Audited Consolidated Financial Statements

Atlantic Security Bank

Year ended December 31, 2013
with Independent Auditors' Report

Building a better working world

CONTENTS

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Independent Auditor's Report

The Board of Directors
Atlantic Security Bank

We have audited the accompanying consolidated financial statements of Atlantic Security Bank (the "Bank") which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the directors, as a body. Our audit work has been undertaken so that we might state to the directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the directors as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Security Bank as at December 31, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd.

March 27, 2014

Atlantic Security Bank
Consolidated Statement of Financial Position
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Notes		2013 US$ 000	2012 US$ 000
	ASSETS		
	Cash and cash equivalents		
	Cash	**45**	34
8	Interest - bearing deposits with banks	**54,094**	33,848
8	Overnight placements	**45,307**	102,377
	Total cash and cash equivalents	**99,446**	136,259
5, 8	Other interest - bearing deposits with banks	**7,146**	495
6, 8	Risk portfolio, net	**1,644,563**	1,603,605
6, 15	Derivatives financial instruments	**148**	408
	Premises and equipment, net	**2,130**	329
8	Accumulated interest receivable	**21,809**	22,887
8	Other assets	**9,058**	4,489
	TOTAL ASSETS	**1,784,300**	1,768,472
	LIABILITIES AND SHAREHOLDER'S EQUITY		
	Liabilities		
	Deposits		
8	Non interest - bearing - demand	**440,795**	464,998
	Interest - bearing		
8	Demand	**104,622**	88,659
8	Time	**899,238**	843,187
7, 8	Financing and borrowing funds	**124,961**	136,246
6, 15	Derivatives financial instruments	**285**	575
8	Accumulated interest payable	**8,985**	12,145
8	Other liabilities	**5,099**	2,876
	Total Liabilities	**1,583,985**	1,548,686
12, 13, 15	**Commitments and contingencies**		
	Shareholder's Equity		
11	Share capital	**70,000**	70,000
6	Reserve for valuation of available for sale financial assets	**18,954**	41,106
	Retained earnings	**111,361**	108,680
	Total Shareholder's Equity	**200,315**	219,786
	TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,784,300**	1,768,472

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

Raimundo Morales D.
Director

Benedicto Cigüeñas
Director

Atlantic Security Bank
Consolidated Statement of Income
For the year ended
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Notes		**2013** **US$ 000**	2012 US$ 000
	Interest and dividend income		
	Interest on deposits with banks and overnight placements	**179**	222
	Interest and dividends on investment	**31,642**	31,788
	Interest on loans	**44,710**	40,882
8	Total interest and dividend income	**76,531**	72,892
	Interest expense		
	Interest on deposits	**34,982**	34,482
	Interest on borrowed funds	**1,551**	358
8	Total interest expense	**36,533**	34,840
	Net interest and dividend income	**39,998**	38,052
6	Provision for loan losses	**(2)**	-
	Net interest and dividend income after provision for loan losses	**39,996**	38,052
	Non-interest income (expense)		
8	Fees and commission income	**15,686**	12,837
8	Fees and commission expense	**(7,036)**	(3,654)
6	Net realized gains on sales of financial assets	**12,667**	7,705
8,15	Gains on derivatives financial instruments	**586**	577
	Foreign currency translation loss	**(1,257)**	(76)
6	Impairment losses of financial assets reversals	**-**	545
	Others	**(113)**	1,266
	Total non-interest income, net	**20,533**	19,200
	Operating expenses		
	Salaries and employee benefits	**4,962**	4,150
8	General and administrative expenses	**4,628**	4,556
	Depreciation and amortization	**258**	144
	Total operating expenses	**9,848**	8,850
	Net profit	**50,681**	48,402

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

Atlantic Security Bank
Consolidated Statement of Comprehensive Income
For the year ended
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Note		**2013 US$ 000**	2012 US$ 000
	Profit for the year	**50,681**	48,402
	Other comprehensive income		
6	Net (loss) gain on available for sale financial assets	**(22,152)**	27,147
	Total comprehensive income for the year	**28,529**	75,549

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

Atlantic Security Bank
Consolidated Statement of Changes in Shareholder’s Equity
For the year ended
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

Note		*Share Capital US$ 000*	*Reserve Valuation of Available for Sale Financial Assets US$ 000*	*Retained Earnings US$ 000*	*Total Shareholder's Equity US$ 000*
	At January 1, 2012	70,000	13,959	105,278	189,237
6	Net change in fair value of available for sale financial assets	-	27,147	-	27,147
	Dividends paid	-	-	(45,000)	(45,000)
	Net profit	-	-	48,402	48,402
	At December 31, 2012	70,000	41,106	108,680	219,786
6	**Net change in fair value of available for sale financial assets**	**-**	**(22,152)**	**-**	**(22,152)**
	Dividends paid	**-**	**-**	**(48,000)**	**(48,000)**
	Net profit	**-**	**-**	**50,681**	**50,681**
	At December 31, 2013	**70,000**	**18,954**	**111,361**	**200,315**

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

Atlantic Security Bank
Consolidated Statement of Cash Flows
For the year ended
December 31, 2013

(Amounts expressed in thousands of US$ dollars)

	2013	2012
	US$ 000	US$ 000
Cash flows from operating activities		
Net profit	**50,681**	48,402
Adjustments to reconcile net profit to net cash flows:		
Interest expense	**36,533**	34,840
Interest and dividend income	**(76,531)**	(73,419)
Impairment losses of financial assets reversals	**-**	(545)
Provision for loan losses	**2**	-
Gains on sales of financial assets	**(12,667)**	(7,705)
Net gain on derivatives financial assets	**(586)**	(50)
Depreciation and amortization	**258**	144
Operating results before working capital changes	**(2,310)**	1,667
Loans	**14,777**	(194,814)
Other interest-bearing deposits with banks	**(6,651)**	2,198
Deposits	**47,811**	76,196
Net changes in other assets provided and other liabilities	**(2,376)**	(972)
Net cash flows generated from operations	**51,251**	(115,725)
Interest paid	**(39,693)**	(31,096)
Interest and dividends received	**78,195**	70,651
Net cash flows provided by (used in) operating activities	**89,753**	(76,170)
Cash flows from investing activities		
Purchases of financial assets	**(583,593)**	(512,482)
Sales of financial assets	**510,871**	548,081
Sales of reverse repurchase agreement	**7,500**	8,800
Acquisition of premises and equipment	**(2,059)**	(218)
Net cash flows (used in) provided by investing activities	**(67,281)**	44,181
Cash flows from financing activities		
Proceeds from borrowing funds	**-**	136,246
Payment of borrowing funds	**(11,285)**	-
Dividends paid	**(48,000)**	(45,000)
Net cash flows (used in) provided by financing activities	**(59,285)**	91,246
Net (decrease) increase in cash and cash equivalents	**(36,813)**	59,258
Cash and cash equivalents at January 1	**136,259**	77,001
Cash and cash equivalents at December 31	**99,446**	136,259

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

1. Corporate Information

Atlantic Security Bank (the Group) is a wholly-owned subsidiary of Atlantic Security Holding Corporation (ASHC), incorporated under the laws of the Cayman Islands and operates under a Category "B" Banking and Trust license from the Government of the Cayman Islands. The Bank has also been granted a Mutual Fund Administrators license under the Mutual Funds Law of the Cayman Islands. The Bank is incorporated and domiciled in the Cayman Islands.

