Financial Statements of

BAC BAHAMAS BANK LIMITED

Year ended December 31, 2014

BAC BAHAMAS BANK LIMITED
Financial Statements

Year ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To: The Shareholders
BAC Bahamas Bank Limited

Report on the Financial Statements

We have audited the accompanying financial statements of BAC Bahamas Bank Limited ("the Bank"), which comprise the statement of financial position as at December 31, 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

April 29, 2015

BAC BAHAMAS BANK LIMITED

Statement of Financial Position

December 31, 2014, with corresponding figures for 2013
(Expressed in United States dollars)

		2014	2013
ASSETS			
Cash and cash equivalents (notes 6 and 7)	$	54,667,474	64,785,548
Loans to customers, net (notes 8)		760,715	1,087,109
Investments (note 9)		0	366,657
Accrued interest receivable		1,088	7,819
Furniture and equipment		10,298	11,005
Other receivables and assets		45,478	32,547
Total Assets	$	55,485,053	66,290,685
LIABILITIES AND EQUITY			
Liabilities:			
Demand deposits from customers (notes 6 and 10)	$	11,404,736	17,121,524
Time deposits from customers (notes 6 and 11)		21,637,028	26,912,155
Accrued interest payable (note 6)		152,956	218,873
Other liabilities (note 6)		20,887	24,703
		33,215,607	44,277,255
Equity:			
Share capital (note 12)		18,000,000	18,000,000
Fair value reserve		0	(989)
Reserve for losses on loans (note 16)		6,564	1,109
Retained earnings		4,262,882	4,013,310
		22,269,446	22,013,430
Total liabilities and equity	$	55,485,053	66,290,685

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

The financial statements were approved on behalf of the Board of Directors on April 29, 2015 by the following:

Rodolfo Tabash Espinash
Director

Federico Odio
Director

BAC BAHAMAS BANK LIMITED

Statement of Comprehensive Income

Year ended December 31, 2014, with corresponding figures for 2013
(Expressed in United States dollars)

		2014	2013
Net interest:			
Interest income on cash and cash equivalents (note 6)	$	1,773,253	2,445,645
Interest income on loans		36,859	52,952
Interest income on investments		3,615	15,676
Interest expense (note 6)		(884,437)	(1,161,387)
Net interest income		929,290	1,352,886
Commission income		17,000	22,407
Commission expense		(12,231)	(9,607)
Net commision income		4,769	12,800
Other operating income (expense):			
Gain on sale of available-for-sale investments		4,831	33,404
Other income (note 6)		53,945	32,346
General and administrative (notes 6 and 13)		(746,614)	(747,216)
Reversal (increase) of allowance for loan loses (note 8)		8,806	(4,274)
Net operating expenses		(679,032)	(685,740)
Net income for the year	$	255,027	679,946
Other comprehensive income (loss)			
Items that are or may be reclassified to profit or loss			
Fair value reserve (available-for-sale investments):			
Net change in fair value	$	5,820	3,870
Net change in fair value transferred to profit or loss		(4,831)	(33,404)
Other comprehensive income (loss) for the year		989	(29,534)
Total comprehensive income for the year	$	256,016	650,412

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

BAC BAHAMAS BANK LIMITED

Statement of Changes in Equity

Year ended December 31, 2014, with corresponding figures for 2013
(Expressed in United States dollars)

	Number of shares		Share capital	Fair value reserve	Reserve for losses on loans	Retained earnings	Total
Balance at December 31, 2012	18,000,000	$	18,000,000	28,545	8,684	3,325,789	21,363,018
Net income for the year	0		0	0	0	679,946	679,946
Other comprehensive income for the year							
Fair value reserve(available-for-sale investments)							
Net transfer to profit and loss	0		0	(33,404)	0	0	(33,404)
Net change in fair value	0		0	3,870	0	0	3,870
Total other comprehensive loss for the year	0		0	(29,534)	0	0	(29,534)
Total comprehensive income for the year	0		0	(29,534)	0	679,946	650,412
Transfer to retained earnings (note 16)	0		0	0	(7,575)	7,575	0
Balance at December 31, 2013	18,000,000		18,000,000	(989)	1,109	4,013,310	22,013,430
Net income for the year	0		0	0	0	255,027	255,027
Other comprehensive income for the year							
Fair value reserve(available-for-sale investments)							
Net transfer to profit and loss	0		0	(4,831)	0	0	(4,831)
Net change in fair value	0		0	5,820	0	0	5,820
Total other comprehensive loss for the year	0		0	989	0	0	989
Total comprehensive income for the year	0		0	989	0	255,027	256,016
Transfer to retained earnings (note 16)	0		0	0	5,455	(5,455)	0
Balance at December 31, 2014	18,000,000	$	18,000,000	0	6,564	4,262,882	22,269,446

