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TRANSLATION FROM SPANISH VERSION

Multibank, Inc. and Subsidiaries

Consolidated financial statements for the year ended December 31, 2013 and Independent Auditors' Report of January 29, 2014

Multibank, Inc. and Subsidiaries

Independent Auditors' Report and 2013 Consolidated Financial Statements

Content

(Free English Language Translation of Spanish Version)

INDEPENDENT AUDITORS' REPORT

Shareholder and Board of Directors of
Multibank, Inc.

We have audited the accompanying consolidated financial statements of **Multibank, Inc. and Subsidiaries** which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as they have been modified by prudential regulations issued by the Superintendency of Banks of Panama for monitoring purposes, 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 auditor's 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Multibank, Inc. and Subsidiaries** as at December 31, 2013, and the results of its operations and its cash flows for the year ended on that date, in accordance with International Financial Reporting Standards, just as they have been modified by prudential regulations issued by the Superintendency of Banks of Panama for monitoring purposes, as described in Note 3.1 of the consolidated financial statements.

(Signed) Deloitte

January 29, 2014
Panama, Republic of Panama

Consolidated statement of financial position
December 31, 2013
(In Balboas)

	Notes	2013	2012
Assets			
Cash and cash effects	8	27,952,862	35,691,783
Due from banks:			
At sight- domestic		20,799,404	17,156,715
At sight- foreign		81,342,615	72,649,951
Time - domestic		53,000,271	41,282,572
Time - foreign		122,800,860	89,144,683
Total due from banks		277,943,150	220,233,921
Total cash, cash effects and bank deposits		305,896,012	255,925,704
Securities bought under resale agreement	9	1,281,000	-
Securities at fair value with changes in profit or loss	10	-	4,137,256
Securities available for sale	11,19	414,262,960	422,414,189
Securities held to maturity	12	160,170,813	3,162,865
Loans:			
Domestic	7,13,20	1,541,435,293	1,359,286,251
Foreign		595,515,373	460,450,982
		2,136,950,666	1,819,737,233
Less:			
Allowance for uncollectible loans		34,945,571	31,511,271
Unearned interest and commission		10,889,237	7,099,102
Loans, net		2,091,115,858	1,781,126,860
Property, furniture, equipment and improvements, net	14	29,827,823	11,429,404
Others assets:			
Accrued interest receivable	7	20,242,769	15,572,121
Guarantee deposits		803,350	846,347
Customers obligations under acceptances		2,057,595	610,551
Goodwill	15	6,717,198	6,717,198
Deferred income tax	16	5,677,691	6,477,373
Foreclosed assets	17	722,708	954,313
Others assets	7,18	63,481,908	61,406,059
Total other assets		99,703,219	92,583,962
Total assets		3,102,257,685	2,570,780,240

	Notes	2013	2012
Liabilities and equity			
Liabilities			
Due to Depositors:	7		
At sight - domestic		191,016,658	172,707,319
At sight - foreign		307,819,625	289,122,791
Saving Accounts		287,857,517	225,559,846
Time -domestic		843,339,271	751,046,438
Time - foreign		333,314,743	290,253,537
Interbank time deposits - domestic		37,002,191	37,966,218
Interbank time deposits - foreign		9,335,110	13,218,070
Total due to depositors		2,009,685,115	1,779,874,219
Securities sold under repurchase agreements	11,19	90,078,000	36,107,106
Borrowed funds	11,20	537,144,128	355,026,698
Subordinated borrowed funds	21	-	15,000,000
Bonds payable	22	42,284,000	21,120,000
Other liabilities:			
Cashier's and certified checks		18,250,352	12,875,279
Accrued interest payable	7	28,431,187	23,166,949
Acceptances outstanding		2,057,595	610,551
Other liabilities	7,23	70,221,501	56,103,210
Total other liabilities		118,960,635	92,755,989
Total liabilities		2,798,151,878	2,299,884,012
Equity:			
Common shares	24	167,047,099	127,047,099
Preferred shares	25	73,370,300	73,370,300
Adjustment for foreign currency conversion		(1,395,050)	1,562,913
Reserves	14,15,26	(3,796,288)	(4,196,561)
Net changes in securities available for sale		(35,143,983)	(2,259,857)
Retained earnings		102,813,037	74,174,270
Total equity attributable to controlling interest		302,895,115	269,698,164
Non-controlling interest in subsidiary		1,210,692	1,198,064
Total equity		304,105,807	270,896,228
Total liabilities and equity		3,102,257,685	2,570,780,240

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

Consolidated statement of profit or loss
For the year ended December 31, 2013
(In Balboas)

	Notes	2013	2012
Revenue from interest and commissions			
Interest earned on:	7		
Loans		142,311,882	116,157,321
Time deposits		477,133	599,774
Investments		18,416,852	13,363,057
Total interest earned		161,205,867	130,120,152
Commissions earned on:			
Loans		15,964,651	10,637,270
Letters of credit		1,132,910	1,162,560
Collections		113,212	161,537
Wire transfers, drafts and cashier checks		5,742,836	7,419,983
Remittance commissions	27	14,022,092	11,939,565
Others		10,515,421	10,516,442
Total commissions earned		47,491,122	41,837,357
Total interest and commission income, net		208,696,989	171,957,509
Interest expenses and commissions:	7		
Interest		65,553,035	57,050,682
Commissions		9,348,054	9,300,918
Total interest expense and commissions		74,901,089	66,351,600
Net interest income and commissions, before provisions		133,795,900	105,605,909
Allowance for loan losses	13	9,287,518	10,847,779
Allowance (reversal) for foreclosed assets	17	6,210	(12,068)
Net interest income and commissions, after provisions		124,502,172	94,770,198
Other income (expenses):			
(Income) net sale of securities available for sale	11	(2,216,366)	8,372,638
(Income) net gain of sale of securities fair value through profit or loss	10	(617,727)	770,146
Net gain nonrealized on securities at fair value with changes in profit or loss	10	117,425	379,049
Gain on foreign currency	32	2,011,930	1,886,087
Insurance premiums, net		2,945,298	1,555,656
Other income (expenses), net		(1,292,843)	1,116,761
Total other income, net		947,717	14,080,337
Total operating income, net		125,449,889	108,850,535
General and administrative expenses			
Salaries and other remunerations	7	41,336,748	35,783,992
Other personnel expenses		2,180,278	1,621,412
Professional fees		4,174,387	4,625,665
Advertising and promotions		2,808,351	2,824,545
Depreciation and amortizations	14	3,874,769	2,615,129
Repair and maintenance of equipment		2,517,128	2,807,700
Maintenance of premises		2,901,637	2,463,703
Rent	7,28	5,143,823	4,879,452
Other taxes		3,859,661	1,912,669
Communications		1,966,271	1,828,980
Transportation and logistics		1,139,564	1,307,273
Stationery and office supplies		939,367	956,112
Travels and meetings		1,151,181	773,512
Insurance		802,884	798,188
Others		2,713,849	4,555,822
Total general and administrative expenses		77,509,898	69,754,154
Income before income tax		47,939,991	39,096,381
Income taxes, net	30	(8,477,615)	(4,644,900)
Net income of the year		39,462,376	34,451,481
Attributable to:			
Controlling Interest		39,449,748	34,528,417
Non-controlling interest		12,628	(76,936)
Net income of the year		39,462,376	34,451,481

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

Multibank, Inc. and Subsidiaries

Consolidated statement of comprehensive income
For the year ended December 31, 2013
(In Balboas)

	Note	2013	2012
Net income of the year		39,462,376	34,451,481
Other comprehensive income:			
Transactions that will be subsequently reclassified to profit or loss:			
Net change in securities available for sale	11	(32,884,126)	10,209,228
Adjustments for currency transaction		(2,957,963)	1,156,760
Total net comprehensive income of year		3,620,287	45,817,469
Total net comprehensive income for the year attributable to:			
Controlling interest		3,607,659	45,894,405
Non-controlling interest in subsidiary		12,628	(76,936)
Net comprehensive income of the year		3,620,287	45,817,469

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

Multibank, Inc. and Subsidiaries

Consolidated statement of changes in equity
For the year ended December 31, 2013
(In Balboas)

		Equity attributable to controlling interest				RESERVES									
	Notes	Common shares	Preferred shares	Adjustment of foreign currency translation	Paid - in Capital in excess	Regulatory reserve for foreclosed assets	Regulatory reserve of insurance	Regulatory reserve of capital	Revaluation on property	Total Reserve	Net change in securities available for sale	Retained earnings	Total equity attributable to controlling interest	Non-controlling interests	Total
Balance at December 31, 2011		122,656,755	59,977,500	406,153	(5,454,054)	632,224	21,981	-	-	(4,799,849)	(12,469,085)	50,547,366	216,318,840	-	216,318,840
Plus: comprehensive income consists of															
Net income of the year		-	-	-	-	-	-	-	-	-	-	34,528,417	34,528,417	(76,936)	34,451,481
Net change in securities available for sale	11	-	-	-	-	-	-	-	-	-	10,209,228	-	10,209,228	-	10,209,228
Adjustment for currency exchange		-	-	1,156,760	-	-	-	-	-	-	-	-	1,156,760	-	1,156,760
Total comprehensive income of the year		-	-	1,156,760	-	-	-	-	-	-	10,209,228	34,528,417	45,894,405	(76,936)	45,817,469
Issuance of common shares		4,390,344	-	-	-	-	-	-	-	-	-	-	4,390,344	1,275,000	5,665,344
Issuance of preferred shares		-	13,392,800	-	-	-	-	-	-	-	-	-	13,392,800	-	13,392,800
Dividends paid - common shares	24	-	-	-	-	-	-	-	-	-	-	(4,935,369)	(4,935,369)	-	(4,935,369)
Dividends paid - preferred shares	25	-	-	-	-	-	-	-	-	-	-	(4,890,361)	(4,890,361)	-	(4,890,361)
Complementary tax		-	-	-	-	-	-	-	-	-	-	(545,191)	(545,191)	-	(545,191)
Regulatory reserve for foreclosed assets		-	-	-	-	45,510	-	-	-	45,510	-	(45,510)	-	-	-
Adjustment of regulatory reserve of insurance		-	-	-	-	-	273,484	-	-	273,484	-	(273,484)	-	-	-
Adjustment of regulatory reserve of capital		-	-	-	-	-	-	211,598	-	211,598		(211,598)			
Adjustment of revaluation on property		-	-	-	-	-	-	-	72,696	72,696	-	-	72,696	-	72,696
Balance at December 31, 2012		127,047,099	73,370,300	1,562,913	(5,454,054)	677,734	295,465	211,598	72,696	(4,196,561)	(2,259,857)	74,174,270	269,698,164	1,198,064	270,896,228
Plus: comprehensive income consists of:															
Net income of the year		-	-	-	-	-	-	-	-	-	-	39,449,748	39,449,748	12,628	39,462,376
Net change in securities available for sale	11	-	-	-	-	-	-	-	-	-	(32,884,126)	-	(32,884,126)	-	(32,884,126)
Adjustment or currency traslation		-	-	(2,957,963)	-	-	-	-	-	-	-	-	(2,957,963)	-	(2,957,963)
Total comprehensive income of the year		-	-	(2,957,963)	-	-	-	-	-	-	(32,884,126)	39,449,748	3,607,659	12,628	3,620,287
Issuance of common shares	24	40,000,000	-	-	-	-	-	-	-	-	-	-	40,000,000	-	40,000,000
Issuance of preferred shares		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid - common shares	24	-	-	-	-	-	-	-	-	-	-	(5,558,749)	(5,558,749)	-	(5,558,749)
Dividends paid - preferred shares	25	-	-	-	-	-	-	-	-	-	-	(5,901,491)	(5,901,491)	-	(5,901,491)
Complementary tax		-	-	-	-	-	-	-	-	-	-	948,625	948,625	-	948,625
Adjustment of regulatory reserve for foreclosed assets		-	-	-	-	(265,086)	-	-	-	(265,086)	-	265,086	-	-	-
Adjustment of regulatory reserve of insurance		-	-	-	-	-	439,284	-	-	439,284	-	(377,523)	61,761	-	61,761
Adjustment of regulatory reserve of capital		-	-	-	-	-	-	186,929	-	186,929	-	(186,929)	-	-	-
Adjustment of revaluation on property		-	-	-	-	-	-	-	39,146	39,146	-	-	39,146	-	39,146
Balance at December 31, 2013		167,047,099	73,370,300	(1,395,050)	(5,454,054)	412,648	734,749	398,527	111,842	(3,796,288)	(35,143,983)	102,813,037	302,895,115	1,210,692	304,105,807

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

Consolidated statements of cash flows
For the year ended December 31, 2013
(In Balboas)

	Notes	2013	2012
Cash flows from operating activities:			
Net income of the year		39,462,376	34,451,481
Adjustments by:			
Allowance for loans losses	13	9,287,518	10,847,779
(Reversal) allowance for losses on foreclosed assets	17	6,210	(12,068)
(Gain) loss non realized on securities at fair value with changes in profit or loss	10	(117,425)	(379,049)
Depreciation and amortization	14	3,874,769	2,615,129
Income tax	30	7,677,933	4,745,865
Deferred income tax	30	799,682	(100,965)
Interest income		(161,205,867)	(130,120,152)
Interest expenses		65,553,035	57,050,682
Net changes in operating assets and liabilities:			
Deposit with more than 90 days		(4,069,539)	(3,559,761)
Increase in loans		(319,276,516)	(420,296,347)
Increase in other assets		(733,467)	(11,991,472)
Increase in due to deposits		229,810,896	314,329,655
Increase in other liabilities		9,907,000	12,359,021
Income tax paid		(1,073,990)	(1,296,532)
Purchases of securities at fair value with changes in profit or loss	10	(99,251,259)	(205,146,281)
Sales and redemptions on securities at fair value	10	103,505,940	203,319,674
Interest collected		156,535,219	129,164,570
Interest paid		(60,288,797)	(50,742,087)
Net cash provided by operating activities		(19,596,282)	(54,760,858)
Cash flows from investing activities:			
Purchases of securities purchased under resale agreements		(1,281,000)	-
Purchases of securities available for sale	11	(649,607,087)	(1,371,376,718)
Sales and redemptions on securities available for sale	11	488,843,622	1,365,186,390
Purchases of securities held to maturity	12	(21,000,000)	(925,664)
Redemption of securities held to maturity	12	22,620	-
Additions of fixed assets, net of disposals	14	(22,273,188)	(3,754,228)
Net cash used in investment activities		(205,295,033)	(10,870,220)
Cash flows from financing activities:			
Securities reacquired under repurchase agreements		53,970,894	(56,916,678)
Borrowed funds		182,117,430	163,673,758
Subordinate borrowed funds		(15,000,000)	15,000,000
Issuance of bonds payable		21,164,000	-
Redemption of bonds payable		-	(29,417,000)
Issuance of common shares		40,000,000	4,390,344
Issuance of preferred shares		-	13,392,800
Dividends paid on common shares	24	(5,558,749)	(4,935,369)
Dividends paid on preferred shares	25	(5,901,491)	(4,890,361)
Net cash provided by financing activities		270,792,084	100,297,494
Net increase in cash and cash equivalents		45,900,769	34,666,416
Cash and cash equivalents at beginning of year	8	250,240,704	215,574,288
Cash and cash equivalents at end of year	8	296,141,473	250,240,704
Transactions that did not guarantee the cash movement:			
Reclassification of securities available for sale to held to maturity	11,12	136,030,568	-

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

1. General Information

Multibank, Inc. (the Bank) is incorporated in Panama and started operations on July 12, 1990, under the general banking license issued by the Superintendency of Banks of Panama (the "Superintendency"), through Resolution No. 918 of March 28, 1990. The Bank's principal activity is to carry out banking businesses either in Panama or abroad.

