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Multi Financial Group, Inc. and Subsidiaries

Consolidated financial statements for the year ended December 31, 2013 and Independent Auditors' Report of March 19, 2014

Multi Financial Group, Inc. and Subsidiaries

Independent Auditors' Report
and 2013 Consolidated Financial Statements

Contents

(Free English Language Translation of Spanish Version)

INDEPENDENT AUDITOR´S 'REPORT

Shareholders and Board of Directors of
Multi Financial Group, Inc.
Panama, Republic of Panama

We have audited the accompanying consolidated financial statements of **Multi Financial Group, Inc. and Subsidiaries** which comprise the consolidated statement of financial position at December 31, 2013, and the consolidated statements of profit or loss, comprehensive income, changes in shareholder's equity and cash flows for the year 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, 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 **Multi Financial Group, Inc. and Subsidiaries** 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.

(Signed) Deloitte

March 19, 2014
Panama, Republic of Panama

Multi Financial Group, Inc. and Subsidiaries

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

	Notes	2013	2012
Assets			
Cash and cash effects	8	28,020,699	35,696,783
Due from banks:	8		
At sight- domestic		20,849,405	17,206,716
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		277,993,151	220,283,922
Total cash, cash effects and bank deposits		306,013,850	255,980,705
Securities bought under resale agreements	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:	7, 13		
Domestic		1,539,719,400	1,357,576,269
Foreign		595,515,373	460,450,982
		2,135,234,773	1,818,027,251
Less:			
Allowance for uncollectible loans:		34,945,571	31,511,271
Unearned interest and commission		10,889,237	7,099,102
Loans, net		2,089,399,965	1,779,416,878
Property, furniture, equipment and improvements, net	14	45,688,797	27,726,425
Others assets:			
Accrued interest receivable	7	20,214,811	15,544,163
Guarantee deposits		803,750	850,083
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
Foreclose assets	17	4,326,635	5,266,085
Other assets	7, 18	43,984,572	43,003,962
Total other assets		83,782,252	78,469,415
Total assets		3,100,599,637	2,571,307,733

	Notes	2013	2012
Liabilities and shareholders' equity			
Liabilities			
Due to Depositors:	7		
At sight - domestic		189,175,579	171,297,540
At sight - foreign		307,774,125	289,037,191
Saving Accounts		287,857,517	225,559,846
Time - domestic		880,341,462	789,012,656
Time - foreign		342,649,853	303,471,607
Total due to depositors		2,007,798,536	1,778,378,840
Securities sold under repurchase agreements	11, 19	90,078,000	36,107,106
Borrowed funds	20	537,144,128	355,026,698
Subordinated debt	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	70,316,039	57,970,640
Total other liabilities		119,055,173	94,623,419
Total liabilities		2,796,359,837	2,300,256,063
Shareholders' equity			
Common shares	24	151,077,751	111,077,751
Preferred shares	25	73,370,300	73,370,300
Adjustment for foreign currency conversion		(1,395,050)	1,562,913
Reserves	14, 15, 26	(2,520,302)	(3,137,469)
Net changes in securities available for sale		(35,143,983)	(2,259,857)
Retained earnings		117,640,392	89,239,968
Total equity of majority shareholders		303,029,108	269,853,606
Non-controlling interest in subsidiary		1,210,692	1,198,064
Total shareholders' equity		304,239,800	271,051,670
Total liabilities and shareholders' equity		3,100,599,637	2,571,307,733

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

Multi Financial Group, Inc. and Subsidiaries

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		142,225,558	116,069,611
Time deposits		477,133	599,774
Securities		18,416,852	13,363,057
Total interest earned		161,119,543	130,032,442
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
Remittances	27	14,022,092	11,939,565
Others		11,120,798	10,681,485
Total commissions earned		48,096,499	42,002,400
Total interest and commission income, net		209,216,042	172,034,842
Interest expenses and commissions:	7		
Interest		65,554,806	57,052,022
Commissions		9,348,210	9,307,272
Total interest expense and commissions		74,903,016	66,359,294
Net interest income and commissions, before provisions		134,313,026	105,675,548
Allowance for loan losses	13	9,287,518	10,847,779
Allowance for losses in foreclosed assets	17	628,151	(12,068)
Net interest income and commissions, after provisions		124,397,357	94,839,837
Other income (expenses):			
(Loss) net gain on sale of securities available for sale	11	(2,216,366)	8,372,638
(Loss) net gain on sale of securities at fair value	10	(617,727)	770,146
Net gain unrealized on securities at fair value with changes in profit or loss	10	117,425	379,049
Gain on foreign currency	32	1,983,073	1,877,535
Insurance premium, net		2,945,298	1,555,656
Other (expenses) income, net		(1,043,323)	1,301,234
Total other income, net		1,168,380	14,256,258
Total operating income, net		125,565,737	109,096,095
General and administrative expenses			
Salaries and other remunerations	7	41,482,803	35,898,650
Other personnel expenses		2,184,222	1,625,520
Professional fees		4,200,597	4,662,604
Advertising and promotions		2,809,170	2,825,370
Depreciation and amortizations	14	3,950,297	2,684,494
Repair and maintenance of equipment		2,534,105	2,828,329
Maintenance of premises		2,927,037	2,500,908
Rent	7, 28	4,958,446	4,805,986
Taxes other		3,917,573	2,000,068
Communications		1,982,031	1,845,693
Transportation and logistics		1,144,330	1,312,904
Stationery and office supplies		945,082	965,575
Travels and meetings		1,151,336	775,862
Insurance		806,624	799,516
Others		2,803,695	4,632,849
Total general and administrative expenses		77,797,348	70,164,328
Income before income tax		47,768,389	38,931,767
Income taxes, net	29	(8,643,000)	(4,675,300)
Net income		39,125,389	34,256,467
Attributable to:			
Holding company		39,112,761	34,333,403
Non-controlling interest in subsidiary		12,628	(76,936)
Net income of the year		39,125,389	34,256,467
Net earnings per share attributable to shareholders:	23		
Basic		2.17	2.01

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

Multi Financial Group, Inc. and Subsidiaries

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		39,125,389	34,256,467
Adjustments for:			
Allowance for loans losses	13	9,287,518	10,847,779
Allowance for losses on foreclosed assets	17	628,151	(12,068)
Unrealized (gain) loss on securities at fair value with changes in profit or loss	10	(117,425)	(379,049)
Depreciation and amortization	14	3,950,297	2,684,494
Income tax	30	7,843,318	4,776,265
Deferred income tax	30	799,682	(100,965)
Interest income		(161,119,543)	(130,032,442)
Interest expenses		65,554,806	57,052,022
Net changes in operating assets and liabilities:			
Deposit with more than 90 days		(4,069,539)	(3,559,761)
Increase in loans		(319,270,605)	(420,516,699)
Increase in other assets		443,288	(12,471,256)
Increase in due to deposits		229,419,696	315,195,550
Increase in other liabilities		8,284,261	14,512,776
Income tax paid	30	(1,066,266)	(1,372,719)
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		156,448,895	129,104,818
Interest paid		(60,290,568)	(50,744,552)
Net cash used in operating activities		(19,893,964)	(52,585,947)
Cash flows from investing activities:			
Sales of securities bought under resale agreements		(1,281,000)	-
Purchase 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)
Capital amortization of securities held to maturity	12	22,620	-
Additions of fixed assets, net of disposals	14	(21,912,669)	(5,783,987)
Net cash used in investment activities		(204,934,514)	(12,899,979)
Cash flows from financing activities:			
Securities under repurchase agreement		53,970,894	(56,916,678)
Borrowed funds		182,117,430	163,673,759
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	24	40,000,000	4,390,344
Issuance of preferred shares	25	-	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 from financing activities		270,792,084	100,297,495
Net increase in cash and cash equivalents		45,963,606	34,811,569
Cash and cash equivalents at beginning of year	8	250,295,705	215,484,136
Cash and cash equivalents at end of year	8	296,259,311	250,295,705
Transaction not generating cash flows			
Reclassification of securities available for sale to securities held to maturity	11,12	136,030,568	-

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

Multi Financial Group, Inc. and Subsidiaries

Consolidated statement of profit or loss and other comprehensive income
For the year ended December 31, 2013
(In balboas)

