Audited Financial Statements

Inteligo Bank Ltd.

Year ended December 31, 2013
with Independent Auditors' Report

CONTENTS

EY
Building a better working world

Ernst & Young
One Montague Place
3rd Floor
East Bay Street
P.O. Box N-3231
Nassau, Bahamas

Tel: +242 502 6000
Fax: +242 502 6090
ey.com

Independent Auditors' Report

The Board of 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, 2013, and the statement of income, statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flow 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 financial statements present fairly, in all material respects, the financial position of Inteligo Bank Ltd. as at December 31, 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

March 25, 2014

Inteligo Bank Ltd.
Statement of Financial Position
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Notes		**2013** **US$ 000**	2012 US$ 000
	ASSETS		
	Cash and deposit with banks		
	Cash	**13**	11
	Deposit with banks:		
	Demand deposits	**119,052**	45,322
	Time deposits	**68,438**	32,953
5		**187,503**	78,286
	Securities		
6, 20	Securities at fair value	**20,596**	32,850
6, 20	Securities available for sale	**294,448**	391,539
		315,044	424,389
7	Loans, net	**408,368**	322,522
		408,368	322,522
8	Furniture, equipment and improvements, net	**7,852**	5,830
9	Securities sold pending settlement	**281**	1,644
	Accrued interest receivable	**8,850**	6,536
10	Other assets	**14,976**	11,039
		31,959	25,049
	TOTAL ASSETS	**942,874**	850,246

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

(Amount expressed in thousands of US$ dollars)

Notes		**2013 US$ 000**	2012 US$ 000
	LIABILITIES AND SHAREHOLDER'S EQUITY		
	Liabilities		
	Deposits:		
	Demand	**203,302**	212,920
11	Time	**512,649**	425,212
		715,951	638,132
12	Borrowings	**80,377**	65,052
	Accrued interest payable	**5,789**	4,357
	Other liabilities	**4,638**	9,391
		10,427	13,748
	Total liabilities	**806,755**	716,932
	Shareholder's Equity		
13	Share capital	**20,000**	20,000
	Unrealized gain on available for sale securities	**19,416**	26,017
	Retained earnings	**96,703**	87,297
	Total Shareholder's Equity	**136,119**	133,314
	TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**942,874**	850,246

Approved on behalf of the Board of Directors on March 25, 2014, by the following:

Roberto Hoyle
Director

Reynaldo Roisenvit
Director

Inteligo Bank Ltd.
Statement of Income
For the year ended
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Notes		**2013**	2012
		US$ 000	US$ 000
	Interest income:		
	Interest on loans	**21,379**	15,892
	Interest on securities	**12,946**	12,276
	Interest on deposits with banks	**4,227**	2,418
	Total interest income	**38,552**	30,586
	Interest expense	**(20,045)**	(15,260)
	Net interest income	**18,507**	15,326
	Income (expense) from financial services and other items:		
	Dividend income	**2,680**	1,894
15	Gain on financial instruments, fair value	**3,121**	6,791
15	Gain on financial instruments, available for sale	**7,047**	11,075
6	Impairment loss on securities available for sale	**(2)**	(356)
	Commission income	**26,638**	19,560
	Commission and other expense	**(2,846)**	(1,783)
	Other income	**70**	258
	Total income from financial services and other items, net	**36,708**	37,439
	General and administrative expenses:		
16	Salaries and employee benefits	**6,760**	6,722
17	Rent	**558**	256
	Professional fees	**4,747**	5,064
8	Depreciation and amortization	**380**	309
16	Other	**2,564**	3,046
	Total general and administrative expenses	**15,009**	15,397
13	**Net profit**	**40,206**	37,368

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

Inteligo Bank Ltd.
Statement of Comprehensive Income
For the year ended
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Notes		**2013** **US$ 000**	2012 US$ 000
	Net income for the year	**40,206**	37,368
	Other comprehensive income:		
	Unrealized gain (loss) on available for sale securities:		
	Net change in fair value	**2,614**	35,514
6, 14	Net value transferred to profit	**(9,215)**	(12,711)
	Other comprehensive (loss) income for the year	**(6,601)**	22,803
	Total comprehensive income for the year	**33,605**	60,171

