

The ASB logo consists of the letters 'ASB' in a white, serif font, followed by a stylized gold chevron symbol pointing to the right.

ASB

ATLANTIC SECURITY BANK

Annual Report 2013

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MARKET COMMENTARY

In 2013, the global economy grew an estimated 2.1% and is expected to expand 3% in 2014. Five years after the financial crisis of 2008, the majority of developed economies continue to struggle with the fiscal and monetary policies they have implemented to deal with the crisis's fall out. Some emerging economies, which had already experienced significant deceleration over the past two years, faced new turbulence on the domestic and international scene in 2013.

The outlook for development for 2014 will be sensitive to various factors, including: the United State's hurried decision to taper its economic stimulus; positive data for inflation; and a reduction in unemployment rates. All of these factors have boosted estimates for growth in the US and the Euro Zone.

Structural changes in the chinese economy are not expected to affect growth in 2014 in East Asia and Latin America (growth of 7.7% is forecast for the first). It is estimated that Latin America's performance will be weak given that regional growth is expected to situate at 3.6% in 2014 and 4.1% in 2015. Growth in the largest economies in the region, Brazil and Mexico, will be conditioned by an increase in exports; a stable increase in consumption; and a recovery in the United States. Under these conditions, Brazil is expected to grow 4.2% and Mexico 4.1%.

Moderate growth and low inflation will be the main constants in 2014. Both factors will drive and accelerate growth in developed economies. Emerging countries are moving toward stable growth after having posted weak performance at the end of 2013.

FINANCIAL HIGHLIGHTS

	2011	2012	2013
Profitability			
Net income (US\$ million)	41.1	48.4	50.7
Net income per share (US\$ per share)	0.59	0.69	0.72
Return on average equity (%) ¹	21.7	24.8	26.1
Return on average assets (%) ²	2.9	3.0	2.9
Operating ratios (%)			
Operating costs over total income	16.0	15.5	16.2
Operating costs over average assets ²	0.6	0.5	0.6
Balance sheet (US\$ million, end of period)			
Assets	1,524	1,768	1,784
Net loans	606	801	786
Trading securities and investments ³	812	802	858
Deposits	1,321	1,397	1,445
Net shareholders' equity	189	220	200
Managed funds	2,142	2,441	2,568

¹ Averages determined from the monthly balances for each year.

² Averages determined from the beginning, quarterly and ending balances for each year.

³ Includes investments held for trading, available for sale and held to maturity.

	2011	2012	2013
Capital adequacy (N° of times)			
.....			
$RWA_{CR} + Charge_{OR} + Charge_{MR} / Eligible\ capital^4$	5.2	6.0	6.4
Loan portfolio quality (%)			
.....			
Past due loans over total loans	0.0	0.0	0.0
Provisions over past due loans	0.1	0.1	0.1
Other information			
.....			
Number of shares, net (in million)	70.0	70.0	70.0
Number of employees	76	81	88

⁴ RWA: risk weighted asset, CR: credit risk, OR: operational risk, MR: market risk.

FINANCIAL RESULTS

In accumulated terms, core income in 2013 was situated at US\$ 48 million. This represented a 0.5% increase with regard to 2012's figure. After posting excellent growth in 2012, the financial margin moderated due to marginal movements in the interest rate market. This situation was offset by an increase in the asset volume. ASB's contribution to Credicorp reached US\$ 50.7 million, which represents a 4.7% increase with regard to 2012.

TOTAL INCOME
IN 2013 WAS
SITUATED AT

US\$
MILLION **48**

NET INTEREST INCOME

Net interest income (which excludes dividends) registered growth of 3.6% to reach US\$ 39.3 million at the end of 2013. This performance was attributable to the different strategies and actions that ASB has applied to optimize interest income by rebalancing the portfolio and increasing the loan volume. In this context, dividend income increased 81.6%. This result was possible thanks to dividends from the trading portfolio that was set up in the third quarter of 2013.

NON-FINANCIAL INCOME

In 2013, non-financial income, which includes fee income, gains on sales of securities, foreign exchange transactions, other income or expenditures for commissions, totaled US\$19.9 million. This figure represented an increase of 7% with regard to the figure reported in 2012.

The increase in net interest income was attributable to higher gains on sales of securities (+US\$ 4.9 million), which were affected by losses on foreign exchange transactions and a translation loss (-US\$ 1.2 million); the drop in other income (-US\$ 1.9 million); and a reduction in commissions for services, which include income from management and asset custody fees (-US\$ 533 thousand). These impacts were attributable to market volatility in 2013 that, among other implications, led to profit taking; a rebalancing of the portfolio to optimize yields; and depreciation in the value of other currencies against the dollar, which generated a translation loss and losses on foreign currency transactions.

OPERATING EXPENDITURES

Operating expenditures grew 11.3% to total US\$ 9.8 million. This increase was due to higher expenditure on improvements in infrastructure (both technological and basic), which generated higher operating costs. In this context, the efficiency ratio went from being situated at 15.5% at the end of 2012 to rest at 16.2% at the end of 2013.

NON-FINANCIAL
INCOME
INCREASED

7%

ASSETS AND LIABILITIES

ASSETS

Assets grew 0.9% to total US\$ 1,784.3 million (an additional US\$ 15.8 million in absolute terms). The good sustained performance of the Peruvian economy, coupled with a capital market characterized by low rates and moderate volatility, allowed the Bank to capture new resources through strategies directed at enhancing our clients' fidelity. These additional resources were invested in a diversified manner in our portfolios for treasury loan, trading, and securities available for sale and were also used to maintain loan levels.