	Note	2013	2012
Net income of the year		39,125,389	34,256,467
Other comprehensive income:			
Net change in securities available for sale	10	(32,884,126)	10,209,228
Adjustments for currency conversion		(2,957,963)	1,156,760
Total net comprehensive income of year		3,283,300	45,622,455
Total net comprehensive income for the year attributable to:			
Holding company		3,270,672	45,699,391
Non-controlling interest in subsidiary		12,628	(76,936)
Net comprehensive income of the year		3,283,300	45,622,455

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

Multi Financial Group, Inc. and Subsidiaries

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

	Notes	Equity attributable to shareholder: Common shares	Preferred shares	Adjustment of foreign currency conversion	Paid in Capital in excess	Contingency Reserve	Insurance regulatory reserve	Capital statutory reserve	Revaluation on property	Total Reserve	Net change is securities available for sale	Retained earnings	Total equity attributable to owners of company	Non- controlling interests in Subsidiary	Total
Balance at December 31, 2011		106,687,407	59,977,500	406,153	(5,454,054)	1,001,513	21,981	-	-	(4,430,560)	(12,469,085)	65,811,720	215,983,135	-	215,983,135
Plus comprehensive income consisting of:															
Net income of the year		-	-	-	-	-	-	-	-	-	-	34,333,403	34,333,403	(76,936)	34,256,467
Net change in securities available for sale	11	-	-	-	-	-	-	-	-	-	10,209,228	-	10,209,228	-	10,209,228
Adjustment for currency conversion		-	-	1,156,760	-	-	-	-	-	-	-	-	1,156,760	-	1,156,760
Total comprehensive income of the year		-	-	1,156,760	-	-	-	-	-	-	10,209,228	34,333,403	45,699,391	(76,936)	45,622,455
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		-	-	-	-	-	-	-	-	-	-	(548,833)	(548,833)	-	(548,833)
Adjustment of contingency reserve		-	-	-	-	735,313	-	-	-	735,313	-	(45,510)	689,803	-	689,803
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 on revaluation of property		-	-	-	-	-	-	-	72,696	72,696	-	-	72,696	-	72,696
Balance at December 31, 2012		111,077,751	73,370,300	1,562,913	(5,454,054)	1,736,826	295,465	211,598	72,696	(3,137,469)	(2,259,857)	89,239,968	269,853,606	1,198,064	271,051,670
Plus comprehensive income consisting of:															
Net income of the year		-	-	-	-	-	-	-	-	-	-	39,112,761	39,112,761	12,628	39,125,389
Net change in securities available for sale	11	-	-	-	-	-	-	-	-	-	(32,884,126)	-	(32,884,126)	-	(32,884,126)
Adjustment for currency conversion		-	-	(2,957,963)	-	-	-	-	-	-	-	-	(2,957,963)	-	(2,957,963)
Total comprehensive income of the year		-	-	(2,957,963)	-	-	-	-	-	-	(32,884,126)	39,112,761	3,270,672	12,628	3,283,300
Issuance of common shares		40,000,000	-	-	-	-	-	-	-	-	-	-	40,000,000	-	40,000,000
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		-	-	-	-	-	-	-	-	-	-	971,862	971,862	-	971,862
Adjustment of contingency reserve		-	-	-	-	(48,192)	-	-	-	(48,192)	-	48,192	-	-	-
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 on revaluation of property		-	-	-	-	-	-	-	39,146	39,146		-	39,146		39,146
Property sale results		-	-	-	-	-	-	-	-	-	-	292,301	292,301	-	292,301
Balance at December 31, 2013		151,077,751	73,370,300	(1,395,050)	(5,454,054)	1,688,634	734,749	398,527	111,842	(2,520,302)	(35,143,983)	117,640,392	303,029,108	1,210,692	304,239,800

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

1. General Information

Multi Financial Group, Inc. (the Group) is a corporation organized under the laws of the Republic of Panama through Public Deed No.27,702 of November 9, 2007. Its main activity is in the investment business.

Multi Financial Group, Inc.'s main office is located at Vía España, Prosperidad Building, Office #127, P.O. Box 823-05627, Zone 7, Panama, Republic of Panama.

The Group owns 100% of the issued and outstanding shares of Multibank, Inc. and subsidiaries (the Bank), Multi Investment, Inc. and subsidiaries; Instituto de Microfinanzas, S.A., Compañía Nacional de Inversiones y Desarrollo, S.A. and subsidiaries, Multigiros, S.A. and Orbis Reinsurance (formerly Multi Reinsurance, Ltd.) (The Group).

Following is a description of each of the activities developed by Multi Financial Group Inc. and its subsidiaries:

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

Each of the subsidiaries of Multibank, Inc. and the activities they develop are described as follows:

- Hemisphere Bank Inc., Ltd. was incorporated under the laws of the Turks & Caicos Islands on June 29, 1993. The entity is dedicated to commercial banking activities outside of the Turks & Caicos Islands.
- Gran Financiera, S.A. is a Panamanian company that started operations in January 1969. Its main activity is granting consumer loans.
- Multi Securities, Inc. is a Panamanian company that started operations in August 2004. Its main activities are to negotiate, execute and process the purchase and sale of securities, both domestically and internationally, and to manage investment portfolios, among others.
- Multi Capital Company, Inc. is a company incorporated in Charleston, Nevis Island and began operations on August 12, 1996. Its main activity is to provide 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 and manage trusts and grant services as a fiduciary. It started 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, organized and existing under the laws of the Republic of Colombia, incorporated on September 30, 1968. The company is registered and regulated by the Financial Superintendency of Colombia by means of Resolution 3140 of September 24, 1993. Its main activity is to provide remittances and financial intermediary services.

- 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 Subsidiaries, a company incorporated under the laws of British Virgin Islands on December 3, 2010. Its main activity is managing the collection and recovery of special credits and activities related to financial credits through subsidiaries.. Multi Facilities Holding Corporation is a wholly-owned subsidiary of Multibank, Inc. and maintains an 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 the commercial banking business outside the Cayman Islands. Started operations on March 1, 2013.

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

- Multi Investment, Inc. is a Panamanian company that started operations on September 1995. Its main activity is in real estate and it also owns 100% of the common shares of Multi Real Estate, S.A. and Inversiones Prosperidad, S.A.

- Multi Real Estate, S.A. is a Panamanian company that started operations in June 1991. Its main activity is to provide consulting services, real estate management, marketing and management of micro enterprises. The company owns 100% of the common shares of corporations created to register assets that were assigned and/or transferred under foreclosure processes to Multibank, Inc.

- Inversiones Prosperidad, S.A. was incorporated under the laws of the Republic of Panama on April 7, 1967. Its main activity is to render lease and real estate services.

- Instituto de Microfinanzas, S.A. is a Panamanian company that started operations on February 1998. Its main activity is to provide technical training in management for small and medium companies.

- Compañía Nacional de Inversiones y Desarrollo, S.A. is a Panamanian company incorporated on February 2005 which owns and manages real estate properties. This company owns 100% of the common shares of Terrano Real Estate, S. A. and Western Village Development, S. A., whose main activity is real estate.

- Multigiros, S.A. is a company formed under Panamanian laws on June 30, 2008 and began operations on October 3, 2008. Its main business is to establish, manage and carry out in general the business of money remittances from and to Panama or any part of the world.

Regulatory Aspects

In the Republic of Panama, banks are regulated by the Superintendency, 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, as well as Resolutions and Agreements issued by that entity. Among the main aspects of this law are the following: authorization of banking licenses, minimum capital requirements and liquidity, consolidated supervision, procedures for managing credit and market risks for money laundering prevention, and bank intervention and settlement procedures, among others. Similarly, banks will be subject to an inspection at least, every two (2) years by the auditors of the Superintendency, 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 Securities Market of Panama issued the Agreement 8-2013, in which certain dispositions of Agreement 4-2011 of June 27, 2011 were modified regarding capital adequacy, solvency ratio, capital funds, liquidity ratio and risk concentrations that brokerage houses regulated by the Superintendency of Securities Market of Panama must meet.

