Audited Financial Statements

Atlantic Security Bank

Year ended December 31, 2010
with Independent Auditors Report

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GENERAL INFORMATION

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Banks
Standard Chartered Bank
Banco de Crédito – Miami Agency
Banco de Crédito – Panama Branch
Banco de Crédito – Perú
HSBC Bank USA
Bank of America, N.A.
Barclays Bank
Wachovia Bank
Pershing, LLC
Banco de Crédito e Inversiones
JP Morgan Chase
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Independent Auditors' Report

To the Board of Directors
Atlantic Security Bank

We have audited the accompanying financial statements of Atlantic Security Bank (the "Bank") which comprise the statement of financial position as at December 31, 2010, and the statement of income, the statement of comprehensive income, the statement of changes in shareholder's equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Independent Auditors' Report (continued)

Auditors' Responsibility (continued)

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Atlantic Security Bank as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd.

April 28, 2011

Atlantic Security Bank
Statement of Financial Position
December 31, 2010

(Amounts expressed in thousands of US$ dollars)

Notes		**2010** **US$ 000**	2009 US$ 000
	ASSETS		
	Cash and cash equivalents		
	Cash	**25**	34
8	Interest - bearing deposits with banks	**47,851**	58,461
8	Overnight placements	**42,460**	31,780
	Total cash and cash equivalents	**90,336**	90,275
5, 8	Other interest - bearing deposits with banks	**7,424**	392,231
6, 8	Risk portfolio, net	**1,219,731**	919,144
15	Derivative financial instruments	**19**	2
	Premises and equipment, net	**302**	275
8	Accumulated interest receivable	**17,306**	17,890
8	Other assets	**2,679**	1,948
	TOTAL ASSETS	**1,337,797**	1,421,765
	LIABILITIES AND SHAREHOLDER'S EQUITY		
	Liabilities		
	Deposits		
8	Non interest - bearing - demand	**186,975**	123,268
	Interest - bearing		
8	Demand	**86,709**	93,521
	Time	**844,011**	1,004,799
7, 8	Other borrowed funds	**3,425**	-
15	Derivative financial instruments	**912**	281
8	Accumulated interest payable	**9,067**	9,979
8	Other liabilities	**1,683**	1,310
	Total liabilities	**1,132,782**	1,233,158
12, 13, 15	**Commitments and contingencies**		
	Shareholder's Equity		
11	Share capital	**70,000**	70,000
6	Reserve for valuation of available for sale financial assets	**25,828**	23,316
	Retained earnings	**109,187**	95,291
	Total Shareholder's Equity	**205,015**	188,607
	TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,337,797**	1,421,765

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

Dionisio Romero
Director

Raimundo Morales
Director

Atlantic Security Bank
Statement of Income
For the year ended
December 31, 2010

(Amounts expressed in thousands of US$ dollars)

Notes		**2010**	2009
		US$ 000	US$ 000
	Interest and dividend income		
	Interest on deposits with banks and overnight placements	**497**	31,742
	Interest and dividends on investment	**37,476**	36,846
	Interest on loans	**36,611**	7,929
8	Total interest and dividend income	**74,584**	76,517
	Interest expense		
	Interest on deposits	**36,911**	45,356
	Interest on borrowed funds	**134**	1,008
8	Total interest expense	**37,045**	46,364
	Net interest and dividend income	**37,539**	30,153
6	Provision for loan losses	**-**	(900)
	Net interest income after provision for loan losses	**37,539**	29,253
	Non-interest income (expense)		
8	Fees and commission income	**10,938**	8,560
8	Fees and commission expense	**(2,609)**	(2,100)
6	Net realized gains on sales of financial assets	**13,826**	6,610
6	Provision for impairment of financial assets	**(3,250)**	(9,825)
	(Loss) gain on derivatives financial instruments	**(434)**	492
	Foreign currency translation loss	**(297)**	(556)
6	Provision for impairment of financial assets reversals	**419**	6,950
	Other	**260**	921
	Total non-interest income, net	**18,853**	11,052
	Operating expenses		
	Salaries and employee benefits	**3,772**	3,960
8	General and administrative expenses	**3,506**	3,465
	Intangible amortization	**72**	74
	Depreciation and amortization	**146**	129
	Total operating expenses	**7,496**	7,628
	Net Income	**48,896**	32,677

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

Atlantic Security Bank
Statement of Comprehensive Income
For the year ended
December 31, 2010

(Amounts expressed in thousands of US$ dollars)

Notes		**2010** **US$ 000**	2009 US$ 000
	Profit for the year	**48,896**	32,677
	Other comprehensive income		
6	Net gain on available for sale financial assets	**2,512**	70,650
	Net loss in translation derivative financial instruments	**-**	(662)
	Total comprehesive income for the year	**51,408**	102,665

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

Atlantic Security Bank
Statement of Changes in Shareholder’s Equity
For the year ended
December 31, 2010

(Amounts expressed in thousands of US$ dollars)

Notes		*Share Capital* US$ 000	*Valuation of Available for Sale Financial Assets* US$ 000	*Gain in Translation of Derivative Financial Instruments* US$ 000	*Retained Earnings* US$ 000	*Total Shareholder's Equity* US$ 000
	At January 1, 2009	70,000	(47,334)	662	62,614	85,942
6	Net change in fair value of available for sale financial assets	-	70,650	-	-	70,650
8	Gain in translation of forward currency contracts, net	-	-	(662)	-	(662)
	Net income	-	-	-	32,677	32,677
	At December 31, 2009	70,000	23,316	-	95,291	188,607
6	**Net change in fair value of available for sale financial assets**	-	**2,512**	-	-	**2,512**
	Dividends paid	-	-	-	**(35,000)**	**(35,000)**
	Net income	-	-	-	**48,896**	**48,896**
	At December 31, 2010	**70,000**	**25,828**	-	**109,187**	**205,015**

