Demand and time deposits from customers

The fair value of these financial instruments was determined by discounting the future cash flows using interest rate 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.

	December 31			
	2012		2011	
	Carring Value US$ 000	**Fair Value US$ 000**	Carring Value US$ 000	Fair Value US$ 000
Assets				
Cash and deposits with banks	**78,286**	**78,286**	31,722	31,722
Securities	**424,389**	**424,389**	434,828	434,828
Loans	**322,522**	**315,387**	198,585	190,990
	825,197	**818,062**	665,135	657,540
Liabilities				
Demand deposits	**212,920**	**212,920**	232,743	232,743
Time deposits	**425,212**	**416,732**	343,990	345,558
Borrowings	**65,052**	**65,220**	-	-
	703,184	**694,872**	576,733	578,301

21. 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, liquidity, market risk, other market price and capital management 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:

	December 31,	
	2012	2011
	US$ 000	US$ 000
Deposits with banks	**78,274**	31,711
Securities	**424,389**	434,828
Loans	**322,522**	198,585
Securities sold pending settlement	**1,644**	171
Accrued interest receivable	**6,536**	5,300
Other assets	**11,039**	15,892
	844,404	686,487

21. Financial Risk Management (continued)

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.

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.

21. Financial Risk Management (continued)

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, 2012 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 foreign currency to no more than 15% and 10% of the Bank's capital, respectively. As of December 31, 2012, the Bank had an investment in a single issuer and a foreign currency totaling US$23,436 and US$15,055, respectively, which represents 17.58% and 11.29% of the Bank's capital, respectively.

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. During 2012 the Bank made an adjustment of US$860 and recognized that additional provision as a reserve in the equity section of the statement of financial position by making an appropriation and transfer from retained earnings. Regulatory reserve amounts a total of US$1,340 as of 2012 (2011 US$480). The required total allowance for loan losses calculated in accordance with IFRS as at December 31, 2012 and 2011 amounted to $480.

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

	Loans		Securities		Deposits with Banks	
	2012	2011	**2012**	2011	**2012**	2011
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Gross amount	**323,002**	199,065	**424,389**	434,828	**78,274**	31,711
Impairment allowance	**(480)**	(480)	**-**	-	**-**	-
Carryng amount	**322,522**	198,585	**424,389**	434,828	**78,274**	31,711

21. Financial Risk Management (continued)

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	
	2012	2011	**2012**	2011	**2012**	2011
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Concentration by sector:						
Corporate	**241,040**	169,225	**110,270**	103,271	**-**	-
Consumer	**80,848**	26,036	**-**	-	**-**	-
Others sectors	**1,114**	3,804	**314,119**	331,557	**78,274**	31,711
	323,002	199,065	**424,389**	434,828	**78,274**	31,711
Geographic concentration:						
Panama - off shore	**100,394**	55,917	**-**	-	**613**	687
Caribbean	**7,159**	3,758	**97,058**	92,773	**50**	91
United States of America	**-**	-	**231,404**	243,687	**67,470**	29,208
Europe	**-**	-	**22,971**	17,746	**10,139**	1,722
Peru	**213,774**	137,690	**48,811**	60,342	**2**	3
Others	**1,675**	1,700	**24,145**	20,280	**-**	-
	323,002	199,065	**424,389**	434,828	**78,274**	31,711

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:

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.

21. Financial Risk Management (continued)

Impairment allowance

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

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, 2012, 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.

(Amount expressed in thousands of US$ dollars)

21. Financial Risk Management (continued)

(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 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.

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:

	December 31,	
	2012	2011
	%	%
At year end	**79%**	59%
Average for the year	**80%**	63%
Maximum during the year	**84%**	71%
Minimun during the year	**77%**	51%

21. Financial Risk Management (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.

2012

	Total US$ 000	Up to 1 Month US$ 000	1 to 3 Months US$ 000	3 to 12 Months US$ 000	1 to 5 Years US$ 000	More than 5 Years US$ 000	Without Maturity US$ 000
Assets:							
Demand and time deposits	**78,275**	**78,255**	**-**	**20**	**-**	**-**	**-**
Securities at fair value	**30,796**	**-**	**-**	**-**	**-**	**877**	**29,919**
Securities available for sale	**423,774**	**5,604**	**1,292**	**15,686**	**98,407**	**197,564**	**105,221**
Loans	**323,002**	**9,118**	**45,030**	**236,912**	**31,280**	**662**	**-**
Total Assets	**855,847**	**92,977**	**46,322**	**252,618**	**129,687**	**199,103**	**135,140**
Liabilities:							
Deposits	**638,132**	**15,941**	**53,705**	**282,446**	**72,791**	**329**	**212,920**
Borrowings	**65,052**	**-**	**-**	**65,052**	**-**	**-**	**-**
Total Liabilities	**703,184**	**15,941**	**53,705**	**347,498**	**72,791**	**329**	**212,920**
Net liquidity gap	**152,663**	**77,036**	**(7,383)**	**(94,880)**	**56,896**	**198,774**	**(77,780)**

2011

	Total US$ 000	Up to 1 Month US$ 000	1 to 3 Months US$ 000	3 to 12 Months US$ 000	1 to 5 Years US$ 000	More than 5 Years US$ 000	Without Maturity US$ 000
Assets:							
Demand and time deposits	31,711	31,691	-	20	-	-	-
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	-
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	-
Net liquidity gap	88,871	(24,037)	(34,968)	(167,043)	87,623	52,456	174,840

21. Financial Risk Management (continued)

(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.