Multibank, Inc.'s main office is located at Via España, Prosperidad Building, Office # 127, P.O. Box No. 0823-05627, Panama, Republic of Panama.

The Bank is a wholly-owned subsidiary of Multi Financial Group, Inc., incorporated under the laws of the Republic of Panama, by Deed No. 27,702 of November 9, 2007.

The Bank owns all of the issued and outstanding shares of the following subsidiaries:

- Hemisphere Bank Inc., Ltd. is a company incorporated under the laws of the Turks & Caicos Islands on June 29, 1993. The entity is dedicated to commercial banking business outside of the Turks & Caicos Islands.
- Gran Financiera, S. A. is a Panamanian company that began operations on January 16, 1969. Its main business is consumer lending.
- Multi Securities, Inc. is a Panamanian company that began operations in August 2004. Its main activities are to negotiate, execute and process the purchase and sale of securities, both domestically and internationally, and manage investment portfolios, among others.
- Multi Capital Company, Inc. is a company incorporated in Nevis Island, Charlestown and began operations on August 12, 1996. Its main activity is providing consultancy services abroad.
- Multi Trust, Inc. is a company incorporated on July 26, 2006 under the laws of the Republic of Panama. Its main activity is to promote, establish, administer and manage trusts and serve as trustee. It began operations on October 1, 2006. The Superintendency of Banks of Panama granted a trust license by Resolution No. 006-2006 of August 1, 2006.
- Macrofinanciera, S.A. is a commercial finance company, a corporation organized and existing under the laws of the Republic of Colombia, incorporated on September 30, 1968. The company is registered and supervised by the Superintendencia Financiera de Colombia by Resolution 3140 of September 24, 1993. Its main activity is to provide remittance services and financial intermediation.

- Multileasing Financiero, S.A. is a company incorporated under the laws of the Republic of Panama on May 16, 2009. Its main business activity is leasing property in all or any of its forms.

- Multibank Seguros, S.A., was incorporated under the laws of the Republic of Panama on July 2, 2010. Its main activity is the insurance business.

- Multi Facilities Holding Corporation and Subsidiary, its main activity is the management of collection and recovery of special loans and activities related to loans through its subsidiaries. The company is incorporated under the laws of British Virgin Islands on December 3, 2010. Multi Facilities Holding Corporation is a wholly-owned subsidiary of Multibank, Inc. and maintains equity participation of 75% in MB Crédito, S.A.

- MB Crédito, S.A. is a company incorporated under the laws of the Republic of Costa Rica on August 12, 2009. Its main business activity is to provide car financing.

- Multibank Factoring, Inc. is a company incorporated under the laws of the Republic of Panamá on October 25, 2011. Its main business activity is factoring.

- Multibank Cayman Inc. is a company incorporated under the laws of the Cayman Islands on September 17, 2012. Its main business activity is commercial bank outside the Cayman Islands, and began operated March 1, 2013.

- Orbis Real Estate, Inc. is a company incorporated under the laws of the Republic of Panamá on April 15, 2013 and became 100% part of the Bank on November 28, 2013. Its main business activity is real estate management.

Regulatory aspects

In the Republic of Panama, banks are regulated by the Superintendency of Banks through Executive Decree No. 52 of April 30, 2008, adopting the single text of Decree Law 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, and Resolutions and Agreements issued by that entity. Among the main aspects of this law are the following: approval of banking licenses, capital requirements and liquidity, consolidated supervision, procedures for managing credit risks and market for money laundering prevention, and intervention procedures and settlement bank, among others. Similarly, banks will be subject, at least, to an inspection every two (2) years by the auditors of the Superintendency of Banks, to determine compliance with the provisions of Executive Decree No. 52 of April 30, 2008 and Law No. 42 of October 2, 2000, the latter on the prevention of money laundering.

As of September 18, 2013, the Superintendency of Stock Market of Panama issued Agreement 8-2013, in which certain provisions were modified from Agreement 4-2011 of June 27, 2011 about capital adequacy, solvency ratio, capital funds, liquidity ratio and risk concentrations that must meet the brokerage houses regulated by the Superintendency of Securities and Exchange Panama.

Insurance operations

Insurance operations in Panama are regulated by the Superintendency of Insurance and Reinsurance of Panama, according to the laws established by Law No. 12 of April 3, 2012 "regulating the business of insurance activity and other provisions". It is established that the beginning date of IFRS implementation will be January 1, 2014. In case of conflict among one or more IFRS provisions with the provisions of the Law, such conflict will always be resolved according to the corresponding IFRS.

2. Adoption of International Financial Reporting Standards (IFRS's)

2.1 Standards and interpretations adopted during the period without impact in the consolidated financial statements

- *IFRS 10 - Consolidated Financial Statements*

  Replaced the parts of IAS 27 - *Consolidated and Separate Financial Statements* deal with consolidated financial statements. SIC 12, *Consolidation - Special Purposes* Entities, was removed when IFRS 10 was issued.

- *IFRS 11 - Joint Ventures*

  It replaces IAS 31 *Participation in Joint Ventures*. Under IFRS 11 joint arrangements are classified as joint operations or joint ventures, according to the rights and obligations of the parties in the agreements.

- *IFRS 12 - Disclosure of interests in Other Entities*

  It is a disclosure standard applying to entities that have interests in subsidiaries, joint arrangements, associates and/or non-controlling structured entities.

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

  The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section, so that the items of other comprehensive income are grouped into two categories: (a) items that are not subsequently reclassified to profit or loss, and (b) items subsequently reclassified to income when certain conditions are met.

- *Amendments to IFRS 7 - Disclosures – Offsetting Financial Assets and Liabilities*

  The amendments to IFRS 7 require entities to disclose information about the netting rights and related arrangements for financial instruments under the executable netting master agreement or similar agreement.

- *Amendment to IAS 19 Employee Benefits*

  The IAS 19 changes the previous accounting for defined plan benefits and termination benefits. The most important change relates to the accounting of the changes in the obligations of defined benefits and asset's plans.

2.2 New and reviewed IFRSs affecting disclosures in the consolidated financial statements

- *IFRS 13 - Fair Value Measurements*

  IFRS 13 establishes a unique source of orientation for the measurement of the fair value and disclosures of fair value.

  The standard defines the fair value, establishes the framework for measurement, and requires disclosures about measurement of fair value.

2.3 Standards and interpretations issued but not yet effective

- *IFRS 9 – Financial Instruments: Classification and Measurement*

  Issued on November 2009 and amended on October 2010, it introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  Additionally, during 2013 some amendments emerged for the accounting of financial liabilities.

The IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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

  The amendments to IFRS 10, provide the definition of an investment entity, such as certain investments funds and require that a reporting entity, maintaining subsidiaries that perform with the definition of an investment entity, they will measure their investment at fair value through profit or loss in their consolidated financial statements or separated.

  Subsequent amendments have been made to IFRS 12 and IAS 27 to introduce additional disclosure requirements for the investment entities.

  These amendments will be effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

- *Amendments to IAS 32 - Offsetting of financial assets and liabilities*

  The amendments to IAS 32, clarify related requirements with the offsetting of financial assets or liabilities.

  These amendments will be effective for annual periods beginning on or after January 1, 2014.

- *Amendments to IAS 39 Novation Derivatives and Continuation of Hedge Accounting*

  The amendments to IAS 39 indicate that there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided that it satisfied certain criteria.

  These amendments will be effective for annual periods beginning on or after January 1, 2014.

- *IFRIC 21 Levies*

  New interpretation that provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and those where the timing and amount of the levy is certain.

  These amendments will be effective for annual periods beginning on or after January 1, 2014.

The application of the new rules could affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

3. Most significant accounting policies

3.1 Basis of presentation

The consolidated financial statements have been prepared under the historical cost basis, except for registered securities at fair value with changes in the statement of profit and loss, securities available for sale, and derivative financial instruments, which are presented at fair value.

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS´s), as they have been modified by prudential regulations issued by the Superintendency for monitoring purposes. With respect to the Bank, the most significant change introduced by the prudential regulations that establish a different treatment to International Financial Reporting Standards relate to:

1. Measurement of impairment for possible loan losses - IAS 39.

2. Measurement of impairment for property acquired as compensation for outstanding credits - IFRS 5.

3. Classification and measurement of impairment of investment securities - IAS 39.

IAS 39 and IFRS 5 state that the reserve is established on the basis of losses incurred while the regulation requires the determination of the reserve for expected losses.

The accounting policies adopted by the Bank in compliance with the agreements issued by the Superintendency are described in Note 3 of these financial statements.

3.2 Principle of consolidation

The consolidated financial statements include the assets, liabilities, shareholder's equity and results of operations of Multibank, Inc. and Subsidiaries: Hemisphere Bank Inc. Ltd., Gran Financiera, S.A., Multi Securities, Inc., Multi Trust, Inc. ; Multi Capital Company, Inc., Macrofinanciera, S.A., Multileasing Financiero, S.A., Multibank Seguros, S.A., Multi Facilities Holding Corporation and Subsidiaries; Multibank Factoring Inc., and Multibank Cayman Inc.

Control is achieved when the Bank is exposed, or has the right to variable returns when it is involved with the subsidiary and has the power to influence in those returns. Subsidiaries are those entities in which the Bank directly or indirectly has more than 50% of the voting capital and/or exercises control.

Subsidiaries are consolidated from the date on which the Bank obtains control until the control ends. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss as of the effective date of acquisition or from the effective date of disposal, as appropriate.

All balances and transactions between the Bank and its subsidiaries have been eliminated in consolidation.

Non - controlling interests in subsidiaries are identified separately from the equity of the Bank. The interests of non-controlling shareholders can either be initially measured at fair value or at the proportion of non-controlling interests in fair value of identifiable net assets of the acquired party. The choice of measurement is based on an acquisition by acquisition. After the acquisition, the carrying value of non-controlling interest is the amount of those interests at initial recognition, plus non-controlling interest share of subsequent changes in equity. The total global income is attributed to non - controlling interests, even if this results in non-controlling interests having a deficit balance.

3.3 Changes in ownership interests of the Bank in existing subsidiaries

Changes in ownership interests in subsidiaries of the Bank, which do not result in loss of control, are accounted for within the equity. The carrying amount of the shares owned by the Bank and the non-controlling interests are adjusted to reflect changes in their relative share in the subsidiaries. Any difference between the amount by which the non-controlling adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the holding company.

When the Bank loses control of a subsidiary, a gain or loss is recognized, which is calculated as the difference between (i) the aggregate fair value of the consideration received and the fair value of the retained interest and (ii) the prior carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non-controlling interests. When assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss is recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had sold related assets directly (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified in the applicable standard). The fair value of any investment retained in the former subsidiary at the date when the control was lost, should be regarded as the fair value on initial recognition in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or, when appropriate, as the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3.4 Foreign currency

Functional and presentation currency

The items included in the consolidated financial statements for each entity of the Bank are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Balboas, the functional and presentation currency of the Bank.

The Balboa, the monetary unit of the Republic of Panama, is at par and freely exchangeable with the United States dollar of America. The Republic of Panama does not issue paper money and instead uses the U.S. dollar as legal tender.

Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Gains and losses resulting from the settlement of such transactions and from the translation at year-end assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Bank entities

The functional currency of the subsidiary MB Créditos, S.A. (Costa Rica), formerly (Multi Resuelve, S.A.) and Macrofinanciera, S. A. The results and financial position of the Bank´s entities that have a different functional currency from the presentation currency are translated into the presentation currency, as follows:

- Monetary assets and liabilities at the current exchange rate at year end.
- Income and expenses, at the average exchange rate.
- Capital accounts at the historical exchange rate.
- The resulting conversion adjustment is taken directly to a separate account in the "Shareholder's Equity", under the name of "Adjustment for foreign currency exchange".

3.5 Financial assets

Financial assets are classified into the following specific categories: securities at fair value with changes in income, securities available for sale, held-to-maturity investments, and loans. The classification depends on the nature and purpose of the financial asset and is determined at initial recognition.

Securities at fair value through profit or loss

Securities at fair value through profit or loss are financial assets held for trading. Financial assets at fair value through profit or loss are measured at fair value and any resulting gain or loss is recognized in the consolidated statement of profit and loss.

Securities available for sale

They consist of securities acquired with the intention of holding them for a period of indefinite duration, which can be sold in response to needs for liquidity or changes in interest rates or prices of equity instruments.

After initial recognition, investments available for sale are measured at fair value. For those cases which are not reliable estimates of fair value, investments are held at cost or amortized cost.

Gains or losses arising from changes in the fair value of securities available for sale are recognized directly in equity until they are discharged from financial assets or impairment is determined. At this time, the cumulative gain or loss, previously recognized in equity is recognized in consolidated statement of profit or loss.

Dividends on equity instruments available for sale are recognized in the consolidated statement of profit or loss when the entity's right to receive payment is established.

The fair value of an investment in securities is generally determined based on quoted market price at the date of the consolidated statement of financial position. If the quoted market price is not available, the fair value of the instrument is estimated using pricing models or technical calculations of discounted cash flows.

Financial assets held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank's management has the intention and ability to hold to maturity. If the Bank sold an amount that is significant (in relation to the total amount of investments held to maturity) of assets held to maturity, the entire category should be reclassified as available for sale. Assets held to maturity are recognized at amortized cost using the effective interest method less any impairment, with revenue recognized on a basis of effective rate.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except: (a) those that the entity attempts to sell immediately or at short term, which classified as trading, and those that the entity recognition means the initial fair value through profit or loss, (b) those that the entity on initial recognition designates as available for sale, or (c) those for which the holder does not recover all of its initial investment substantially, unless due to credit impairment.

Loans are recognized at amortized cost using the effective interest method less any impairment, with revenue recognized on a basis of effective rate.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired, or when the Bank has transferred financial assets and substantially all risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the assets and liabilities related to the amounts that it would have to pay. If the Bank retains substantially all risks and rewards of ownership of financial assets transferred, the Bank continues to recognize the financial asset and a liability secured by the amount received.

Transfers between categories

The Bank reviews at each reporting period the classification of all investments and assesses whether there is any change in intention or ability to keep at the same category.

If due to a change in intention or ability of a financial asset or need to recognize a financial liability at cost or amortized cost , rather than its fair value, the carrying amount of the fair value of the financial asset or liability in that date becomes its new cost or amortized cost, as applicable. Any result from that asset that has been recognized in other comprehensive income shall be accounted for as follows:

- In the case of a financial asset with a fixed maturity , the gain or loss is will record to gains or losses for the period over the remaining life of the investment held to maturity, using the effective interest method . Any difference between the new amortized cost and maturity amount is amortized also over the remaining life of the financial asset using the method effective interest rate, similar to the amortization of a premium or a discount. If the financial asset is subsequently impaired, any gain or loss that had been recognized in other comprehensive income is reclassified from consolidated equity to profit or loss.