The ultimate parent company of ASHC is Credicorp Ltd., which is a limited liability company and is incorporated and domiciled in Bermuda. Credicorp Ltd. has a primary listing on the New York Stock Exchange under quote symbol "BAP" with further listing in the Peruvian Stock Exchange.

The Bank provides investment banking, financial advisory, trading and investment services to Latin American customers. The Bank has a Branch in the Republic of Panama ("Panama Branch"), operating under an international license granted by the Banking Superintendency of Panama, allowing banks to conduct, exclusively from an office in Panama, transactions which are intended to take effect outside the country.

ASB Trust Company, Ltd., is a controlled subsidiary of Atlantic Security Bank (ASB) incorporated on March 31st, 2012. The Company was created in order to establish a proper corporate vehicle to develop trust–related products and services for ASB's clients. The Company has not been operating since inception.

Laurentian Corporate Services, is a controlled subsidiary of Atlantic Security Bank (ASB) incorporated on February 17, 2011, since its incorporation has not been operating since inception. This Company also was created in order to establish services between ASB Trust Company Ltd. and ASB.

The consolidated financial statements were approved for issuance according to resolution of the Board of Directors of Atlantic Security Bank on March 27, 2014.

2. Statement of Compliance

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

3. Basis of Preparation of Consolidated Financial Statements

3.1 Basis of preparation

The consolidated financial statements have been prepared on an historical cost basis, except for the measurement at fair value of investments, derivative financial instruments and available-for-sale financial assets. The carrying values of such recognized assets and liabilities that are hedged items are adjusted to record variations in the fair values attributable to the risks that are being hedged. The consolidated 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 Group presents its consolidated statements of financial position in order of liquidity.

3.2 Basis of consolidation

The consolidated financial statements cover the accounts of Atlantic Security Bank and its wholly owned subsidiaries (the Group). All significant intercompany balance and transactions have been eliminated in consolidation.

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

3.2 Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

3.3 Changes in accounting policies and disclosures

Standards, amendments and interpretations issued and effective

During 2013 becomes effective new issued standards, amendments and interpretations that has been no impact in the Group consolidated financial statements, a breakdown are disclosed below.

3. Basis of Preparation of Consolidated Financial Statements (continued)

Standards, amendments and interpretations issued and effective (continued)

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 Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the analyses performed, IFRS 10 have not impact on the currently consolidated financial statements.

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. There are no jointly controlled entities.

3. Basis of Preparation of Consolidated Financial Statements (continued)

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 Group financial position or performance. There are no unconsolidated structured entities.

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

The amendments to IAS 1 Presentation of Consolidated financial statements require companies preparing consolidated 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. The amendments affects presentation only and have no impact on the Group's financial position performance.

Standards issued that impacting Bank consolidated financial statements and its disclosures

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 Group is currently disclosure the impact on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013. Application of IFRS 13 has not materially impacted the fair value measurement of the Group. Additional disclousure where required provided in the individual notes relating to the assets and liabilities whose fair value were determined. Fair value hierarchy is provided in note 6 and note 10.

Standard issued but not yet effective

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

3. Basis of Preparation of Consolidated Financial Statements (continued)

Standard issued but not yet effective (continued)

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 Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

These modifications provide a specific definition to identify an investment entity, IFRS 10, considering those as investment funds and require the reporting entity to measure the investment at fair value through profit or loss in its financial statement.

Provided that the institution or subsidiary meet the definition of an investment entity. Furthermore the amendments to IFRS 12 and IAS 27 introduce additional requirements in the revelations to investment firms. These will be effective for annual periods beginning on or after January 1, 2014, with earlier application permitted

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" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to have a material impact to the Group.

IAS 39 *Novation of derivate and continuation of hedge accounting.*

This amendment to IAS 39 Financial Instruments: Recognition and Measurement, indicates that there is no need to discontinue hedge accounting if the hedging instrument is terminated or modified or replaced, provided certain criteria are met. This amendment is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

3. Basis of Preparation of Consolidated Financial Statements (continued)

Standard issued but not yet effective (continued)

IFRIC 21 *Liens*

The interpretation provides guidance on when to recognize a liability for a tax imposed by a government or government agency, whether for taxes that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those in which the time and amount of the fee is true.

However, does not include taxes on income (see IAS 12 Income Taxes), fines and other penalties, liabilities arising from emissions trading schemes and outputs within the scope of other Standards. This interpretation is effective for annual periods beginning on or after January 1, 2014.

3.4 Significant accounting judgments, estimates and assumptions

Judgment

The preparation of the consolidated 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 consolidated 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 Group's Management has made as assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3. Basis of Preparation of Consolidated Financial Statements (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 6.

Impairment of financial assets

The Group periodically reviews its individually significant loans and investments, in order to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flow when determining the impairment loss. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in futures changes to the provision.

In addition to specific provision against individually significant loans and advances, the Group also makes a collective impairment provision which, although not identified as requiring a specific provision, do have a risk exposure of default when originally granted. This takes into consideration factors such as any deterioration in country risk, industry and clearly identified structural weaknesses or deterioration in cash flows.

The Group also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In marking this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investments is less than its cost.

The impairment loss on available for sale investments is disclosed in more detail in Note 6.

Contingencies

The Group makes estimates on legal contingencies arising out of existing processes where the Group acted as claimant or defendant. The provision will be recorded only if can be demonstrate that a high probability that an event of loss or gain can occur, for estimates the criteria were used as presented by the legal team in charge of the case and common consensus among management, legal and finance team with the authorization of the Board of Directors.

4. Summary of Significant Accounting Policies

Fair value of financial instruments

Financial instruments are used by the Group to manage market risk, facilitate customer transactions, hold proprietary positions and meet financing objectives. Fair value is determined by the Group 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 6 and note 10 to the consolidated financial statements.

Cash and cash equivalents

For presentation purposes, in its consolidated statement of cash flows, the Group considers as cash and cash equivalents all highly liquid instruments with original maturities of three months or less. As of December 31, 2013 and 2012, cash and cash equivalents are represented by deposits with banks and overnight placements.

Financial assets

The Group 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 consolidated 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.

- 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 consolidated statement of financial position. Fair value changes on AFS assets are recognized directly in equity, through the consolidated 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.

4. Summary of Significant Accounting Policies (continued)

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.

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's monthly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Group uses active market data for valuing financial assets, held as collateral.

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

- Financial liabilities at fair value through profit or loss.
- Other financial liabilities measured at amortized cost using the effective interest method.

Initial recognition and measurement

The Group 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 consolidated 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 Group 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 consolidated statement of financial position, including all derivatives as described in 'Derivative financial instruments' section.

Measurement subsequent to initial recognition

Subsequently, the Group 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 Group 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. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models. 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 the net asset value review in order to determined the reported balance is appropriate or it may be necessary to make adjustments.

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.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group 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 consolidated 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 an 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)

Financing and borrowings

After initial recognition, interest bearing financing and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Interest income and expense

Interest income and expense is recognized in the consolidated 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 Group's transactions are 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 consolidated statement of financial position and liabilities denominated in foreign currencies are recognized in the consolidated statement 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 other comprehensive income until the disposal of net investment, at which time they are recognized in the consolidated statement of income.

Derivative financial instruments

The Group makes use of derivative financial instruments, such as options, short selling, futures, forward foreign currency contracts, interest rate swaps and credit default swaps to manage exposure to interest rate, foreign currency and credit risk, including those arising from forecast transactions. In order to manage particular risks, the Group applies a different accounting basis taking into account the use of derivative financial instruments as trading purposes.