Insurance Operations

Insurance operations in Panamá are regulated by the Superintendency of Insurance and Reinsurance of Panama, according to the regulations established by Law No.12 of April 03, 2012 "regulating the business of insurance and other provisions". It was established that IFRS implementation will begin on January 1, 2013. In case of conflict between one or more IFRS dispositions and the Law's dispositions, that 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 without effect on the consolidated financial statements during the period

- *IFRS 10 - Consolidated Financial Statements*

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

- *IFRS 11 - Joint Ventures*

  IFRS 11 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 agreements.

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

  IFRS 12 is a disclosure rule applying to entities that have interests in subsidiaries, joint arrangements, associates and/or non-controlling structured entities.

- *Amendments to IAS 1 – Presentation 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 profits or loss, and (b) consignments subsequently reclassified to income when certain conditions are met.

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

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

- *Amendment to IAS 19 Employee Benefits*

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

2.2 New and revised IFRS that affect 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 on 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, measurement and derecognition of financial assets and financial liabilities.

  Additionally, there were some amendments to the accounting of financial liabilities during 2013.

  The IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

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

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

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

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

- *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 satisfies certain criteria.

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

- *Amendments to IFRIC 21 Levies*

  A new interpretation providing guidance on when to recognize a liability for a levy imposed by 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 are certain.

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

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

3. Significant accounting policies

3.1 Basis of presentation

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

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS´s).

3.2 Basis of consolidation

The consolidated financial statements include the assets, liabilities, shareholders ´equity and results of operations of Multi Financial Group, Inc. and subsidiaries: Multibank, Inc. and Subsidiaries, Multi Investment, Inc. and Subsidiaries; Multigiros, S.A., Multi Reinsurance Ltd., Instituto de Microfinanzas, S.A.; Compañía Nacional de Inversiones y Desarrollo, S.A. and Subsidiaries.

Control is achieved when the Group has the power to govern the financial and operating policies of an entity in which it maintains an investment so as to obtain benefits from its activities. Subsidiaries are those entities in which the Group has directly or indirectly more than 50% of the common shares with voting rights and/or control.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company until the date that control ceases. The results of the acquisition or disposal of subsidiaries during the year are included in the consolidated statement of profit or loss from the effective date of its acquisition or disposal, as appropriate.

All significant balances and transactions among the group companies have been eliminated in the consolidation.

Non-controlling interests in subsidiaries are identified separately from the assets of the Group. The interests of non -controlling shareholders can either be initially measured at fair value or the proportion of non-controlling interests in fair value of the 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 the share of non-controlling interest share of interests 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 the Group's ownership interests in existing subsidiaries

Changes in ownership interests in subsidiaries of the Group which do not result in loss of control are accounted for within 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 interests were adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the controlling interest.

When the Group losses control of a subsidiary, recognizes a gain or loss 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 amount previous carrying 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 the equity are accounted for as if the Group had sold directly related assets (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 control is 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 Group 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 Group.

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

Transactions

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

Group entities

The functional currency of the subsidiary MB Crédito, SA (Costa Rica) before known as (Multi Resuelve, SA) and Macrofinanciera, SA is the United States Dollars of America. The results and financial position of the Group entity that have a functional currency different 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.
- Equity, at historical exchange rate.
- The resulting conversion adjustment is recorded in a separate account in the "Shareholder's Equity" section under the name of "Adjustment for foreign currency conversion."

3.5 Financial assets

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

Securities at fair value with changes in profit or loss

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

Securities held to maturity

Securities 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 for: (a) those that the entity intends to sell immediately or at short term, which are classified as trading, and those that the entity at initial recognition designates at fair value with changes in profit or loss; (b) those that the entity on initial recognition designates as available for sale; or (c) those that the holder does not substantially recover all of its initial investment, unless due to a credit impairment.

Loans are recognized at amortized cost using the effective interest method less any impairment, with income recognized on the effective rate base.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to receive cash flows have expired, or when the Group has transferred substantially all risks and rewards of ownership of the asset to another entity. If the Group does not transfer nor retain substantially all risks and rewards of ownership and continues with control over the asset, the Group recognizes its interest in the asset and the liability related to the amounts that would have to pay. If the Group retains substantially all risks and rewards of a transferred asset, the Group continues recognize the financial asset and also recognizes a liability secured by the proceeds received.

Transfer between categories

At each reporting period, the Group reviews the classification of all investments and evaluate if any change exists in the intention or the capacity to keep it in 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 profit or loss product of this asset that had been previously recognized in other comprehensive income shall be accounted for in the following way:

- In the case of a financial asset with a fixed maturity, the gain or loss will be recorded 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 the maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium or a discount. If the financial asset is subsequently impaired, any gain or loss that had been previously recognized in other comprehensive income to the consolidated statement of profit or loss.

- In the case, of one financial asset that does not have a fixed maturity, when the financial asset is sold, the non-realized gain or loss will be recognized in the profit or loss of the year. If the financial asset is subsequently impaired, any previously gain or loss that has been recognized in the other comprehensive income will be reclassified from equity to the consolidated statement of profit or loss of the year.

3.6 Financial liabilities and equity instruments issued by the Group.

Classification as debt or equity

Debt and equity instruments are classified as financial liabilities or as equity in accordance with the contractual settlement basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest on the assets of an entity after deducting all its liabilities. The equity instruments issued by the Group are recorded at the amount received net of direct costs of issuance.

Liabilities of financial guarantee contracts

Financial guarantees are considered contracts whereby an entity undertakes to make specific payments on behalf of a third party under the event the latter does not do it, regardless of the obligation guarantee: letters of guarantee, bank guarantee, and irrevocable credit issued or confirmed by the entity, insurance and derivative of credit.

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 consolidated 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 income statement of profit or loss 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 Management's judgment.

Financial liabilities

Financial liabilities are classified as financial liabilities with 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 over the effective rate base.

<u>Derecognition of financial liabilities</u>

The Group derecognizes financial liabilities when, and only when, the Group obligations are liquidated, cancelled or expired.

3.7 *Derivative financial instruments*

The Group 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 or loss based on the nature of the hedge relationship.

<u>Embedded derivatives</u>

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 Group 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 value of assets and liabilities due to fluctuations, among others, in the 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 Group.

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 in 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

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

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 they are collected due to their short-term maturity. 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 them.

3.11 Income and expenses for insurance operations

Income and expenses for insurance operations are recorded as follows:

- The premiums are recognized in the year of issuing the insurance policy. The premium income for the period provided in the policy contract is recognized at the time of initiation of coverage regardless of the state to pay the premium. Coverage begins with the acceptance of the insurance applications by the Company and payment of the premium, which may be at the full, contracted in installment or deferred when paid in premium.

- The expenditures for reinsurance and commissions and other income and expenses related to the issuance of the policy, are recognized in the same opportunity as premium income.

3.12 Impairment of financial assets

<u>*Loans*</u>

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider is granted to the borrower;
- It becoming probable that the borrower will enter into bankruptcy or another financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Group first evaluates whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

When a loan is uncollectible, it is written-off against the related allowance for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequently, the recoveries of the amounts previously written-off are credited to the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the loss is reversed by adjusting the allowance account and the amount of the reversal is recognized in the income statement.

Assets classified as available for sale

As of the date of the consolidated statement of financial position, the Group 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 the security below cost is taken into account in determining whether assets are the financial asset is impaired. If such evidence exists for financial assets available for sale, the cumulative loss, measured as the difference between acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the statement of profit or loss.

Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the 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 impairment loss is reversed through the 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.

Securities held to maturity

As at the date of the consolidated statement of financial position, it is assessed whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group determines the impairment of investments in securities held to maturity considering the following aspects:

- Decrease in credit rating by a rating agency, local or foreign;
- Fair value is significantly lower than the amortized cost;
- Decrease in fair value for a long period;
- The issuer of the securities suffers recurrent noticeable deterioration in their economic or there is a high probability of bankruptcy.
- It has been more than ninety days after maturity of all or part of the principal, interest, or both, taking into account the amount deemed reasonably difficult to recover, net of collateral or the time elapsed since maturity, thus: 25% for more than 90 days to less than 180 days; 50% for over 180 days to less than 270 days; 75% for over 270 days to less than 360 days; and 100% for more than 360 days

Deleted: 100%

- Investments in securities which are not reliable and prices are not quoted in an active organized market.
- Occurrence of a significant deterioration in the risk, or a significant deterioration in country risk, or investments in banking centers that lack prudential regulations in line with international standards and have not been adequately covered.