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

Atlantic Security Bank
Statement of Cash Flows
For the year ended
December 31, 2010

(Amounts expressed in thousands of US$ dollars)

	2010 US$ 000	2009 US$ 000
Cash flows from operating activities		
Net income	**48,896**	32,677
Adjustments:		
Interest expense	**37,045**	46,365
Interest and dividend income	**(74,584)**	(76,517)
Provision relating to risk portfolio	**2,940**	3,225
Gain on sale of financial assets	**(13,826)**	(6,610)
Net gain (loss) on derivatives financial assets	**434**	(492)
Depreciation and amortization	**146**	129
Intangible amortization	**72**	74
Operating results before working capital changes	**1,123**	(1,149)
Loans	**(335,880)**	68,793
Other interest-bearing deposits with banks	**384,807**	(35,751)
Deposits	**(103,892)**	(53,128)
Net cash flows generated from operations	**(53,842)**	(21,235)
Interest paid	**(37,956)**	(49,751)
Interest and dividends received	**75,168**	73,941
Net changes in other assets provided and other liabilities	**182**	(1,539)
Net cash flows from (used in) operating activities	**(16,448)**	1,416
Cash flows from investing activities		
Purchases of financial assets	**(440,290)**	(656,963)
Disposal of financial assets	**488,548**	533,032
Acquisition of premises and equipment	**(174)**	(140)
Net cash flows provided by (used in) from investing activities	**48,084**	(124,071)
Cash flows from financing activities		
Borrowed funds	**3,425**	(15,000)
Dividends paid	**(35,000)**	-
Net cash flows (used in) from financing activities	**(31,575)**	(15,000)
Net increase (decrease) in cash and cash equivalents	**61**	(137,655)
Cash and cash equivalents at January 1	**90,275**	227,930
Cash and cash equivalents at December 31	**90,336**	90,275

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

1. Corporate Information

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

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

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

The financial statements were approved for issuance according to resolution of the Board of Directors of Atlantic Security Bank on April 28, 2011.

2. Statement of Compliance

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

3. Basis of Preparation of Financial Statements

3.1 Valuation basis

The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of investments, derivative financial instruments and available-for-sale financial assets. The carrying values of such recognized assets and liabilities that are hedged items are adjusted to record variations in the fair values attributable to the risks that are being hedged. The financial statements are prepared in dollars of the United States of America (US$) and all values are rounded to the nearest thousand (US$000) except when otherwise indicated.

Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Basis of Preparation of Financial Statements (continued)

3.2 Changes in accounting policies and disclosures

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation-Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity´s non-derivative equity instruments, or to acquire a fixed number of the entity´s own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Bank after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank´s financial assets. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

3. Basis of Preparation of Financial Statements (continued)

3.2 Changes in accounting policies and disclosures (continued)

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability quality as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

Improvements to IFRSs (issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Bank.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statement
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

3.3 Significant accounting judgments and estimates

The preparation of the financial statements in conformity with International Financial Reporting Standards requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3. Basis of Preparation of Financial Statements (continued)

3.3 Significant accounting judgments and estimates (continued)

The Bank's management has made as assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Impairment of financial assets

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

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

4. Summary of Significant Accounting Policies

Cash and cash equivalents

For presentation purposes, in its statement of cash flows, the Bank considers as cash and cash equivalents all highly liquid instruments with original maturities of three months or less. As of December 31, 2010, cash and cash equivalents are represented by deposits with banks and overnight placements.

Fair value of financial instruments

Financial instruments are used by the Bank to manage market risk, facilitate customer transactions, hold proprietary positions and meet financing objectives. Fair value is determined by the Bank based on available listed market prices or broker price quotations. Assumptions regarding the fair value of each class of financial assets and liabilities are fully described in Note 11 to the financial statements.

Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available for sale and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

4. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Those categories are used to determine how a particular financial asset is recognized and measured in the financial statements.

Financial assets at fair value through profit or loss. This category has two subcategories:

- Designated upon initial recognition. The first includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss.

- Held for trading. The second category includes financial assets that are held for trading. All derivatives (except those designated hedging instruments) and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking are held for trading.

Available-for-sale financial assets (AFS) are any non-derivative financial assets designated on initial recognition as available for sale. AFS assets are measured at fair value in the statement of financial position. Fair value changes on AFS assets are recognized directly in equity, through the statement of comprehensive income, except for interest on AFS assets (which is recognized in income on an effective yield basis), impairment losses, and (for interest-bearing AFS debt instruments) foreign exchange gains or losses. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available-for-sale financial asset is derecognized.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market, not held for trading, and not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Loans and receivables are measured at amortised cost using the effective interest rate method.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Held-to-maturity investments are measured at amortised cost. If an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years.