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

BAC BAHAMAS BANK LIMITED

Statement of Cash Flows

Year ended December 31, 2014 with corresponding figures for 2013
(Expressed in United States dollars)

		2014	2013
Cash flows from operating activities:			
Net income	$	255,027	679,946
Adjustments for:			
(Reversal) / increase of allowance for loan losses		(8,806)	4,274
Gain on sale of available-for-sale investments		(4,831)	(33,404)
Depreciation		5,945	9,830
Net interest income		(929,290)	(1,352,886)
		(681,955)	(692,240)
Changes in operating assets and liabilities:			
Loans to customers		335,200	330,152
Other receivables and assets		(12,931)	(10,801)
Demand deposits		(5,716,788)	(4,667,274)
Time deposits		(5,275,127)	(10,707,683)
Other liabilities		(3,816)	775
		(11,355,417)	(15,747,071)
Interest received		1,820,458	2,518,151
Interest paid		(950,354)	(1,211,881)
Net cash used in operating activities		(10,485,313)	(14,440,801)
Cash flows from investing activities			
Additions of furniture and equiment		(5,238)	(1,098)
Proceeds from sale of available-for-sale investments		372,477	1,335,502
Purchases of available-for-sale investments		0	(810,537)
Net cash provided by investing activities		367,239	523,867
Decrease in cash and cash equivalents during the year		(10,118,074)	(13,916,934)
Cash and cash equivalents at beginning of year		64,785,548	78,702,482
Cash and cash equivalents at end of year	$	54,667,474	64,785,548

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

1. Reporting entity

BAC Bahamas Bank Limited ("the Bank") was incorporated under the laws of The Commonwealth of The Bahamas on August 13, 1992 and was granted a banking license on March 16, 1992 by The Central Bank of The Bahamas. The Bank's registered office is located at Norfolk House, Frederick Streets, Nassau, Bahamas.

The Bank is a wholly owned subsidiary of BAC International Bank, Inc. (the Parent Company), a bank incorporated in the Republic of Panama. The Parent Company is ultimately owned by Grupo Aval Acciones y Valores S.A., a company incorporated in Colombia.

The Bank is primarily involved in investment, corporate and retail banking.

A substantial portion of the Bank´s business is with the related parties. A significant amount of the Bank´s cash and cash equivalents are held with related parties and the Bank´s revenue is primarily from the interest income on such cash and cash equivalents (See note 6). Accordingly, the Bank is economically dependent on these related parties and is exposed to a significant credit risk in respect of the related parties' balances at the reporting date.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for available-for-sale investments which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in United States dollars ($), which is the Bank's functional currency.

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are disclosed in the following notes:

- Fair value measurement (note 3(d)(iv) and 15)
- Impairment (note 3(d)(vii), 3(h) and 5)
- Allowance for loan losses (note 3(f) and 5)

2. Basis of preparation, continued

(e) Change in accounting policy

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32)

Effective January 1, 2014 as a result of the amendments to IAS 32, the Bank has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The change did not have any material impact on the Bank's financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for 3 (d)(vi).

(a) Foreign currency

Assets and liabilities in foreign currencies are translated at prevailing exchange rates at the reporting date. Transactions in foreign currencies during the year are translated at exchange rates in effect on the date of the transaction. Differences arising from such translations are presented as other operating income (expenses) in the statement of comprehensive income.

(b) Interest

Interest income and expense are recognized as part of profit or loss in the statement of comprehensive income using the effective interest rate method. This method uses a rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate method.
- interest income on available-for-sale investments.

(c) Fees and commission

Fees and commission income that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including service commissions are recognized as the related services are provided.

Deferred loan fees, if any, are amortized over the period of the loan using the effective interest rate method.

3. Significant accounting policies, continued

(d) Financial instruments

(i) Classification

Financial instruments include financial assets and financial liabilities.

In classifying financial assets in each of the categories described below, the Bank has determined that it meets the description or criteria set out in the accounting policies.