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, 2013

(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, 2012	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**
Net profit for the year	**-**	**-**	**40,206**	**40,206**
Other comprehensive income:				
Unrealized gain on available for sale securitites:				
Net change in fair value	**-**	**2,614**	**-**	**2,614**
Net value transferred to profit	**-**	**(9,215)**	**-**	**(9,215)**
Total comprehensive income for the year	**-**	**(6,601)**	**40,206**	**33,605**
Transactions with owners, recorded directly in equity:				
Dividends declared	**-**	**-**	**(30,800)**	**(30,800)**
At December 31, 2013	**20,000**	**19,416**	**96,703**	**136,119**

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

Inteligo Bank Ltd.
Statement of Cash Flows
For the year ended
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Notes		**2013**	2012
		US$ 000	US$ 000
	Cash flows from operating activities		
	Net profit	**40,206**	37,368
	Adjustments to reconcile net profit to net cash flows:		
8	Depreciation and amortization	**380**	309
	Loss from asset disposal	**5**	-
	Net gain on financial instruments, net of impairment loss	**(7,047)**	(12,711)
	Interest income	**(38,552)**	(30,586)
	Interest expense	**20,045**	15,260
	Operating results before working capital changes	**15,037**	9,640
	Time deposits	**20**	-
	Securities at fair value	**11,594**	38,089
	Loans	**(85,846)**	(123,937)
	Deposits	**77,819**	61,399
	All other assets	**(2,490)**	3,874
	All other liabilities	**(4,753)**	(5,326)
	Net cash flows generated from operations	**11,381**	(16,261)
	Interest received	**36,240**	29,350
	Interest paid	**(17,995)**	(14,689)
	Net cash flows provided by (used in) operating activities	**29,626**	(1,600)
	Cash flows from investing activities		
	Acquisition of securities available for sale	**(148,584)**	(245,689)
	Proceeds from sale of securities available for sale	**246,781**	253,555
8	Purchase of furniture, equipment an improvements	**(2,493)**	(1,145)
	Net cash flows provided by investing activities	**95,704**	6,721
	Cash flows from financing activities		
12	Net proceeds from issue of new borrowings	**15,325**	65,052
	Interest paid	**(618)**	(209)
13	Dividends paid	**(30,800)**	(23,400)
	Net cash flows (used in) provided by financing activities	**(16,093)**	41,443
	Net increase in cash and cash equivalents	**109,237**	46,564
	Cash and cash equivalents at January 1	**78,266**	31,702
	Cash and cash equivalents at December 31	**187,503**	78,266

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, an entity incorporated under the laws of the Republic of Panama. Inteligo Group Corp. is ultimately owned by Intercorp Peru, Ltd. (formerly IFH Perú, 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, 2014.

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 Bank presents 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

Future changes in accounting policies

International Financial Reporting Standards or their interpretations issued but not yet effective as of the date of issue of the Bank's financial statements are listed below. The standards or interpretations listed are those which Management believes may have a significant effect on the disclosures, position or financial performance of the Bank when applied on a future date. The Bank intends to adopt these standards or interpretations when they enter into effect.

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 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.

Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments contemplate an exception from the requirements of consolidation for entities that fulfill the definition of "investment entity" per IFRS 10. The exception from the requirement of consolidation means that investment entities will measure their share in subsidiaries at fair value with changes in profit or loss. These amendments are effective for annual periods beginning on or after January 1, 2014.

IAS 32 Offsetting of 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 become effective for annual periods beginning on or after 1 January 2014.

Interpretation of IFRIC 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

3. Basis of Preparation of Financial Statements (continued)

IAS 39 Novation of derivatives and continuation of hedge accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when the novation of a derivative designated as a hedging instrument reaches certain criteria. These corrections are effective for annual periods beginning on or after January 1, 2014.

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.

The Bank's Management has made as assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

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 is requires judgment. The Bank evaluates, among other factors, historical share price movement and the extent to which the fair value of an investment has been reduced or lies below its cost.

(c) Fair value of financial instruments

The Bank determines the fair values of certain financial instruments using valuation techniques that use significant inputs, not necessarily based on observable data, when these unobservable inputs have a significant effect on the instruments' valuation.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation; and therefore the possible uncertainty associated with the 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.

As stated above, for more complex instruments the Bank uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs used in 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 technique, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and for the 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 existing models; calibration and back testing of models against observed market transactions; and review of significant unobservable inputs and valuation adjustments.