Financial Liabilities

The Bank recognises, in compliance to IAS 39, two classes of financial liabilities:

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

4. Summary of Significant Accounting Policies (continued)

Initial recognition and measurement

The Bank uses a classification of financial asset or a financial liability depending on the purposes for which they were acquired and their characteristics. All financial assets or liabilities are recorded at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit and loss, any directly attributable incremental costs of acquisition or issue. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of income. A regular way purchase or sale of financial assets and liabilities is recognized and derecognized using either trade date or settlement date accounting. The Bank has adopted the method of trade accounting to recognize its financial assets and liabilities; this method has been applied consistently for all purchases and sales of financial assets and liabilities that belong to the same category of financial asset and liabilities.

Financial assets and all financial liabilities have been recognized on the statement of financial position, including all derivatives as described in 'Derivative financial instruments' section.

Measurement subsequent to initial recognition

Subsequently, the Bank measures their financial assets and liabilities (including derivatives) at fair value, with the following exceptions:

Loans and receivables, held-to-maturity investments, and non-derivative financial liabilities, which have been measured at amortised cost using the effective interest method.

Financial assets and liabilities that are designated as a hedged item or hedging instrument are subject to measurement under the hedge accounting requirements.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For its available-for-sale financial assets the Bank uses quoted market prices in an active market or dealer price, which are the best evidence of fair value, where they exist, to measure the financial instrument. The fair value of investment funds are determined by reference to the net asset values of the funds as provided by respective administrators of such funds.

Amortized cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

4. Summary of Significant Accounting Policies (continued)

Measurement subsequent to initial recognition (continued)

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Interest income and expense

Interest income and expense is recognized in the income statement for all interest-bearing instruments on an accrual basis applying the effective yield method to the actual purchase price. Interest income includes coupons earned on fixed income investment and accredited discount on debt instruments. When a loan becomes of doubtful collection, it is written down to recoverable amount and interest income is thereafter recognized at the rate of interest which had been used to discount the future cash flows for the purpose of determining the recoverable amount.

Fees and commissions income

Fees and commissions are generally recognized on an accrual basis once service has been rendered. Loan origination fees are deferred and recognized over the life of the loan.

Foreign currency operations

Substantially all of the Bank's transactions are performed in U.S. Dollars. Foreign currency transactions are translated into U.S. Dollars at the prevailing exchange rates on the date of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets are measured at the date of the statement of financial position and liabilities denominated in foreign currencies are recognized in the income statement.

4. Summary of Significant Accounting Policies (continued)

Foreign currency operations (continued)

Translation differences on debt securities and other financial assets measured at fair value are included as foreign exchange income in the income statement with the exception of difference on foreign borrowing that provide an effective hedge against a net investment in a foreign security which are taken directly to equity until the disposal of net investment, at which time they are recognized in the statement of income.

Derivative financial instruments

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

Derivative financial instrument operations are recognized initially at fair value. The fair value of derivative financial instruments is calculated by reference to current interest and exchange rates. The changes in fair value are recorded as assets when the fair value is positive and as liabilities when it is negative. The gain or loss related to changes in fair value is recorded in the income statement.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In connection with cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in net profit or loss. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognized in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

4. Summary of Significant Accounting Policies (continued)

Derivative financial instruments (continued)

For derivatives that do not qualify for hedge accounting, are classified as trading derivative instrument and any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the year.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the useful life of the assets as follows:

Furnitures and office equipments	2 to 3 years
Vehicles	5 years
Leasehold improvement	5 years

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible asset

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will generate economic benefits exceeding costs beyond one year, are recognized as intangible asset.

Expenditures which enhance or extend the performance of computer software programmes beyond their original specifications are recognized as a capital improvement and therefore added to the original cost of the software. Computer software costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding 5 years.

4. Summary of Significant Accounting Policies (continued)

Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to deliver such assets to customers, are excluded from these financial statements if the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

Income taxes

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

5. Other Interest – Bearing Deposits with Banks

	December 31,	
	2010	2009
	US$ 000	US$ 000
Banco de Credito and subsidiaries (a subsidiary of Credicorp Ltd.)	**2,271**	377,996
Other financial institutions	**5,153**	14,235
	7,424	392,231

6. Risk Portfolio, Net

	December 31,	
	2010	2009
	US$ 000	US$ 000
Reverse repurchased agreement	**12,400**	-
Available-for-sale financial assets, net	**734,119**	779,269
Held to maturity financial assets, net	**5,070**	7,613
Loan portfolio, net	**468,142**	132,262
	1,219,731	919,144

Reverse repurchase agreement

At December 31 2010, the Bank held investments in securities under reverse repurchase agreements for US$12.4 million, maturing through January 3, 2011, with an annual interest rate of 0.22%

6. Risk Portfolio, Net (continued)

Financial Assets

	2010			
	Cost US$000	Gross unrealized gain US$000	Gross unrealized loss US$000	Fair value US$000
Available for sale				
Federal Agencies notes - U.S.	**13,623**	**355**	**-**	**13,978**
U.S. Corporate bonds	**457,754**	**12,284**	**(27,134)**	**442,904**
Non - U.S. Corporate bonds	**197,982**	**6,781**	**(1,081)**	**203,682**
Equity securities (including funds)	**37,666**	**5,664**	**(8,181)**	**35,149**
Sovereign debt	**37,855**	**611**	**(60)**	**38,406**
Subtotal	**744,880**	**25,695**	**(36,456)**	**734,119**
Held to maturity				
U.S. Corporate bonds	**5,070**	**-**	**-**	**5,070**
Subtotal	**5,070**	**-**	**-**	**5,070**
Less:				
Provision for impairment of financial assets	**(36,589)**	**-**	**36,589**	**-**
	713,361	**25,695**	**133**	**739,189**