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

3.13 Finance lease receivables

These are leases that consist mainly of vehicle equipment, machinery and equipment, leasing, whose contracts have a maturity period of thirty-six (36) to sixty (60) months.

Lease contracts receivable are recorded under the interest 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.

The depreciation and amortization are charged to current operations on a straight-line method, based on the estimated useful life of the assets:

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

Assets subject to amortization are reviewed for impairment as long as changes indicate that carrying values are not recoverable. The carrying value of fixed assets is immediately reduced to recoverable amount which is the higher between fair value less cost and used value.

The subsidiary Macrofinanciera, S.A. applies the revaluation method to their properties which do not represent significant balances.

3.15 Foreclosure assets

The Group has established an equity reserve taking over its retained earnings, derived of contingency of the goods for sale B/.1,688,634 (2012: B/.1,736,826).

Foreclosure assets are stated at the quick sale value as per appraisal, net of estimated cost to sell the property, or cancelled credit balance whichever is lesser of the two.

The Group uses the allowance for losses for any significant impairment affecting foreclosed assets. The allowance 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 Superintendency sets the deadline at five (5) years, counted from the date of registration in the Public Registry, to dispose of real estate acquired in settlement of unpaid loans. If after this period the Group 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 provisions in this case of.

Likewise, the Group must create a reserve in the equity account, through appropriation in the following order: a) its retained earnings, b) earnings of period, to which the following charges will be made in the value of the foreclosed asset:

- 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 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 reinsures, for the car and group life branches.

The ceded reinsurance payable in the portion of premiums generated by risk-sharing is a way of spreading risk and agrees the participation in reinsurance contracts, notwithstanding the reinsurance contracts do not relieve the Bank of obligation, while maintaining accountability to the insured 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 parties.

Gains and losses on reinsurance contracts are recognized in the consolidated statement of profit or loss immediately at the time of hiring 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 Group reviews the carrying amounts of 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 Group 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.

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. An impairment loss is immediately recognized as expense.

When an impairment loss subsequently reverses, 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 Group has the obligation to repurchase the securities sold at a future date and at a set period. The difference between the sale price and future purchase value is recognized as interest expense under the effective interest method.

3.20 Borrowed funds

Borrowed funds are recognized initially at fair value net of transaction costs incurred. Subsequently, borrowed funds are recorded at amortized cost; any difference between net transaction costs and redemption value is recognized in the income statement over the financing period using the effective interest method.

3.21 Preferred shares

The Group classifies preferred shares as equity as it has total discretion in their redemption and declaration of dividends. Payments of dividends are 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 Group and its subsidiaries.

3.23 Income tax

Income taxes include the current and deferred tax. Income tax is recognized in the results of operations of the current year. The current income tax refers to the estimated income tax payable on the taxable income of the fiscal year using the applicable rate in effect at the date of the consolidated statement of financial position.

Deferred income tax is calculated based on the liability method taking into account the temporary differences between carrying values of asset and liabilities for financial and tax purposes. The amount of deferred income tax is based on the realization of assets and liabilities using the applicable tax rate at the date which is estimated will be utilized.

3.24 Trust operations

Assets held in trust or in trust function are not considered part of the Group, and accordingly, such assets and related income are not included in the present consolidated financial statements. The commission income generated from the management of trusts is recorded under the accrual method.

3.25 Cash equivalents

For the purpose of consolidated statements of cash flows, the Group considers as cash and cash equivalents, cash, sight and time deposits in banks with original maturities of three months or less.

3.26 Segment information

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

3.27 Comparative information

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

4. Financial risk management

4.1 Objectives of financial risk management

Minimize the potential loss of the Group through an approach of preventive integrated management of the risks that can maximize the risk-return and optimize the allocation of economic capital.

To meet this objective, the Group has a unit of Integral Risk Management System (IRMS) 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 Group.

- 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 Group´s risks.

The Group has identified four basic principles for Risk Management, as detailed below:

- The management approach must be comprehensive, incorporating all risks and all operations of the Group 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 Group is subject to the regulations of the Superintendency and the Superintendency of Market Securities of Panama, with regard to risk concentrations, liquidity and capitalization, among others.

The main risks identified by the Group are credit, 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 Group. To take this risk, the Group 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 Group'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 Group'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 the different levels.

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

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

Credit policy formulation

Credit policy 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 change in policies or new policies must be approved by the Integral Management Committee Risk, ratified at Board are published in the internal channels designed to be accessible to all templates of the Group disclosure and implementation.

Establishing Authorization Limits:

The limits of loan approval are set depending on the representativeness of each amount in the Group´s Capital. These levels are presented to the Integral Management Committee Risk (IMCR) and ratified 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 Group.

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 Group has limited its exposure in various geographies across the country risk policy, in which countries have been identified in which the Group want to have exposure based on the Group's strategic plan in turn have been implemented credit exposure limits and investment in these countries, based on the 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

Management and Credit Control, the financial condition of the debtors and their ability to pay is periodically assessed. 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 impairment loss using the methods explained in the preceding paragraphs:

	2013		2012	
	Loans	Guarantees	Loans	Guarantees
Individual impairment analysis:				
Special mention	27,500,241	10,639,609	2,259,494	2,092,129
Subnormal	5,950,296	4,735,167	3,686,764	3,919,500
Doubtful	7,533,026	2,411,660	6,641,892	2,046,120
Unrecoverable	1,731,708	3,324,878	855,717	1,049,000
Gross amount	42,715,271	21,111,314	13,443,867	9,106,749
Less: allowance for loan losses	(6,822,106)	-	(7,955,435)	-
Book value	35,893,165	21,111,314	5,488,432	9,106,749
Collective impairment analysis:				
Gross amount	2,092,519,502	1,305,236,856	1,804,583,384	1,239,912,189
Less: allowance for loan losses	(28,123,465)	-	(23,555,836)	-
Book value	2,064,396,037	1,305,236,856	1,781,027,548	1,239,912,189
Total gross amount	2,135,234,773	1,326,348,170	1,818,027,251	1,249,018,938
Less:				
Total of allowance for loan losses	(34,945,571)	-	(31,511,271)	-
Interest and discounted commisions not earned	(10,889,237)	-	(7,099,102)	-
Loans, net	2,089,399,965	1,326,348,170	1,779,416,878	1,249,018,938

On 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 Group considers granting a change in the credit parameters. These loans once are restructured remain in this category, regardless of the debtor to produce any improvement in their condition, after restructuring by the Group.

- *Reserves for impairment* - Reserves for impairment have been established based on estimated losses incurred in the loan portfolio. The main components of this reserve are related to individual risks while the reserve for loan losses are established collectively considering a homogenous group of assets with respect to incurred losses, but that have not been identified in loans subject to individual assessment for impairment.

- Write-off policy - Loans are charged to losses when it is determined that they are uncollectible. 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 Group 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 Group uses grade ratings assigned by external rating agencies, as detailed below:

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

The following table shows the composition of the Group'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 Group 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		Securities	
	2013	2012	2013	2012
Concentration by sector:				
Corporate	1,341,178,830	1,176,616,239	226,632,475	115,637,310
Consumer	748,221,135	602,800,639	-	-
Goverment	-	-	349,082,298	314,077,000
	2,089,399,965	1,779,416,878	575,714,773	429,714,310
Geographic concentration:				
Panama	1,471,891,150	1,297,899,648	147,409,332	127,673,703
Latin American and Caribbean	587,716,986	464,280,118	183,580,828	125,307,765
United States of America	17,112,884	10,433,438	227,278,790	155,426,992
Others	12,678,945	6,803,674	17,445,823	21,305,850
	2,089,399,965	1,779,416,878	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 Crédito, S.A. (formerly Multi Resuelve, S.A.)

The price risk is controlled through monitoring and surveillance 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. During this year, 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 (2012: B/.2,684,083) in results while the fair value of interest rate swaps were included in profit and loss B/.26,128 (2012: B/.100,177).