Regardless of the established control framework, 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 managements` 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 backed by comparison to quoted prices in active markets, and may not be fully realized in a 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 movements in discount rates, liquidity risks, and estimates of future cash flows that 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 initial maturities of three months or less. As of December 31, 2013, cash and cash equivalents are represented by cash and bank deposits.

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 and on their intended use. Management determines the classification of its financial assets at initial recognition or acquisition, whichever comes first.

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

4. Summary of Significant Accounting Policies (continued)

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 affecting the profit or loss statement.

- Held for trading. The second category includes financial assets that are held for trading. All derivatives (except those designated as 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 classified as 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.

4. Summary of Significant Accounting Policies (continued)

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.

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 values are obtained from quoted market prices in active markets, including recent market transactions; or using 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 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”.

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.

4. Summary of Significant Accounting Policies (continued)

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.

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 and when they exist, to measure the financial instrument. The fair value of investment funds is determined by reference to the net asset values of the funds as provided by each fund administrator, respectively.

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 the 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.

4. Summary of Significant Accounting Policies (continued)

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.

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 statement of income 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:

Furniture and office equipment	2 to 3 years
Vehicles	5 years
Leasehold improvements	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.

4. Summary of Significant Accounting Policies (continued)

Intangible asset

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

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.

Reclassification

For comparison purposes, we have made two reclassification on the statement of income of December 31, 2012: US$1,636 has been reclassified from gain on financial instruments to commission income; and US$1,007 has been reclassified from professional fees to commission and other expenses.

Income taxes

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

5. Cash and Deposits with Banks

	December 31,	
	2013	2012
	US$ 000	US$ 000
Cash	**13**	11
Demand deposits with banks	**119,052**	45,322
Time deposits with banks	**68,438**	32,953
Cash and cash equivalents	**187,503**	78,286
Less: time deposits with bank with maturities greater than three months	**-**	(20)
Cash and cash equivalents in the statement of cash flows	**187,503**	78,266

At December 31, 2013, the annual interest rates on time deposits ranged from 0.03% to 0.05% (2012 - 0.02% 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,	
	2013	2012
	US$ 000	US$ 000
Secutities at fair value		
Equity shares and mutual funds	**12,495**	31,470
Corporate bonds	**8,296**	465
Derivatives financial instruments	**(195)**	915
	20,596	32,850

The portfolio of securities detailed above is comprised mainly of GDR's (US$10.2 MM Book Value), a small portfolio of bonds (US$8.3 MM Book Value) and an investment managed by Compass Group L.L.C. (US$2.3 MM Book Value).

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$6,344 of the remaining position in its Compass portfolio and recognized a gain of US$3,723. Likewise, in 2013, the Bank liquidated US$9,008 of the remaining position, and recognized US$2,710 in gains.

It is the managements' expectation that this investment portfolio will be completely liquidated by December 31, 2014.

Pertaining other assets, during the year 2013, the Bank sold trading securities with a carrying value of US$27,936 (2012: US$51,710), redeemed securities with a carrying value of US$12,213 (2012: US$0), and recognized net gains of US$3,121 (2012: US$3,728).

The position shown in derivative instruments is part of an investment portfolio being managed by PIMCO.

6. Securities (continued)

Securities Available for Sale

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

	2013					
	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	**-**	**-**	**-**	**-**	**120,982**	**120,982**
Third party administrated portfolio	**32,076**	**27,403**	**29,659**	**18,016**	**5,756**	**112,910**
Corporate bonds	**2,112**	**-**	**43,636**	**14,808**	**-**	**60,556**
	34,188	**27,403**	**73,295**	**32,824**	**126,738**	**294,448**

	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

During 2013, the Bank sold securities available for sale with a carrying value for US$125,823 (2012: US$248,125), redeemed securities for US$120,495 (2012: US$5,429) and recognized net gains of US$7,047 (2012: US$11,075).

During 2013, for securities available for sale, the Bank recognized impairment losses of US$2 (2012: US$356).