4. Summary of Significant Accounting Policies (continued)

Derivative financial instrument operations are recognized initially at fair value. The fair value of derivative financial instruments is calculated by reference to current interest and exchange rates.

The changes in fair value are recorded as assets when the fair value is positive and as liabilities when it is negative. The gain or loss related to changes in fair value is recorded in the consolidated statement of income.

Premises and equipment

Premises and equipment 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	10 years

The carrying values of premises and equipment 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 Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible asset.

Expenditures which enhance or extend the performance of computer software programmers 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 consolidated financial statements if the Group acts in a fiduciary capacity such as a nominee, trustee or agent.

Income taxes

The Group operations are tax exempted in both the Cayman Islands and in the Republic of Panama.

(Amount expressed in thousands of US$ dollars)

5. Other Interest – Bearing Deposits with Banks

	December 31	
	2013	2012
	US$ 000	US$ 000
Banco de Credito and subsidiaries (a subsidiary of Credicorp Ltd.)	**145**	219
Other financial institutions	**7,001**	276
	7,146	495

6. Risk Portfolio, Net

	December 31	
	2013	2012
	US$ 000	US$ 000
Available-for-sale financial assets, net	**826,221**	793,453
Loan portfolio, net	**786,346**	801,125
Held for trading financial assets	**31,996**	-
Held to maturity financial assets, net	**-**	1,527
Reverse repurchased agreement	**-**	7,500
	1,644,563	1,603,605

Reverse repurchase agreement

At December 31, 2013, the Group had not investments in securities under reverse repurchased operations. However in 2012 the Group held investments in securities under reverse repurchase agreements for US$7.5 million.

6. Risk Portfolio, Net (continued)

Financial Assets

	2013			
	Cost US$000	Gross unrealized gain US$000	Gross unrealized loss US$000	Fair value US$000
Held for Trading				
Equities Securities	-	-	-	**31,996**
Available for Sale				
Federal Agencies notes - U.S.	**3,177**	**97**	-	**3,274**
U.S. Corporate bonds	**352,505**	**9,413**	**(3,411)**	**358,507**
Non - U.S. Corporate bonds	**361,986**	**5,149**	**(6,772)**	**360,364**
Equity securities (including funds)	**63,025**	**6,466**	**(6,839)**	**62,652**
Sovereign debt	**41,564**	**113**	**(253)**	**41,424**
Subtotal	**822,257**	**21,238**	**(17,275)**	**826,221**
Less:				
Provision for impairment of financial assets	**(14,991)**	-	**14,991**	-
	807,266	**21,238**	**(2,284)**	**858,217**

	2012			
	Cost US$000	Gross unrealized gain US$000	Gross unrealized loss US$000	Fair value US$000
Available for Sale				
Federal Agencies notes - U.S.	10,462	316	-	10,778
U.S. Corporate bonds	336,740	14,898	(2,646)	348,992
Non - U.S. Corporate bonds	330,537	13,072	(1,497)	342,112
Equity securities (including funds)	49,732	8,319	(7,728)	50,323
Sovereign debt	40,474	837	(63)	41,248
Subtotal	767,945	37,442	(11,934)	793,453
Held to Maturity				
U.S. Corporate bonds	1,527	-	-	1,527
Subtotal	1,527	-	-	1,527
Less:				
Provision for impairment of financial assets	(15,598)	-	15,598	-
	753,874	37,442	3,664	794,980

6. Risk Portfolio, Net (continued)

Fair value for available-for-sale assets portfolio is represented by quoted market prices in an active market or dealer price where investments are not actively traded, which are the best evidence of fair value, where they exist, to measure the financial assets. 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.

The Group 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**
Financial Assets				
Derivatives Held for Trading				
Interest rate swaps	-	6	-	6
Futures	66	-	-	66
Credit default swaps	-	76	-	76
Total	66	82	-	148
Held for Trading	31,996	-	-	31,996
Available for Sale				
Debt securities	747,529	9,144	6,896	763,569
Equity securities (including mutual funds)	25,420	-	37,232	62,652
Total	772,949	9,144	44,128	826,221
Total Financial Assets	805,011	9,226	44,128	858,365
Financial Liabilities				
Derivatives Held for Trading				
Forward foreign currency contracts - sale	-	8	-	8
Interes rate swaps	-	265	-	265
Credit default swaps	-	12	-	12
Total Financial Liabilities	-	285	-	285

6. Risk Portfolio, Net (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial asset which are recorded at fair value:

	At January 1, 2013 US$000	Total gains/ (losses) recorded in profit or loss US$000	Total gains/ (losses) recorded in equity US$000	Purchases US$000	Sale US$000	Transfers from level 2 to level 3 US$000	At December 31, 2013 US$000
Available for Sale							
Debt securities	**15,369**	**-**	**109**	**108**	**(8,690)**	**-**	**6,896**
Equity securities (including mutual funds)	- **29,253**	**-**	**17**	**26,348**	**(18,386)**	**-**	**37,232**
Total	**44,622**	**-**	**126**	**26,456**	**(27,076)**	**-**	**44,128**

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Financial Assets				
Derivatives Held for Trading				
Interest rate swaps	-	153	-	153
Futures	26	-	-	26
Credit default swaps	-	229	-	229
Total	26	382	-	408
Available for Sale				
Debt securities	696,879	32,409	15,369	744,657
Equity securities (including mutual funds)	21,070	-	29,253	50,323
Total	717,949	32,409	44,622	794,980
Total Financial Assets	717,975	32,791	44,622	795,388
Financial liabilities				
Derivatives held for trading				
Forward foreign currency contracts - sale	-	92	-	92
Interes rate swaps	-	337	-	337
Credit default swaps	-	146	-	146
Total Financial Liabilities	-	575	-	575

During 2012 due to the change in the available information of certain securities available for sale quoted prices in active markets based on a conservative approach as they do not met all the criteria for classification in Level 2 and became less liquid, the Bank transferred those securities from Level 2 to Level 3.

6. Risk Portfolio, Net (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial asset which are recorded at fair value:

	At January 1, 2012 US$000	Total gains/ (losses) recorded in profit or loss US$000	Total gains/ (losses) recorded in equity US$000	Purchases US$000	Sale US$000	Transfers from level 2 to level 3 US$000	At December 31, 2012 US$000
Available for Sale							
Debt securities	2,724	-	-	7,757	-	4,888	15,369
Equity securities (including mutual funds)	12,164	-	838	3,258	(101)	13,094	29,253
Total	14,888	-	838	11,015	(101)	17,982	44,622

The Level 1 category includes financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Level 2 category are financial instruments that are measured based in observed markets factors. This category includes instruments valued using: quoted prices for similar instruments, either in active or less active markets and other valuation techniques (models) where all significant inputs are directly or indirectly observable based on market data.

For the Level 3 investments are those that are measured using valuation techniques based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The Group use consensus pricing from brokers, from industry publications and other industry materials that includes unobservable inputs (those inputs for which there is little or noncurrent observable data available). The fair value is estimated using alternative assumption as follow: considering a possible change on interest rate within a range between 75 – 100 basis points for corporate debts, for equity securities (including hedge funds) the fair value were estimates using discounted cash flow, discount rate and weighted average cost of capital and the net asset value which 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. The estimated prices and the used by the brokers have revealed that these prices have resulting very close to the fair value or execution value in a current transaction between willing parties.