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

2013	Up to 3 Months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Without interest rate	Total
Financial assets							
Cash and cash effects	-	-	-	-	-	28,020,699	28,020,699
Due from banks	277,993,151	-	-	-	-	-	277,993,151
Securities bought under resale agreement	1,281,000	-	-	-	-	-	1,281,000
Securities at fair value	-	-	-	-	-	-	-
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	1,447,958,754	123,629,482	62,791,433	64,692,258	382,588,732	7,739,306	2,089,399,965
Total financial assets	1,822,643,974	169,988,828	107,757,062	130,745,951	698,400,481	41,592,292	2,971,128,588
Financial liabilities:							
Due to depositors at sight	-	-	-	-	-	496,949,704	496,949,704
Savings accounts	287,857,517	-	-	-	-	-	287,857,517
Due to depositors at time	303,359,160	411,124,761	405,910,759	101,546,576	1,050,059	-	1,222,991,315
Securities sold under repurchase agreement	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	205,160,336	26,050,059	496,949,704	2,677,304,664
Total interest rate sensivity	1,038,368,393	(476,010,731)	(411,112,363)	(74,414,385)	672,350,422	(455,357,412)	293,823,924

2012	Up to 3 Months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Not due/ Overdue	Total
Financial assets							
Cash and cash effects	-	-	-	-	-	35,696,783	35,696,783
Due from banks	127,059,955	3,367,300	-	-	-	89,856,667	220,283,922
Securities at fair value	-	-	-	-	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	1,119,088,504	113,099,494	75,810,337	55,436,914	411,688,608	4,293,021	1,779,416,878
Total financial assets	1,343,612,424	135,760,648	159,611,754	66,653,802	628,440,492	131,032,773	2,465,111,893
Financial liabilities:							
Due to depositors at sight	-	-	-	-	-	460,334,731	460,334,731
Savings accounts	225,559,846	-	-	-	-	-	225,559,846
Due to depositors at time	317,265,587	369,454,516	296,045,763	98,121,745	11,596,652	-	1,092,484,263
Securities sold under resale	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	-	-	-	-	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	460,334,731	2,205,632,644
Total interest rate sensivity	643,070,051	(400,595,033)	(197,683,008)	(57,854,643)	601,843,840	(329,301,958)	259,479,249

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

The base analysis performed 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	361,545	(361,545)	723,090	(723,090)
Period average	120,515	(120,515)	241,030	(241,030)
Period maximum	1,142,080	(1,142,080)	2,284,160	(2,284,160)
Year minimum	(618,987)	618,987	(1,237,974)	1,237,974

2012	100pb of increases	100pb of decreases	200pb of increases	200pb of decreases
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), a process derived from the guidelines approved by the Committee for Comprehensive Management of Risk and ratified by the Board of Directors; this committee is responsible for ensuring that levels remain with a minimum liquidity provided by the entity to meet the requirements of its operations, its commitments and regulations.

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

The following table details the Bank´s assets and liabilities grouped by their remaining maturities with respect to their 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 assets:							
Cash and cash effects	28,020,699	-	-	-	-	-	28,020,699
Due from bank	268,238,612	9,754,539	-	-	-	-	277,993,151
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
Net, loans	409,182,816	379,604,105	180,700,581	253,507,191	833,971,350	32,433,920	2,089,399,963
Total financial assets	715,165,615	408,713,380	225,666,210	319,560,884	1,263,079,734	38,942,763	2,971,128,586
Financial liabilities:							
Due to depositors at sight	496,949,704	-	-	-	-	-	496,949,704
Savings accounts	287,857,517	-	-	-	-	-	287,857,517
Due to depositors at time	303,359,160	411,124,761	405,910,759	101,546,576	1,050,059	-	1,222,991,315
Securities sold under repurchase agreement	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	1,281,225,285	645,999,559	518,869,425	205,160,336	26,050,059	-	2,677,304,664
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
Financial assets:						
Cash and cash effects	35,696,783	-	-	-	-	-
Due from bank	216,916,622	3,367,300	-	-	-	-
Securities at fair value	-	-	-	-	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
Securities held to maturity	1,380,294	1,781,577	474	520	-	-
Net, loans	533,661,066	298,291,890	198,382,894	136,615,851	596,097,927	16,367,249
Total financial assets	804,575,857	330,115,982	288,568,846	148,853,139	875,444,518	17,553,551
Financial liabilities:						
Due to depositors at sight	460,334,731	-	-	-	-	-
Savings accounts	225,559,846	-	-	-	-	-
Due to depositors at time	317,265,587	369,454,516	296,045,763	98,121,745	11,596,652	-
Securities sold under repurchase agreement	26,250,720	6,351,942	3,504,444	-	-	-
Borrowed funds	131,466,220	145,886,223	57,744,555	19,929,700	-	-
Subordinated borrowed	-	-	-	-	15,000,000	-
Bonds payable	-	14,663,000	-	6,457,000	-	-
Total financial liabilities	1,160,877,104	536,355,681	357,294,762	124,508,445	26,596,652	-
Commitments and contingencies	49,900,296	117,780,831	18,726,474	-	-	-

The following table shows the analysis of the Group'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.

	Less than 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

	Less than 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)

The indexes of net cash margin on deposits received from customers of the Group at the date of the consolidated financial statements are detailed as follows:

At December 31 closing	**36.90%**	**39.44%**
Period average	40.25%	42.17%
Period maximum	46.55%	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 the Group's financial liabilities and unrecognized loan commitments on the basis of their most close maturities. The expected cash flows of these instruments can vary significantly from these analyzes.

2013	Carrying value	Gross nominal amount in/(out)	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More to 5 years
Financial liabilities						
Due to deposits	2,007,798,536	2,117,813,572	1,599,774,997	410,407,332	106,581,240	1,050,003
Securities sold under repurchased 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	2,677,304,664	2,835,314,133	2,094,843,931	503,369,514	211,083,048	26,017,640
2012						
Financial liabilities						
Due to deposits	1,778,378,840	1,887,660,222	1,444,318,584	327,756,973	103,837,418	11,747,247
Securities sold under agreements	36,107,106	36,249,619	32,715,387	3,534,232	-	-
Borrowed funds	355,026,698	385,219,155	292,393,357	68,658,074	24,167,724	-
Subordinated borrowings	15,000,000	16,205,318	-	-	-	16,205,318
Bonds payable	21,120,000	23,542,257	16,321,792	714,268	6,506,197	-
Total financial liabilities	2,205,632,644	2,348,876,571	1,785,749,120	400,663,547	134,511,339	27,952,565

To manage the liquidity risk arising from financial liabilities, the Group 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 Group 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, it is understood as the possibility of occurrence of an economic loss due to variations 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 Group's exposure to foreign exchange rate risk.

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

2013	Balboas	Colombian Pesos	Euro	Others	Total
Assets:					
Cash and deposits	283,250,892	10,985,498	7,776,034	4,001,426	306,013,850
Securities bought under resale agreement	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
Loans, net	1,897,324,080	192,075,322	563	-	2,089,399,965
Total assets	2,733,716,482	206,845,563	26,565,117	4,001,426	2,971,128,587
Liabilities:					
Customers deposits	1,880,484,501	92,735,556	32,338,256	2,240,223	2,007,798,536
Securities sold under repurchase agreements	90,078,000	-	-	-	90,078,000
Borrowed fund	475,760,529	61,383,599	-	-	537,144,128
Bonds payable	42,284,000	-	-	-	42,284,000
Total financial liabilities	2,488,607,030	154,119,155	32,338,256	2,240,223	2,677,304,664
Commitments and contigencies	148,710,109	285,046	-	-	148,995,155

2012	Balboas	Colombian Pesos	Euro	Others	Total
Assets:					
Cash and deposits	224,942,679	18,155,965	7,007,757	5,874,303	255,980,705
Securities at fair value	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
Loans, net	1,604,357,497	174,766,134	283,531	9,716	1,779,416,878
Total assets	2,227,319,451	196,319,018	35,589,404	5,884,019	2,465,111,893
Liabilities:					
Customers deposits	1,658,049,005	80,944,940	35,407,389	3,977,506	1,778,378,840
Securities sold under resale agreements	36,107,106	-	-	-	36,107,106
Borrowed fund	288,578,131	66,448,567	-	-	355,026,698
Subordinated borrowed	15,000,000	-	-	-	15,000,000
Bonds payable	21,120,000	-	-	-	21,120,000
Total financial liabilities	2,018,854,242	147,393,507	35,407,389	3,977,506	2,205,632,644
Commitments and contigencies	186,407,601	-	-	-	186,407,601

4.4 *Operational risk and business continuity*

It is the risk of potential losses, direct or indirect, relating to the Group's processing, 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 Group's objective is to manage operational risk, seeking to avoid financial losses and damage to the reputation of the Group.