The interest rate on securities available-for-sale ranged from 4.75% to 9.00% p.a. (2012: 4.75% to 9.75% p.a.). Securities classified by type of interest are shown below:

	December 31,	
	2013 US$ 000	2012 US$ 000
Fixed rate	**68,852**	51,654
Equity (non-interest bearing)	**51,851**	58,616
Funds (mixed)	**79,322**	89,371
Third Party Administered Funds (mixed)	**115,019**	224,748
	315,044	424,389

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: valuation techniques for which the lowest input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Securities at fair value				
Equity shares	**-**	**10,191**	**-**	**10,191**
Compass portfolio	**-**	**-**	**2,304**	**2,304**
Corporate bonds	**8,156**	**140**	**-**	**8,296**
Derivatives financial instruments	**-**	**-**	**(195)**	**(195)**
	8,156	**10,331**	**2,109**	**20,596**
Securities available for sale				
Equity shares	**20,723**	**-**	**20,938**	**41,661**
Mutual funds	**-**	**-**	**79,322**	**79,322**
Corporate bonds	**117,851**	**55,614**	**-**	**173,465**
	138,574	**55,614**	**100,260**	**294,448**

	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		-	10,960	10,960
Participation in investment funds	12,190	-	-	12,190
Corporate bonds	915	-	-	915
Derivatives financial instruments	-	-	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

(Amount expressed in thousands of US$ dollars)

6. Securities (continued)

The fair value of the investments is calculated as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair value:

- Fair value of quoted debt securities and shares is based on quoted market prices in active markets at the reporting date. 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.
- Fair value of private investment funds depends on the underlying assets in their portfolios. If the assets are quoted bonds, shares or derivatives, fair value is based on market prices at the reporting date. If the assets are private debt or equity, fair value is estimated using a discounted cash flow (DCF) model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted investments.

The table below shows a description of significant unobservable inputs to valuation:

	Valuation technique	Significant unobservable inputs	Value	Sensitivity of the input to fair value
Private Equity Fund - Pharmaceutical sector	DCF Method	Sales Forecast	Sector Analysts Median Estimates	10% increase (decrease) in the sales forecast would result in increase (decrease) in fair value by US$1,304
		WACC	10.0%	500 basis points increase in the WACC would result in decrease in fair value by US$ 684 500 basis points decrease in the WACC would result in increase in fair value by US$ 856
Private Debt Fund - Biopharma sector	DCF Method	Discount Rate	12.0%	500 basis points increase in the discount rate would result in decrease in fair value by US$573 500 basis points decrease in the discount rate would result in increase in fair value by US$674
Private Debt Fund - Diversified sector	DCF Method	Discount Rate	Depends on the debt.	500 basis points increase in the discount rate would result in decrease in fair value by US$1,124 500 basis points decrease in the discount rate would result in increase in fair value by US$1,399

6. Securities (continued)

The tables below include a reconciliation of fair value measurement of financial instruments classified by the Bank within level 3 of the valuation hierarchy:

	2013		2012	
	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	**11,425**	**95,958**	31,595	55,116
Purchases	**-**	**26,487**	-	47,967
Settlements	**(9,668)**	**(30,523)**	(18,594)	(24,491)
Total gain (losses) recognised in P&L	**352**	**-**	(1,576)	-
Remeasurements recognised in OCI	**-**	**8,338**	-	17,366
Ending Balance	**2,109**	**100,260**	11,425	95,958

	Pharmaceutical	**Financial Services**	**Mining**	**Diversified**	**Total**
	US$000	US$000	US$000	US$000	US$000
Balance at January 1, 2013	**26,003**	**32,481**	**14,366**	**34,533**	**107,383**
Purchases	4,959	1,260	1,489	18,779	**26,487**
Settlements / Distributions	(6,403)	(7,147)	-	(26,641)	**(40,191)**
Total gain recognised in P&L	-	-	-	352	**352**
Remeasurements recognised in OCI	3,584	8,503	(5,018)	1,269	**8,338**
Ending Balance	**28,143**	**35,097**	**10,837**	**28,292**	**102,369**

6. Securities (continued)

The table below represents 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 of equivalent funds.

	2013				
	Federal Agencies. Notes US$000	US Corporate Bonds US$000	Non - US Corporate Bonds US$000	Equity Securities & Funds US$000	Total US$000
AAA	**5,783**	**-**	**-**	**-**	**5,783**
AA- to AA+	**14,217**	**-**	**-**	**-**	**14,217**
A- to A+	**18,529**	**-**	**-**	**-**	**18,529**
BBB- to BBB	**-**	**1,803**	**18,197**	**-**	**20,000**
Lower than BBB-	**-**	**58,108**	**58,999**	**-**	**117,107**
Unrated	**-**	**1,484**	**4,447**	**133,477**	**139,408**
	38,529	**61,395**	**81,643**	**133,477**	**315,044**