The Bank has not designated any financial instruments as "fair value through profit or loss". These are investments at fair value, with fair value changes recognized immediately in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank has classified loans to customers, accrued interest receivable and other receivables as loans and receivables.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. The Bank has not classified any financial assets as "Held-to-maturity".

Available-for-sale investments are those non-derivative financial assets that have not been classified as loans and receivables, held-to-maturity assets or financial assets at fair value through profit or loss. The Bank has classified all of its investments as "Available-for-sale investments". As of December 31, 2013, the available-for-sale investments are comprised of debt securities.

The Bank considers due from banks with original maturities of three months or less that are subject to insignificant risks of changes in their fair value and are used by the Bank in the management of its short-term commitments, to be cash and cash equivalents.

Financial liabilities include demand and time deposits from customers, accrued interest payable and other liabilities.

(ii) Recognition

The Bank initially recognizes loans to customers and demand and time deposits from customers, on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date which is when the Bank becomes a party to the contractual provisions of the instrument.

(iii) Measurement

Financial instruments are measured initially at fair value plus, in the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss and available-for-sale investments are expensed immediately, while on other financial instruments they are amortized.

3. Significant accounting policies, continued

(d) Financial instruments, continued

(i) Measurement, continued

Subsequent to initial recognition, financial assets classified as loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method, less impairment losses, if any. Financial liabilities are carried at amortized cost.

Subsequent to initial recognition, available-for-sale investments are carried at fair value and changes in the fair value, other than impairment losses (see note 3(d)(vii)) are recognized in other comprehensive income and presented in the fair value reserve in equity, until an asset is considered to be impaired, at which time the loss is recognized in profit or loss in the statement of comprehensive income. When the asset is sold, collected, or otherwise disposed of, the cumulative gain or loss recognized in the statement of changes in equity is recorded in profit or loss in the statement of comprehensive income.

(iv) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or transaction is closed out.

The Bank recognized transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies, continued

(d) Financial instruments, continued

(v) Derecognition

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

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

Transactions whereby the Bank transfers assets recognized on its statement of financial position, but retains either significantly all risks and rewards of the transferred assets or a portion of them are not derecognized from the statement of financial position. The Bank also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

(vi) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by IFRS or for gains and losses arising from similar transactions. See 2(e), the amendments to IAS 32, did not have any material impact on the Bank's financial statements.

(vii) Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the absence of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

3. Significant accounting policies, continued

(d) Financial instruments, continued

(vii) Identification and measurement of impairment, continued

Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rates. Impairment losses are recognized in the statement of comprehensive income and reflected in an allowance account against loans to customers. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount on an impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances with banks and highly liquid financial assets, which are subject to insignificant risk of changes in their fair value, and used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(f) Loans receivable

As described in note 3(d) (i), loans receivable are non-derivative financial assets with fixed or determinable payments that are not quote in an active marked and that the Bank does not intend to sell immediately or in the near term.

3. Significant accounting policies, continued

(f) Loans receivable, continued

Loans receivable are stated at their outstanding unpaid principal balances adjusted for unearned income, when applicable, and are presented net of specific and general allowances for collectability.

Specific allowances are made against the carrying amount of loans that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans to their estimated recoverable amounts at the reporting date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the statement of comprehensive income. Once a loan is determined to be uncollectible, all necessary legal procedures have been completed, and the final loss has been quantified, the loan is written off.

(g) Furniture and equipment

Furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of furniture and equipment.

The estimated useful lives for the current and corresponding periods are as follows:

- Equipment 3 - 5 years
- Fixtures and fittings 5 - 10 years

Depreciation methods and useful lives are reassessed at the reporting date.

Expenditure for maintenance and repairs are charged against income. At the time of disposal or retirement of assets, the cost and related accumulated depreciation are eliminated, and any resulting profit or loss is reflected in the statement of comprehensive income.

(h) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

3. Significant accounting policies, continued

(h) Impairment of non-financial assets, continued

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Related parties

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

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

(ii) has significant influence over the Bank; or

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

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

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

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

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

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

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

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

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

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

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginnings after 1 January 2014, and have not been applied in the preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt theses standards early.

a) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective to annual periods beginning on or after 1 January 2018 with early adoption permitted.

The management has not completed its assessment of the expected impact of this standard on the Bank´s financial statements.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The management is evaluating the possible impact of the application of the IFRS 15 on its financial statements.

4. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

4. Financial risk management, continued

(a) Introduction and overview, continued

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability committee ("ALCO committee"), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to regulatory and internal limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank aims to develop a disciplined and constructive control environment through trainings, established procedures, and manuals, in which all employees understand their roles and responsibilities.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

This following section provides information of the Bank's exposure to risk and describes the methods used by management to control risks. The most significant types of financial risk to which the Bank is exposed are credit, liquidity, and price risk. Market risk includes currency risk, interest rate risk and price risk.

(b) Credit risk

Management of credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investments. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on investments is managed independently, but reported as a component of market risk exposure.

(Expressed in United States dollars)

4. Financial risk management, continued

(b) Credit risk, continued

Management of credit risk, continued

The Bank's maximum credit risk exposure is shown below:

		2014	2013
Cash and cash equivalents	$	54,667,474	64,785,548
Loans to customers, net		760,715	1,087,109
Investments		0	366,657
Accrued interest receivable		1,088	7,819
Other receivables and assets		45,478	32,547
	$	55,474,755	66,279,680

The Board of Directors has delegated responsibility for the management of credit risk to the Parent Company's Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers.

  Larger facilities require approval by the Head of the Credit Committee or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographic areas and industries (for loans to customers), and by issuer, credit rating band, market liquidity and country (for investments).
- Developing and maintaining the Bank's risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of nine grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving committee or executive as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.

(Expressed in United States dollars)

4. Financial risk management, continued

(b) Credit risk, continued

Management of credit risk, continued

- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank management of credit risk.

Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all related to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risk in its portfolios, including those subjects to central approval. Regular audits of business units and credit processes are undertaken by Parent Company´s Internal Audit department.

Exposure to credit risk of loans to customers is shown below.

		2014	**2013**
Grade 1 Low Risk		0	0
Grade 2 Fair Risk		0	0
Grade 3 Fair Risk		761,770	20,916
Grade 4 Average Risk		0	1,076,054
Grade 5 Watch List		0	0
Grade 6 Marginal		0	0
Grade 7 Substandard		0	0
Grade 8 Doubtful		0	0
Grade 9 Impaired		0	0
Gross amount		761,770	1,096,970
Allowance for impairment		(1,055)	(9,861)
Total carrying amount	$	760,715	1,087,109

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans not subject to individual assessment for impairment.

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans agreements. These loans are graded 7 to 9 in the Bank's internal credit risk grading system. At December 2014 and 2013, there are no grade 7 to 9 loans.

4. Financial risk management, continued

(b) Credit risk, continued

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. At December 2014 and 2013, there are no loans with renegotiated terms.

Write-off policy

The Bank writes off a loan/investment (and any related allowances for impairment losses) when the Credit Committee determines that the carrying value of the loan/investment is not recoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer meet the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Collateral

The Bank holds collateral in respect of loans to customers in the form of cash mortgages over property, chattel mortgages and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At December 31, 2014 and 2013, an estimate of the fair value of collateral held for mortgages and chattel mortgages in respect of financial assets was $725,014 and $1,076,054 respectively.

Concentration of credit risk

The Bank monitors concentration of credit risk by geographic location. As of December 31, 2014, there was concentration of credit risk in respect of loans to customers in Panama amounting to $761,770 (2013: $1,096,970). Concentration by location of loans to customers is measured based on the location of the costumers holding the asset, which has a high correlation with the location of the borrower. Concentration by location of investments is measured based on the location of the issuer of the security.

As of December 31, 2014, there was concentration of credit risk in respect of cash and cash equivalents with related parties amounting to $32,421,741 (2013: $58,625,984). The credit risk exposure arising from these balances held with related party balances is managed at the group level.

4. Financial risk management, continued

(b) Credit risk, continued

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a borrower to honor its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from risk committees.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Liquidity risk exposures are measured by liquidity ratio limits established by the ALCO Committee.

The Parent Company's Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The liquidity position is monitored on a daily basis and regular liquidity stress testing is conducted under scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the ALCO Committee. Weekly reports cover the liquidity position of local and foreign currency. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the ALCO Committee.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the maturity wise analysis, volatility measurements and stress testing. For this purpose, net liquid assets are considered to include cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month, including any statistical analysis of assets and liabilities that may not have a defined maturity.