- In the case of a financial asset that does not have a fixed maturity, where the active finance available, the unrealized gain or loss is recognized in the gains or losses for the year. If the financial asset suffer thereafter an impaired, any gain or loss upon that has been recognized in other comprehensive income shall be reclassified from equity to the consolidated statement of gains or losses for the year.

3.6 *Financial liabilities and equity instruments issued by the Bank*

Classification as debt or equity

The debt and equity instruments are classified as financial liabilities or equity in accordance with the contractual arrangements.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issuance costs.

Liabilities of financial guarantee contracts

Financial guarantees are considered contracts whereby an entity undertakes to make specific payments on behalf of a third party in the event the latter does not do it, regardless of how this obligation is implemented whether by bond, financial guarantee or technically documented credit irrevocably issued or confirmed by the entity, insurance and credit derivative.

Financial guarantees, regardless of its holder, instrumentation and other circumstances, are reviewed periodically to determine the credit risk they are exposed to and, where appropriate, to consider a provision is required by them, which is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments measured at amortized cost as detailed in the note of impairment of financial assets.

Financial guarantees are initially recognized in the financial statements at fair value at the date on which the security was issued. Subsequent to initial recognition, bank liabilities under such guarantees are measured at the higher of the initial recognition, less amortization calculated to recognize in the consolidated statement of profit or loss of income from fees earned on the straight-line basis over the life of recognition and best estimate of expenditure required to settle any financial obligation arising in the consolidated statement of financial position date. These estimates are determined based on the experience of similar transactions and history of past losses, supplemented by the judgment of management.

Financial liabilities

Financial liabilities are classified as financial liabilities through changes in profit or loss and other financial liabilities.

Other financial liabilities

Other financial liabilities, including debts, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on the basis of effective rate.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are settled, canceled or expired.

3.7 Derivative financial instruments

The Bank holds derivative financial instruments to manage its exposure to interest rate risks. Derivatives are recognized at fair value at the time agreed upon and recovered at the end of the reporting period. The resulting gain or loss is recognized in the consolidated statement of profit or loss except in those cases where the derivative is designated as a hedging instrument and effectively fulfills its purpose. Recognition of the gain or loss is recognized in the consolidated statement of profit and loss based on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in financial instruments are treated as separate derivatives when their risks and characteristics are not closely related. The instruments invested in the portfolio and the default options are closely related to the direction of interest rates.

3.8 Hedge operations

The Bank uses financial derivatives to manage the risks of the positions of its assets and liabilities ("hedging derivatives"), in order to benefit from the negative changes they experience with cash flows or market value.

For a financial derivative to be considered a hedging derivative under the fair value method, it must necessarily:

- Cover the risk of changes in fair value of cash flows related to interest rate and/or exchange rate that the position or balance to be covered is subject to.

- Effectively eliminate any risk associated with the hedged item or position during the entire prescribed period of coverage, which implies that:

  - At the time of contracting the hedge it is expected, that under normal conditions, this act with a high degree of effectiveness ("prospective effectiveness").

  - There is sufficient evidence that the hedge was very effective during the lifetime of the item or hedged position ("retrospective effectiveness").

- Documenting well the recruitment of a financial derivative that was held specifically to provide coverage of certain balances or transactions and how they thought to achieve and measure the coverage, provided that this is consistent with the management of own risks carried out by the Bank.

Differences arising on both the hedged items in the items covered (as regards to the type of risk covered) are recognized directly in the consolidated statement of profit or loss.

The coverage used by the bank is a fair value hedge. The fair value hedges consist of the following:

Fair value hedges

Changes is fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of profit or loss, together with any changes in fair value of the hedged asset or liability. The result is not included as hedge ineffectiveness.

3.9 Income and interest expense

Income and interest expense are recognized in the consolidated statement of profit or loss under the effective interest method for all financial instruments that generate interest.

The method of effective interest rate is the method used to calculate the amortized cost of an asset or financial liability and to distribute income or interest expense over a period of time. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of a financial instrument or, when appropriate in a shorter period, at their carrying value. When calculating the effective interest rate, we estimate the cash flows considering the contractual terms of a financial instrument, however, we do not consider future losses on loans.

3.10 Commission income

Generally, commissions on short-term loans, letters of credit and other banking services are recognized as income when collected for being short-term transactions. The revenue recognized at the time of recovery is not significantly different from that recognized under the accrual method or accrual. Commissions on loans and other transactions in the medium and long term, net of certain direct costs of providing them, are deferred and amortized over the life of the same.

3.11 Income and expenses for insurance operations

Income and expenses for insurance operations are recorded as follows:

- Premiums are recognized in the year in which the insurance policy is issued. The premium income for the contracted period provided in the policy is recognized at the time of initiation of coverage regardless of the premium payment status. Coverage begins with the acceptance of the insurance applications of the client and with the payment of the premium, which may be paid, in installments or deferred payments when paid in a single premium.

- Expenses for reinsurance and commissions, plus other income and expenses related to the issuance of the policy, are recognized at the same time as income from premiums.

3.12 Impairment of financial assets

Loans

The reserve is reported net of loans receivable in the consolidated statement of financial position. When a loan is determined as uncollectible, the recoverable amount is charged to the said reserve account. Recoveries of loans previously written off as uncollectible are credited to the reserve account.

The Superintendency of Banks requires that the financial information submitted by the banks in Panama, including annual and interim consolidated financial statements, must include the accounting recognition and reporting of reserves for loan losses based on prudential rules for the creation of such reserves issued by the regulator. Based on the rules of the regulator, Agreement 6-2000 issued by the Superintendency, the Bank classifies loans into five categories of risk and determines the minimum amounts of reserves for losses on the capital balance as follows:

Loans Categories	**Minimum percentages**
Normal	0%
Special Mention	2%
Subnormal	15%
Doubtful	50%
Unrecoverable	100%

For this purpose, criteria are used for the classification, such as the quality of the loan and default parameters to service debt, among others. The criterion for periods of default is used mainly to classify consumer loans and housing, but is also considered in the classification of corporate loans.

Additionally, no later than 90 days, the Bank must adjust the previous classification of loans and provide new specific provisions, if applicable, based on estimated losses and:

Loans Categories	Minimum percentages
Special Mention	2% up to 14.9%
Subnormal	15% up to 49.9%
Doubtful	50% up to 99.9%
Unrecoverable	100%

In calculating the estimated losses, the Bank considers, among others, the debtor's financial statements, cash flow from operations, net realizable value of collateral, and any other flow it could get by the co-debtors or guarantors. For the consumer portfolio, the default of the debtor is considered, the losses that the Bank has historically experienced in the past for comparable or similar groups, the maturity profile of the portfolio, and any other information that might affect the recovery of the portfolio consumption.

In addition, Agreement 6-2000 enables generic creation of reserves for loan losses as a temporary solution when it is aware of the impairment in the value of a group of loans with common characteristics defined and which could not be attributed to individual loans.

Banks are required to maintain at all times a total reserve for loan losses of not less than 1% of its total loan portfolio less the deposit guarantees at the bank. This global reserve should not be less than the sum of specific and generic reserves.

The Superintendency of Banks may assess the adequacy of reserves and order to the Bank to create a reserve at any time.

Assets classified as available for sale

As of the date of the consolidated statement of financial position, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets are impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in fair value of financial asset is below its amortized cost is taken into account in determining whether assets are impaired. If such evidence exists for financial assets available for sale, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on financial assets previously recognized in profit or loss, removed from equity and recognized in the consolidated statement of profit or loss.

Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the loss impairment is reversed through the consolidated statement of profit or loss.

For financial assets presented at amortized cost, the amount recognized as an impairment loss is the difference between the asset´s carrying value and the present value of future cash flows discounted at the financial asset´s original interest effective rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the balance of the financial asset and the present value of future cash flows discounted at the current market rate. This loss should not be reversed in subsequent periods.

Investment securities held to maturity

As of the date of the consolidated statement of financial position is assessed whether there is objective evidence that a financial asset or group of financial assets is impaired. The Bank determines the impairment of investments securities held to maturity based on Agreement 7-2000, considering the following aspects:

- The fair value is taken significantly less than the amortized cost.

- Decline in value for a reasonably long period of time.

- The issuer of the securities suffers a noticeable and recurrent deterioration in its economic solvency or there is a high probability of bankruptcy.

- That more than ninety days have elapsed from the expiration of all or part of principal, interest, or both, taking into account the amount reasonably deemed difficult to recover, net of collateral or the time elapsed since the expiration as follows: more than 90 days to less than 180 days, 25%; more than 180 days to less than 270 days, 50%; over 270 days to less than 360 days, 75% and more than 360 days, 100%.

- Investments in securities that do not have reliable prices and are not traded in an active organized market.

- The occurrence of a significant impairment in the foreign exchange risk, or significant impairment of country risk, or investment banking centers that lack prudential regulations in line with international standards and have not been adequately covered.

The estimated impairment losses are recognized from the results of operations in the statement of profit or loss and the accumulated reserve is presented in the consolidated statement of financial position deducted from investment securities held to maturity. When there is derecognition in investment securities, the amount written off is charged to the reserve account.

3.13 Finance leasing receivables

Finance leases receivable consist mainly of the leasing of vehicles, machinery and equipment, whose contracts have a maturity period of thirty-six (36) to sixty (60) months.

Leases receivable are recorded under the financial method, which are classified as part of the loan portfolio, at the present value of the contract. The difference between the lease receivables and the cost of the leased asset is recorded as unearned interest and amortized to income accounts during the period of the lease under the interest method.

3.14 Property, furniture, equipment and improvements

Property, furniture, equipment and improvements are carried at cost, net of depreciation and amortization. Significant improvements are capitalized, while minor repairs and maintenance that extend life or improve the asset are charged directly to expense as incurred.

Depreciation and amortization are charged to current operations and are calculated using the straight-line method based on estimated useful life of assets:

Property	40 years
Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Vehicles	3 - 7 years
Leasehold improvements	5 - 10 years

Assets subject to depreciation and amortization are reviewed for impairment as long as the changes in circumstances indicate that the carrying amount is not recoverable. The book value of assets is immediately reduced to recoverable amount, which is the higher of the asset at fair value less cost and value in use.

The subsidiary, Macrofinanciera S.A., applies the revaluation method for its real estate which do not represent significant balances.

3.15 Foreclosed assets for sale

Foreclosed assets for sale are stated at the lower of the amount of the quick sale value according to an appraisal, net of estimated costs to sell the property, or canceled credit balance, whichever is smaller of the two.

The Bank uses the reserve for losses for any significant impairment affecting foreclosed assets. The provision for impairment is recognized in the consolidated statement of profit or loss and accumulated loss reserve presents reduced the carrying value of foreclosed assets.

For regulatory purposes, the Bank set the deadline at five (5) years, counted from the date of registration in the Public Register, to dispose of real estate acquired in settlement of unpaid loans. If after this period the Bank has not sold the property, it must make an independent appraisal of the same to establish whether this has declined in value, applying the IFRS´s provisions in this case.

Likewise, the Bank should create a reserve in the equity account, through the appropriation in the following order: a) its retained earnings, b) earnings of period, which the following charges will be made in the value of the awarded:

- First year: 10%
- Second year: 20%
- Third year: 35%
- Fourth year: 15%
- Fifth year: 10%

The aforementioned reserves will remain until the transfer of the purchase goods is made effective and, such reserve will not be considered as regulatory reserves for purposes of computing the equity index.

3.16 Goodwill

At the time of an acquisition, goodwill is calculated as the excess of cost of acquisition on the estimated value of net assets identified. The goodwill is not amortized. Instead, it is reviewed annually to determine if there are indications of impairment of its carrying value. If such indications exist, the difference between the carrying value of goodwill and the recoverable amount is recognized in the income of the period. Goodwill is stated at cost less accumulated impairment losses, if any. Gains or losses on the disposal of an entity include the carrying value of goodwill of the entity sold. Goodwill is allocated to cash generating units for purposes of assessing impairment.

3.17 Insurance and reinsurance contracts

Insurance contracts are those contracts in which the subsidiary Multibank Seguros, S.A., has accepted a significant insurance risk from another part (the insured) agreeing to compensate the insured or other beneficiary when an uncertain future event (the insured event) adversely affects the beneficiary. As a general rule, the group determines whether the contract is significant risk insurance by comparing the benefits paid to the benefits to be paid if the insured event does not occur. An insurance contract may also transfer financial risk. Insurance contracts are held for the remainder of its duration, regardless of whether insurance risk fall significantly until all risk and obligations are extinguished or expire. In the normal course of business, Multibank Seguros, S.A., has contracted insurance agreements with reinsurers, for car and group life insurance.

The ceded reinsurance payable in the portion of premiums generated by risk-sharing is a way of spreading risk and this participation is agreed to in reinsurance contracts;

however, the reinsurance contracts do not relieve the Bank of obligation, while maintaining accountability to the insured, policy holders or beneficiaries.

Reinsurance receivable represents amounts receivable from reinsurance arising from claims incurred, in which Multibank Seguros, S.A., assumes responsibilities for compensation for the insured and accepted reinsurance for other insurers. The amounts expected to be recovered from reinsurance are recognized in accordance with the clauses in the contracts signed by both parts.

Gains and losses on reinsurance contracts are recognized in the consolidated statement of profit or loss immediately at the time of contracting and are not amortized.

3.18 Impairment of the value of non-financial assets

On the date of each consolidated statement of financial position, the Bank reviews the carrying amounts of non-financial assets to determine whether there is evidence that those assets have suffered an impairment loss in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss in value (if any). If the asset does not generate cash flows for itself that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is subjected to an impairment test once a year, or when there are indicators of impairment.

The recoverable amount is the higher of fair value less sale costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax that reflects current market assessments with respect to the time value of money and the specific risks of the asset to which estimated future cash flows have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Immediately an impairment loss is recognized as expense.

When an impairment loss subsequently reverse, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss would not have been recognized for the asset (cash-generating unit) in prior years. Immediately a reversal of an impairment loss is recognized as revenue.

At December 31, 2013, Management has not identified impairment of the non-financial assets.

3.19 Securities sold under repurchase agreements

Securities sold subject to repurchase agreements are short-term financing transactions secured with guarantees, in which the Bank has the obligation to repurchase securities sold at a future date and at a given period. The difference between the sale price and future purchase value is recognized as interest expense under the effective interest method.

3.20 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Subsequently, financings are stated at amortized cost; any difference between the net of transaction costs and the redemption value is recognized in the consolidated statement of profit or loss during the financing period, using the effective interest method.

3.21 Preferred shares

The Bank classifies preferred shares as part of its equity, because it has total discretion in their redemption and dividend declaration. Payment of dividends is deducted from retained earnings.

3.22 Employee benefits

Panamanian labor law requires employers to establish a Severance Fund to guarantee payment to workers of seniority premiums and compensation to which they may be entitled in the event that the employment relationship is terminated for unfair dismissal or resignation. For the establishment of the fund, the quota share premium of the worker's seniority must be listed quarterly based on 1.92% of wages paid in the Republic of Panama and 5% of the monthly quota share of the indemnity. Quarterly contributions must be deposited in a trust. Such contributions are recognized as an expense in the results of operations. The Severance Fund is held in a private trust fund administered by a separate entity from the Bank and its subsidiaries.

3.23 Income tax

The current income tax refers to the estimated tax payable on taxable income of the year, using the rate prevailing at the date of the consolidated statement of financial position.