	2009			
	Cost US$000	Gross unrealized gain US$000	Gross unrealized loss US$000	Fair value US$000
Available for sale				
Federal Agencies notes - U.S.	15,386	476	-	15,862
U.S. Corporate bonds	508,356	12,513	(28,333)	492,536
Non - U.S. Corporate bonds	183,818	6,206	(428)	189,596
Equity securities (including mutual funds)	35,759	4,482	(10,569)	29,672
Sovereign debt	50,464	1,320	(181)	51,603
Subtotal	793,783	24,997	(39,511)	779,269
Held to maturity				
U.S. Corporate bonds	7,613	-	-	7,613
Subtotal	7,613	-	-	7,613
Less:				
Provision for impairment of financial assets	(37,830)	-	37,830	-
	763,566	24,997	(1,681)	786,882

6. Risk Portfolio, Net (continued)

Financial assets (continued)

Fair value for available-for-sale assets portfolio is represented by quoted market prices in an active market or dealer price where investments are not actively traded, which are the best evidence of fair value, where they exist, to measure the financial assets. The fair value of investment funds are determined by reference to the net asset values of the funds as provided by respective administrators of such funds.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Available for sale				
Debt securities	114,422	578,314	11,307	704,043
Equity securities (including mutual funds)	14,432	6,272	14,442	35,146
Total	128,854	584,586	25,749	739,189

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

	At January 1, 2010 US$000	Total gains/ (losses) recorded in profit or loss US$000	Total gains/ (losses) recorded in equity US$000	Purchases US$000	Sale US$000	At December 31, 2010 US$000
Available for sale						
Debt securities	14,270	19	(4,000)	336	(6,142)	12,445
Equity securities (including mutual funds	18,361	1,441	384	-	(3,232)	13,304
Total	32,631	1,460	(3,616)	336	(9,374)	25,749

6. Risk Portfolio, Net (continued)

Financial assets (continued)

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Available for sale				
Debt securities	587,490	147,835	14,270	749,595
Equity securities (including mutual funds)	8,015	3,298	18,361	29,674
Total	595,505	151,133	32,631	779,269

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

	At January 1, 2009 US$000	Total gains/ (losses) recorded in profit or loss US$000	Total gains/ (losses) recorded in equity US$000	Purchases US$000	Sale US$000	At December 31, 2009 US$000
Available for sale						
Debt securities	15,880	8	748	1,140	(1,994)	14,270
Equity securities (including mutual funds	14,978	1,226	(3,120)	14,348	(12,859)	18,361
Total	30,858	1,234	(2,372)	15,488	(14,853)	32,631

Amounts reported in the income statements relating to gains on available-for-sale financial assets are detailed as follows on December 31:

	December 31,	
	2010	2009
	US$000	US$000
Realized gains on sales of financial assets	**13,826**	6,610

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

	December 31,	
	2010	2009
	US$000	US$000
Balance at January 1st	**786,882**	588,074
Purchases	**440,290**	656,963
Disposals and written-off, net	**(490,495)**	(528,805)
Gain from changes in fair value	**2,512**	70,650
Balance at December 31	**739,189**	786,882

6. Risk Portfolio, Net (continued)

Financial assets (continued)

The table below presents an analysis of the available-for-sale investments and held to maturity investments by rating agency designation at December 31, based on Standard & Poor's rating or its equivalent:

	2010					
Available for sale	**Federal Agencies Notes-U.S. US$000**	**US - Corporate Bonds US$000**	**Non - US Corporate Bonds US$000**	**Sovereign Debt US$000**	**Equities Securities & Funds US$000**	**Total US$000**
AAA	**6,794**	**8,032**	**3,192**	**1,035**	**-**	**19,053**
AA- to AA+	**-**	**13,705**	**7,464**	**-**	**-**	**21,169**
A- to A+	**-**	**92,974**	**37,382**	**-**	**2,956**	**133,312**
BBB- to BBB+	**-**	**115,671**	**75,065**	**10,788**	**3,151**	**204,675**
Lower than BBB-	**-**	**206,778**	**71,705**	**13,420**	**145**	**292,048**
Unrated	**7,184**	**5,744**	**8,874**	**13,163**	**28,897**	**63,862**
	13,978	**442,904**	**203,682**	**38,406**	**35,149**	**734,119**
Held to Matiurity						
AAA	**-**	**5,070**	**-**	**-**	**-**	**5,070**
Total	**13,978**	**447,974**	**203,682**	**38,406**	**35,149**	**739,189**

	2009					
Available for sale	Federal Agencies Notes-U.S. US$000	US - Corporate Bonds US$000	Non - US Corporate Bonds US$000	Sovereign Debt US$000	Equities Securities & Funds US$000	Total US$000
AAA	1,939	13,960	5,071	-	-	20,970
AA- to AA+	-	17,739	5,885	-	-	23,624
A- to A+	-	94,514	32,101	-	-	126,615
BBB- to BBB+	-	222,501	95,761	24,380	-	342,642
Lower than BBB-	-	100,191	20,267	18,866	-	139,324
Unrated	13,923	43,631	30,510	8,356	29,674	126,094
	15,862	492,536	189,595	51,602	29,674	779,269
Held to Matiurity						
AAA	-	7,613	-	-	-	7,613
Total	15,862	500,149	189,595	51,602	29,674	786,882

6. Risk Portfolio, Net (continued)

Loan portfolio, net

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

	December 31, 2010 US$ 000	2009 US$ 000
Corporate:		
Manufacturing	**29,067**	37,875
Commercial	**16,738**	39,467
Financial services	**368,727**	7,095
Agriculture	**27,131**	25,099
Real estate and construction	**3,771**	6,247
Mining and other related activities	**1,807**	7,739
Transportation and communications	**5,366**	5,583
Education, health and other services	**317**	404
Fishing	**3,853**	3,056
	456,777	132,565
Other activity	**12,263**	703
	469,040	133,268
Less: provision for loan losses	**(898)**	(1,006)
	468,142	132,262

As of December 31, 2010 there are loans guaranteed with cash amounted to US$418,261,146 (2009 – US$61,742,699). These loans were matched in amount and maturity.