	2012				
	Federal Agencies. Notes US$000	US Corporate Bonds US$000	Non - US Corporate Bonds US$000	Equity Securities & Funds 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

7. Loans, net

The position of the loan portfolio is summarized below:

	December 31,		
	2013		2012
	US$ 000		US$ 000
Financial	**40,116**		90,234
Commercial	**32,416**		30,793
Industrial	**22,530**		21,724
Services	**99,081**		41,060
Construction and real estate	**64,690**		39,525
Fishing and agriculture	**24,756**		17,704
Consumer	**124,344**		80,848
Mortgages	**915**		1,114
	408,848		323,002
Less allowance for loan losses	**480**	*	480
	408,368		322,522

*Compliant to Central Bank of the Commonwealth of the Bahamas Supervisory and Regulatory Guidelines 2003-05 Credit Risk Management, the Regulatory Reserve account holds US$964 at December 2013.

At December 31, 2013, the annual interest rates on loans ranged from 0.65% to 14.5% (2012: 0.65% to 14.50%), and the weighted average interest rate was 5.49% (2012: 5.64%).

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

	December 31,	
	2013	2012
	US$ 000	US$ 000
Fixed rate	**297,660**	224,212
Variable rate (Libor or prime)	**111,188**	98,790
	408,848	323,002

7. Loans, net (continued)

Loans are secured as follows:

	December 31,	
	2013	2012
	US$000	US$000
Cash	**266,196**	194,606
Securities	**101,163**	111,917
Mortgages	**445**	483
Others	**30,415**	15,330
Without collateral	**10,629**	666
	408,848	323,002

Changes in the allowance for loan losses are summarized below.

	December 31,	
	2013	2012
	US$ 000	US$ 000
Balance at year-end	**480**	480

During 2013 and 2012 no movement (increase or write-off) occurred.

At December 31, 2013, there were no past due, non-accruing, impaired or renegotiated loans.

The table below represents an analysis of the loans, by the credit rating internal designation used by the Bank as of December 31, based on the capacity of the obliged to meet its financial commitments:

	December 31,	
	2013	2012
	US$ 000	US$ 000
Loans rating		
AAA	**408,848**	323,002

(Amount expressed in thousands of US$ dollars)

8. Furniture, Equipment and Improvements, Net

Furniture, equipment and improvements are shown below:

December 31, 2013

	Leasehold Improvements	*Furniture and Equipment*	*Vehicles*	*Work in Progress*	*Total*
Cost					
At beginning of year	**3**	**887**	**60**	**5,445**	**6,395**
Additions	**1,474**	**572**	**42**	**405**	**2,493**
Reduction	**(2)**	**(470)**	**-**	**(86)**	**(558)**
At end of year	**1,475**	**989**	**102**	**5,764**	**8,330**
Accumulated depreciation and amortization					
At beginning of year	**1**	**559**	**5**	**-**	**565**
Depreciation and amortization for the year	**73**	**290**	**17**	**-**	**380**
Reduction	**(1)**	**(466)**	**-**	**-**	**(467)**
At end of year	**73**	**383**	**22**	**-**	**478**
Net balance	**1,402**	**606**	**80**	**5,764**	**7,852**

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

Furniture and equipment includes software licenses with a cost of US$376 (2012: US$553).

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 the negotiation occurred.

10. Other Assets

Other assets are shown below:

	December 31,	
	2013	2012
	US$ 000	US$ 000
Accounts receivable	**12,182**	8,816
Accrued commissions	**2,794**	2,223
	14,976	11,039

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,	
	2013	2012
	%	%
Deposits with banks:		
Interest rate range	**0.03% a 0.05%**	0.02% a 1.00%
Weighted average interest rate	**0.04%**	0.02%
Due to depositors:		
Non banks:		
Interest rate range	**0.10% a 13.00%**	0.10% a 13.00%
Weighted average interest rate	**3.24%**	3.15%

12. Borrowings

As of December 2013, credit facilities and outstanding lines of credit are as follows:

	December 31,	
	2013	2012
	US$ 000	US$ 000
Credit facility	**40,000**	40,000
Outstanding balance revolving line of credit	**40,377**	25,052
	80,377	65,052

Under the credit facility and the outstanding balance for the revolving credit line the Bank may borrow, repay and re-borrow up to a maximum of US$90,000. Interest expense for the year was US$618. Bank borrowings are collateralized by portfolio investments.