Amounts reported in the consolidated statements of income relating to gains on financial assets are detailed as follows on December 31:

	2013 US$ 000	2012 US$ 000
Net realized gains on sales of financial assets	**12,667**	7,705

6. Risk Portfolio, Net (continued)

At December 31, the activity of financial assets, held for trading, available-for-sale investment and held to maturity are summarized as follows:

	2013	2012
	US$ 000	US$ 000
Balance at January 1st	**794,980**	795,331
Purchases	**583,593**	512,482
Sales and written-off, net	**(498,204)**	(539,980)
(Loss) gain from changes in fair value	**(22,152)**	27,147
Balance at December 31	**858,217**	794,980

The table below presents an analysis of the financial investments by rating agency designation at December 31, based on Standard & Poor's rating or its equivalent:

	2013					
	Federal Agencies Notes-U.S.	**US - Corporate Bonds**	**Non - US Corporate Bonds**	**Sovereign Debt**	**Equities Securities & Funds**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Held for trading						
Unrated	**-**	**-**	**-**	**-**	**31,996**	**31,996**
Available for sale						
AAA	**-**	**-**	**2,061**	**-**	**-**	**2,061**
AA- to AA+	**2,540**	**4,589**	**12,545**	**2,034**	**-**	**21,708**
A- to A+	**-**	**74,746**	**57,111**	**-**	**-**	**131,857**
BBB- to BBB+	**-**	**128,313**	**199,348**	**8,182**	**-**	**335,843**
Lower than BBB-	**-**	**148,461**	**77,468**	**5,395**	**373**	**231,697**
Unrated	**734**	**2,397**	**11,831**	**25,813**	**62,280**	**103,055**
	3,274	**358,506**	**360,364**	**41,424**	**62,653**	**826,221**
Total	**3,274**	**358,506**	**360,364**	**41,424**	**94,649**	**858,217**

6. Risk Portfolio, Net (continued)

	2012					
	Federal Agencies Notes-U.S. US$000	US - Corporate Bonds US$000	Non - US Corporate Bonds US$000	Sovereign Debt US$000	Equities Securities & Funds US$000	Total US$000
Available for sale	2,006	-	7,463	401	-	9,870
AAA	2,710	6,596	15,379	2,131	-	26,816
AA- to AA+	-	97,232	62,926	-	-	160,158
A- to A+	-	124,786	161,515	1,964	5,945	294,210
BBB- to BBB+	-	119,841	68,755	5,459	523	194,578
Lower than BBB-	6,062	538	26,075	31,292	43,854	107,821
Unrated	10,778	348,993	342,113	41,247	50,322	793,453
Held to Matiurity						
AAA	-	1,527	-	-	-	1,527
Total	10,778	350,520	342,113	41,247	50,322	794,980

Loan portfolio, net

The loan portfolio by customers' activity at December 31 is detailed as follows:

	December 31	
	2013	2012
	US$ 000	US$ 000
Corporate:		
Manufacturing	**110,877**	109,143
Commercial	**217,214**	226,601
Financial services	**56,888**	92,125
Agriculture	**73,803**	68,806
Real estate and construction	**145,705**	128,393
Mining and other related activities	**41,835**	6,064
Transportation and communications	**73,048**	70,391
Education, health and other services	**10,001**	11,687
Fishing	**45,349**	72,731
	774,720	785,941
Other activity	**12,254**	15,810
	786,974	801,751
Less: provision for loan losses	**(628)**	(626)
	786,346	801,125

6. Risk Portfolio, Net (continued)

As of December 31, 2013 there are loans guaranteed with cash amounted to US$627,409 (2012 – US$539,431). These loans were matched in amount and maturity.

The distribution for loan portfolio by type of interest rates is as follows:

	December 31	
	2013	2012
	US$ 000	US$ 000
Fixed interest rates	**653,111**	665,377
Floating interest rates	**133,863**	136,374
	786,974	801,751

A summary of the loan portfolio by the geographic location of the borrowers and the respective collateral is as follows:

	2013				
	Loan Collaterals				
	Carrying value US$000	**U.S. securities and real estate US$000**	**U.S. dollar deposits US$000**	**Other collateral US$000**	**Unsecured portion US$000**
Chile	**1,850**	**-**	**1,850**	**-**	**-**
United State of America	**5,191**	**-**	**-**	**1,500**	**3,691**
Bolivia	**18**	**-**	**18**	**-**	**-**
Spain	**1,654**	**-**	**-**	**-**	**1,654**
British Virgin Islands	**10,455**	**3,432**	**35**	**6,455**	**533**
Venezuela	**859**	**-**	**-**	**859**	**-**
Panama	**7,386**	**668**	**2,984**	**3,734**	**-**
Peru	**751,497**	**23,107**	**625,335**	**86,255**	**16,800**
Cayman Islands	**7,841**	**50**	**-**	**7,791**	**-**
Colombia	**23**	**-**	**-**	**23**	**-**
Canada	**200**	**-**	**200**	**-**	**-**
	786,974	**27,257**	**630,422**	**106,617**	**22,678**

6. Risk Portfolio, Net (continued)

	2012				
	Loan Collaterals				
	Carrying value US$000	U.S. securities and real estate US$000	U.S. dollar deposits US$000	Other collateral US$000	Unsecured portion US$000
Bermuda	18,000	-	3,000	-	15,000
Chile	1,850	-	1,850	-	-
United State of America	1,500	1,500	-	-	-
Venezuela	339	-	-	339	-
Spain	1,654	-	-	-	1,654
British Virgin Islands	13,279	2,629	35	9,865	750
Mexico	600	-	-	-	600
Panama	16,256	1,215	2,167	10,874	2,000
Peru	738,993	25,457	532,179	102,635	78,722
Switzerland	131	-	-	131	-
Cayman Islands	8,910	575	-	8,335	-
Colombia	39	-	-	39	-
Canada	200	-	200	-	-
	801,751	31,376	539,431	132,218	98,726

Provision

Changes in the provision for impairment of financial assets and provision for loan losses are as follows:

	2013		
	Provision for Impairment of Financial Assets **US$000**	***Provision for Loan Losses*** **US$000**	***Total*** **US$000**
Balance at January 1st	**15,598**	**626**	**16,224**
Increase	**-**	**2**	**2**
Write-off	**(607)**	**-**	**(607)**
Balance at December 31	**14,991**	**628**	**15,619**

6. Risk Portfolio, Net (continued)

	2012		
	Provision for Impairment of Financial Assets US$000	*Provision for Loan Losses* US$000	*Total* US$000
Balance at January 1st	17,237	826	18,063
Reversals	(345)	(200)	(545)
Write-off	(1,294)	-	(1,294)
Balance at December 31	15,598	626	16,224

7. Financing and Borrowing Funds

As of December 31, 2013 the Group maintained financing and borrowing funds through repurchased agreements which amounted US$74,966 (2012 – US$126,246) and short term financing as working capital US$49,995(2012 – US$10,000).