Deferred tax is calculated based on the liability method, considering the temporary differences between the carrying values of assets and liabilities reported for financial purposes and the amounts used for tax purposes. The amount of deferred tax is based on the form the assets and liabilities are realized, using the income tax rate effective on the date of the consolidated statement of financial position.

3.24 Trust operations

Assets held in trusts or in relation to trustees are not considered part of the Bank, and therefore, such assets and related income are not included in the consolidated financial statements. The commission income generated in the management of trusts is recorded according to the accrual method.

3.25 Cash equivalents

For purposes of the consolidated statement of cash flows, the Bank considers cash and cash equivalents, cash and demand and time deposits with banks, with original maturities of three months or less.

3.26 Segment information

A business segment is a component of the Bank, whose operating results are regularly reviewed by the General Manager to make decisions about resources to be allocated to the segment and therefore to evaluate its performance, and for which financial information is available for this purpose.

3.27 Comparative information

Some figures for 2012 were reclassified to conform the 2013 presentation of the consolidated financial statements.

4. Financial risk management

4.1 Objectives of financial risk management

To mitigate the potential losses to which the Bank is exposed to as an actor in the financial industry through a comprehensive preventive management approach that maximizes the risk return and optimizes the allocation of economic capital.

To meet this objective, the Bank has an Integrated Risk Management System (IRMS) unit whose bases are supported with policies and procedures that limit the performance of each of the eleven (11) types of risks in the industry. Additionally, the system has provided an organizational structure with material and financial resources with a direct reporting line to the Board of Directors through the Risk Committee.

The Risk Committee, composed of independent directors and executives of the Bank, has among its main responsibilities:

- To approve strategies to take risks, ensuring that they represent an appropriate risk-return ratio and optimize the use of the Bank's economic capital.

- To approve the maximum allowable exposure limits, reflecting the Bank's risk appetite.

- To approve the policy and management framework of all the risks of the Bank.

- To analyze the bank's exposure to various hazards and the interrelation of these and suggest mitigation strategies when these are required.

- To report to the Board of Directors on the performance of the Bank's risks.

The Bank has identified fourth basic principles for Risk Management, as detailed below:

- The management approach must be comprehensive, incorporating all risks and all operations of the bank and its subsidiaries.
- The management of individual risks must be uniform.
- The framework for risk management should be based on international best practices and should incorporate lessons learned.
- The function of the unit risks should be independent of the business.

Additionally, the Bank is subject to the regulations of its Superintendency and the Superintendency of stock Market of Panama, with regard to risk concentrations, liquidity and capitalization, among others.

The main risks identified by the Bank are credit risk, liquidity, market and operational risks, which are described below:

4.2 Credit risk

Credit risk represents the possibility that the counterparty to a commercial transaction does not comply with the terms originally agreed upon with the Bank. To take this risk, the Bank has a management framework whose main components include:

- The risk analysis or pre-approval is carried out independently of the business, its objectives, and identify, evaluate and quantify the risk of the proposals are to determine the impact they have on the Bank's portfolio and ensure that the price of the proposed operations cover the cost of risk assumed.
- A control area, responsible for validating that the proposals are framed within the Bank's policies and limits, to obtain the required approval by the level of risk assumed and comply with the conditions agreed in the approval, at the time of settlement operation.
- The approval process is carried out within the Credit Committees considering different levels.

- A portfolio management process focuses on monitoring trends of this risk at the Bank in order to anticipate any sign of impairment in the portfolio proactively.

- Monitoring of the members of the Board of Directors through its participation in various committees of Credit Portfolio Quality, Policy and Risk Assessment (ERCP) and Asset and Liability Committee (ALCO).

Formulation of Credit Policies:

Credit policies are issued or revised by the Credit Risk and Consumer Business Management, bearing in mind at all times:

- Changes in market conditions.
- Risk factors.
- Changes in laws and regulations.
- Changes in financial conditions and credit availability.
- Other factors relevant at the time.

All changes in policies or new policies, approved by the Integral Management Committee Risk and ratified by the Board of Directors are published in the internal channels designed to be accessible to all templates of the Bank, its disclosure and implementation.

Establishing Authorization Limits:

The limits of loan approval are set depending on the representativeness of each amount in the Bank´s Capital. These levels are presented to the Integral Management Risk Committee (IMRC) and approved by the Board of Directors.

Exposure limits:

To limit exposure, maximum limits have been defined for an individual debtor or economic group based on capital funds of the Bank.

Concentration limits:

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and the strategic orientation desired for the credit portfolio.

Similarly, the Bank has limited its exposure in various places across the country risk policy, in which countries have been identified in which the Bank wants to have exposure based on its strategic plan; in turn credit exposure limits and investment have been implemented in these countries, based on the credit rating of each and the approved risk appetite.

Review of Compliance of Policies:

Each business unit is responsible for the quality and performance of loans in their portfolios as well as for the control and monitoring of risks. However, through the Portfolio Quality Department, which is independent of business areas, the financial condition of the debtor and their ability to pay is periodically assessed, giving primary importance to higher individual debtors. The rest of the credits that are not individually significant, are followed by default ranges presented in their contributions, and to the particular characteristics of these portfolios.

Below is the result of the estimation of the impairment loss using the methods explained in the preceding paragraphs.

2013

	Loans	Reserve	Net Loans	Guarantee
Analysis of individual impairment - individual:				
Special mention	82,794,535	1,028,469	81,766,066	50,323,865
Subnormal	16,485,535	1,545,238	14,940,297	14,483,385
Doubtful	14,266,498	4,329,650	9,936,848	8,230,385
Unrecoverable	9,292,082	7,127,251	2,164,831	5,157,025
Gross amount	122,838,650	14,030,608	108,808,042	78,194,660
Analysis of impairment collective:				
Normal	2,014,112,016	-	2,014,112,016	1,248,153,510
	2,136,950,666	14,030,608	2,122,920,058	1,326,348,170
Less: Global reserve	-	20,914,963	(20,914,963)	-
Generic reserve	-	-	-	-
Interest and discounted commissions not earned	-	-	(10,889,237)	-
Total	2,136,950,666	34,945,571	2,091,115,858	1,326,348,170

2012

	Loans	Reserve	Net Loans	Guarantee
Analysis of individual impairment - individual:				
Special mention	31,962,088	338,962	31,623,126	43,861,696
Subnormal	6,454,452	1,396,251	5,058,201	5,701,041
Doubtful	15,265,622	6,000,802	9,264,820	3,709,120
Unrecoverable	4,001,559	1,918,630	2,082,929	3,629,000
Gross amount	57,683,721	9,654,645	48,029,076	56,900,857
Analysis of impairment collective:				
Normal	1,762,053,512	-	1,762,053,512	1,192,118,081
	1,819,737,233	9,654,645	1,810,082,588	1,249,018,938
Less: Global reserve	-	17,620,535	(17,620,535)	-
Generic reserve	-	4,236,091	(4,236,091)	-
Interest and discounted commissions not earned	-	-	(7,099,102)	-
Total	1,819,737,233	31,511,271	1,781,126,860	1,249,018,938

In the above table the factors of greatest risk exposure and information on impaired assets have been detailed, and assumptions used for these disclosures are as follows:

- *Impaired loans* - loan impairment is determined by considering the amount of principal and interest based on contractual terms.

- *Renegotiated loans* - loans renegotiated are those to which a restructuring has been made due to impairment in the debtor's financial condition, and where the Bank considers granting a change in the credit parameters. These loans once they are restructured remain in this category, regardless of the debtor to produce any improvement in their condition, after restructuring by the Bank.

- *Reserves for impairment* - reserves have been established for impairment, which represent an estimate of the losses in the loan portfolio. The main components of this reserve are related to individual risks, and the reserve for loan losses established collectively considering a homogeneous group of assets over losses incurred, but have not been identified in loans subject to individual assessment for impairment.

- *Write-off policy* - Loans are charged to losses when they are determined as bad loans. This determination is made after considering a number of factors including: the inability to pay the debtor, if the security is insufficient or is not properly constituted, or is established that all the resources were exhausted for the recovery of credit in the debt collection made.

The Bank holds collateral on loans to customers for mortgages on properties and other guarantees. The fair value estimates are based on the value of the collateral according to the loan period and are generally not updated unless the credit is impairing on an individual basis.

To manage credit risk exposures of the investment portfolio, the Bank uses rating grade assigned by external rating agencies, as detailed below:

Grade rating	*External rating*
Investment grade	AAA, AA+, AA-, A+, A-, BBB+, BBB, BBB-
Standard Monitoring	B+, BB, BB-, B+,B, B-
Special Monitoring	CCC to C
Unrated	-

The following table shows the composition of the Bank's investments that are exposed to credit risk and its corresponding evaluation in accordance with their grade level :

2013	**Securities purchased under resale agreements**	**Securities at fair value with changes in Profit or loss**	**Securities available for sale**	**Securities held to maturity**	**Total**
Investment grade	-	-	352,042,630	136,049,966	488,092,596
Standard monitoring	-	-	32,639,946	-	32,639,946
Unrated	1,281,000	-	29,580,384	24,120,847	54,982,231
Total	1,281,000	-	414,262,960	160,170,813	575,714,773
2012					
Investment grade	-	3,935,281	354,084,450	3,162,865	361,182,596
Standard monitoring	-	201,975	39,048,262	-	39,250,237
Unrated	-	-	29,281,477	-	29,281,477
Total	-	4,137,256	422,414,189	3,162,865	429,714,310

The Bank monitors credit risk concentrations by sector and geographic location. The analysis of the concentration of credit risk from the date of the consolidated financial statements is as follows:

	Loans		Investments	
	2013	**2012**	**2013**	**2012**
Concentration by sector:				
Corporate	1,342,894,846	1,178,326,221	226,632,475	115,637,310
Consumer	748,221,012	602,800,639	-	-
Government	-	-	349,082,298	314,077,000
	2,091,115,858	1,781,126,860	575,714,773	429,714,310
Geographic concentration:				
Panama	1,473,607,043	1,297,899,648	147,409,332	127,673,703
Latin American and Caribbean	587,716,986	465,990,101	183,580,828	125,307,765
United States of America	17,112,882	10,433,437	227,278,790	155,426,992
Others	12,678,947	6,803,674	17,445,823	21,305,850
	2,091,115,858	1,781,126,860	575,714,773	429,714,310

The geographical concentration of loans is based on the location of the debtor, in the case of investments; the geographic is based on the location of the issuer of the investment.

4.3 Liquidity or Market risk

Liquidity and market risk are the risks of loss arising from adverse movements in commodity prices in financial markets where positions are maintained in relation to the operations of the trading book. It comprises mainly the price risk, interest rate and exchange rate. The objective of market risk management is to monitor risk exposures and that they are kept within acceptable parameters, to optimize the risk return.

The risk management policies provide for the implementation of price limits, according to the corporate risk appetite and market conditions, by type of financial instrument, geographical concentration, issuer, credit rating and overall limit losses, from which the closure of the positions that could cause some loss is required; and the requirement that, except by approval of the Board of Directors, substantially all the assets and liabilities be denominated in United States Dollars or in Balboas, except for the subsidiaries Macrofinanciera, S.A. and MB Créditos, S. A. formerly (Multi Resuelve, S.A.)

The price risk is controlled through monitoring and vigilance of the investment portfolio, ensuring that it remains within acceptable parameters that maximize the return of risk.

The parameters and overall exposure limits on financial assets are set out in the price risk policy and are approved by the Board of Directors of the Bank; the same take into account the consolidated statement of financial position, investment portfolio and assets that compose it.

The Assets and Liabilities Committee periodically reviews the exposure to interest rate risk.

- *Risk of cash flow interest rate and of fair value* – The risk of cash flow interest rate and fair value interest rate risk are the risks that future cash flows and the value of a financial instrument will fluctuate due to changes in market interest rates.

The interest swaps (interest rate swaps) that involve the exchange of fixed rate for floating are designated as fair value hedges in respect of interest rates. As at December 31, 2013, the coverage was highly effective in covering the fair value exposure to interest rate movements and as a result the financial assets were adjusted (B/.894,447) (December 2012: B/2,583,907) in results while the fair value of interest rate swaps were included in profit or loss of B/.66,084 (December 2012: B/.100,177).

The table below summarizes the Bank´s exposures to interest rate risk. The Bank's assets and liabilities are included in the table at their carrying amount, categorized by the earlier of the new contractual rate setting or maturity dates.

2013	Up to 3 months	From 3 to 1 year	From 1 to 3 years	3 to 5 years	More of 5 years	Without interest rate	Total
Financial assets:							
Cash and cash effects	-	-	-	-	-	27,952,862	27,952,862
Due from banks	277,943,150	-	-	-	-	-	277,943,150
Securities bought under resale agreement	1,281,000	-	-	-	-	-	1,281,000
Securities available for sale	95,411,069	46,359,346	39,436,374	55,195,081	172,028,803	5,832,287	414,262,960
Securities held to maturity	-	-	5,529,255	10,858,612	143,782,946	-	160,170,813
Loans, net	1,449,674,647	123,629,482	62,791,433	64,692,258	382,588,732	7,739,306	2,091,115,858
Total financial assets	1,824,309,866	169,988,828	107,757,062	130,745,951	698,400,481	41,524,455	2,972,726,643
Financial liabilities:							
At sight deposit	-	-	-	-	-	498,836,283	498,836,283
Savings accounts	287,857,517	-	-	-	-	-	287,857,517
Time deposit	303,359,160	411,124,761	405,910,759	101,545,576	1,050,059	-	1,222,990,315
Securities sold under repurchase agreements	90,078,000	-	-	-	-	-	90,078,000
Borrowed funds	102,980,904	234,874,798	74,344,666	99,943,760	25,000,000	-	537,144,128
Bonds payable	-	-	38,614,000	3,670,000	-	-	42,284,000
Total financial liabilities	784,275,581	645,999,559	518,869,425	205,159,336	26,050,059	498,836,283	2,679,190,243
Total interest rate sensitive	1,040,034,285	(476,010,731)	(411,112,363)	(74,413,385)	672,350,422	(457,311,828)	293,536,400

2012	Up to 3 months	From 3 to 1 year	From 1 to 3 years	3 to 5 years	More of 5 years	Without interest rate	Total
Financial assets:							
Cash and cash effects	-	-	-	-	-	35,691,783	35,691,783
Due from banks	127,059,955	3,367,300	-	-	-	89,806,666	220,233,921
Securities at fair value with changes in profit or loss	-	-	-	-	4,137,256	-	4,137,256
Securities available for sale	96,083,671	17,512,277	83,800,943	11,216,368	212,614,628	1,186,302	422,414,189
Securities held to maturity	1,380,294	1,781,577	474	520	-	-	3,162,865
Loans, net	1,120,798,487	113,099,494	75,810,337	55,436,914	411,688,607	4,293,021	1,781,126,860
Total financial assets	1,345,322,407	135,760,648	159,611,754	66,653,802	628,440,491	130,977,772	2,466,766,874
Financial liabilities:							
At sight deposit	-	-	-	-	-	461,830,110	461,830,110
Savings accounts	225,559,846	-	-	-	-	-	225,559,846
Time deposit	317,265,587	369,454,516	296,045,763	98,121,745	11,596,652	-	1,092,484,263
Securities sold under repurchase agreements	26,250,720	6,351,942	3,504,444	-	-	-	36,107,106
Borrowed funds	131,466,220	145,886,223	57,744,555	19,929,700	-	-	355,026,698
Subordinated borrowed funds	-	-	-	-	15,000,000	-	15,000,000
Bonds payable	-	14,663,000	-	6,457,000	-	-	21,120,000
Total financial liabilities	700,542,373	536,355,681	357,294,762	124,508,445	26,596,652	461,830,110	2,207,128,023
Total interest rate sensitive	644,780,034	(400,595,033)	(197,683,008)	(57,854,643)	601,843,839	(330,852,338)	259,638,851

The Bank's Management, in order to assess the risks of interest rate and its impact on the fair value of financial assets and liabilities, based on the General Resolution 2-2000 of the Superintendency, performs simulations to determine the sensitivity of assets and liabilities financial statements.