	December 31,	
	2013	2012
	%	%
Borrowings		
Interest rate range	**0.69% a 0.94%**	0.71% a 0.74%
Weighted average interest rate	**0.81%**	0.73%

13. Share Capital

At December 31, 2013, the Bank's capital is comprised of 20,000 (2012: 20,000), common shares issued and outstanding with a par value of US$1 (2012: US$1) each.

During the year ended December 31, 2013, the Bank declared and paid dividend of US$30,800 and US$30,800. (2012: US$29,400 and US$23,400, respectively) or US$1.54 per share (2012: US$1.47 per share).

14. Income Taxes

As of December 31, 2013 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,		
	2013		2012
	US$ 000		US$ 000
Unrealized (loss) gain on securities at fair value	**(428)**	US$	3,063
Realized gain on securities at fair value	**3,549**		3,728
Realized gain on securities available for sale	**7,047**		11,075
	10,168		17,866

The Bank realized gain on securities at fair value for a total of US$3,549 (2012: US$3,728) and gain on securities available for sale for US$7,047 (2012:US$11,075).

16. General and Administrative Expenses

	December 31,	
	2013	2012
	US$ 000	US$ 000
Salaries and employee benefits		
Salaries	**3,702**	3,725
Social security	**220**	205
Employee benefits	**2,587**	2,623
Seniority premium and idemnity	**78**	42
Training	**173**	127
	6,760	6,722
Other expenses		
Repairs and maintenance	**790**	669
Communication and postage	**109**	106
Taxes and banking license fees	**125**	131
Electricity	**100**	62
Office supplies	**46**	59
Travel	**284**	361
Insurance	**205**	244
Other	**905**	1,414
	2,564	3,046

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 and involve certain levels of credit and liquidity risk.

Letters of credit imply 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 the 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,	
	2013	2012
	US$ 000	US$ 000
Stand by letters of credit	**7,441**	8,201
Lines of credit to be disbursed	**14,543**	8,411

As of December 2013, the Bank had outstanding revolving lines of credit available to its credit card customers for US$7,136 (2012: US$6,950). The unused portion of the total credit facility available amounted to approximately US$6,343 (2012: US$6,032). 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 use 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 lines at any time.

During 2013, the bank signed a lease contract for the use of its new offices. The rental expense for office space amounted to US$445 (2012: US$139).

As of December 31, 2013, the Bank's lease commitments include the rental of office space as summarized below:

Years	**Amount**
	US$000
2014	562
2015	562
2016	562
2017	562
2018	281

Furthermore, rental expense of other equipment amounted to US$113 for 2013 (2012: US$117).

Based on the best knowledge of the Directors, there are no pending lawsuits against the Bank that could adversely affect its business, financial position or financial performance.

18. Administration of Trust Contracts and Administration of Investment Funds

As of December 31, 2013, the Bank administered trust assets amounting to US$2,639 (2012: US$1,909), and securities on behalf of customers totaling US$2,597,422 (2012: US$2,252,324). 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 but not limited to: fees relating to trading of structured notes based on a certain spread over face value for each particular note, fund entrance fees and custody fees. This commission income amounted to US$25,835 in 2013. (2012: US$18,823).

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*	
	2013	2012	**2013**	2012
	US$ 000	US$ 000	**US$ 000**	US$ 000
Assets				
Securities	**-**	-	**32,398**	28,958
Other assets	**17**	26	**-**	-
Liabilities				
Demand deposits	**-**	-	**12,589**	22,193
Time deposits	**-**	-	**25,292**	-
Interest payable	**-**	-	**19**	-
Interest income:				
Loans	**-**	-	**15**	37
Interest expense:				
Deposits	**-**	-	**182**	-
Income from financial services and other items:				
Commission income	**-**	-	**17**	3
General and administrative expenses				
Key management salaries	600	600	**-**	-
Professional fees	**-**	-	**3,126**	3,339

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.

b) Securities

For 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 rates, 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,			
	2013		2012	
	Carring Value US$ 000	**Fair Value US$ 000**	Carring Value US$ 000	Fair Value US$ 000
Assets				
Cash and deposits with banks	**187,503**	**187,503**	78,286	78,286
Securities	**315,044**	**315,044**	424,389	424,389
Loans	**408,368**	**386,111**	322,522	315,387
	910,915	**888,658**	825,197	818,062
Liabilities				
Demand deposits	**203,302**	**203,302**	212,920	212,920
Time deposits	**512,649**	**494,941**	425,212	416,732
Borrowings	**80,377**	**80,468**	65,052	65,220
	796,328	**778,711**	703,184	694,872