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 Group must 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 various 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 Group 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 Group 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 Group has strengthened security policies and established a risk management policy technology.

On the other hand, a Business Continuity Plan has been designed to maintain the main applications of the Bank's information online in case of an interruption in service in order to guarantee service continuity to the clients.

4.5 Capital administration

The Bank manages its capital to ensure:

- Compliance with requirements established by the Superintendency of Banks and the Superintendency of Securities 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 Securities Market of Panama, is 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 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 established for the General Licensed banks, based on Agreement 5-2008 of October 1, 2008 and amended by Agreement 4-2009 of July 9 2009.

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

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 instruments and debt, subordinated term debt, general reserves for losses, undeclared reserves and asset revaluation reserves.

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

- Non-consolidated capital assigned to foreign branches.

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

- The paid up capital 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 overvalue or various forms of unrecognized losses, and losses experienced at any time of the year.

Multibank, Inc. and Subsidiaries maintains a position of regulatory capital composed as follows:

	2013	2012
Primary capital (pilar 1)		
Common shares	167,047,099	127,047,099
Preferred shares	73,370,300	73,370,300
Additional paid capital	(5,454,054)	(5,454,054)
Retained earnings	102,813,037	74,174,270
Minoritary interest	1,210,692	1,198,064
Less: goodwill	(6,717,198)	(6,717,198)
Total	332,269,876	263,618,481
Secundary capital (pilar 2)		
General reserve for loans	-	4,236,091
Subordinated borrowed	-	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 Group 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 uncollectible loans* - The Group review its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgments as to whether there is any observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) *Impairment of investments available for sale* - The Group 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 Group evaluates among other factors, the normal volatility in 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* - In order for the Group to classify non-derivative financial assets with fixed or determinable payments and fixed maturities in this category, it requires making a significant decision. In making this decision, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity for another reason other than the specified circumstances permitted by IAS39, it is required to reclassify the entire portfolio as securities available for sale.

6. Fair value of financial instruments

The Group's Management has used the following assumptions to estimate fair value of each financial instrument category in the 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 current 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 sold under repurchase agreements, borrowed funds and bonds payable* - The carrying values of securities sold under resale agreements, 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 quoted prices. 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 derivatives with options, 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 swaps interest rates are measured at the present value of estimated and discounted future cash flows based on the applicable yield curves derived from interest rate quotes.

The fair value adjustments carried out by the Group's to the derivative instruments include adjustments to the credit rating 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 have a credit risk equal to the LIBOR curve, an adjustment is necessary to reflect the expectation of credit risk that the market applies to both counterparties as well as to the Group.

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 observable information reflects market data obtained from independent sources; the unobservable information reflects the Group'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 *Fair value of financial assets that are measured at fair value on a recurring basis*

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

Financial assets (See Notes 10 and 11)	Fair value 2013	Fair value 2012	Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobsevable inputs to fair value
Securities at fair value with changes in profit & 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	Significant unobservable input	Relationship of unobsevable inputs to fair value
Interest rate swaps (IRS)	Face valuel 87,056,000 (FV 894,447)	Face value 18,000,000 (FV 2,583,907)	Level 2	Discounted cash flows. Future cash flows 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 flows	N/A	N/A
Government debt securities - domestic	33,721,707	35,528,779	Level 2	Discounted cash flows	N/A	N/A
	53,740,597	63,991,820				
Private debt securities - domestic	4,986,318	-	Level 3	Discounted cash flows	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 flows		
Shares issued by domestic companies	485,261	444,103	Level 3	Discounted cash flows		
Government debt securities - foreign	1,625,000	4,034,054	Level 3	Discounted cash flows		
Private debt securities - foreign	-	2,041,977	Level 3	Discounted cash flows		
	7,385,475	6,520,134				

During the year 2013, there were no transfers 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 fair value in the consolidated statement of financial position of banks is summarized below:

	2013		2012	
	Carrying value	Fair Value	Carrying value	Fair Value
Assets				
Cash and bank deposits	130,212,719	130,212,719	125,553,450	125,553,450
Times 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	2,089,399,965	2,109,151,389	1,779,416,878	1,801,494,001
	2,555,584,628	2,573,796,446	2,038,560,448	2,060,637,571
Liabilities				
Due to depositors - at sight	496,949,704	496,949,704	460,334,731	461,830,110
Savings deposits	287,857,517	287,857,517	225,559,846	225,559,846
Due to depositors - at time	1,222,991,315	1,304,903,159	1,092,484,263	1,202,319,004
Securities sold under repurchase agreement	90,078,000	90,036,196	36,107,106	36,249,619
Borrowed funds	537,144,128	547,214,175	355,026,698	385,069,820
Subordinated borrowed	-	-	15,000,000	16,205,318
Bonds payable	42,284,000	42,917,585	21,120,000	23,542,257
	2,677,304,664	2,769,878,336	2,205,632,644	2,350,775,974

The fair value of financial assets and liabilities included in the Level 2 and Level 3 categories 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 banks deposits	130,212,719	-	-	130,212,719
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
	441,145,582	2,129,487,999	3,162,865	2,573,796,446
Liabilities				
Due to depositor - at sight	496,949,704	-	-	496,949,704
Savings deposits	287,857,517	-	-	287,857,517
Due to depositor - at time	-	1,304,903,159	-	1,304,903,159
Securities sold under repurchase agreement	-	90,036,196	-	90,036,196
Borrowed funds	-	547,214,175	-	547,214,175
Bonds payable	-	42,917,585	-	42,917,585
	784,807,221	1,985,071,115	-	2,769,878,336

	2012			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and banks deposits	125,553,450	-	-	125,553,450
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
	255,980,705	1,803,203,983	3,162,865	2,062,347,553
Liabilities				
Due to depositor - at sight	460,334,731	-	-	460,334,731
Savings deposits	225,559,846	-	-	225,559,846
Due to depositor - at time	-	1,202,319,004	-	1,202,319,004
Securities bought 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
	685,894,577	1,663,386,018	-	2,349,280,595

Reconciliation of Level 3 fair value measurement:

The movement of the securities 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 the sensitivity analysis of the financial assets and liabilities in Note 4.2.

7. Balances and transactions with related parties

The 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, Directors and key executives
Assets		
Loans	11,137,495	4,590,427
Interest receivable	50,243	10,371
	11,187,738	4,600,798
Liabilities		
Due to depositors - at sight	404,202	44,842
Savings deposits	140,996	1,467,609
Due to depositors - at time	17,703,988	2,307,423
Interest payble	481,175	17,397
	18,730,361	3,837,271
Commitments and contingencies		
Guarantees issued	72,957	732,112
Transactions with related parties		
Interest earned of		
Loans	462,298	152,665
Interest expenses:		
Deposits	481,175	17,397
General and administrative expenses:		
Per diems	-	88,706
Salaries and other benefits	-	1,858,673
Rental	1,550,757	-
	1,550,757	1,947,379

Balances with related parties	2012 Related Companies	2012 Shareholders, Directors and key executives
Assets		
Loans	10,665,787	4,622,264
Interest receivable	40,128	12,368
	10,705,915	4,634,632
Liabilities		
Due to depositors - at sight	1,143,067	149,532
Savings deposits	202,084	1,716,534
Due to depositors - at time	22,750,921	1,103,138
Interest payable	547,346	24,360
	24,643,418	2,993,564
Commitments and contingencies		
Guarantees issued	-	796,612
Payment promises	350,000	339,850
	350,000	1,136,462
Transactions with related parties		
Interest earned:		
Loans	709,624	178,979
Interest expenses:		
Deposits	863,890	38,069
General and administrative expenses:		
Per diems	-	122,177
Salaries and other benefits	-	1,761,753
Rental	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 between 2.25% and 18% (2012: 5.00% and 15.00%).