The base analysis conducted monthly by Management is to determine the impact on financial assets and liabilities caused by increases or decreases of 100 and 200 basis points in interest rates. The following summarizes the impact:

2013	100pb of increases	100pb of decreases	200pb of increases	200pb of decreases
December 31	361,093	(361,093)	722,187	(722,187)
Period average	120,364	(120,364)	240,729	(240,729)
Period maximum	1,141,854	(1,141,854)	2,283,708	(2,283,708)
Year minimum	(619,100)	619,100	(1,238,200)	1,238,200

2012	100pb of increases	100pb of decreases	200pb of increases	200pb of dicreases
December 31	(312,223)	312,223	(624,445)	624,445
Period average	(104,074)	104,074	(208,148)	208,148
Period maximum	632,951	(632,951)	1,265,902	(1,265,902)
Year minimum	(685,012)	685,012	(1,370,024)	1,370,024

Liquidity Risk is defined as the possibility of economic loss due to the difficulty to liquidate assets or obtain funding under normal conditions.

The global liquidity risk is managed by the Bank Asset and Liability Committee (ALCO), process derived from the guidelines approved by the Committee for Comprehensive Management of Risk Board and ratified, this committee is responsible for ensuring that levels remain minimum liquidity provided by the entity to meet the requirements of its operations with its commitments and regulations.

The liquidity risk caused by the mismatch between assets and liabilities are measured using the liquidity gap analysis. In this analysis simulations and stress scenarios based on the difficulties the cause a lack of liquidity, such as unexpected withdrawals of funds from creditors or customers, deteriorating quality of loan portfolio, the volatility of the fund raised, etc.

The following table summarizes the Bank's assets and liabilities grouped by remaining maturity with respect to the contractual maturity date:

	2013						
	Up to 3 months	3 month to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Without maturity	Total
Financial asset:							
Cash and cash effects	27,952,862	-	-	-	-	-	27,952,862
Due from banks	268,188,611	9,754,539	-	-	-	-	277,943,150
Securities bought under resale agreement	1,281,000	-	-	-	-	-	1,281,000
Securities available for sale	8,442,488	15,858,889	39,436,374	55,195,081	288,821,285	6,508,843	414,262,960
Securities held to maturity	-	3,495,847	5,529,255	10,858,612	140,287,099	-	160,170,813
Loans, net	410,898,709	379,604,105	180,700,581	253,507,191	833,971,350	32,433,922	2,091,115,858
Total financial assets	716,763,670	408,713,380	225,666,210	319,560,884	1,263,079,734	38,942,765	2,972,726,643
Financial liabilities:							
At sight deposit	498,836,283	-	-	-	-	-	498,836,283
Savings accounts	287,857,517	-	-	-	-	-	287,857,517
Time deposit	303,359,160	411,124,761	405,910,759	101,546,576	1,050,059	-	1,222,991,315
Securities sold under repurchase agreements	90,078,000	-	-	-	-	-	90,078,000
Borrowed funds	102,980,904	234,874,798	74,344,666	99,943,760	25,000,000	-	537,144,128
Bonds payable	-	-	38,614,000	3,670,000	-	-	42,284,000
Total financial liabilities	1,283,111,864	645,999,559	518,869,425	205,160,336	26,050,059	-	2,679,191,243
Commitments and contingencies	54,038,207	87,141,841	7,815,107	-	-	-	148,995,155

	2012						
	Up to 3 months	3 month to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Without maturity	Total
Financial asset:							
Cash and cash effects	35,691,783	-	-	-	-	-	35,691,783
Due from bank	214,638,921	5,685,000	-	-	-	-	220,323,921
Trading securities	-	-	-	-	4,137,256	-	4,137,256
Securities available for sale	16,921,092	26,675,215	90,185,478	12,236,768	275,209,334	1,186,302	422,414,189
Securities held to maturity	1,380,294	1,781,577	474	520	-	-	3,162,865
Net, loans	533,661,066	298,291,890	198,382,894	136,615,851	597,807,909	16,367,249	1,781,126,859
Total financial assets	802,293,156	332,433,682	288,568,846	148,853,139	877,154,499	17,553,551	2,466,856,873
Financial liabilities:							
Due to depositors at sight	461,830,110	-	-	-	-	-	461,830,110
Savings accounts	225,559,846	-	-	-	-	-	225,559,846
Time deposits	317,265,587	369,454,516	296,045,763	98,121,745	11,596,652	-	1,092,484,263
Securities sold under repurchase agreements	26,250,720	6,351,942	3,504,444	-	-	-	36,107,106
Borrowed funds	131,466,220	145,886,223	57,744,555	19,929,700	-	-	355,026,698
Subordinated borrowed funds	-	-	-	-	15,000,000	-	15,000,000
Bonds payable	-	14,663,000	-	6,457,000	-	-	21,120,000
Total financial liabilities	1,162,372,483	536,355,681	357,294,762	124,508,445	26,596,652	-	2,207,128,023
Commitments and contingencies	49,900,296	117,780,831	18,726,474	-	-	-	186,407,601

The following table shows the analysis of the Bank's liquidity for its derivative financial instruments. The table has been compiled from the cash flows and contractual undiscounted net outflows on derivative instruments that are set on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed is determined by reference to the projected interest rates as illustrated by the yield curves at the end of the period for submission of the report.

	Up to 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years
December 31, 2013					
Net Flow					
Interest Rate Swap	(16,221)	(163,612)	(1,472,629)	(3,270,221)	5,594,114
Future - Contracts	-	-	-	-	-
	(16,221)	(163,612)	(1,472,629)	(3,270,221)	5,594,114

	Up to 1 month	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years
December 31, 2012					
Net Flow					
Interest Rate Swap	(91,559)	(76,252)	(337,137)	(1,775,618)	(681,834)
Future - Contracts	-	-	1,460	-	-
	(91,559)	(76,252)	(335,677)	(1,775,618)	(681,834)

As follows, the indexes of net cash margin on deposits received from customers of the Bank at the date of the consolidated financial statements as follows:

At December 31 closing	**36.56%**	**39.44%**
Period average	40.15%	42.17%
Period maximum	46.51%	47.09%
Year minimum	21.27%	32.70%

At December 31, 2013, the statutory liquidity ratio reported to the regulator, under the parameters of Agreement No. 4-2008 was 58.08% (December 2012: 58.12%).

The table below shows the undiscounted cash flows of financial liabilities Bank loans and commitments that are not recognized on the basis of their maturity as close as possible. The expected cash flows of these instruments can vary significantly from these analyzes.

2013	Carrying value	Undiscounted cash flow	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years
Financial liabilities						
Due to depositors	2,009,685,115	2,129,762,204	1,611,723,629	410,407,332	106,581,240	1,050,003
Securities sold under repurchase agreements	90,078,000	90,101,847	90,101,847	-	-	-
Borrowed funds	537,144,128	579,402,982	362,558,566	87,395,553	104,481,226	24,967,637
Bonds payable	42,284,000	47,995,732	42,408,521	5,566,629	20,582	-
Total financial liabilities	2,679,191,243	2,847,262,765	2,106,792,563	503,369,514	211,083,048	26,017,640
2012						
Financial liabilities						
Due to depositors	1,779,874,219	1,889,708,959	1,446,367,321	327,756,973	103,837,418	11,747,247
Securities sold under repurchase agreements	36,107,106	36,249,619	32,715,387	3,534,232	-	-
Borrowed funds	355,026,698	385,069,820	293,763,460	67,138,636	24,167,724	-
Subordinated borrowed funds	15,000,000	16,205,318	-	-	-	16,205,318
Bonds payable	21,120,000	23,542,256	16,321,791	714,268	6,506,197	-
Total of financial liabilities	2,207,128,023	2,350,775,972	1,789,167,959	399,144,109	134,511,339	27,952,565

To manage the liquidity risk arising from financial liabilities, the Bank maintains liquid assets such as effective and cash equivalents and investment grade investments for which an active market exists. These assets can be readily sold to meet liquidity requirements. Consequently, the Bank believes that it is not necessary to disclose the maturity analysis related to these assets to allow assessment of the nature and extent of liquidity risk. With regard to foreign currency risk or Exchange Rate Risk, is understood as the possibility of occurrence of an economic loss due to variations in the exchange rate.

The foreign currency risk or Exchange Rate Risk is understood as the possibility of a loss occurring due to changes in the exchange rate.

The Board of Directors sets limits on the level of currency exposure, which are monitored daily. The table below summarizes the Bank's exposure to rate risk of foreign exchange.

Included in the table are the balances of the Bank's financial instruments, classified by currency:

2013	Balboas	Colombian Pesos	Euros	Others	Total
Assets:					
Cash and deposits	283,133,054	10,985,498	7,776,034	4,001,426	305,896,012
Securities bought under repurchase	1,281,000	-	-	-	1,281,000
Securities available for sale	395,185,544	288,896	18,788,520	-	414,262,960
Securities held to maturity	156,674,966	3,495,847	-	-	160,170,813
Net, loans	1,899,039,973	192,075,322	563	-	2,091,115,858
Total financial assets	2,735,314,537	206,845,563	26,565,117	4,001,426	2,972,726,643
Liabilities:					
Customer deposits	1,882,371,080	92,735,556	32,338,256	2,240,223	2,009,685,115
Securities purchased under resale agreements	90,078,000	-	-	-	90,078,000
Borrowed funds	475,760,529	61,383,599	-	-	537,144,128
Bonds payable	42,284,000	-	-	-	42,284,000
Total financial liabilities	2,490,493,609	154,119,155	32,338,256	2,240,223	2,679,191,243
Commitments and contingencies	148,710,109	285,046	-	-	148,995,155

2012	Balboas	Colombian Pesos	Euro	Others	Total
Assets:					
Cash and deposits	224,887,678	18,155,965	7,007,757	5,874,304	255,925,704
Securities at fair value with changes in profit or loss	4,137,256	-	-	-	4,137,256
Securities for sale	393,882,019	234,054	28,298,116	-	422,414,189
Securities held to maturity	-	3,162,865	-	-	3,162,865
Net, loans	1,606,067,479	174,766,134	283,531	9,716	1,781,126,860
Total financial assets	2,228,974,432	196,319,018	35,589,404	5,884,020	2,466,766,874
Liabilities:					
Customers deposits	1,659,544,384	80,944,940	35,407,389	3,977,506	1,779,874,219
Securities purchased under resale agreements	36,107,106	-	-	-	36,107,106
Borrowed fund	288,578,131	66,448,567	-	-	355,026,698
Subordinated borrowed funds	15,000,000	-	-	-	15,000,000
Bonds payable	21,120,000	-	-	-	21,120,000
Total financial liabilities	2,020,349,621	147,393,507	35,407,389	3,977,506	2,207,128,023
Commitments and contigencies	186,407,601	-	-	-	186,407,601

Operational risk and business continuity

It is the risk of potential losses, direct or indirect, relating to the Bank's processes, personnel, technology and infrastructure, and external factors that are not related to credit, market, liquidity and interest rate, such as those from legal and regulatory requirements and the behavior of corporate standards generally accepted.

The Bank's objective is to manage operational risk, seeking to avoid financial losses and damage to the reputation of the Bank.

The structure of Operational Risk Management has been developed to provide a segregation of responsibilities between owners, implementers, control areas and areas that are responsible for ensuring compliance with policies and procedures. Business Units and Services of the Bank take an active role in the identification, measurement, control and monitoring of operational risk and are responsible for understanding and managing these risks in their daily activities.

The implementation of this risk management framework, has implied that the Bank adopt a methodology for evaluating business processes based on risk, which is to identify key areas and processes in relation to strategic objectives, identify business risks inherent and chart the process cycle to identify risks and mitigating controls. This is supported by technological tools that enable us to document, quantify and monitor the risks identified in the different processes by risk matrices. This methodology is intended to add the most fundamental fair value at each of the activities of the organization, reducing the possibility of failure and loss.

To establish this methodology, the Bank has allocated resources to strengthen internal control and organizational structure, allowing independence between business areas, risk control and registration. This includes an operational functional segregation due to registration, balance and transaction authorization, which are documented through defined policies, processes and procedures that include standard and safety control.

With regard to human resources, policies have been strengthened for recruitment, assessment and retention, thus having a highly qualified and professional experience, which must comply with various induction processes in different positions, plans training and certification of understanding and acceptance about the policies of business conduct and standards established in the Bank's Code of Ethics.

The Bank has made a significant investment in adapting the technology platform in order to be more efficient in the different business processes and reduce the risk profiles. For this objective, the Bank strengthened security policies and have established a technological risk management policy.

On the other hand, a Business Continuity Plan has been designed to keep the main applications of the Bank's information on line in case of an interruption in service, thus guaranteeing continuity to the clients.

4.4 Capital administration

The Bank manages it capital to ensure:

- Compliance with requirements established by the Superintendency of Banks and the Superintendency of Stock Market of Panama.
- The continuity as a going concern while it maximizes returns to shareholders through the optimization of the balance between debt and equity.
- Maintain a capital base, strong enough to support business performance.

Multibank, Inc. as an entity regulated by the Superintendency of Banks of Panama and the Superintendency of Stock Market of Panama, required to maintain a total capital ratio measured on the basis of weighted assets.

The capital adequacy and the use of regulatory capital are monitored by the Bank's management based on guidelines and techniques developed by the Superintendency of Banks. Requests for information are sent to the regulator on a quarterly basis.

Multibank, Inc. analyzes its regulatory capital by applying the rules of the Superintendency of Banks of Panama established for General License banks, based on Agreement 5-2008 of October 1, 2008 and amended by Agreement 4-2009 of July 9 2009.

Under the Panamanian Banking Law requires banks to maintain a general license minimum paid capital of B/.10,000,000 and assets for at least 8% of weighted assets, including financial instruments outside the consolidated statement of financial position. For these purposes, assets must be considered net of the respective allowances or reserves and with the weightings specified in the Superintendency Agreement .

As set forth by the regulatory scheme, capital requirements are measured as follows:

- *Primary capital* - Includes the capital paid in shares, disclosed reserves and retained earnings. Paid-in capital in stocks is that represented by common stock and perpetual non-cumulative preferred shares issued and fully paid. The declared reserves are those identified as such by the Bank from earnings accrued on its books to strengthen their financial position.

  The retained earnings are the earnings of the period and retained earnings for prior periods.

- *Secondary capital* - The same includes hybrid capital and debt instruments, subordinated term debt, the general reserves for losses, the undeclared reserves and asset revaluation reserves.

To calculate the amount of capital funds for a General License Bank, the deductions shall be taken into account and made quarterly as detailed below:

- Non-consolidated capital assigned to foreign branches.

- Non-consolidated paid up capital of the Bank's Subsidiaries.