The following table details other borrowed funds:

	December 31	
	2013 **US$ 000**	2012 US$ 000
Amount at the end of the year	**124,961**	136,246
Average during the year	**138,088**	44,961
Maximum at any month end	**140,888**	168,853

7. Financing and Borrowing Funds

The breakdown of financing and borrowing funds is as follows:

	December 31					
Repurcharsed Agreements	**Interest rate %**	**Maturity**	**2013 US$ 000**	Interest rate %	Maturity	2012 US$ 000
	1.1	03-feb-14	6,508	1.1	19-feb-13	21,739
	1.2	03-feb-14	3,021	1.1	04-mar-13	104,507
	1.1	18-feb-14	9,080			-
	1.2	28-feb-14	23,512			-
	1.4	14-mar-14	834			-
	1.1	24-mar-14	4,543			-
	1.3	24-mar-14	5,422			-
	1.4	16-jun-14	4,048			-
	1.2	24-jun-14	2,548			-
	1.4	12-ago-14	15,450			-
			74,966			126,246
Working Capital						
	1.1	02-ene-14	5	1.5	28-ene-13	10,000
	1.1	28-feb-14	5,000			-
	1.5	28-ene-14	5,000			-
	1.5	18-mar-14	5,000			-
	0.9	03-ene-14	4,990			-
	0.5	03-ene-14	10,000			-
	0.5	03-ene-14	20,000			-
			49,995			10,000
Total financing and borrowing funds			**124,961**			136,246

8. Balances and Transactions with Related Parties

The term “related parties” is defined by Management to encompass other affiliated parties over which control or significant influence exists through common ownership, management or directorships. In the ordinary course of its business the Group has incurred transactions with related parties such as shareholders, non-consolidated companies, directors and key management personnel.

8. Balances and Transactions with Related Parties (continued)

	December 31			
	2013		2012	
	Directors, key management personnel and other related parties US$000	**Affiliates US$000**	Directors, key management personnel and other related parties US$000	Affiliates US$000
Statement of financial position				
Assets:				
Interest-bearing deposits with banks	**-**	**1,851**	-	196,925
Overnight placements	**-**	**37,000**	-	70,000
Other interest-bearing deposits with banks	**-**	**-**	-	219
Risk portfolio:				
Investments in financial instruments, mutual funds managed by the Group and other related parties	**11,658**	**-**	686	-
Loans	**31,246**	**33,915**	18,192	70,481
Accumulated interest receivable	**381**	**570**	411	2,842
Other assets	**631**	**56**	707	55
Liabilities:				
Deposits (demand and time)	**211,493**	**4,848**	252,041	19,298
Financing and borrowings funds	**-**	**30,000**	-	-
Accumulated interest payable	**877**	**2**	3,254	25
Other liabilities	**175**	**1,133**	-	485

For the years ended December 31, 2013 and 2012, the Group has not made any provision for doubtful debts relating to amounts owed by related parties. The loans that counted on tangible guarantees as financial goods and values amounted to US$15,976 in 2013 (2012: US$9,282).

	December 31			
	2013		2012	
	Directors, key management personnel and other related parties US$000	**Affiliates US$000**	Directors, key management personnel and other related parties US$000	Affiliates US$000
Off-balance sheet:				
Forward currency contracts	**-**	**3,000**	-	3,000
Commitments for letter of credit	**-**	**25,297**	-	20,437
Investment on behalf of customers	**387,322**	**-**	632,003	-
Statements of income:				
Interest and dividend income	**392**	**2,411**	1,146	3,690
Interest expense	**2,740**	**95**	3,711	31
Losses on derivative financial instrument	-	**119**	-	104
Fee and commission income	-	**1,464**	-	-
Fee and commission expense	-	**5,184**	-	1,259
General and administrative expenses	-	**95**	-	345

8. Balances and Transactions with Related Parties (continued)

As of December 31, 2013, the other interest-bearing deposits with banks include deposits with Banco de Credito del Peru, S. A. for US$145 (2012: US$219) and guarantee revolving credit line loans with Banco de Credito de Peru, S. A. amounted US$33,915 (2012: US$55,481), where full risk participation has been sold off to customers without recourse to the Group and the full amount is guaranteed by deposits received from customers.

9. Risk Management

The Group's operations are exposed to a wide variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Overall risk management programmes focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flow of financial instruments, will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credits spreads, foreign exchange rates and equity prices.

The Group´s Asset/Liability Committee (ALCO) is responsible for managing and monitoring all of the Group's risk exposures. Risk exposures are managed through control limits established for position size and overall risk exposure limits. In addition, the Group maintains proper segregation of duties, with credit review and risk-monitoring functions performed by bodies that are independent from business producing units.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

9. Risk Management (continued)

Credit risk

The Group seeks to minimize and control its risk exposure by establishing a variety of separate but complementary financial, credit, operational and legal reporting schemes. The Group's Executive Committee, duly authorized by the Board of Directors, determines the type of business in which the Group engages and also approves guidelines for accepting customers, outlines the terms on which customer business is conducted and establishes the parameters for the risks that the Group is willing to accept.

The Group takes on exposure to credit risk, the risk that a counterparty will be unable to pay all amounts in full when due. The Group structures the credit risk levels it accepts by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, or geographical segment. Such risks are monitored on a revolving basis and subject to periodic review. Limits on levels of credit by product and country are reviewed and approved quarterly by the Board of Directors.

Financial assets which potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, interest-bearing deposits with banks, financial securities, loans and other assets. Cash and cash equivalents and interest-bearing deposits with banks are placed either with related parties or reputable financial institutions. An analysis of the Group's financial securities and loans according to its credit risk rating is provided in Note 6.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by adjusting lending limits as appropriate. Exposure to credit risk is also managed in part by obtaining collateral, corporate and personal guarantees.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and stand-by letters of credit, which represent irrevocable assurances that the Group will execute payments in the event that a customer cannot meet its obligations to third parties, carry the same risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

The Group's credit policies and procedures to approve credit commitments, guarantees and commitments. To purchase and sell securities are the same as those applicable to extension of credits which are on balance sheet and take into account their collateral and other security, if any.

9. Risk Management (continued)

Interest rate risk

The Group is exposed to cash flow and fair value interest rate risk in the course of major operations. To manage these exposures the Group has established a variety of separate but complementary financial, investment, operational and credit reporting schemes to determine the current position on financial assets and liabilities and how its impacted for a change in the interest rate risk.

The price risk factor that mainly affects the value of the Group investment portfolio is interest rates. Interest Rate Risk Management is an integral component of the Asset/Liability Management (ALM) methodology in use by the Group, which models and measures the effect that interest rate risk has over the Group's income in the short-term.

The Group's investment portfolio is managed through a long term investment (buy and hold) strategy and not as of a proprietary trading book, hence, its exposure to market price risk in the short-term is not considered to be relevant.

The Group takes on exposure to the effects of fluctuations at the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movement materializes.