These loans are secured with cash collateral of 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 properties of B/.255,699 (2012: B/.315,114).

Management has not identified doubtful accounts in the credit portfolio.

8. Cash, cash effects, bank deposits

Cash, cash effects and bank deposits are as follows:

	2013	2012
Cash	28,020,699	35,696,783
Due from banks at sight - domestic and foreign	102,192,020	89,856,667
Due from banks at time - domestic and foreign	175,801,131	130,427,255
Total cash, cash effects and due from bank	306,013,850	255,980,705
Less:		
Due from banks at time, with original maturities greater than 90 days	9,754,539	5,685,000
Total cash equivalents	296,259,311	250,295,705

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 consisted of structured notes and bonds, whose annual interest rates ranged between 3.83% and 5.95%, with various maturities until June, 2042. During the year 2013 there was sold these securities.

The movement of the securities to fair value with changes to 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
Sales 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 Group recorded loss from sales of securities at fair value for B/.617,727 (2012: B/.770,146).

11. Securities available for sale

Securities available for sale consist of the following investment types of securities:

	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	-
Goverment debt securities - dosmestic	33,721,707	35,528,779
Goverment 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 the securities available for sale is summarized below:

	2013	2012
Balance at beginning of year	422,414,189	406,014,633
Additions	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 of 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 was 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:.56% and 8.31%).

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

At December 31, 2013, securities with nominal value of B/.127,787,000 guaranteed borrowed funds. See Note 20.

12. Securities held to maturity

Securities held to maturity, recorded at amortized cost are 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	3,162,865	2,237,201
Purchase	21,000,000	925,664
Reclasification	136,030,568	-
Redemption	(22,620)	-
Balance at end of year	160,170,813	3,162,865

The annual interest rate-bearing securities held to maturity ranging between 1.61% and 9.75% (2012: 1.16% and 3.84%).

At December 31, 2013, securities with nominal value of B/.41,325,000 guaranteed borrowed funds. See Note 20.

See Note 11 Disclosure of reclassification.

13. Loans

Loans by type are detailed as follows:

	2013	2012
Domestic		
Commercial	478,807,101	509,132,733
Consumer, vehicles and credit cards	251,317,154	198,755,745
Residential mortgages	259,155,068	131,157,407
Cash secured	124,727,712	181,436,209
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	1,539,719,400	1,357,576,269
Foreign		
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
Syndicates	82,319,600	62,457,021
Commercial mortgages	3,750,000	-
Cash secured	47,234,273	15,246,624
Total foreign	595,515,373	460,450,982
Total loans	2,135,234,773	1,818,027,251

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

The total amount of 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
Writte-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 as follows:

	2013						
	Land and Property	Building	Office Improvements	Office Furniture	Office Equipment	Vehicles	Total
Cost							
Balance at beginning of year	3,281,723	12,592,111	13,485,140	3,088,078	17,291,987	732,228	50,471,267
Purchases	14,700,000	-	642,486	716,272	6,164,289	174,838	22,397,885
Sales and disposals	(359,454)	-	(3,959)	(1,626)	(490,886)	(60,900)	(916,825)
Balance at end of year	17,622,269	12,592,111	14,123,667	3,802,724	22,965,390	846,166	71,952,327
Depreciation and anortization accumulated							
Balance at beginning of year	-	108,300	6,917,049	1,750,794	13,488,865	479,834	22,744,842
Expenses of the year	-	8,000	1,410,236	242,853	2,186,195	103,013	3,950,297
Sales and diposals	-	-	-	(205)	(370,503)	(60,901)	(431,609)
Balance at end of year	-	116,300	8,327,285	1,993,442	15,304,557	521,946	26,263,530
Net Balance	17,622,269	12,475,811	5,796,382	1,809,282	7,660,833	324,220	45,688,797

	2012						
	Land and Property	Building	Office Improvements	Office Furniture	Office Equipment	Vehicles	Total
Cost							
Balance at beginning of year	1,548,499	12,574,963	11,625,686	2,245,025	16,038,331	696,252	44,728,756
Purchases	1,850,000	17,148	2,139,454	858,278	1,279,919	42,824	6,187,623
Sales and disposals	(116,776)	-	(280,000)	(15,225)	(26,263)	(6,848)	(445,112)
Balance at end of year	3,281,723	12,592,111	13,485,140	3,088,078	17,291,987	732,228	50,471,267
Depreciation and anortization accumulated							
Balance at beginning of year	-	108,300	5,753,946	1,538,183	12,319,072	382,323	20,101,824
Expenses of the year	-	-	1,171,269	227,836	1,181,715	103,674	2,684,494
Sales and diposals	-	-	(8,166)	(15,225)	(11,922)	(6,163)	(41,476)
Balance at end of year	-	108,300	6,917,049	1,750,794	13,488,865	479,834	22,744,842
Net Balance	3,281,723	12,483,811	6,568,091	1,337,284	3,803,122	252,394	27,726,425

At December 31, 2013, the subsidiary Macrofinanciera, S.A. in compliance with the 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 statement of changes in equity as a revaluation of property, using the comparative market method.

15. Goodwill

On September 5, 2007 the subsidiary Multibank, Inc. acquired the amount 6,527,500,000 common shares of Macrofinanciera, S.A., for an amount of B/.12,378,519 equivalents 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 subsidiary acquired	(10,048,671)
Cash paid on acquisition	2,329,848

On April 28, 2011, the Group 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 30% remaining from 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.

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 tax application of the reserve for possible loan losses of 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 loss	1,089,880	2,332,420
Decrease in writte-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 summarized as follows:

	2013	2012
Properties	4,847,261	5,334,784
Vehicles and others	143,089	79,044
	4,990,350	5,413,828
Allowance for possibles losses	(663,715)	(147,743)
Net balance	4,326,635	5,266,085

Movement of allowance for possible losses on foreclosed assets is summarized as follows:

	2013	2012
Balance at beginning of year	147,743	58,051
(Reversal) allowance recorded in results	628,150	(12,068)
Gain (Loss) net on sales of assets	(112,179)	101,760
Balance at end of year	663,714	147,743

The regulatory reserve of foreclosed assets for B/.1,688,634 (2012: B/.1,736,826) presented within equity, represents the required reserve in compliance with the regulator.

18. Other assets

Other assets are detailed as follows:

	2013	2012
Accounts receivable	25,743,582	26,495,555
Prepaid expenses	10,704,210	9,684,227
Prepaid taxes	6,773,552	6,156,636
Others	763,228	667,544
Total	43,984,572	43,003,962

19. Securities sold under repurchase agreements

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

20. Borrowed funds

Borrowed funds are summarized as follows:

	2013	2012
Lines of credit for working capital and foreign trade, maturing through December 2013, annual interest rates between 1.67% and 2.73% (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% (2012: 2.02% and 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% and 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	-
Line of credit for working capital, maturing through October 2017, annual interest rate between 2.87% to 3.34% (2012: 3.16% and 3.54%)	74,943,760	19,857,373
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	-
	537,144,128	355,026,698

At December 31, 2013, borrowed funds for B/.139,943,760, are guaranteed by securities available for sale and held to maturity for B/.127,878,000 and B/.41,325,000, respectively, See Notes 11 and 12.

21. Subordinate debt

During 2012, Multibank, Inc. 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 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 of B/.15,000,000 received from DEG - Deutsche Investitions. See Note 24.

22. Bonds payable

The Bank has issued 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. 2017	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 the features and safeguards for these issuances:

Issue of December 2012

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

The Bonds will be issued in registered form, rotating, registered and without coupons, in denominations of one thousand dollars and shall be issued in different series where the maturity term of Class A Corporate Rotating Bonds will be determined by the "Issuer" and Class B Corporate Bonds will have a term of 20 years; however, after 15 years, they will be automatically extended for additional periods of 20 years each, counted from the maturity 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 Bonds 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 Securities Market of Panama through CNV Resolution No. 312-10 of August 19, 2010 and the Stock Exchange of Panama.