(Amount expressed in thousands of US$ dollars)

20. Fair Value of Financial Instruments (continued)

The following table analyzes the fair values of financial instruments not measured at fair value in books, by the level of fair value hierarchy in which have been classified:

Fair Value	2013	Nivel 1	Nivel 2	Nivel 3
Assets				
Cash and deposits with banks	**187,503**	**187,503**	**-**	**-**
Loans	**386,111**	**-**	**386,111**	**-**
	573,614	**187,503**	**386,111**	**-**
Liabilities				
Demand deposits	**203,302**	**203,302**	**-**	**-**
Time deposits	**494,941**	**494,941**	**-**	**-**
Borrowings	**80,468**	**-**	**80,468**	**-**
	778,711	**698,243**	**80,468**	**-**

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.

21. Financial Risk Management (continued)

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

	December 31,	
	2013	2012
	US$ 000	US$ 000
Deposits with banks	**187,490**	78,275
Securities	**315,044**	424,389
Loans	**408,368**	322,522
Securities sold pending settlement	**281**	1,644
Accrued interest receivable	**8,850**	6,536
Other assets	**14,976**	11,039
	935,009	844,405

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.

21. Financial Risk Management (continued)

- 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 as well as economic sector and geographic concentrations.

As of December 31, 2013 the Bank was not in compliance with one of the prudential norms established by The Central Bank of The Bahamas, which limits investments in securities of a single issuer to 15% of the Bank's total equity. As of December 31, 2013, one of the Bank's investments totaled US$24,363 representing 18% of the Bank's capital. The Bank was in compliant with the remaining eight norms at year-end 2013.

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 net of cash collateralized loans. During 2013 the Bank made an adjustment of US$104 and recognized this amount as an additional provision to the required total allowance for loan losses in the equity section of the Statement of Financial Position. This was accomplished by means of an appropriation and transfer from retained earnings. Regulatory reserve by year-end 2013 amounts to a total of US$1,444 (2012 US$1,340), which includes both the required total allowance for loan losses calculated in accordance with IFRS (US$ 480) and the additional allowance (US$964).

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

	Loans		Securities		Deposits with Banks	
	2013	2012	**2013**	2012	**2013**	2012
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Gross amount	**408,848**	323,002	**315,044**	424,389	**187,490**	78,274
Allowance for loan losses	**(480)**	(480)	**-**	-	**-**	-
Carryng amount	**408,368**	322,522	**315,044**	424,389	**187,490**	78,274

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	
	2013	2012	**2013**	2012	**2013**	2012
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Concentration by sector:						
Corporate	**283,589**	241,040	**117,231**	110,270	**-**	-
Consumer	**124,344**	80,848	**-**	-	**-**	-
Others sectors	**915**	1,114	**197,813**	314,119	**187,490**	78,274
	408,848	323,002	**315,044**	424,389	**187,490**	78,274
Geographic concentration:						
Panama - off shore	**89,784**	100,394	**-**	-	**832**	613
Caribbean	**8,505**	7,159	**75,759**	97,058	**35**	50
United States of America	**6,112**	-	**104,614**	231,404	**180,141**	67,470
Europe	**980**	-	**34,404**	22,971	**6,482**	10,139
Peru	**299,687**	213,774	**65,188**	48,811	**-**	2
Others	**3,780**	1,675	**35,079**	24,145	**-**	-
	408,848	323,002	**315,044**	424,389	**187,490**	78,274

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

Defined as 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 does so 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, 2013, the Bank held collateral over loans to customers comprising primarily deposits, equities, structured notes, debt instruments and properties.

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,	
	2013	2012
	%	%
At year end	**59%**	79%
Average for the year	**60%**	80%
Maximum during the year	**65%**	84%
Minimun during the year	**55%**	77%

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.