The table below summarizes the Group's exposures to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

9. Risk Management (continued)

				2013			
Assets	**Up to 1 month US$000**	**1 to 3 months US$000**	**3 to 12 months US$000**	**1 to 5 years US$000**	**Over 5 years US$000**	**Non interest bearing US$000**	**Total US$000**
Cash and cash equivalents	**89,446**	**10,000**	**-**	**-**	**-**	**-**	**99,446**
Due from banks	**-**	**214**	**6,932**	**-**	**-**	**-**	**7,146**
Financial assets	**15,677**	**53,092**	**68,919**	**423,455**	**198,414**	**98,660**	**858,217**
Loans	**102,418**	**95,775**	**503,005**	**35,148**	**50,000**	**-**	**786,346**
Other assets	**-**	**-**	**-**	**-**	**-**	**33,145**	**33,145**
	207,541	**159,081**	**578,856**	**458,603**	**248,414**	**131,805**	**1,784,300**
Liabilities							
Deposits:							
Non-interest bearing	**-**	**-**	**-**	**-**	**-**	**440,795**	**440,795**
Interest bearing	**252,030**	**116,904**	**546,176**	**38,750**	**50,000**	**-**	**1,003,860**
Financing and borrowings funds	**39,996**	**62,919**	**22,046**	**-**	**-**	**-**	**124,961**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**14,369**	**14,369**
	292,026	**179,823**	**568,222**	**38,750**	**50,000**	**455,164**	**1,583,985**
Total interest sensitivity gap	**(84,485)**	**(20,742)**	**10,634**	**419,853**	**198,414**		

				2012			
Assets	Up to 1 month US$000	1 to 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Over 5 years US$000	Non interest bearing US$000	Total US$000
Cash and cash equivalents	136,030	195	-	-	-	34	136,259
Due from banks	-	170	325	-	-	-	495
Financial assets	23,656	31,747	65,284	421,745	177,309	75,239	794,980
Loans	104,562	135,636	248,643	269,784	50,000	-	808,625
Other assets	-	-	-	-	-	28,113	28,113
	264,248	167,748	314,252	691,529	227,309	103,386	1,768,472
Liabilities							
Deposits:							
Non-interest bearing	-	-	-	-	-	464,998	464,998
Interest bearing	236,177	163,358	474,447	7,863	50,000	-	931,846
Financing and borrowings funds	10,000	126,246	-	-	-	-	136,246
Other liabilities	-	-	-	-	-	15,596	15,596
	246,177	289,604	474,447	7,863	50,000	480,594	1,548,686
Total interest sensitivity gap	18,071	(121,856)	(160,195)	683,666	177,309		

9. Risk Management (continued)

The sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income were demonstrates as follows:

	2013		2012	
Financial Margin Sensitivity	**Sensitivity Increase 100 bps**	**Sensitivity Decrease 100 bps**	Sensitivity Increase 100 bps	Sensitivity Decrease 100 bps
	US$000	**US$000**	US$000	US$000
Assets:				
Due from banks	**(895)**	**48**	(412)	7
Loans	**(3,746)**	**3,707**	(4,336)	4,303
Financial assets	**(826)**	**705**	(807)	653
	(5,467)	**4,460**	(5,555)	4,963
Liability				
Deposits	**5,564**	**(3,294)**	5,689	(3,659)
	5,564	**(3,294)**	5,689	(3,659)
Total interest sensivity gap	**97**	**1,167**	134	1,304

The table below summarizes the weighted average interest rates for assets and liabilities as of December 31:

	2013 %		*2012 %*	
	End of year	***During the year***	*End of year*	*During the year*
Assets:				
Interest-bearing deposits with banks	**0.26**	**0.23**	0.48	0.30
Financial assets	**3.06**	**3.96**	4.07	3.99
Loans	**5.72**	**5.64**	5.61	5.94
Liabilities				
Deposits	**3.60**	**3.41**	3.74	3.48
Financing and borrowing funds	**1.21**	**1.14**	1.10	0.82

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow.

9. Risk Management (continued)

Liquidity risk (continued)

The Group is exposed to daily calls on available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs, as experience with its specific customer base shows that a minimum level of reinvestment of maturing can be predicted with a high degree of certainty. As of December 31, 2013 and 2012, the Group holds a substantial amount of securities which Management considers as secondary liquidity source.

The table below analyzes the Group's assets and liabilities into relevant maturity groupings based on the time remaining from balance sheet date to the contractual maturity date.

			2013			
Assets	Up to 1 month US$000	1 to 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Over 5 years US$000	Total US$000
Cash and cash equivalents	89,446	10,000	-	-	-	99,446
Due from banks	-	214	6,932	-	-	7,146
Financial assets	39,303	89,746	77,483	451,306	207,527	865,365
Loans	73,236	83,295	527,896	51,937	49,982	786,346
Other assets	4,108	8,214	20,823	-	-	33,145
	206,093	191,469	633,134	503,243	257,509	1,791,448
Liabilities						
Deposits:						
Non-interest bearing	176,318	57,303	-	207,174	-	440,795
Interest bearing	189,256	130,505	546,175	87,924	50,000	1,003,860
Financing and borrowing funds	39,996	62,919	22,046	-	-	124,961
Other liabilities	1,946	3,893	8,530	-	-	14,369
	407,516	254,620	576,751	295,098	50,000	1,583,985
Net liquidity gap	(201,423)	(63,151)	56,383	208,145	207,509	207,463

9. Risk Management (continued)

Liquidity risk (continued)

	2012					
Assets	Up to 1 month US$000	1 to 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Over 5 years US$000	Total US$000
Cash and cash equivalents	136,064	195	-	-	-	136,259
Due from banks	-	170	105	220	-	495
Financial assets	18,910	41,973	69,432	444,908	186,124	761,347
Loans	73,001	119,509	244,569	302,691	68,855	808,625
Other assets	4,033	8,065	12,096	3,918	-	28,113
	232,008	169,912	326,202	751,737	254,979	1,734,838
Liabilities						
Deposits:						
Non-interest bearing	209,249	69,750	-	185,999	-	464,998
Interest bearing	187,415	176,657	199,083	310,827	57,863	931,846
Financing and borrowing funds	10,000	126,246	-	-	-	136,246
Other liabilities	2,354	4,616	6,924	1,703	-	15,596
	409,018	377,269	206,007	498,529	57,863	1,548,686
Net liquidity gap	(177,010)	(207,357)	120,195	253,208	197,116	186,152

The matching and controlled miss-matching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often for uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity required to support calls under guarantees and stand-by letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash needs, since many of these commitments will expire or terminate without actually being funded.

Capital risk

The Group monitors its capital adequacy using ratios based on industry best practices and the recommendations issued by the Basel Committee on Banking Regulations and Supervisory Practices. The capital adequacy ratio measures capital adequacy by comparing the Group's eligible capital, net with its risk exposure in the consolidated statements of financial position assets, off-balance sheet commitments positions at a weighted amount including an additional scope about risk sensitive approaches to credit risk and operational risk capital requirements. These internal ratios are based on both an Earnings-at-Risk model and a Net Economic Value Sensitivity model, which are part of the Group's ALM (Asset/Liability Management) methodology. These models yield an estimate of the potential loss that might occur if the Group's consolidated statements of financial position structure remained unchanged during specific periods of time and market volatility affects its risk exposure.

9. Risk Management (continued)

The Group is subject to regulatory capital requirements established by the Cayman Islands Monetary Authority ("CIMA"). Failure to meet minimum capital requirements can initiate certain actions by the regulators that, if undertaken, could have a direct material effect on the Group's consolidated financial statements. Under capital adequacy guidelines used by CIMA and prescribed under The Groups and Trust Companies Law (Revised) of the Cayman Islands, the Group must meet specific capital guidelines that involve quantitative measures of the Group's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Group's capital amounts and classification are also subject to qualitative judgments by CIMA about components and risk weightings.

The Cayman Island Monetary Authority (CIMA) had implemented the Basel II Framework, which describes a comprehensive measure and minimum standard for capital adequacy that seeks to improve on the existing Basel I rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. The implementation of the Basel II accord, which consists of 3 'Pillars', go well beyond the mechanistic calculation of minimum capital levels set by Basel I, allowing Banks to use their own models to calculate regulatory capital while seeking to ensure that Banks establish a culture with risk management.