- The capital paid of non-banking subsidiaries. The deduction will include the balances recorded in the asset with the highest price paid, in respect of the book value, in the long-term investments in companies in the country and abroad.

- Asset items for expenses or other items which under generally accepted accounting principles and International Financing Reporting Standards correspond to overvaluations or various forms of unrecognized losses, and also losses suffered at any time of the year.

The Bank maintains a position of regulatory capital composed as follows:

Less: goodwill	(6,717,198)	(6,717,198)
Total	332,269,876	263,618,481
Secondary capital (pilar 2)		
Generic reserve for loans	-	4,236,091
Subordinated borrowed funds	-	15,000,000
Total regulatory capital	332,269,876	282,854,572
Weighted assets based on risk		
Investment banking	222,347,184	131,391,509
Consumer, corporate and treasury	1,720,911,463	1,485,981,373
Other assets	102,571,075	79,084,186
Contingencies	40,657,323	29,977,306
Total risk-weighted assets	2,086,487,045	1,726,434,374
Equity adequacy		
Total regulatory capital expressed as a percentage of weighted assets based on risk	15.92%	16.38%
Total Pilar 1 as a percentage of weighted assets based on risk	15.92%	15.27%

5. Accounting estimates and critical judgments

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Impairment losses on uncollected loans* - The Bank reviews its loan portfolio to assess impairment periodically based on the criteria established in the Agreement 6-2000 and establishes specific provisions which are those that are related to loans which have been identified specifically a higher than normal risk. These are divided into allowances allocated to individual loans, which by their nature and amount have an impact on the solvency and other financial indicators and provisions for bank loan group those assigned to groups of loans of the same nature, geographic area or common purpose or have been granted under the same provision of loan program.

(b) *Impairment of investments available for sale* - The Bank determines which capital investments available for sale are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination is significant or prolonged requires judgment. In conducting a judgment, the Bank evaluates among other factors, the normal volatility in the share price. Additionally, the impairment may be appropriate when there is evidence of impairment in the issuer's financial health, industry performance and the industry, changes in technology and financial and operating cash flows.

(c) *Investments held to maturity* - For the Bank to classify non-derivative financial assets with fixed or determinable payments and fixed maturities in this category, it requires a significant decision. In making this decision, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity for any other reason than the specified circumstances permitted by Agreement 7-2000, it is required to reclassify the entire portfolio as securities available for sale.

6. Fair value of financial instruments

The Bank's management has used the following assumptions to estimate fair value of each financial instrument category in the consolidated statement of financial position:

- *Demand and time deposits* - for these financial instruments, the carrying amount approximates its fair value due to its short-term nature.

- *Investments in securities* - For these values, fair value is based on quoted market prices or quotes from brokers.

- *Loans* - The estimated fair value for loans represents the discounted amount of estimated future cash flows to be received. The expected cash flows are discounted at original market rates to determine their fair value.

- *Due to depositors* - For deposits received, the fair value is based on discounted cash flows using market interest rates for financing new debts with similar remaining maturity.

- *Securities bought under resale agreements, borrowed funds, subordinated borrowed funds, and bonds payable* - The carrying value of securities bought under resale agreements, borrowed funds, subordinated borrowed funds and bonds payable with maturity of one year or less, approximates their fair value given their short-term nature. For borrowing with a maturity greater than one year, discounted cash flows are used at a current interest market rate to determine their fair value.

- *Derivative financial instruments* - The fair values of derivative instruments are calculated using price quotes. When these prices are not available, an analysis of discounted cash flows is performed using the applicable yield curve for the duration of the instruments in the case of derivatives without options, while for those with optionality derivatives, option price models are used. Forward contracts on foreign exchange ("forwards") are measured using quoted forward exchange rates and yield curves derived from interest rate quotes for maturities of these contracts. The swap interest rate contracts are measured at the present value of estimated and discounted future cash flows based on the applicable yield curves derived from interest rate quotes.

Adjustments to the fair value carried out by the Bank's to derivative instruments include valuation adjustments to the credit of the counterparty (Counterparty Valuation Adjustments), which apply to derivatives traded "over-the-counter". These instruments generally discount the expected cash flows using the LIBOR curves. Given that all counterparties do not have a credit risk equal to the LIBOR curve, an adjustment is necessary to incorporate the credit risk expectation that the market applies to both the counterparties as well as to the Bank.

These estimates are subjective by their nature, involve uncertainty and critical elements of judgment and therefore cannot be determined accurately. Changes in assumptions or criteria can significantly affect the estimates.

IFRS 13 specifies a hierarchy of valuation techniques based on whether the information contained in these valuation techniques are observable or unobservable. The information reflects observable market data obtained from independent sources; the unobservable information does not reflect the Bank's market assumptions. These two types of information have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments in the stock and derivatives markets exchange, such as futures.

- Level 2 - Information other than quoted prices included within Level 1 that are observable for the asset or liability, whether directly (i.e., as prices) or indirectly (i.e., derivatives pricing).

- Level 3 - Information for the assets and liabilities that are not based on observable market data (unobservable information). This level includes investments in shares and debt instruments with significant unobservable components.

6.1 *<u>Fair value of financial assets that are measured at fair value on a recurring basis</u>*

Some assets of the Bank are stated at fair value at the closing of each year. The following table provides information about how the fair values of financial assets and liabilities (particularly, the valuation technique and data inputs used) are determined.

Financial assets (See Notes 10 and 11)	Fair value 2013	Fair value 2012	Level	Valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
Securities at fair value with changes in profit or loss	-	4,137,256	Level 1	quoted bid prices in an active market	N/A	N/A
Capital shares issued by domestic companies	27,995	21,370	Level 1	quoted bid prices in an active market	N/A	N/A
Capital shares issued by foreign companies	52,571	-	Level 1	quoted bid prices in an active market	N/A	N/A
Private debt securities - foreign	124,638,810	80,115,226	Level 1	quoted bid prices in an active market	N/A	N/A
Private debt securities - domestic	18,372,213	9,892,818	Level 1	quoted bid prices in an active market	N/A	N/A
Government debt securities - domestic	535,000	71,359,919	Level 1	quoted bid prices in an active market	N/A	N/A
Government debt securities - foreign	209,510,299	190,512,902	Level 1	quoted bid prices in an active market	N/A	N/A
	353,136,888	351,902,235				

Financial assets and liabilities (See Notes 10 and 11)	Fair value 2013	Fair value 2012	Fair value hierarchy	Valuation technique and key input data	Significant unobservable input data	Relationship of unobservable input data to fair value
Interest rate swaps (IRS)	Face value 87,056,000 (FV 894,447)	Face value 18,000,000 (FV 2,583,907)	Level 2	Discounted cash flow. Future cash flow are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Private debt securities - domestic	20,018,890	28,463,041	Level 2	Discounted cash flow	N/A	N/A
Government debt securities - domestic	33,721,707	35,528,779	Level 2	Discounted cash flow	N/A	N/A
	53,740,597	63,991,820				
Private debt securities - domestic	4,986,318	-	Level 3	Discounted cash flow	Discount for lack of marketability determined by reference to the share price of listed entities in similar industries, in similar industries ranging from 0,17% - 5,75% (2012: 0,45% - 5,39%)	The higher the discount, the lower the fair value
Private debt securities - foreign	288,896	-	Level 3	Discounted cash flow		
Shares issued by domestic companies	485,261	444,103	Level 3	Discounted cash flow		
Government debt securities - foreign	1,625,000	4,034,054	Level 3	Discounted cash flow		
Private debt securities - foreign	-	2,041,977	Level 3	Discounted cash flow		
	7,385,475	6,520,134				

During the year 2013, there was no transfer of Level 1 and 2.

6.2 *Fair value of financial assets and liabilities not carried at fair value on an ongoing basis (but require fair value disclosures).*

The carrying value of the principal assets and liabilities that are not stated at their fair value in the consolidated statement of financial position of the Bank is summarized below:

	2013		2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Cash and banks deposits	130,094,881	130,094,881	125,498,449	125,498,449
Time deposits	175,801,131	175,801,131	130,427,255	130,427,255
Securities held to maturity	160,170,813	158,631,207	3,162,865	3,162,865
Loans, net	2,091,115,858	2,109,151,389	1,781,126,860	1,803,203,983
	2,557,182,683	2,573,678,608	2,040,215,429	2,062,292,552
Liabilities				
Due to depositor - at sight	498,836,283	498,836,283	461,830,110	461,830,110
Savings deposits	287,857,517	287,857,517	225,559,846	225,559,846
Due to depositor - at time	1,222,991,315	1,341,181,826	1,092,484,263	1,202,319,004
Securities sold under repurchase agreement	90,078,000	90,101,847	36,107,106	36,249,619
Borrowed funds	537,144,128	579,402,981	355,026,698	385,069,820
Subordinated borrowed funds	-	-	15,000,000	16,205,318
Bonds payable	42,284,000	47,995,732	21,120,000	23,542,257
	2,679,191,243	2,845,376,186	2,207,128,023	2,350,775,974

The fair value of financial assets and liabilities included in the categories of Level 2 and Level 3 presented in the following table were determined in accordance with generally accepted prices based on the model of discounted future cash flows, in which the most important variable is the discount rate which reflects the credit risk.

	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and bank deposits	130,094,881	-	-	130,094,881
Time deposits	175,801,131	-	-	175,801,131
Securities held to maturity	135,131,732	20,336,610	3,162,865	158,631,207
Loans, net	-	2,109,151,389	-	2,109,151,389
	441,027,744	2,129,487,999	3,162,865	2,573,678,608
Liabilities				
Due to depositors - at sight	498,836,283	-	-	498,836,283
Savings deposits	287,857,517	-	-	287,857,517
Due to depositors - at time	-	1,341,181,826	-	1,341,181,826
Securities sold under repurchase agreement	-	90,101,847	-	90,101,847
Borrowed funds	-	579,402,981	-	579,402,981
Subordinated borrowed funds	-	-	-	-
Bonds payable	-	47,995,732	-	47,995,732
	786,693,800	2,058,682,386	-	2,845,376,186

	2012			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and bank deposits	125,498,449	-	-	125,498,449
Time deposits	130,427,255	-	-	130,427,255
Securities held to maturity	-	-	3,162,865	3,162,865
Loans, net	-	1,803,203,983	-	1,803,203,983
	255,925,704	1,803,203,983	3,162,865	2,062,292,552
Liabilities				
Due to depositors - at sight	461,830,110	-	-	461,830,110
Savings deposits	225,559,846	-	-	225,559,846
Due to depositors - at time	-	1,202,319,004	-	1,202,319,004
Securities sold under repurchase agreement	-	36,249,619	-	36,249,619
Borrowed funds	-	385,069,820	-	385,069,820
Subordinated borrowed funds	-	16,205,318	-	16,205,318
Bonds payable	-	23,542,257	-	23,542,257
	687,389,956	1,663,386,018	-	2,350,775,974

Reconciliation of Level 3 fair value movements:

The movement of the values on Level 3 is listed below:

	2013	2012
Balance at beginning of year	6,520,134	303,753
Purchase	5,082,318	6,460,996
Sales and redemptions	(4,239,522)	(476,932)
Net changes in securities available for sale	(10,478)	226,932
Reclassification to profit or loss	33,023	5,385
Balance at year end	7,385,475	6,520,134

See in Note 4.2, the sensitivity analysis of the financial assets and liabilities.

7. Balances and transactions with related parties

Balances and transactions with related parties included in the consolidated statement of financial position and consolidated statement of profit or loss are summarized below:

	2013		
Balances with related parties	Related companies	Shareholders key directors and executives	Affiliated companies
Assets			
Loans	11,137,495	4,590,427	1,715,893
Accrued interest receivable	50,243	10,371	27,958
Accounts receivable	-	-	20,205,066
	11,187,738	4,600,798	21,948,917
Liabilities			
Due to depositors - at sight	404,202	44,842	1,877,658
Saving deposits	140,996	1,467,609	-
Due to depositors - at time	17,703,988	2,307,423	-
Accrued interest payable	481,175	17,397	-
	18,730,361	3,837,271	1,877,658
Commitments and contingencies			
Guarantees issued	72,957	732,112	-
Transactions with related parties			
Interest on:			
Loans	462,298	152,665	83,646
Interest of expenses:			
Deposits	481,175	17,397	-
General and administrative expenses:			
Perdiems	-	88,706	-
Salaries and other benefits	-	1,858,673	-
Rental costs	1,550,757	-	-
	1,550,757	1,947,379	-

2012 *Balances with related parties*	**Related companies**	**Key directors and executives**	**Affiliated companies**
Assets			
Loans	10,665,786	4,622,264	1,709,983
Accrued interest receivable	40,129	12,368	27,958
Accounts receivable	-	-	20,303,068
	10,705,915	4,634,632	22,041,009
Liabilities			
Due to depositors - at sight	1,143,067	149,532	1,495,379
Saving deposits	202,084	1,716,534	-
Due to depositors - at time	22,750,921	1,103,138	-
Accrued interest payable	547,346	24,360	-
	24,643,418	2,993,564	1,495,379
Commitments and contingencies			
Guarantees issued	-	796,612	50,000
Payment promises	350,000	339,850	-
	350,000	1,136,462	50,000
Transactions with related parties			
Interest on:			
Loans	709,624	178,979	91,574
Interest of expenses:			
Deposits	863,890	38,069	-
General and administrative expenses:			
Perdiem	-	122,177	-
Salaries and other benefits	-	1,761,753	-
Rental costs	1,420,956	-	-
	1,420,956	1,883,930	-

Loans granted to related parties have various maturities from December 2013 to July 2043 (2012: July 2042) and bear an annual interest rate ranging between 2.25% and 18.00% (2012: 5.00% and 15.00%)

These loans are collateralized with cash guarantees of about B/.7,574,000 (2012: B/.8,024,285), guarantee of properties for B/.5,693,572 (2012: B/.5,401.916) and guarantees of personal property for B/.255,699 (2012: B/.315,114).

Management has not identified doubtful accounts in the credit portfolio of related parties.

8. Cash, cash effects, bank deposits

Cash, cash effects and bank deposits are as follows:

	2013	2012
Cash and cash effects	27,952,862	35,691,783
Due from banks at sight - domestic and foreign	102,142,019	89,806,666
Due from banks at time - domestic and foreign	175,801,131	130,427,255
Total cash and due from bank	305,896,012	255,925,704
Less:		
Due from banks at time, with original maturities greater than 90 days	9,754,539	5,685,000
Total cash equivalents	296,141,473	250,240,704

The annual interest rates earned by deposits ranged between 0.01% and 4.22% (2012: 0.14% and 3.75%).

9. Securities bought under resale agreement

The securities bought under resale agreement amounted to B/.1,281,000 are guaranteed by private debt securities with maturity on January 2014.

10. Securities at fair value with changes in profit or loss

As of December 31, 2012 the securities at fair value with changes in profit or loss amounted to B/.4,137,256 and consists of structured notes and bonds, whose annual interest rate range between 3.83% and 5.95%.; with various maturities until June, 2042. During the year 2013, all these securities were sold.

The movement of the securities to fair value with changes in profit or loss is summarized below:

	2013	**2012**
Balance at beginning of year	4,137,256	1,931,600
Purchases	99,251,259	205,146,281
Sale and redemptions	(103,505,940)	(203,319,674)
Change in fair value, net	117,425	379,049
Balance at end of year	-	4,137,256

At December 31, 2013, the Bank recorded loss on sales of securities at fair value through changes in profit or loss for B/.617,727 (2012: profit B/.770,146).