4. Financial risk management, continued

(c) Liquidity risk, continued

Exposure to liquidity risk, continued

The following table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity.

		Carrying amount	Gross Nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
December 31, 2014							
Demand deposits from customers	$	11,404,736	11,404,736	11,404,736	0	0	0
Time deposits from customers		21,637,028	22,454,327	2,869,601	4,176,373	5,503,786	9,904,567
	$	33,041,764	33,859,063	14,274,337	4,176,373	5,503,786	9,904,567
December 31, 2013							
Demand deposits from customers	$	17,121,524	17,121,524	17,121,524	0	0	0
Time deposits from customers		26,912,155	27,989,533	5,602,205	6,211,972	6,592,891	9,582,465
	$	44,033,679	45,111,057	22,723,729	6,211,972	6,592,891	9,582,465

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. Overall authority for market risk is vested in the ALCO Committee. Risk committees are responsible for the development of detailed risk management policies (subject to review and approval by the ALCO Committee) and for the day-to-day review of their implementation.

Management of market risks

Exposure to currency risk:

The Bank conducts all of its transactions denominated in United States dollars and therefore, is not exposed to any currency risk.

Exposure to interest rate risk – non-trading portfolios:

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

4. Financial risk management, continued

(d) Market risk, continued

Management of market risks, continued

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands, economic value of equity exposure, including on and off statement of financial position. The ALCO Committee is the monitoring body for compliance with these limits and is assisted by Parent Company's Risk Management in its day-to-day monitoring activities.

A summary of the interest rate gap position on the Bank´s financial instruments is shown below.

			Days					
(Expressed in $000's)		Total	0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2014								
Assets								
Cash and cash equivalents	$	32,421	32,421	0	0	0	0	0
Loans (Gross)		762	37	0	0	0	0	725
Total		33,183	32,458	0	0	0	0	725
Liabilities								
Demand deposits		11,405	11,405	0	0	0	0	0
Time deposits		21,637	2,865	4,157	4,008	1,410	5,767	3,430
Total		33,042	14,270	4,157	4,008	1,410	5,767	3,430
Net interest gap	$	141	18,188	(4,157)	(4,008)	(1,410)	(5,767)	(2,705)

			Days					
(Expressed in $000's)		Total	0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2013								
Assets								
Cash and cash equivalents	$	58,626	58,626	0	0	0	0	0
Loans (Gross)		1,097	21	0	0	0	0	1,076
Investments		367	0	0	0	0	0	367
Total		60,090	58,647	0	0	0	0	1,443
Liabilities								
Demand deposits		17,121	17,121	0	0	0	0	0
Time deposits		26,912	5,593	6,188	2,758	3,708	4,385	4,280
Total		44,033	22,714	6,188	2,758	3,708	4,385	4,280
Net interest gap	$	16,057	35,933	(6,188)	(2,758)	(3,708)	(4,385)	(2,837)

4. Financial risk management, continued

(d) Market risk, continued

Cash flow sensitivity analysis for variable rate instruments:

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's variable rate assets and liabilities. An increase or decrease of 100 basis points would have increased or decreased equity and profit or loss by $1,405 (2013: $156,792). This analysis assumes that all other variables remain constant. The analysis is performed using the same assumptions used in 2013.

Fair value Sensitivity analysis for fixed rate instruments:

The Bank does not account for any fixed rate instruments at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not impact profit or loss.

(e) Operational risks

Operational risk is the risk of direct or indirect loss or damage in any form arising from a wide variety of causes associated with the Parent Company and Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

As per Basel II, operational risk management is performed as a continuous process, with several distinct components:

- risk identification & assessment,
- risk mitigation (control development & implementation),
- control self-assessment (control testing),
- risk monitoring (key risk indicators follow up),
- risk measurement (incident collection & capital calculation), and
- control environment assessment & management (control culture measurement & corrective action implementation).

The primary responsibility for operational risk management is assigned to senior management within each business unit. This responsibility is supported by the development of overall policies and a central unit (Parent Company's Operational Risk Management Department) coordinates and follows up on the business unit's performance. Status and developments are reported to a bi-monthly Operational Risk Committee, this Committee oversees the risk management cycle. Additionally, compliance with the Bank's policies is supported by periodic reviews undertaken by the Parent Company's Internal Audit department. The results of internal audit reviews are discussed with the business unit's management and then summaries are submitted to the Audit Committee and senior management of the Bank.