CIMA proposed to apply the Basel II Framework in two phases leveraging a practical measured approach. The first phase of the implementation was completed on December 31, 2011 and since then has been implemented in a consistent basis. It's comprised the following Pillar 1 approaches:

- Credit Risk – Standardized
- Market Risk – Standardized
- Operational Risk – Basic Indicator Approach and The Standardized Approach

The Pillar 1 provides a methodology for determining minimum capital requirements similar to Basel I, under Basel I this calculation related only to credit risk, with a calculation for market risk, Basel II adds a further charge to allow for operational risk.

The approaches used by the Group to calculate its capital requirements covers the credit risk and operational risk of the Group's operations and the specific risks of open positions in currencies, debt, and equity securities included in the risk portfolio. Assets are weighted according to broad categories of notional credit risk, the credit risk weighting has been determined by the external credit ratings assigned to the borrower and the operational risk has been determined using the standardized approach method. The Capital Ratio is determined dividing eligible regulatory capital by total risk-weighted assets.

The first phase of the Basel II implementation will also include Pillar 2 – Supervisory Review Process and Pillar 3 - Market Discipline. However, given the scope of Pillar II and Pillar III and the possible impact to banks, CIMA will implement these on or after 2014.

9. Risk Management (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of capital.

The Group's actual capital amount and its risk asset ratio, pursuant to CIMA reporting schedules as well as CIMA's minimum requirements, are presented in the following table:

Statements of financial positions and off-balance sheet positions (Net of provisions)	*Base Amount US$000*	*Risk Weighted Assets US$000*
Credit Risk		
Cash items	45	-
Claims on Sovereigns	40,084	9,700
Claims on Non Central Government Public Sector Entities (PSEs)	13,077	10,230
Claims on Multilateral Development Banks (MDBs)	12,000	4,718
Claims on Banks and Security Firms	296,444	124,552
Claims on Corporates and Security Firms	499,004	517,956
Claims on Retail Portfolio	786,975	77,938
Claims secured on Higher Risk Categories & Other Assets	110,372	110,371
Total Balance Sheet items	**1,758,001**	**855,465**
Off-Balance sheets items	54,501	17,290
Counterparty Credit Risk	6,372	75
Securitizations	24,200	10,670
Total Credit Risk	**1,843,074**	**883,500**
Operational Risk		
Standardized Approach		**130,740**
Market Risk		**68,318**
Total Risk Weighted Assets		**1,082,558**
Capital Constituents		
Net Tier 1 and Net Tier 2 Capital		**169,719**
Capital Adecuacy Ratio as of December 31, 2013		**15.68%**
Capital Adecuacy Ratio as of December 31, 2012		16.79%
Minimum capital adequacy regulatory ratio		**12%**

The Group only applies the market risk approach for the trading investment position.

9. Risk Management (continued)

The second phase of the CIMA Basel II implementation will be considered for implementation after March 2013. It will include considering the implementation of advanced approaches, specifically Pillar 1 – Credit Risk – Advanced Approaches (IRB), Operations Risk – Advanced Measurement Approaches (AMA) and Market Risk – Internal Risk Management Models. However until December 2013, the implementation of second phase remains pending.

10. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be realized in a current transaction between parties at arm's length, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, should it exist.

For quoted investments, market prices are used to determine the fair value of such investments. The fair value of investment funds is determined by reference to the net asset values of the funds as provided by the respective administrators of such funds.

The following summary presents the methodologies and assumptions used to estimate the fair value of the Group's financial instruments:

- *Cash and due from banks, interest bearing deposits with banks, federal funds sold and overnight placements*. The fair values of these financial assets are considered to approximate their respective carrying values due to their short-term nature.

- *Financial assets and derivative,* which includes investments held for trading, available-for-sale-securities and financial derivatives*:* The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at close of business of the statements of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models. (see Note 6)

- *Loans*. The fair value of the loan portfolio approximates its carrying value due to either the short-term nature of loans and/or the fact that the loan portfolio is composed mainly of cash collateral loans. The fair value those long-term fixed rated and variable rate loans are determined by the Group using discounted cash flows method using discount rate that reflect the market rate available for transaction with similar characteristic in amount, term and risk.

- *Deposit, financings and other borrowed funds*. The fair value of these financial liabilities approximates their respective carrying values due to either their short-term nature and/or the fact that their interest rates are comparable to those available for liabilities with similar terms and conditions.

10. Fair Value of Financial Instruments (continued)

Assets	**2013** Carrying Value US$000	**2013** Fair Value US$000	2012 Carrying Value US$000	2012 Fair Value US$000
Cash and cash equivalents	**99,446**	**99,446**	136,259	136,259
Due from banks	**7,146**	**7,146**	495	495
Financial assets	**858,365**	**858,365**	802,888	802,888
Loans, net	**786,346**	**786,346**	801,125	800,801
Other assets	**32,997**	**32,997**	27,705	27,705
	1,784,300	**1,784,300**	1,768,472	1,768,148
Liabilities				
Deposits:				
Non-interest bearing	**440,795**	**440,795**	464,998	464,998
Interest bearing	**1,003,860**	**1,003,860**	931,846	931,846
Financing and borrowing funds	**124,961**	**124,961**	136,246	136,246
Other liabilities	**14,369**	**14,369**	15,596	15,596
	1,583,985	**1,583,985**	1,548,686	1,548,686

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**	**Level 1**	**Level 2**	**Level 3**
	US$000	**US$000**	**US$000**	**US$000**
Assets				
Cash and cash equivalents	**99,446**	**99,446**	**-**	**-**
Due from banks	**7,146**	**7,146**	**-**	**-**
Loans, net	**786,304**	**-**	**786,304**	**-**
	892,896	**106,592**	**786,304**	**-**
Liabilities				
Deposits:				
Non-interest bearing	**440,795**	**440,795**	**-**	**-**
Interest bearing	**929,860**	**104,622**	**825,238**	**-**
Financing and borrowing funds	**124,961**	**124,961**	**-**	**-**
	1,495,616	**670,378**	**825,238**	**-**

10. Fair Value of Financial Instruments (continued)

The management assessed that cash and cash equivalent, due from banks, non-interest bearing deposits, interest bearing deposits and borrowed funds approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair values of loans and terms interest-bearing deposits are determined by using discounted cash flows (DCF) method using discount rate that reflects the market rates available for transactions with similar characteristics in amount, terms and risk at the end of the reporting period. The nonperformance risk at closing balance of December 31, 2013 was assessed to be insignificant.

11. Share Capital

The number of authorized, issued and outstanding ordinary shares of the Group as of December 31, 2013 was 70,000,000 (2012 – 70,000,000) shares. During the year ended December 31, 2013, the Group declared and paid dividend of US$48,000 and US$48,000 (2012: US$45,000 and US$45,000, respectively).

12. Commitments and Contingencies

The consolidated financial statements do not reflect various commitments and contingencies which arise in the normal course of business and which involve elements of credit and liquidity risk. Among them are commercial letters of credit, standby letters of credit and guarantees plus commitments to purchase and sell securities. The commitments and contingencies consist of:

	December 31,	
	2013	2012
	US$ 000	US$ 000
Commercial letters of credit	**1,150**	1,550
Stand by letters of credit and guarantees	**38,701**	30,877

Commercial and stand-by letters of credit and guarantees include exposure to credit risk in the event of nonperformance by customers. Risks also arise from the possible nonperformance by the counterparty to the transactions.