The bonds will be issued on a rotating basis, global, roll-registered and without coupons, in denominations of a thousand dollars and will be issued in different series, with maturities of 2, 3, 5 and 10 years as of 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 a variable rate, the Bonds will bear an interest rate equivalent to 3 months Libor plus a spread to be determined by "the Issuer" according to the market demand.

During the 2012 year, the Bank 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	40,616,117	33,044,546
Due to depositors - Stock Exchange	-	10,583,238
Due to depositors	1,610,435	1,998,923
Items in transit	24,420,823	9,373,951
Other labor liabilities	3,608,272	2,863,802
Employee benefits payable	60,392	106,181
	70,316,039	57,970,640

The Group 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 shares

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

At December 31, 2013 the Company issued a total of 1,463,226 (2012: 175,954) of common shares for the amount of B/.40,000,000 (2012: B/.4,390,344).

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, the subsidiary Multibank, Inc., paid off the subordinate debt for B/.15,000,000 received from DEG - Deutsche Investitions.

By Resolution of CNV Registration No.362-08 of November 19, 2008, the Superintendency of Market Securities of Panama authorized Multi Financial Group, Inc. the registration for public offering of up to 1,000,000 issued common shares without par value.

At December 31, 2013, Multi Financial Group, Inc. has not made any public offering of common shares.

The calculations of net income per basic share and net income per diluted share are presented below:

	2013	2012
Calculation of net income per basic share		
Net profit attributable to majority shareholders	39,112,761	34,333,403
Less dividends paid - preferred shares	(5,901,491)	(4,890,361)
Net income attributable to common shareholders (numerator)	33,211,270	29,443,042
Weighted average number of common shares (denominator)	15,298,334	14,653,200
Net income per basic and diluted share	2.17	2.01

During the year, dividends on common shares were paid for a total of B/.5,558,749 (2012: B/.4,935,369).

25. Preferred shares

Multibank, Inc. is authorized to issue up to 1,500,000 preferred shares with a nominal value of B/.100 each (2012: 1,500,000 shares) and made several public issuances of preferred shares, all registered in the Superintendency of Market Securities of Panama and listed on the Panama Stock Exchange.

The number of outstanding preferred shares amounts to (2012: 733,703) with a nominal value of B/.100 each and without maturity date.

The table below shows the actual balances of the different issuances whose terms and conditions are 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	6.70%	Non-cumulative	B
2011	15,046,600	15,046,600	7.00%	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 discretion, 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 shall not be cumulative.

- The preferred shares' dividends will be paid to the Registered Holders on a quarterly basis until 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, payment of the dividends 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 days for 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 has no contractual or regulatory obligation to declare dividends.

- Multibank Inc. cannot guarantee payment of dividends.

- 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' criteria, may be sufficient to declare dividends.

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

- Preferred shares are guaranteed 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 the Republic 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.

The insurance companies must establish in their equity, a reserve for statistical deviations and a reserve for catastrophic risk and/or contingency. The reserve 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 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. maintains a legal reserve corresponding to 10% of profits obtained in 2011; at December 31, 2013 the reserve is for a total of 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 from the subsidiary Macrofinanciera, S.A. established in Colombia whose activity includes rendering remittance and financial intermediation services.

28. Commitments and contingencies

Commitments

The Group maintained financial instruments out of 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 and promissory notes are exposed to credit loss in the event the client does not comply with the payable obligation. The Group's policies and procedures 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, and most of them mature without being disbursed and therefore, do not generally 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 Group 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 loans. The Group does not anticipate losses as a result of these transactions.

Contingencies

There were ordinary lawsuits against the Group in the amount of B/.1,649,422 (2012: B/1,379,47). The Bank's Management and lawyers estimate a favorable outcome in these processes.

The Group has 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 rent expense amounted to B/.4,132,603 (2012: B/.4,337,124).

29. Management of trust contracts and investment Portfolio

The subsidiary Multi Trust, Inc. managed trust contracts at the risk of customers amounting to 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, at the risk of customers amounting to approximately B/.474,139,206 (2012: B/.355,448,705).

30. Income Tax

Income tax returns of companies incorporated in the Republic of Panama are subject to revision 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 operations. Also exempted from income tax are interest earned on domestic time deposits, interest earned on Panamanian government securities and securities issued through the Panama Stock Exchange.

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

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

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

Income tax expense is detailed as follows:

	2013	2012
Current income tax	7,843,318	4,776,265
Deferred income tax for temporary differences	799,682	(100,965)
Income tax, net	8,643,000	4,675,300

The deferred tax item due to timing difference, originates mainly from the allowance 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 Group's Management considers that there will be sufficient taxable income to absorb the deferred income taxes previously described.

Retroactively 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 entities must pay income tax calculated on whichever is greater between: (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 or estimated to be paid for the period ended December 31, 2013 and 2012, was determined in accordance with the traditional method.

Income tax reconciliation is as follows:

	2013	2012
Net income before tax	47,768,389	38,931,767
Less: Income not subject to tax	(60,550,885)	(53,414,115)
Plus: Non-deductible expenses	38,205,756	31,668,538
Tax base	25,423,260	17,186,190
Income tax	7,749,134	4,764,052
Income tax on remittances	94,184	12,213
Current income tax expenses	7,843,318	4,776,265

31. Segment information

The composition of the business segments is described as follows:

2013	Financials Services	Funds Management	Insurances	Elimination	Consolidated Total
Interest and commision income	207,632,309	1,819,329	275,330	(510,926)	209,216,042
Interest and commision expense	74,323,522	574,076	5,418	-	74,903,016
Other income, net	(1,781,971)	302,265	2,648,086	-	1,168,380
Provision for loan losses and foreclosured assets	9,915,669	-	-	-	9,915,669
General and administrative expenses	75,179,343	1,515,118	1,267,868	(164,981)	77,797,348
Net income before income rax	46,431,804	32,400	1,650,130	(345,945)	47,768,389
Total Assets	3,100,731,015	3,393,153	10,095,027	(13,619,558)	3,100,599,637
Total Liabilities	2,795,568,469	1,178,805	4,052,086	(4,439,523)	2,796,359,837

2012	Financial Services	Management of funds	Insurances	Elimination	Consolidated Total
Interest and commision income	170,492,520	1,358,300	194,893	(10,871)	172,034,842
Interest and commision expense	66,041,398	314,697	3,199	-	66,359,294
Other income, net	12,805,679	414,344	1,617,701	(581,466)	14,256,258
Provision for loan losses and foreclosured assets	10,835,711	-	-	-	10,835,711
General and administrative expenses	67,938,896	1,198,919	1,096,113	(69,600)	70,164,328
Net income before income tax	38,482,194	259,028	713,282	(522,737)	38,931,767
Total Assets	2,555,413,428	18,750,514	6,163,973	(9,020,182)	2,571,307,733
Total Liabilities	2,285,913,577	16,518,450	2,512,588	(4,688,552)	2,300,256,063

32. Financial derivative instruments

The Group manages and controls the risk on these purchases and sale contracts of foreign currency through the approval by clients of limits in amounts and terms.

The Group had subscribed forward contracts for the purchase - sale of foreign currency, as follows:

2013	Notional 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	Notional 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)

At December 31, 2013, the Group recognized in the consolidated statement of profit or loss, net realized gains worth B/.1,983,073 (2012: B/.1,877,535) resulting from the purchase and sale of foreign currency from customers and the Bank.

At December 31, 2013, the Group maintains four interest rate swap contracts with a total 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 give the net resulting between the fixed rate paid and a Libor interest rate of 6 months plus a spread. The exchanges (payments) between the fixed and variable rates are biannual and occur approximately on 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 at December 31, 2013 are presented in the following table:

2013 Type	Nominal value	Fair value
Derivatives to 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 to fair value hedges:		
Interest rate swaps	18,000,000	(2,583,907)

Monthly, 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 affectivity established by 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 item line of accounts payable for B/.40,616,117 (2012: B/.33,044,546). See Note 23.

The Group has measured the credit risk effects 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 the Over-The-Counter (OTC) derivative type where the assessment basis uses parameters based on Libor.

The Group 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 Auditing Committee and authorized for issuance on March 19, 2014.

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