Despite adjustments and moves to rebalance its investment portfolio, ASB managed to maintain the profile of its proprietary portfolio, which is concentrated in high quality investments

(+60% investment grade). These adjustments optimized yields and helped align asset concentrations with the changing conditions of the international securities market. This was accomplished by means of adequate and constant risk management to ensure that results are achieved in accordance with the group's guidelines and strategies.

Our on-going quality management process and successful application of strategies allowed us to successfully conclude the process to achieve an initial international credit risk rating. As a result, we achieved a "BBB- / A-3" investment grade with a stable outlook from Standard & Poor's, which believes that ASB is of "strategic importance" to the Grupo Credicorp.

LIABILITIES AND NET SHAREHOLDERS' EQUITY

Liabilities, which are composed of client deposits, financing taken by ASB and other liabilities, increased 2.3% to total US\$ 1,584 million. This increase was achieved thanks to a 3.4% increase (US\$ 47.8 million) in deposits due to efforts to capture new funds from clients as well as a US\$ 11.2 million decrease in financing for working capital.

Net shareholders' equity posted a decline of 8.9%, going from US\$ 219.8 million in 2012 to US\$ 200.3 million at the end of 2013. This was attributable to a drop in unrealized gains in the investment portfolio, where profit taking and volatility led to a -US\$ 22.2 million decrease year-on-year in the balance's market value. This decline was partially offset by an increase in earnings this period of US\$ 50.7 million (+US\$ 2.5 million). In 2013, ROAE was situated at 26.1%, which is 1.3 percentage points above the figure reported in 2012 (24.8%).

LIABILITIES
TOTALED

US\$ 1,584
MILLION

ASSET MANAGEMENT BUSINESS

At the end of 2013, ASB's funds under management totaled US\$ 3,771.7 million. This represents a 4.8% decline with regard to last year, which was attributable to a drop in the value of client investments due to market volatility. Nevertheless, it is important to mention that the investment stock, measured in invested value, increased in 2013 by US\$ 126.8 million. This growth is significant given the prevailing market conditions throughout the year.

There were slight signs of recovery in the global economy in 2013. Estimates put regional growth in Latin America at 2.6% and predict growth of 3.6% for 2014. South America reported estimated growth (real GDP) of 3.2% versus 2.5% in 2012. This behavior was affected by volatility in the stock exchange markets and local currency depreciation after the FED announced that it would taper

its stimuli to the financial markets in the main developed economies (the United States and the Euro Zone). Nevertheless, the Peruvian economy is expected to post sustained growth (between 5.8% and 6.1%). ASB expects to capitalize on this growth, expanding its clients' equity under management.

In a changing global scenario, expectations are key. As such, ASB is permanently focused on optimizing its processes and offering its clients a diversified range of products that meet their needs and offer attractive yields. We strive to manage our portfolios according to best practices and market quality parameters without sacrificing risk control and monitoring. By doing so, ASB's financial services are among the market's top choices for financial services.

BALANCE SHEET

US\$ (000)

	2011	2012	2013
Assets			
Available funds	79,694	136,755	106,592
Cash and due from banks	26	34	45
Deposits with banks	51,504	34,343	61,240
Overnight funds	28,164	102,377	45,307
Investments	811,631	802,480	858,217
Investments held for trading	0	0	31,996
Investments available for sale	808,907	800,953	826,221
Term corporate investments	2,724	1,527	0
Loans, net	606,112	801,125	786,346
Loans	606,937	801,751	786,975
Other investments	-826	-626	-628
Fixed assets, net	255	329	2,130
Other assets	25,837	27,782	31,014
Total assets	1'523,529	1'768,470	1'784,299
Liabilities and net shareholders' equity			
Deposits	1'320,647	1'396,843	1'444,654
Demand deposits	457,075	553,656	545,416
Time deposits	863,572	843,187	899,238
Loans	0	136,246	124,961
Other financing	0	136,246	124,961
Other liabilities	13,647	15,596	14,370
Total liabilities	1'334,294	1'548,686	1'583,985
Net shareholders' equity	189,236	219,785	200,315
Total liabilities and net shareholders' equity	1'523,529	1'768,470	1'784,299

INCOME STATEMENT

US\$ (000)

	2011	2012	2013
Interest income	63,090	72,771	75,849
Dividend income	1,014	698	1,268
Interest expense	-32,223	-34,840	-36,533
Net interest income	31,880	38,629	40,583
Non financial income	18,366	18,623	19,948
Commissions and fee income	11,570	9,183	8,650
Gain from sale of securities	6,937	7,705	12,667
Net loss on foreign exchange transactions	-181	-76	-1,257
Other income/expenses	39	1,811	-112
Provision for loan losses	-131	0	-2
Provision for marketable securities	-1,000	0	0
Operating expenses	-8,025	-8,850	-9,848
Salaries and employee benefits	-3,658	-4,150	-4,962
General and administrative expenses	-4,227	-4,556	-4,628
Depreciation and amortization	-141	-144	-258
Net income	41,091	48,402	50,681

BOARD AND MANAGEMENT

Raimundo Morales D.
Benedicto Cigüeñas
Juan Incháustegui

Presidente
Director
Gerente General