4. Financial risk management, continued

(f) Capital management

The Central Bank of The Bahamas requires the Bank to maintain a minimum ratio of total capital to risk-weighted assets of 8%. The capital to risk-weighted assets ratio at December 31, 2014 was 189.49% (2013: 152.19%).

The Bank's policy is to maintain a strong capital base so as to maintain the confidence of stakeholders and to sustain future development of the business. The Bank has complied with all externally imposed capital requirements throughout the year.

There were no changes in Bank's approach to capital management during the year.

5. Critical accounting estimates and judgments in applying accounting policies

The Bank's management has made a number of estimates and assumptions relating to the reported amount of assets, liabilities, results of operations and commitments and contingencies, based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Loan impairment provisions and losses

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

The Bank makes it best judgment as to whether there is any observable data indicating that there is a measurable decrease in the recoverable amount of a loan portfolio using estimates based on historical loss experience for loans with similar characteristics.

(b) Impairment of securities

The Bank determines that securities are impaired when there has been a significant and prolonged decline in the fair value as compared to the carrying value. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(Expressed in United States dollars)

6. Related party balances and transactions

Related parties comprise entities under common ownership and control. Balances and transactions with related parties are shown below:

		2014	2013
Assets			
Cash and cash equivalents	$	32,421,741	58,625,984
Lialibities			
Demand deposits from customers	$	661,335	2,937,642
Time deposits from customers		1,000,000	1,613,634
Accrued interest payable		1,653	9,084
Other liabilities		6,017	11,017
Income			
Interest on deposits	$	1,773,253	2,445,634
Other income		36,360	17,907
Expenses			
Interest	$	43,388	59,645
General and administrative		60,000	60,000

During the current year, related parties charged the Bank $60,000 (2013: $60,000) for administrative services.

Payroll costs paid to key management personnel amounting to $276,874 (2013: $260,802) are included in personnel costs as part of general and administrative expenses.

7. Cash and cash equivalents

The cash and cash equivalents comprise of cash in hand and deposits with banks. The geographical distribution of cash and deposits in banks by country of the head office is as follows:

		2014	2013
Panama	$	32,162,021	58,450,101
United States of America		22,242,157	6,152,714
Costa Rica		259,527	175,691
The Bahamas		3,576	6,849
Grand Cayman		193	193
	$	54,667,474	64,785,548

At December 31, 2014, cash and cash equivalents earned interest at rate ranging between 0.00% to 3.24% (2013: 0.00% to 3.75%) per annum.

(Expressed in United States dollars)

8. Loans to customers, net

At December 31, 2014, the loan portfolio was segmented by industry as follows:

		2014	2013
Consumer	$	36,756	20,916
Commercial		725,014	1,076,054
		761,770	1,096,970
Less allowance for loan losses		(1,055)	(9,861)
	$	760,715	1,087,109

At December 31, 2014 and 2013, the Bank did not have non-accrual or past due loans. At December 31, 2014 and 2013, loans earn interest at 4.50% (2013: 4.50%) per annum.

The changes in the allowance for loan losses are presented below:

		2014	2013
Balances at beginning of year	$	9,861	5,587
(Reversal) increase of allowance for loan losses		(8,806)	4,274
Balance at end of year	$	1,055	9,861

9. Investments

During the year, the Bank sold its available-for-sale investments securities and recognized as gain of $4,831 (2013:$33,404)

10. Demand deposits

At December 31, 2014, demand deposits are from customers primarily domiciled in Central America. Demand deposits bear interest at various rates up to 0.05% (2013: 0.05%) per annum.

11. Time deposits

At December 31, 2014, the majority of the time deposits were due within one year with annual interest rates ranging between 1.25% to 6.00% (2013: 1.00% to 6.00%) and are from customers primarily domiciled in Central America.

12. Share capital

At December 31, 2014 and 2013, share capital is represented by 18,000,000 ordinary registered shares of $1.00 par value each, for a total of $18,000,000.

(Expressed in United States dollars)

13. General and administrative expenses

General and administrative expenses are shown below:

		2014	2013
Personnel	$	345,401	329,589
Corporate services		60,000	60,000
Outside services		68,545	86,601
Depreciation		5,945	9,830
Other		266,723	261,196
	$	746,614	747,216

14. Taxes

The Bank is not subject to income tax under the laws of The Commonwealth of The Bahamas. In accordance with the current tax regulations in Panama, the Bank is exempt from the payment of income taxes on profits derived from foreign operations. In addition, profits derived from interest earned on time deposits and interest earned from Panama Government securities is also exempt from the payment of income taxes.