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

	December 31, 2010 US$000	2009 US$000
Fixed interest rates	**431,137**	99,422
Floating interest rates	**37,903**	33,846
	469,040	133,268

6. Risk Portfolio, Net (continued)

Loan portfolio, net (continued)

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

2010

		Loan Collaterals			
	Carrying value US$000	**U.S. securities and real estate US$000**	**U.S. dollar deposits US$000**	**Other collateral US$000**	**Unsecured portion US$000**
Bermuda	**5,200**	**-**	**3,000**	**-**	**2,200**
Chile	**2,650**	**-**	**2,650**	**-**	**-**
United State of America	**5,477**	**1,500**	**-**	**1,727**	**2,250**
Guatemala	**4,374**	**-**	**-**	**-**	**4,374**
Spain	**3,228**	**-**	**-**	**-**	**3,228**
British Virgin Islands	**6,207**	**2,960**	**1,624**	**1,600**	**23**
Mexico	**3,161**	**-**	**-**	**-**	**3,161**
Panama	**4,477**	**3,210**	**1,012**	**250**	**5**
Peru	**433,813**	**15,065**	**409,656**	**6,057**	**3,035**
Switzerland	**253**	**13**	**119**	**121**	**-**
Canada	**200**	**-**	**200**	**-**	**-**
	469,040	**22,748**	**418,261**	**9,755**	**18,276**

2009

		Loan Collaterals			
	Carrying value US$000	U.S. securities and real estate US$000	U.S. dollar deposits US$000	Other collateral US$000	Unsecured portion US$000
Bermuda	3,000	-	3,000	-	-
Chile	2,650	-	2,650	-	-
Colombia	3,333	-	-	-	3,333
United State of America	12,672	-	25	7,344	5,303
Guatemala	6,438	-	-	-	6,438
British Virgin Islands	7,582	5,823	160	1,599	-
Mexico	3,561	-	-	-	3,561
Panama	2,938	130	547	2,261	-
Peru	87,195	8,557	55,061	23,452	125
Switzerland	100	-	100	-	-
Canada	200	-	200	-	-
Spain	3,599	-	-	-	3,599
	133,268	14,510	61,743	34,656	22,359

6. Risk Portfolio, Net (continued)

Provision

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

	2010		
	Provision for Impairment of Financial Assets **US$000**	*Provision for Loan Losses* **US$000**	*Total* **US$000**
Balance at January 1st	**37,830**	**1,006**	**38,836**
Increase	**3,250**	**-**	**3,250**
Reversals	**(311)**	**(108)**	**(419)**
Write-off	**(4,180)**	**-**	**(4,180)**
Balance at December 31	**36,589**	**898**	**37,487**

	2009		
	Provision for Impairment of Financial Assets US$000	*Provision for Loan Losses* US$000	*Total* US$000
Balance at January 1st	41,536	1,176	42,712
Increase	9,825	900	10,725
Reversals	(6,950)	(550)	(7,500)
Write-off	(6,581)	(520)	(7,101)
Balance at December 31	37,830	1,006	38,836

7. Other Borrowed Funds

Short Sale

At December 31, 2010, the Bank maintained obligations derived from short sale transactions of securities for US$3,425,504. The Bank incurred in interest cost in favor of the buyer, equivalent to the performance of the securities involved in the transaction. These transactions are guaranteed with Treasury Notes of the United States, with maturities in 2015 and 2020.

During 2010, the Bank had recognized in the income statement the sum of US$16,754 of realized loss due to valuation.

7. Other Borrowed Funds (continued)

As of December 31, 2010 and 2009 the Bank maintained no balance in other borrowed funds.

The following table details other borrowed funds:

	December 31	
	2010	2009
	US$000	US$000
Amount at the end of the year	**3,425**	-
Average during the year	**8,022**	16,512
Maximum at any month end	**24,246**	28,997

8. Balances and Transactions with Related Parties

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

	December 31			
	2010		2009	
	Directors, key management personnel and other related parties US$000	**Affiliates US$000**	Directors, key management personnel and other related parties US$000	Affiliates US$000
Statement of financial position				
Assets:				
Interest-bearing deposits with banks	-	**2,002**	-	22,345
Overnight placements	-	**32,000**	-	30,000
Other interest-bearing deposits with banks	-	**2,271**	-	377,996
Risk portfolio:				
Investments in financial instruments, mutual funds managed by the Bank and other related parties	**847**	**-**	53	-
Loans	**11,763**	**359,336**	9,350	-
Accumulated interest receivable	**319**	**6,454**	178	6,405
Other assets	-	**225**	-	350
Liabilities:				
Deposits (demand and time)	**146,504**	**11,081**	164,239	5,103
Accumulated interest payable	**1,618**	**-**	1,831	-
Other liabilities	-	**222**	-	518

For the years ended December 31, 2010 and 2009, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties. The loans that counted on tangible guarantees as financial goods and values amounted to US$11,740 (2009: US$8,347).