	2013						
	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	**187,490**	**187,490**	**-**	**-**	**-**	**-**	**-**
Securities at fair value	**20,595**	**-**	**-**	**-**	**388**	**7,907**	**12,300**
Securities available for sale	**294,448**	**7,206**	**2,072**	**24,870**	**27,038**	**106,532**	**126,730**
Loans	**408,848**	**19,844**	**40,190**	**285,364**	**55,307**	**8,143**	**-**
Total Assets	**911,381**	**214,540**	**42,262**	**310,234**	**82,733**	**122,582**	**139,030**
Liabilities:							
Deposits	**715,951**	**60,810**	**53,974**	**316,831**	**73,534**	**7,500**	**203,302**
Borrowings	**80,377**	**-**	**-**	**80,377**	**-**	**-**	**-**
Total Liabilities	**796,328**	**60,810**	**53,974**	**397,208**	**73,534**	**7,500**	**203,302**
Net liquidity gap	**115,053**	**153,730**	**(11,712)**	**(86,974)**	**9,199**	**115,082**	**(64,272)**

	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)

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)

	2013					
	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	**187,490**	**-**	**-**	**-**	**-**	**187,490**
Securities	**12,961**	**3,281**	**37,175**	**122,803**	**138,824**	**315,044**
Loans	**19,843**	**40,190**	**285,364**	**55,307**	**8,144**	**408,848**
Total Assets	**220,294**	**43,471**	**322,539**	**178,110**	**146,968**	**911,382**
Liabilities:						
Deposits	**60,810**	**53,973**	**316,831**	**81,034**	**203,303**	**715,951**
Borrowings	**-**	**-**	**80,377**	**-**	**-**	**80,377**
Total Liabilities	**60,810**	**53,973**	**397,208**	**81,034**	**203,303**	**796,328**
Net interest gap	**159,484**	**(10,502)**	**(74,669)**	**97,076**	**(56,335)**	**115,054**

	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	156,116	424,389
Loans	9,118	45,030	236,912	31,280	662	323,002
Total Assets	95,682	46,322	268,279	258,605	156,778	825,666
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	(56,142)	122,482

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, 2013, the annual interest rates on deposits due to depositors ranged from 0.10% to 13.00% (2012: 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:

2013	100bp Increase US$ 000	100bp Decrease US$ 000
Deposits with banks	-	-
Loans	**1,494**	**(1,494)**
Securities	**6,111**	**(6,111)**
Deposits	**(2,156)**	**2,319**
	5,449	**(5,286)**

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

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, 2013. Included in the table are the carrying amounts of the Bank's financial instruments, categorized by currency.

	December 31,			
	2013		2012	
	US$000		US$000	
Assets:	Euros	Soles	Euros	Soles
Deposits with banks	-	-	967	-
Securities	**9,499**	**3,399**	4,988	9,225
Total assets	**9,499**	**3,399**	5,955	9,225
Liabilities:				
Demand deposits	**2,918**	-	749	-
Total Liabilities	**2,918**	-	749	-

(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,	
	2013	2012
	%	%
Equity investments:		
Exchange traded equity investments	**3.28**	3.82
Unlisted private equity investments	**4.28**	3.08
Total equity investments	**7.55**	6.89
Mutual funds:		
Funds invested with fund managers (1)	**0.24**	1.43
Unlisted closed and open ended investments funds	**4.71**	10.51
Total mutual funds	**4.96**	11.94
Debt securities:		
Exchange traded debt securitites	**18.01**	29.36
Unlisted private debt securities	**2.89**	1.81
Total debt securities	**20.90**	31.17
Total investment assets	**33.41**	50.01

(Amount expressed in thousands of US$ dollars)

21. Financial Risk Management (continued)

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

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,	
	2013	2012
	%	%
Equity investments:		
Banks / financial services	**9.67**	8.72
Pharmaceutical	**6.65**	4.22
Fishing	**0.36**	0.27
Diversified (mining, energy, real-estate)	**5.93**	3.42
Mutual funds		
Banks / financial services	**8.32**	5.54
Mining	**3.44**	3.40
Biotechnology	**2.29**	1.93
Diversified (telecom, industrial, building materials, energy, leisure and entretainment, etc.)	**0.78**	0.28
Debt securities		
Banks / financial services	**12.20**	6.47
Energy	**9.66**	11.79
Funds invested with fund managers	**40.70**	53.96
	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, 2013 was 18.56% (2012: 15.89%).

	December 31,	
	2013	2012
	US$ 000	US$ 000
Total eligeble capital	**94,487**	91,388
Total risk weighted assets	**509,152**	574,967
Capital adequacy ratio	**18.56%**	15.89%

22. Subsequent Event

The Bank has evaluated the impact of all subsequent events through March 25, 2014, 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.