15. Measurement of fair values

A number of the Bank´s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

15. Measurement of fair values, continued

During the year 2013, Management hired a price service provider, which uses an in-house model to determine average price using data from observable market inputs.

The Bank recognizes transfers between levels of fair value hierarchy as of the end of the reporting period during which the change has occurred. No financial instrument was transferred between three levels of the fair value hierarchy as of December 31, 2014.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) Cash and cash equivalents

The carrying amounts approximate fair value because of the short-term maturities of these instruments.

(b) Loans to customers

The fair value of loans to customers is estimated by discounting future cash flows using the interest rates offered for loans with similar characteristics.

(c) Investments available-for-sale

The fair value of investments is estimated based on quoted bid prices at the reporting date. The fair value of investments that do not have a quoted price in an active market is estimated based on the most recent reported sales price close to year end. For all other investments the Bank determines fair values using valuation techniques that include net present value and discounted cash flow models.

(d) Demand and time deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting future cash flows using the rates offered for deposits with similar remaining maturities.

As of December 31, 2014 the following table sets out the fair values of Bank´s significant financial instruments not measured at fair value (loans to customers and time deposits) and those measured at fair value (such as investment) and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

(Expressed in United States dollars)

15. Measurement of fair values, continued

The fair value information for the financial assets and financial liabilities whose carrying amounts approximate their fair values (such as cash and cash equivalents and demand deposit) are not included in this table.

		Level 1	Level 2	Level 3	Total fair value	Total carrying amount
December 31, 2014						
Assets:	$					
Loans to customers, net		0	0	758,523	758,523	760,715
Liabilities:						
Time deposits from customers		0	0	21,891,521	21,891,521	21,637,028

		Level 1	Level 2	Level 3	Total fair value	Total carrying amount
December 31, 2013						
Assets:	$					
Investments		0	366,657	0	366,657	366,657
Loans to customers, net		0	0	1,084,801	1,084,801	1,087,109
Liabilities:						
Time deposits from customers		0	0	27,213,647	27,213,647	26,912,155

16. Reserve for losses on loans (regulatory requirements)

Certain regulations applicable to the Parent Company are also applicable to its subsidiaries. On May 28, 2013, the Superintendence of Banks of Panamá issued the Agreement No. 004-2013 whereby provisions are set out for the management and administration of the inherent credit risk in letter of credit and off-balance operations. This Agreement is effective as of June 30, 2014 and is applicable to the Bank.

Among other things, this Agreement defines the classification categories of credit facilities for the specific and dynamic provisions as well as the criteria that the policies for restructured loans, financial guarantees, and charge off operations should contain. The dynamic provisions were established by the Superintendence, as prudential regulation, in order to meet future needs of specific provisions. The Specific provision for impairment of the loan portfolio should be determined and recognized in the financial statements in accordance with the credit facilities´ classification within the risk categories currently in use and calculated based on minimum percentages weighted by each category specified in the Agreement. The Agreement also requires establishing the dynamic provision, to be determined and recognized quarterly as reserves in equity following certain calculation criteria and restrictions that will be implemented gradually.

16. Reserve for losses on loans (regulatory requirements), continued

The Agreement establishes that the dynamic reserve cannot be less than 1.25% nor greater than 2.50% of risk-weighted assets related to credit facilities classified as normal. Accordingly, at December 31, 2014, the Bank, is required to establish a reserve/ provision in the amount of $5,988, comprised of dynamic provision, as part of equity through the appropriation of retained earnings.

Furthermore, the Central Bank of the Bahamas does not expect that general allowance for loan losses should be less than 1% of the total loan portfolio, which amounts to $7,619 (2013: $10,970).

While the Bank is required to establish and/or maintain loan losses reserves, as described above, based on management's assessment, the required total allowance for loan losses calculated in accordance with IFRS as at December 31, 2014 amounted to $1,055 (2013: $9,861). Therefore, the Bank has established a reserve of $6,564 (2013: $1,109), which is the difference between IFRS allowance for loan losses and the maximum requirement of its regulators, in the equity section of the statement of financial position by making an appropriation and transfer from retained earnings.