8. Balances and Transactions with Related Parties (continued)

	December 31			
	2010		2009	
	Directors, key management personnel and other related parties US$000	**Affiliates US$000**	Directors, key management personnel and other related parties US$000	Affiliates US$000
Off-balance sheet:				
Forward currency contracts	**-**	**11,000**	-	11,000
Commitments for letter of credit	**-**	**23,087**	-	2,738
Investment on behalf of customers	**456,398**	**-**	418,523	-
Guarantees received	**-**	**500**	-	1,200
Guarantees granted	**-**	**-**	-	377,996
Statements of income:				
Interest and dividend income	**601**	**30,961**	584	31,434
Interest expense	**3,416**	**434**	5,399	974
Fee and commission income	**-**	**991**	4,029	646
Fee and commission expense	**53**	**1,475**	-	1,430
General and administrative expenses	-	**342**	-	302

As of December 31, 2010, loans receivable from related parties of US$14,840 (2009: US$13,194), are not included in the statement of financial position due to the fact that full risk participations have been sold off to customers without recourse to the Bank.

As of December 31, 2010, the other interest-bearing deposits with banks include deposits with Banco de Crédito de Perú, S. A. and Subsidiaries for US$2,271and guarantee revolving credit line loans BCP US$354,136 (2009: US$377,996), where full risk participation has been sold off to customers without recourse to the Bank and the full amount is guaranteed by deposits received from customers.

9. Risk Management

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

9. Risk Management (continued)

Market risk

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

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

Operational risk

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

Credit risk

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

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

9. Risk Management (continued)

Credit risk (continued)

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

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

Credit related commitments

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

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

Interest rate risk

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

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

9. Risk Management (continued)

Interest rate risk (continued)

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

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

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

				2010			
Assets	**Up to 1 month US$000**	**1 to 3 months US$000**	**3 to 12 months US$000**	**1 to 5 years US$000**	**Over 5 years US$000**	**Non interest bearing US$000**	**Total US$000**
Cash and cash equivalents	**90,080**	**90**	**34**	**107**	**-**	**25**	**90,336**
Due from banks	**4,687**	**1,421**	**248**	**1,068**	**-**	**-**	**7,424**
Financial assets	**37,994**	**42,209**	**93,233**	**382,611**	**160,392**	**35,150**	**751,589**
Loans	**68,598**	**92,935**	**101,977**	**204,632**	**-**	**-**	**468,142**
Other assets	**-**	**-**	**-**	**-**	**-**	**20,306**	**20,306**
	201,359	**136,655**	**195,492**	**588,418**	**160,392**	**55,481**	**1,337,797**
Liabilities							
Deposits:							
Non-interest bearing	**-**	**-**	**-**	**-**	**-**	**186,975**	**186,975**
Interest bearing	**265,468**	**174,322**	**169,642**	**319,874**	**1,415**	**-**	**930,721**
Borrowed funds	**-**	**-**	**-**	**-**	**3,425**	**-**	**3,425**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**11,662**	**11,662**
	265,468	**174,322**	**169,642**	**319,874**	**4,840**	**198,637**	**1,132,783**
Total interest sensitivity gap	**(64,109)**	**(37,667)**	**25,850**	**268,544**	**155,552**		

9. Risk Management (continued)

Interest rate risk (continued)

				2009			
Assets	Up to 1 month US$000	1 to 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Over 5 years US$000	Non interest bearing US$000	Total US$000
Cash and cash equivalents	68,956	21,071	34	180	-	34	90,275
Due from banks	75,373	64,053	74,305	168,218	10,282	-	392,231
Financial assets	38,253	60,081	17,854	505,880	136,947	27,865	786,880
Loans	17,925	30,762	22,437	61,140	-	-	132,264
Other assets	-	-	-	-	-	20,115	20,115
	200,507	175,967	114,630	735,418	147,229	48,014	1,421,765
Liabilities							
Deposits:							
Non-interest bearing	-	-	-	-	-	123,268	123,268
Interest bearing	280,735	250,320	190,808	366,175	10,282	-	1,098,320
Other liabilities	-	-	-	-	-	11,570	11,570
	280,735	250,320	190,808	366,175	10,282	134,838	1,233,158
Total interest sensitivity gap	(80,228)	(74,353)	(76,178)	369,243	136,947		

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

	2010		2009	
Financial Margin Sensitivity	**Sensitivity Increase 100 bps**	**Sensitivity Decrease 100 bps**	Sensitivity Increase 100 bps	Sensitivity Decrease 100 bps
	US$000	**US$000**	US$000	US$000
Assets:				
Due from banks	**(420)**	**27**	(296)	-
Loans	**(2,530)**	**2,530**	(963)	735
Financial assets	**(1,077)**	**872**	(636)	632
	(4,027)	**3,429**	(1,895)	1,367
Liabilities				
Deposits	**5,809**	**(2,878)**	6,718	(3,858)
	5,809	**(2,878)**	6,718	(3,858)
Total interest sensivity gap	**1,782**	**551**	4,823	(2,491)

(Amount expressed in thousands of US$ dollars)

9. Risk Management (continued)

Interest rate risk (continued)

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

	2010		*2009*	
	%		*%*	
	End of year	***During the year***	*End of year*	*During the year*
Assets:				
Interest-bearing deposits with banks	**0.35**	**0.48**	5.81	5.67
Financial assets	**4.09**	**4.76**	5.40	5.01
Loans	**7.37**	**7.34**	3.28	5.19
Liabilities				
Deposits	**3.63**	**3.71**	3.64	3.90
Borrowed funds	**2.63**	**2.63**	-	1.04

Liquidity risk

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

The Bank is exposed to daily calls on available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience with its specific customer base shows that a minimum level of reinvestment of maturing can be predicted with a high degree of certainty. As of December 31, 2010 and 2009, the Bank holds a substantial amount of securities which Management considers as secondary liquidity source.