11. Securities available for sale

Securities available for sale consist of the following investment types:

	2013	2012
Listed securities (at fair value)		
Capital share issued by domestic companies	27,995	21,370
Capital share issued by foreign companies	52,571	-
Private debt securities - foreign	124,638,810	80,115,226
Private debt securities - domestic	18,372,213	9,892,818
Government debt securities - domestic	535,000	71,359,919
Government debt securities - foreign	209,510,299	190,512,902
	353,136,888	351,902,235
Non - listed securities (at fair value)		
Private debt securities - domestic	25,005,208	28,463,041
Private debt securities - foreign	288,896	-
Government debt securities - domestic	33,721,707	35,528,779
Government debt securities - foreign	-	-
	59,015,811	63,991,820
Non - listed securities (at cost):		
Shares issued by domestic companies	485,261	444,103
Government debt securities, foreign	1,625,000	4,034,054
Private debt securities - foreign	-	2,041,977
	2,110,261	6,520,134
	414,262,960	422,414,189

The movement of securities available for sale is summarized below:

	2013	**2012**
Balance at beginning of year	422,414,189	406,014,633
Purchases	649,607,087	1,371,376,718
Sale and redemptions	(488,843,622)	(1,365,186,390)
Reclassification	(136,030,568)	
Change in fair value, net	(32,884,126)	10,209,228
Balance at end of year	414,262,960	422,414,189

On September 24, 2013, the Committee (ALCO) approved the transfer of securities for B/.136,030,568 at fair value from the category of "Securities available for sale" to the category "Securities held to maturity " based on the creditworthiness of the issuer and the intent and ability to hold them in that category. The transfer became effective on September 28, 2013. Such investments held at that date an unrealized loss B/.11.551.477 presented in the consolidated statement of changes in equity under the caption " Net changes of securities available for sale" . This unrealized loss will be amortized to profit or loss over the remaining life of each title using the effective interest method. From the date of reclassification until December 31, 2013, B/.252,249 were amortized, leaving an outstanding balance of B/.11,299,228. The effective interest rate ranges from 0.98 % to 4.62 % and is expected to recover all of the cash flows.

During the period the sales operations generated net loss of B/.2,216,366 (2012: net profit B/.8,372,638).

The annual interest rate accrued on securities available for sale ranging between 0.25% and 9.995% (2012: 0.56% and 8.31%)

As at December 31, 2013, securities available for sale with market value of B/.73,275,675 (December 2012: B/.41,322,576) guaranteed obligations of securities sold under repurchase agreements for the amount of B/.90,078,000 (December 2012: B/.36,107,106). See Note 19.

12. Securities held to maturity

Securities held to maturity, recorded at amortized cost are comprised of bonds, shares and government debt securities for B/.160,170,813 (2012: B/.3,162,865)

The movement of securities held to maturity is summarized as follows:

	2013	**2012**
Balance at beginning of year	-	2,237,201
Purchase	-	925,664
Balance at end of year	-	3,162,865

The annual interest rates that securities held to maturity bear range between 1.61% and 9.75% (2012: 1.16% and 3.84%).

See Note 11 Disclosure of reclassification.

13. Loans

Loans by type are detailed as follows:

	2013	2012
Domestic Sector		
Commercial	480,522,994	510,842,715
Consumer, vehicles and credit cards	251,317,154	198,755,745
Residential mortgages	259,155,068	181,436,209
Cash secured	124,727,712	131,157,407
Interim financing and construction	173,278,922	108,400,790
Discounted bills	37,118,687	61,447,095
Agricultural	97,156,401	64,250,282
Retirees	49,995,941	46,266,229
Commercial mortgages	19,519,345	22,259,131
Financial leasing	19,269,524	3,768,560
Tourism	27,942,249	29,898,353
Industrials	1,431,296	803,735
Total domestic	1,541,435,293	1,359,286,251
Foreign Sector:		
Commercials	276,392,808	210,503,537
Consumer, vehicles and credit cards	163,102,358	145,147,813
Discounted bills	22,716,334	27,095,987
Industrials	82,319,600	62,457,021
Commercials mortgages	3,750,000	-
Cash secured	47,234,273	15,246,624
Total foreign	595,515,373	460,450,982

The capital balance of delinquent loans amounted to B/.10,500,839 (2012: B/.8,346,201) and overdue loans for B/.18,598,666 (2012: B/.16,367,185).

The total amount of the guarantees for both years is described in Note 4.2.

Total restructured loans during the year amounted to B/.4,036,813 (2012: B/.1,441,358).

The loans in non - accrual of interest amounted to B/.10,174,930 (2012: B/.8,985,818).

The movement of allowance for possible loan losses is summarized as follows:

	2013	**2012**
Balance at beginning of year	31,511,271	28,881,425
Allowance charged to expenses	9,287,518	10,847,779
Written-off loans	(13,013,553)	(12,247,153)
Recoveries	7,160,335	4,029,220
Balance at end of year	34,945,571	31,511,271

14. Property, furniture, equipment and improvements

Property, furniture, equipment and improvements, are summarized below:

	2013					
	Land and Property	**Office Improvements**	**Office Furniture**	**Office Equipment**	**Vehicles**	**Total**
Cost						
Balance at beginning of year	193,583	12,393,300	3,064,080	17,082,472	639,443	33,372,878
Purchases	14,700,000	641,746	718,077	6,164,289	174,838	22,398,950
Sales and disposals	-	(3,959)	(1,626)	(490,886)	(60,900)	(557,371)
Balance at end of year	14,893,583	13,031,087	3,780,531	22,755,875	753,381	55,214,457
Accumulated depreciation and amortization						
Balance at beginning of year	10,772	6,364,914	1,741,144	13,340,593	387,051	21,844,474
Expenses of the year	-	1,357,897	239,425	2,174,435	103,012	3,874,769
Sales and disposals	-	-	(206)	(370,503)	(60,900)	(431,609)
Balance at end of year	10,772	7,722,811	1,980,363	15,144,525	429,163	25,287,634
Net Balance	14,882,811	5,308,276	1,800,168	7,611,350	324,218	29,926,823

	2012					
	Land and Property	Office Improvements	Office Furniture	Office Equipment	Vehicles	Total
Cost						
Balance at beginning of year	176,435	10,803,094	2,233,320	15,842,123	603,467	29,658,439
Purchases	17,148	1,870,206	845,985	1,266,612	42,824	4,042,775
Sales and disposals	-	(280,000)	(15,225)	(26,263)	(6,848)	(328,336)
Balance at end of year	193,583	12,393,300	3,064,080	17,082,472	639,443	33,372,878
Accumulated depreciation and amortization						
Balance at beginning of year	109,772	5,250,604	1,530,906	12,187,313	289,539	19,368,134
Expenses of the year	-	1,115,932	225,462	1,170,060	103,675	2,615,129
Sales and disposals	-	(1,622)	(15,224)	(16,780)	(6,163)	(39,789)
Balance at end of year	109,772	6,364,914	1,741,144	13,340,593	387,051	21,943,474
Net Balance	83,811	6,028,386	1,322,936	3,741,879	252,392	11,429,404

As at December 31, 2013, the subsidiary Macrofinanciera, S.A. in compliance with country regulations, made a technical appraisal of its fixed assets represented in real estate. The adjustment for revaluation amounts to B/.111,842 (2012: B/.72,696) and is recorded in a separate line in the consolidated statement of changes in equity as a property revaluation, using the comparative market method.

15. Goodwill

On September 5, 2007 the Bank acquired the amount of 6,527,500,000 of Macrofinanciera, S.A. common shares, for an amount of B/.12,378,519, equivalent to 70% of outstanding common shares. This purchase generated goodwill of B/.6,717,198.

Cash and due from banks	10,048,671
Securities available for sale	223,342
Loans, net	4,790,034
Other assets	4,121,640
Due to depositors	(5,261,689)
Borrowed funds	(323,239)
Other liabilities	(5,511,158)
Total net asset	8,087,601
Participation on the purchase of 70% of the net assets	5,661,321
Goodwill	6,717,198
Acquisition Cost	12,378,519
Less:	
Cash and deposits of acquired subsidiary	(10,048,671)
Cash paid on acquisition	2,329,848

On April 28, 2011, the Bank purchased a total of 3,761,950,500 common shares of the subsidiary in Colombia, Macrofinanciera, S.A., for the amount of B/.7,634,439 corresponding to the remaining 30% of the minority shareholder. This acquisition generated a capital paid in excess of B/.5,454,054 that is presented in the consolidated statement of changes in equity under the name of capital paid in excess. See Note 32.

Management has not found evidence of goodwill impairment.

16. Deferred tax

Deferred tax is calculated for all temporary differences under the liability method, using the effective tax rate.

The deferred income tax asset is comprised of the temporary effect on the tax application of the allowance for possible loan losses for B/.5,677,691 (2012: B/.6,477,373).

The movement of deferred income tax asset was as follows:

	2013	2012
Balance at beginning of year	6,477,373	6,376,408
Allowance for possible loan losses	1,089,880	2,332,420
Decrease in written-off loans	(1,889,562)	(2,231,455)
Balance at end of year	5,677,691	6,477,373

17. Foreclosed assets

Foreclosed assets are detailed below:

	2013	2012
Properties	620,129	998,246
Vehicles and others	135,888	79,044
	756,017	1,077,290
Allowance for possible losses	(33,309)	(122,977)
Balance at end of year	722,708	954,313

The movement in the allowance for possible losses of foreclosed assets is summarized below:

	2013	2012
Balance at beginning of year	122,977	130,233
(Reversal) allowance recorded in income	6,210	(12,068)
Recovery (losses) net on sale of assets	(95,878)	4,812
Balance at end of year	33,309	122,977

The regulatory reserve of foreclosed assets for B/.412,648 (2012: B/.677,734) presented within equity, represents the required reserve in compliance with the regulator.

18. Other assets

Other assets are detailed below:

	2013	2012
Accounts receivable	25,260,694	26,502,674
Accounts receivable with related parties	20,205,066	20,303,068
Prepaid expenses	10,675,400	7,880,327
Prepaid taxes	6,611,067	5,983,675
Others	729,681	736,315
Total	63,481,908	61,406,059

19. Securities sold under repurchase agreements

Securities under repurchase agreements for B/.90,078,000 (2012: B/.36,107,106) with various maturities until June 2014 (2012: until April 2013) and annual interest rates with range of 0.36% (2012: 0.38% to 1.10%). These values are guaranteed with securities available for sale and held to maturities for B/.73,275,675 and B/.31,850,000 respectively (2012 Securities available for sale: B/.41,322,576). See Note 11.

20. Borrowed funds

The borrowed funds are summarized below:

	2013	20.12
Lines of credit for working capital and foreign trade, maturing through December 2013, annual interest rates between 1.67% and 2.73% (December 2012: 1.67% to 3.46%)	-	285,818,138
Lines of credit for working capital maturing through December 2014 and annual interest rate between 1.62% and 9.77% (December 2012: 2.02% to 2.48%).	339,976,078	30,400,247
Long-term lines of credit for working capital with various maturities until October 2015, and annual interest rates between 2.16% and 8.37% (December 2012: 2.48% to 3.44%).	43,181,813	18,950,940
Long-term lines of credit for working capital with various maturities until October 2016, and annual interest rates of 2.35%	25,000,000	-
Long-term lines of credit for working capital with various maturities until December 2018, and annual interest rates between 3.05% to 6.73%	54,042,477	
Line of credit for working capital, various maturities through October 2017, annual interest rate between 2.87% to 3.34% (December 2012: 3.16% to 3.54%)	74,943,760	19,857,373
	537,144,128	355,026,698

21. Subordinate debt

During 2012, the Bank obtained financing for working capital of B/.15,000,000 received from DEG – Deutsche Investitions with maturity of 7 years, Libor rate at 6 months plus 2.78%. On December 20, 2012, a subordination amendment was signed and a payment plan was modified to a single capital payment at maturity in 2019, with an annual interest rate of Libor rate at 6 months plus 5.73% with semiannual payments. This subordinate debt is part of the secondary capital. See Note 4.5. On July 12, 2013, the Bank canceled the subordinate debt for B/.15,000,000 received from DEG - Deutsche Investitions. See Note 24.

22. Bonds payable

The Bank has bonds payable summarized as follows:

Series	Interest rate	Maturity	2013	2012
Series B-September 2013 issuance	4.00%	Jul. 2015	19,722,000	-
Series A-June 2013 issuance	4.13%	Jun. 2016	12,435,000	-
Series B-August 2010 issuance	Libor (3) + 5.25%	Aug. 2013	-	14,663,000
Series C-September 2013 issuance	4.45%	Feb. 2014	3,670,000	-
Series D-August 2010 issuance	Libor (3) + 5.15%	Feb. 2016	6,457,000	6,457,000
			42,284,000	21,120,000

Below are described the features and guarantees for these issuances:

Issuance of December 2012

Public offering of Rotating Program of Corporate Bonds worth up B/.150,000,000 authorized by the Superintendency of Stock Market of Panama, by Resolution No. 436-12 CNV of December 27, 2012 and the Panama Stock Exchange. During 2013, this authorization placement was made partially in the months of June and September.

The Bonds will be issued in registered form, rotating and registered without coupons, in denominations of one thousand dollars and shall be issued in different series where the maturity of Class A Rotating Corporate Bonds will be determined by the "Issuer" and Corporate Class B Bonds will have a term of 20 years; however, when reaching 15 years they will be automatically extended for additional periods of 20 years each, counted from the expiration of the original period of 20 years.

The annual interest rate for the Bonds may be fixed or variable at the option of "the Issuer". In the case of being fixed, the Bond's will bear an interest rate to be determined by "the Issuer". For the variable rate, the Bonds will bear an annual interest rate equal to 3-month Libor plus a spread to be determined by "the Issuer" according to market demand.

August 2010 Issuance:

Public offering of Rotating Program of Corporate Bonds worth up to B/.50,000,000 authorized by the Superintendency of Stock Market of Panama through CNV Resolution No. 312-10 of August 19, 2010 and the Panama Stock Exchange.

The bonds will be issued on a rotating basis, global roll-registered without coupons, in denominations of a thousand dollars and will be issued in different series, with maturities of 2, 3, 5 and 10 years from the issuance of each series.

The interest rate on the Bonds may be fixed or variable at the option of "the Issuer". In the case of being fixed, the Bonds will bear an interest rate to be determined by "the Issuer". In the case of variable rate, the Bonds bear an interest rate equivalent to 3 months Libor plus a spread to be determined by "the Issuer" according to market demand.

During 2012, Multibank, Inc. redeemed the "C" series in advance for a total of B/.18,906,000.

23. Other liabilities

The other liabilities are summarized below:

	2013	2012
Accounts payable	40,550,469	30,563,705
Brokerage customer deposits	-	10,583,238
Customer deposits	1,610,435	1,998,923
Transit items	24,398,245	9,999,255
Benefits payable	3,601,960	2,851,905
Other labor liabilities	60,392	106,184
	70,221,501	56,103,210

The Bank has registered under accounts payable, the fair value of interest rate swaps for B/.894,447 (2012: B/.2,583,907). See Note 32.

24. Common stock

The authorized capital of Multibank, Inc. consists of 50,000,000 (2012: 50,000,000) common shares without nominal value. The common shares outstanding totaled 16,177,254 (2012: 14,714,028).