Since stand-by letters of credit and guarantees have fixed maturity dates and many of them expire without being drawn upon, they do not generally present a significant liquidity risk to the Group.

12. Commitments and Contingencies (continued)

Legal contingency

Madoff Trustee Litigation

On September 22, 2011, the Trustee for the liquidations of Bermard L. Madoff Investment Securities LLC (BLMIS), and the substantively consolidated state of Bermard L. Madoff (“the Madoff Trustee”) filed a complaint against Credicorp’s subsidiary Atlantic Security Bank (ASB) in U.S. Bankruptcy Court Southern District of New York, for an amount of approximately US$120 million (“the Complaint”), which corresponds to the funds that ASB managed in Atlantic US Blue Chip Fund and that were redeemed between the end of 2004 and the beginning of 2005 from Fairfield Sentry Limited in Liquidation (hereafter “Fairfield”), a feeder fund that invested in BLMIS.

The Complaint further alleges that the Madoff Trustee filed an adversary proceeding against Fairfield, seeking to avoid and recover the initial transfers of monies from BLMIS to Fairfield; that on June 7 and 10, 2011, the Bankruptcy Court approved a settlement among the Madoff Trustee, Fairfield and others; and that the Madoff Trustee is entitled to recover the sums sought from ASB as “subsequent transfers” of “avoided transfers” from BLMIS to Fairfield that Fairfield subsequently transferred to ASB. The Madoff Trustee has filed similar actions against other alleged “subsequent transferees” that invested in Fairfield and its sister entities which, in turn, invested and redeemed funds from BLMIS.

Initially, ASB counsel and the Trustee agreed that ASB had until April 24, 2013 to move, answer or otherwise respond to the compliant. However, subsequently ASB counsel and the Trustee agreed to extend the time to move, answer or otherwise respond to the compliant to and until July 16, 2014.

Management believes that ASB has substantial defenses against the Madoff Trustee’s claims alleged in the Complaint and intends to contest these claims vigorously. Management considers, among other substantial defenses, that the Complaint considers only the amounts withdrawn, without taking into account the amounts invested in Fairfield. Furthermore, ASB after redeeming said funds from Fairfield, re-invested them in BLMIS through another vehicle resulted in a net loss in the funds that ASB managed on behalf of its clients for approximately US$78 million as of December, 2008. Based on this arguments and substantial defenses Management has not recognized any provision.

12. Commitments and Contingencies (continued)

Legal contingency (continued)

Fairfield Liquidator Litigation

On April 13, 2012, Fairfield and its representative, Kenneth Krys (the "Fairfield Liquidator"), filed an adversary proceeding against ASB pursuant to Chapter 15 of the U.S. Bankruptcy Code, in the U.S Bankruptcy Court for the Southern District of New York, styled as Fairfield Sentry Limited (In Liquidation) v. Atlantic Security Bank, Adv. Pro. No. 12-01550 (BRL) (Bankr. S.D.N.Y.) ("Fairfield v. ASB Adversary Proceeding"). The complaint sought to recover the amount of approximately US$115 million, reflecting ASB's redemptions of certain investments in Fairfield, together with investment returns thereon. These are essentially the same moneys that Madoff Trustee seeks to recover in the Madoff Litigation described above.

Thereafter, the Fairfield v. ASB Adversary Proceeding was procedurally consolidated by the Bankruptcy Court with other adversary actions by the Fairfield Liquidator against former investors in Fairfield. Pursuant to that consolidation, and by stipulation of the parties, the Bankruptcy Court's previously entered stay of all proceedings in the Fairfield Liquidator adversary actions (except for the filing of amended complaints) in light of the pending litigation in the British Virgin Island courts calling into question the Fairfield Liquidator's ability to seek recovery of funds invested with and redeemed from Fairfield, was applied in the Fairfield v. ASB Adversary Proceeding, thereby indefinitely extending ASB's time to answer or move until the stay is lifted. On January 14, 2013, the Fairfield Liquidator filed an Amended Complaint in the Fairfield v. ASB Adversary Proceeding seeking the same amount of recovery as in the original complaint but adding additional allegations and causes of action. AS of December 31, 2013, the Bankruptcy Court stay remains in effect, and ASB's time to answer or move remains stayed indefinitely pending further order of the Bankruptcy Court.

Management believes that ASB has substantial defenses against the Fairfield Liquidator's claims alleged in the Amended Complaint and intends to contest these claims vigorously. Based on this arguments and substantial defenses, the Management has not recognized any provision.

13. Fiduciary Activities

The Group provides custody, trustee, investment management and advisory services to third parties which involve the Group in making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Such assets as are held in a fiduciary capacity are not included on these consolidated financial statements. These services might give rise to the risk that the Group might be accused of failing to fulfill fiduciary duties and responsibilities.

Assets managed on behalf of customers by the Group comprised of investment securities and loans totaling US$3,771,756 in 2013 (2012 - US$3,961,373).

These assets include mutual funds with net assets of US$602,097 according to statements of net assets prepared by the funds' management at December 31, 2013 (2012 - US$631,027).

14. Concentration of Assets and Liabilities

At December 31, the geographic concentration of significant assets (cash and cash equivalents, interest–bearing deposits with banks and risk portfolio) and liabilities (deposits, purchased funds and other borrowed funds) is as follows:

	2013	
	Assets	**Liabilities**
	US$000	**US$000**
Latin America and the Caribbean	**1,059,569**	**1,428,103**
United States of America	**540,452**	**102,681**
Other countries	**151,134**	**38,831**
	1,751,155	**1,569,615**

	2012	
	Assets	Liabilities
	US$000	US$000
Latin America and the Caribbean	1,073,507	1,389,523
United States of America	542,756	141,213
Other countries	124,096	2,354
	1,740,359	1,533,090

15. Derivative Financial Instruments

The Group uses the following derivative instruments for hedging and trading purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. 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.

	2013			*2012*		
	Assets US$000	***Liabilities US$000***	***Notional Amount US$000***	*Assets US$000*	*Liabilities US$000*	*Notional Amount US$000*
Derivarives held for trading						
Forward foreign currency contracts - sale	**-**	**8**	**3,372**	-	92	7,497
Interes rate swaps	**6**	**265**	**34,501**	153	337	4,541
Futures	**66**	**-**	**120,700**	26	-	8,400
Credit default swaps	**76**	**12**	**14,915**	229	146	28,316
	148	**285**	**173,488**	408	575	48,754

15. Derivative Financial Instruments (continued)

For the year ended December 31, 2013, the Group recognized a net gain of US$586 (2012: net gain US$577), representing the net gains in derivative financial instruments held for trading and economic hedging purposes.

As of December 31, 2013 and 2012, the Group has positions in the following types of derivatives:

Swaps

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). A company will typically use interest rate swaps to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amount. The Group purchases and sells credit default swaps from and to counterparties in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap and for yield enhancement purposes.

Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over–the–counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored.

Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Derivative financial instruments held or issued for trading purposes

Most of the Group’s derivative trading activities are related to its investment portfolio, in order to reduce its exposure to risk. These are normally contracted in the over-the-counter market. The Group may also take positions with the expectation of profiting from favorable movements in prices, rates or indexes. Also, under this hedging are included any derivatives which do not meet IAS 39 hedging requirements.

16. Subsequent Event

The Group has evaluated the impact of all subsequent events through March 27, 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.