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

9. Risk Management (continued)

Liquidity risk (continued)

	2010					
Assets	**Up to 1 month US$000**	**1 to 3 months US$000**	**3 to 12 months US$000**	**1 to 5 years US$000**	**Over 5 years US$000**	**Total US$000**
Cash and cash equivalents	**90,105**	**90**	**34**	**107**	**-**	**90,336**
Due from banks	**4,687**	**1,421**	**248**	**1,068**	**-**	**7,424**
Financial assets	**26,254**	**27,951**	**27,054**	**491,295**	**179,035**	**751,589**
Loans	**63,511**	**85,244**	**96,463**	**222,924**	**-**	**468,142**
Other assets	**3,008**	**6,019**	**9,028**	**2,251**	**-**	**20,306**
	187,565	**120,725**	**132,827**	**717,645**	**179,035**	**1,337,797**
Liabilities						
Deposits:						
Non-interest bearing	**15,580**	**31,163**	**46,744**	**93,488**	**-**	**186,975**
Interest bearing	**185,985**	**188,773**	**191,319**	**363,228**	**1,415**	**930,720**
Borrowed funds	**-**	**-**	**-**	**-**	**3,425**	**3,425**
Other liabilities	**1,974**	**3,876**	**5,812**	**-**	**-**	**11,662**
	203,539	**223,812**	**243,875**	**456,716**	**4,840**	**1,132,782**
Net liquidty gap	**(15,974)**	**(103,087)**	**(111,048)**	**260,929**	**174,195**	**205,015**

	2009					
Assets	Up to 1 month US$000	1 to 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Over 5 years US$000	Total US$000
Cash and cash equivalents	68,990	21,071	34	180	-	90,275
Due from banks	75,373	64,053	74,305	168,218	10,282	392,231
Financial assets	14,859	31,651	25,990	560,978	153,404	786,882
Loans	15,735	28,553	18,137	69,837	-	132,262
Other assets	3,074	6,149	9,223	1,669	-	20,115
	178,031	151,477	127,689	800,882	163,686	1,421,765
Liabilities						
Deposits:						
Non-interest bearing	10,272	20,545	30,817	61,634	-	123,268
Interest bearing	195,010	265,906	214,188	412,934	10,282	1,098,320
Other liabilities	1,934	3,859	5,777	-	-	11,570
	207,216	290,310	250,782	474,568	10,282	1,233,158
Net liquidty gap	(29,185)	(138,833)	(123,093)	326,314	153,404	188,607

9. Risk Management (continued)

Liquidity risk (continued)

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

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

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

Capital risk

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

The market risk approach used by the Bank to calculate its capital requirements covers the general market risk of the Bank’s operations and the specific risks of open positions in currencies, debt, and equity securities included in the risk portfolio. Assets are weighted according to broad categories of notional credit risk, and assigned a risk weighting average according to the capital amount deemed necessary to support them. Four categories of risk weights (0, 20, 50, 100) are applied. For example cash and cash collateralized loans have zero risk weighting, which means no capital is required to support holding these assets. Premises and equipment carry a 100% risk weighting, meaning they must be supported by capital equal to 12% of the amount shown.

9. Risk Management (continued)

Capital risk (continued)

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

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

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

Statements of financial position assets and off-balance sheet positions (Net of provision)	*Weight %*	*Nominal Amount US$ 000*	*Weighted Assets US$ 000*
Cash	*0*	26	-
Deposits with banks	*20*	95,464	19,093
Available-for-sale securities zone A, government and banks-up to 1 year	*10*	9,171	917
Available-for-sale securities zone A, government and banks-Over to 1 year	*20*	100,546	20,109
Financial assets available-for-sale	*100*	641,872	641,872
Cash collateralized loan	*0*	412,947	-
Other loans	*100*	56,055	56,055
Premises and equipment	*100*	302	302
Other assets	*100*	20,004	20,004
Letters of credit	*100*	6,515	6,515
Cash covered letters of credit	*0*	18,496	-
Total risk weighted assets			764,867
Capital base (includes Tier Capital 1 and 2)			205,014
Less: -Change net in valuation of available for sale financial assets			(25,828)
Adjusted Capital base			179,186
Capital adequacy ratio as of December 31, 2010			**23.42%**
Capital adequacy ratio as of December 31, 2009			19.60%
Minimum capital adequacy regulatory ratio			**12%**

9. Risk Management (continued)

Capital risk (continued)

The Cayman Island Monetary Authority (CIMA) is implementing the Basel II Framework. The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that seeks to improve on the existing Basel I rules by aligning regulatory capital requirements more closely to the underlying risks that banks face.

The Framework is intended to promote a more forward looking approach to capital supervision that encourages banks to identify risks and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices. A key objective of the revised Framework is to promote the adoption of stronger risk management practices by the banking industry.