During the period ended December 31, 2013, dividends were paid on common stock totaling B/.5,558,749 (2012: B/.4,935,369).

On June 28, 2013, Multi Financial Group, Inc. and the DEG - Deutsche Investitions - UND Entwicklungsgesellschaft MBH signed an investment agreement in which the latter, a subsidiary of the German state financial group KfW Bankengruppe, made an investment of B/.30,000,000 in the common stock of Multi Financial Group, Inc. This capital increase in 1,097,462 common shares became effective on July 12, 2013. As part of the investment agreement, Multibank, Inc., canceled the subordinate debt for B/.15,000,000 received from DEG - Deutsche Investitions. See Note 21.

In the Minutes of a meeting of the Board of Directors dated October 24, 2013, approves a capital increase in B/.10,000,000, representing an increase of 365,764, leaving the capital of the common shareholders of Multibank and Subsidiaries in B/.167,047.099.

25. Preferred stock

Multibank, Inc. is authorized to issue up to 1,500,000 preferred shares with a nominal value of $100.00 each (2012: 1,500,000), and has made several public issuances of preferred shares, all registered in the Superintendency of Stock Market of Panama and listed on the Panama Stock Exchange.

The number of outstanding preferred shares amounts to 733,703 (2012: 733,703) shares with a nominal value of $100.00 each and no maturity date.

The table below shows the actual balances of the various issuances with terms and conditions established in their respective Prospectuses:

Issuance date	2013	2012	Dividends	Type	Series
2007	20,000,000	20,000,000	7.75%	Non-cumulative	A
2008	15,000,000	15,000,000	7.00%	Non-cumulative	B
2008	3,270,000	3,270,000	7.50%	Non-cumulative	C
2009	2,911,700	2,911,700	7.50%	Non-cumulative	C
2010	3,818,300	3,818,300	7.50%	Non-cumulative	C
2011	7,000,000	7,000,000	7.0%	Non-cumulative	A
2011	6,323,700	6,323,700	6.7%	Non-cumulative	B
2011	15,046,600	15,046,600	7.0%	Non-cumulative	C
	73,370,300	73,370,300			

The Prospectuses for public offerings provide the following conditions:

- Non-Cumulative Preferred Shares have no maturity date. Multibank, Inc. may, at its option, redeem the shares after completing 3 years from the date of issuance, partially or completely, according to the mechanism set out in Section 3.7 of Chapter III of the Prospectus. However, Agreement No. 5-2008 of October 1, 2008, issued by the Superintendency of Banks, provides that such redemption must be authorized by the Superintendency.

- Dividends may be paid, once they are declared by the Board of Directors. However, dividends will be non-cumulative.

- The Preferred Shares dividends will be paid to the Registered Holders on a quarterly basis up to the redemption of this issuance (4 times per year), until the issuer decides to redeem such Preferred Shares. The Prospectuses for public offerings provide that: i) for Series "A" issued under Resolution No. 326-07 of December 20, 2007, the dividends, payment is on March 26th, June 26th September 26th and December 26th of each year; ii) for Series "B" and "C" issued under Resolution No.255-08 of August 14, 2008, payment of dividends are defined on January 5th, April 5th, July 5th and October 5th and, iii) while for Series "A", "B" and "C" issued under Resolution No.47-11 of February 25, 2011, payment of dividends are on February 28th, May 28th, August 28th, and November 28th.

- The declaration of the dividends corresponds to the Board of Directors, using their best criteria, to declare dividends or not. The Board of Directors has no contractual or regulatory obligation to declare dividends.

- Multibank Inc. cannot and will not guarantee the payment of dividends.

- The preferred shareholders will be affected in their investment provided that Multibank, Inc. does not generate the necessary profits or earnings which according to the Board of Directors may be sufficient to declare dividends.

- Dividends of preferred shares shall be net of any taxes that may arise from the Bank.

- The preferred shares are secured by the general credit of the Bank and have preferential rights over common shareholders in the payment of dividends when these are declared.

During 2013, dividends were paid on preferred shares for a total amount of B/.5,901,491 (2012: B/.4,890,361).

26. Insurance regulatory reserve

The Subsidiary, Multibank Seguros, S.A., is regulated by law No.12 of April 3, 2012, issued by the Superintendency of Insurance and Reinsurance of Panama which states under Article 213, that all Insurance Companies must establish and maintain in the country a reserve fund equal to 20% of its net profits before applying income tax to create a fund equal to the sum of B/.2,000,000 and, after that amount, must allocate 10% of its net profits until it reaches 50% of the paid-in capital.

Insurance companies must establish in their equity, a contingency reserve for statistical deviations and a reserve for catastrophic risk and/or contingency. The liability is calculated based on an amount of no more than 2½% and no less than 1% based on net premiums retained for all types. Multibank Seguros, S.A. sets its reserve on the basis of 1%.

The subsidiary, Multibank Seguros, S.A., has allocated the following amounts to the legal reserve fund:

	2013	2012
Balance at beginning of year	295,465	21,981
Appropriation of the year	439,284	273,484
Balance at end of year	734,749	295,465

The subsidiary Macrofinanciera, S.A. holds a legal reserve which corresponds to 10% of profits earned in 2011; as at December 31, 2013, the reserve amounts to B/.398,527 (2012: B/.211, 598).

27. Commissions earned on remittances

Commissions earned on remittances for B/.14,022,092 (2012: B/.11,939,565) were generated by the subsidiary Macrofinanciera, S.A. established in Colombia, whose activity includes rendering remittance and financial intermediation services.

28. Commitments and contingencies

Commitments

The Bank maintained financial instruments outside the consolidated statement of financial position, with credit risk arising from the normal course of its operations and which involve elements of credit and liquidity risk. Such financial instruments include letters of credit, guarantees and promissory notes, which are summarized as follows:

	2013	2012
Letters of credit	3,518,809	24,632,347
Guarantees issued	38,736,747	45,855,422
Promissory notes	106,739,599	115,919,832
	148,995,155	186,407,601

Letters of credit, guarantees issued and promissory notes are exposed to credit loss in the event the client does not comply with the payable obligation. The policies and procedures of the Bank in the approval of credit, financial guarantees and promissory notes of payment are the same as those used in granting loans recorded in the consolidated statement of financial position.

Guarantees issued have fixed maturity dates, which most of them mature without being disbursed and therefore, do not present a significant liquidity risk.

Most of the letters of credit are used; however, most of them are at sight and paid immediately.

Promissory notes are agreements that the Bank accepts to make a payment once certain conditions are met, which have an average maturity of six (6) months and are mainly used for disbursements of mortgage and car loans. The Bank does not anticipate losses as a result of these transactions.

Contingencies

There were ordinary lawsuits against the Bank in the amount of B/.1,649,422 (2012: B/.1,379,471). The Bank's Management and lawyers estimate a favorable outcome in these processes.

The Bank and its subsidiaries Macrofinanciera, S. A. and MB Crédito, S.A. have current commitments with third parties, under operating leases of buildings, which expire on several dates during the upcoming years. The value of the annual occupancy lease contracts for the next four years is as follows:

Years	Multibank, Inc.	Macrofinanciera, S.A.	MB Crédito, S.A	Total
2014	2,504,693	1,938,590	31,200	4,474,483
2015	2,509,353	2,035,519	31,200	4,576,072
2016	2,513,904	2,137,295	28,600	4,679,799
2017	2,513,904	2,244,160	-	4,758,064

During the year ended December 31, 2013, the property rental expense amounted to B/.4,318,731 (2012: B/.4,411,791).

29. Management of trust contracts, investment portfolio and syndicated loans.

The subsidiary, Multi Trust, Inc. managed trust contracts, at the customers' own risk, amounting to a total of B/.145,649,439 (2012: B/.177,813,846), of which there are security trust agreements totaling B/.142,057,818 (2012: B/.174,033,846).

The subsidiary Multi Securities, Inc., managed an investment portfolio in cash, at the customers' own risk, amounting to approximately B/.480,841,739 (2012: B/.355,448,705).

30. Income Tax

Income tax returns of the companies incorporated in the Republic of Panama are subject to review by the local tax authorities for the last three years, including the year ended December 31, 2013, according to current fiscal regulations.

According to Panamanian tax regulations, companies are exempted from paying income tax on profits derived from foreign source. Also exempted from income tax are interest earned on domestic time deposits, interest earned on Panamanian government securities and investments in securities issued through the Panama Stock Exchange.

The subsidiaries Hemisphere Bank Ltd., Multi Capital Company, Inc. and MultiFacilities Holding, Corp. are not subject to pay income tax in their respective jurisdictions, due to the nature of their foreign operations. However, income tax caused on operations generating taxable income in other jurisdictions was classified as tax expense within income.

Subsidiaries established in the following jurisdictions are subject to income tax under the tax laws of each respective country:

Country	Income tax rate	Current periods for review
Colombia	33%	2010 -2012
Colombia	34%	2013
Costa Rica	30%	2010 -2012

Income tax expense is detailed as follows:

	2013	2012
Current income tax	7,677,933	4,745,865
Deferred income tax for temporary differences	799,682	(100,965)
Income tax, net	8,477,615	4,644,900

The deferred tax item due to timing difference, originates mainly from the reserve for possible loan losses.

Deferred assets are recognized based on deductible tax differences considering their past operations and projected taxable profits, which are affected by Management's estimates.

Based on actual and projected results, the Bank's Management considers that there will be sufficient taxable income to absorb the deferred income taxes previously described.

Retrospectively, as of January 1, 2010, with the entry into force of Law No. 8 of March 15, 2010, Article 699 of the Tax Code states that legal persons must pay income tax calculated on the greater of: (1) the net taxable income calculated by the traditional method established under Title I of Book IV of the Tax Code, or (2) the net taxable income resulting from applying four point sixty-seven percent (4.67%) to the total taxable income.

The amount of income tax caused an estimated to be paid for the period ended December 31, 2013 and 2012 was established in accordance with the traditional method.

The reconciliation of income tax is summarized as follows:

	2013	2012
Net income before tax	47,939,991	39,096,381
Less: Tax effect of non-taxable income	(54,998,469)	(48,478,746)
Plus: Non-deductible expenses	32,841,559	26,458,010
Tax base	25,783,081	17,075,645
Income tax calculated	7,583,750	4,733,652
Income tax on remittances	94,183	12,213
Income tax expenses	7,677,933	4,745,865

31. Information by segments

The composition of the business segments is described as follows:

Segment information

2013	Financial Services	Funds Management	Insurances	Elimination	Consolidated Total
Interest and commission income	207,113,256	1,819,329	275,330	(510,926)	208,696,989
Interest and commission expense	74,321,595	574,076	5,418	-	74,901,089
Other income, net	(2,002,634)	302,265	2,648,086	-	947,717
Allowance for loan losses and foreclosed asset	9,293,728	-	-	-	9,293,728
General and administrative expenses	74,891,893	1,515,118	1,267,868	(164,981)	77,509,898
Net income before income tax	46,603,406	32,400	1,650,130	(345,945)	47,939,991
Total Assets	3,102,389,063	3,393,153	10,095,027	(13,619,558)	3,102,257,685
Total Liabilities	2,797,360,510	1,178,805	4,052,086	(4,439,523)	2,798,151,878

2012	Financial Services	Funds Management	Insurances	Elimination	Consolidated Total
Interest and commission income	170,415,187	1,358,300	194,893	(10,871)	171,957,509
Interest and commission expense	66,033,704	314,697	3,199	-	66,351,600
Other income, net	12,629,758	414,344	1,617,701	(581,466)	14,080,337
Allowance for loan losses and foreclosed assets	10,835,711	-	-	-	10,835,711
General and administrative expenses	67,528,722	1,198,919	1,096,113	(69,600)	69,754,154
Net income before income tax	38,646,808	259,028	713,282	(522,737)	39,096,381
Total Assets	2,554,885,935	18,750,514	6,163,973	(9,020,182)	2,570,780,240
Total Liabilities	2,285,541,526	16,518,450	2,512,588	(4,688,552)	2,299,884,012

32. Financial derivative instruments

The Bank manages and controls risks on this purchase and sale contracts of foreign currency through the approval of limits in amounts and terms by clients.

The Bank had subscribed forward contracts to purchase - sale of foreign currency as follows:

2013	**Nominal Value**	**Equivalent in balboas**	**Fair value in balboas**
Purchase of currency			
Forward contracts - Euro	2,160,000	2,933,986	42,563
Sale of currency			
Forward contracts - Euro	2,160,000	2,940,096	(36,597)
Unrealized Income (loss)			5,966

2012	**Nominal Value**	**Equivalent in balboas**	**Fair value in balboas**
Purchase of currency			
Forward contracts - Colombian pesos	5,475,350,222	2,949,450	111,930
Forward contracts - Euro	500,000	622,441	35,799
Sale of currency			
Forward contracts - Colombian pesos	5,475,350,222	2,949,450	(111,930)
Forward contracts - Euro	500,000	623,900	(37,258)
Unrealized Income (loss)			(1,459)

As at December 31, 2013, the Bank recognized in the consolidated statement of profit or loss, the net realized gains worth B/.2,011,930 (2012: B/.1,886,087), resulting from the purchase and sale of foreign currency from customers and the Bank.

As at December 31, 2013, the Bank maintains fourteen exchange interest rate swap contracts with a nominal value of B/.87,056,000 (2012: B/.18,000,000). These derivatives were designated as hedging instruments in fair value for the purpose of protecting the interest rate risk, but not credit risk on certain investments, against possible rises in interest rates which affect the valuation of such assets. The "swap" instruments are intended to deliver the net resulting between the fixed rate being paid and a 6-month Libor interest rate plus a spread. The exchanges (payments) between the fixed and variable rates are biannual and occur approximately in the dates when the investment coupons are cashed.

The fair value of derivative financial instruments is estimated using internal valuation models with observed market data. The nominal value and fair value of interest rate swaps as at December 31, 2013 are presented in the following table:

2013 Type	Nominal value	Fair value
Derivatives of fair value hedges:		
Interest rate swaps	69,056,000	353,815
Interest rate swaps	18,000,000	(1,248,262)
	87,056,000	(894,447)

2012 Type	Nominal value	Fair value
Derivatives of fair value hedges:		
Interest rate swaps	18,000,000	(2,583,907)

Over a monthly basis, is determined the change in fair value of hypothetical derivatives that simulate the primary hedge position, taking into account only the interest rate risk to compare it against the change in the valuation of the actual derivative interest rate.

Both values are compared in order to determine its effectiveness in accordance with the 80-125% rule of effectively established by the accounting standards to maintain hedge accounting. When coverage is highly effective, both valuations are recorded against the consolidated statement of profit or loss.

The fair value of interest rate swaps for B/.894,447 (2012: B/.2,583,907) is included within other liabilities under the heading of accounts payable for B/.40,550,469 (2012: B/.30,563,705). See Note 23.

The Bank has measured the effects of the credit risk of its counterparties and its own credit risk in determining the fair value of its derivative financial instruments. The credit risk adjustments are applied to derivatives type Over-The-Counter (OTC), where the assessment base used parameters based on Libor.

The Bank calculates adjustments for credit risk incorporating inputs that are derived from the market of the Credit Default Swaps (CDS).

33. Approval of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2013 were approved by the Audit Committee and the Board of Directors and authorized for issuance on January 29, 2014.

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