Cash flows and fair value interest rate risk

Cash flows 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.

21. Financial Risk Management (continued)

	2012					
	Up to 1 Month US$ 000	**1 to 3 Months US$ 000**	**3 to 12 Months US$ 000**	**1 to 5 Years US$ 000**	**Without Interest Rate US$ 000**	**Total US$ 000**
Assets:						
Deposits with Banks	**78,255**	**-**	**20**	**-**	**-**	**78,275**
Securities	**8,309**	**1,292**	**31,347**	**227,325**	**156,117**	**424,390**
Loans	**9,118**	**45,030**	**236,912**	**31,280**	**662**	**323,002**
Total Assets	**95,682**	**46,322**	**268,279**	**258,605**	**156,779**	**825,667**
Liabilities:						
Deposits	**15,941**	**53,705**	**282,446**	**73,120**	**212,920**	**638,132**
Borrowings	**-**	**-**	**65,052**	**-**	**-**	**65,052**
Total Liabilities	**15,941**	**53,705**	**347,498**	**73,120**	**212,920**	**703,184**
Net interest gap	**79,741**	**(7,383)**	**(79,219)**	**185,485**	**(56,141)**	**122,483**

	2011					
	Up to 1 Month US$ 000	1 to 3 Months US$ 000	3 to 12 Months US$ 000	1 to 5 Years US$ 000	Without Interest Rate US$ 000	Total US$ 000
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

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.

21. Financial Risk Management (continued)

As of December 31, 2012, the annual interest rates on deposits due to depositors ranged from 0.10% to 13.00% (2011: 0.10% 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.

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) using a linear approach as shown below:

2012	100bp Increase US$ 000	100bp Decrease US$ 000
Deposits with banks	**200**	**(200)**
Loans	**1,123**	**(1,123)**
Securities	**(8,649)**	**8,649**
Deposits	**(1,661)**	**1,661**
	(8,987)	**8,987**

2011	100bp Increase US$ 000	100bp Decrease US$ 000
Deposits with banks	200	(200)
Loans	1,973	(1,973)
Securities	601	(601)
Deposits	(3,440)	3,440
	(666)	666

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.

21. Financial Risk Management (continued)

The table below summarizes the Bank's exposures to foreign currency exchange risk at December 31, 2012. Included in the table are the carrying amounts of the Bank's financial instruments, categorized by currency.

	December 31,			
	2012		2011	
	US$000		US$000	
Assets:	Euros	Soles	Euros	Soles
Deposits with banks	**967**	**-**	1,311	-
Securities	**4,988**	**9,225**	1,889	5,318
Total assets	**5,955**	**9,225**	3,200	5,318
Liabilities:				
Demand deposits	**749**	**-**	1,060	-
Total Liabilities	**749**	**-**	1,060	-

(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:

	December 31,	
	2012	2011
	%	%
Equity investments:		
Exchange traded equity investments	**3.82**	3.11
Unlisted private equity investments	**3.08**	3.17
Total equity investments	**6.89**	6.28
Mutual funds:		
Funds invested with fund managers (1)	**1.43**	28.90
Unlisted closed and open ended investments funds	**10.51**	19.01
Total mutual funds	**11.94**	47.91
Debt securities:		
Exchange traded debt securitites	**29.36**	6.29
Unlisted private debt securities	**1.81**	2.36
Total debt securities	**31.17**	8.65
Total investment assets	**50.01**	62.84

(1) Funds available with fund managers include cash and U.S. Treasury bills, as reported by fund managers at December 31, 2012.

(Amount expressed in thousands of US$ dollars)

21. Financial Risk Management (continued)

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:

	December 31,	
	2012	2011
	%	%
Equity investments:		
Banks / financial services	**8.72**	4.55
Pharmaceutical	**4.22**	3.65
Fishing	**0.27**	0.66
Diversified (mining, energy, real-estate)	**3.42**	1.13
Mutual funds		
Banks / financial services	**5.54**	22.03
Mining	**3.40**	3.30
Biotechnology	**1.93**	2.90
Diversified (telecom, industrial, building materials, energy, leisure and entretainment, etc.)	**0.28**	2.03
Debt securities		
Banks / financial services	**6.47**	12.45
Energy	**11.79**	1.31
Funds invested with fund managers	**53.96**	45.99
	100.00	100.00

(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.

21. Financial Risk Management (continued)

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, 2012 was 15.89% (2011: 12.98%).

	December 31,	
	2012	2011
	US$ 000	US$ 000
Total eligeble capital	**91,388**	71,975
Total risk weighted assets	**574,967**	555,685
Capital adequacy ratio	**15.89%**	12.98%

22. Subsequent Event

The Bank has evaluated the impact of all subsequent events through March 20, 2013, which is the date that the financial statements were available to be issued and has determined that there were no additional subsequent events requiring adjustment or disclosure to the financial statements.