CIMA proposes to apply the Basel II Framework in two phases leveraging a practical measured approach

The first phase of the implementation was completed on December 31, 2010 and comprised the following Pillar 1 approaches:

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

The first phase of the Basel II implementation will also include Pillar 2 – Supervisory Review Process and Pillar 3 - Market Discipline. However, given the scope of Pillar II and Pillar III and the possible impact to banks, CIMA will implement these after December 31, 2012.

The second phase of the CIMA Basel II implementation will be considered for implementation after 2012. It will include considering the implementation of advanced approaches, specifically Pillar 1 – Credit Risk – Advanced Approaches (IRB), Operations Risk – Advanced Measurement Approaches (AMA) and Market Risk – Internal Risk Management Models.

10. Fair Value of Financial Instruments

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

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

10. Fair Value of Financial Instruments (continued)

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

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

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

- *Loans.* The fair value of the loan portfolio approximates its carrying value due to either the short-term nature of loans and/or the fact that the loan portfolio is composed mainly of cash collateral loans.

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

	2010		2009	
Assets	**Carrying Value US$000**	**Fair Value US$000**	Carrying Value US$000	Fair Value US$000
Cash and cash equivalents	**90,336**	**90,336**	90,275	90,275
Due from banks	**7,424**	**7,424**	392,231	392,231
Financial assets	**751,589**	**751,589**	786,882	786,882
Loans	**468,142**	**468,142**	132,262	130,956
Other assets	**20,306**	**20,306**	20,115	20,115
	1,337,797	**1,337,797**	1,421,765	1,420,459
Liabilities				
Deposits:				
Non-interest bearing	**186,975**	**186,975**	123,268	123,268
Interest bearing	**930,720**	**930,720**	1,098,320	1,098,320
Borrowed funds	**3,425**	**3,425**	-	-
Other liabilities	**11,662**	**11,662**	11,570	11,570
	1,132,782	**1,132,782**	1,233,158	1,233,158

11. Share Capital

The number of authorized, issued and outstanding ordinary shares of the Bank as of December 31, 2010 was 70,000,000 (2009 – 70,000,000) per share.

12. Commitments and Contingencies

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

	December 31	
	2010	2009
	US$ 000	US$ 000
Commercial letters of credit	**650**	900
Stand by letters of credit and guarantees	**25,041**	19,771

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

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

13. Fiduciary Activities

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

Assets managed on behalf of customers by the Bank comprised of investment securities and loans totaling US$3,177,734,306 in 2010 (2009 - US$2,168,601,959). These assets include mutual funds with net assets of US$456,397,837 according to statements of net assets prepared by the funds' management at December 31, 2010 (2009 - US$418,522,945).

14. Concentration of Assets and Liabilities

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

	2010	
	Assets US$000	**Liabilities US$000**
Latin America and the Caribbean	**648,840**	**1,014,612**
United States of America	**601,104**	**3,792**
Other countries	**67,548**	**102,717**
	1,317,492	**1,121,121**

	2009	
	Assets US$000	Liabilities US$000
Latin America and the Caribbean	686,110	1,138,962
United States of America	631,937	1,401
Other countries	83,603	81,225
	1,401,650	1,221,588

15. Derivative Financial Instruments

The Bank uses the following derivative instruments for hedging and trading purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. The notional amount, is recorded as gross amount, is the amount of the derivative's underlying asset, referenced to rates or indexes and is the basis upon which changes in the value of derivatives are measured. The notional amount indicates the volume of transactions outstanding at year end and is indicative of neither the market risk nor the credit risk.

	2010			*2009*		
	Assets US$000	***Liabilities US$000***	***Notional Amount US$000***	*Assets US$000*	*Liabilities US$000*	*Notional Amount US$000*
Derivarives held for trading						
Forward foreign currency contracts - sale	**-**	**-**	**2,280**	-	-	-
Interes rate swaps	**-**	**856**	**11,000**	-	424	11,000
Interest rate futures	**-**	**-**	**108,600**	-	-	101,462
Credit default swaps	**19**	**56**	**8,850**	2	-	1,500
	19	**912**	**130,730**	**2**	**424**	**113,962**

15. Derivative Financial Instruments (continued)

For the year ended 31 December 2010, the Bank recognized a net loss of US$433 thousands (2009: US$491 millions), representing the net loss in derivative financial instruments held for trading and hedging purposes.

As of December 31, 2010 and 2009, the Bank has positions in the following types of derivatives:

Swaps

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

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

Forwards and futures

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

The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The bank has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Short Sale

Short selling is a mechanism that serves as leasing financial instruments to a third party to repurchase in a given period, winning, or losing the price difference between two dates. The goal is to sell the papers at the beginning of the operation and when the price drops, buy it cheaper.

15. Derivative Financial Instruments (continued)

Short Sale (continued)

Short Sales are primarily short-term transactions to take advantage of the fact that markets tend to experience declines in prices faster than increases in their prices. However, the fact that most financial markets have a long term trend upwards and gain exposure for limited compared to traditional procurement limits the use of sales for long-term investments.

Derivative financial instruments held or issued for trading purposes

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

Derivative financial instruments held or issued for hedging purposes

As a part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to credit and market risk. This is achieved by hedging specific financial instruments, portfolios of fixed income financial instruments and forecast transactions as well as strategic hedging against overall balance sheet exposures.

The accounting treatment explained in Note 4 "Derivative financial instruments" varies according to the nature of the item hedged and the compliance with the hedge criteria. Hedges entered into by the Bank which provide economic hedges but do not meet the hedge accounting criteria are treated as "Derivative financial instruments held or issued for trading purposes".