

Financial Statements

**Report**

**Atlantic Security Bank**

*Year ended December 31, 2007  
with Report of Independent Auditors*

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## **GENERAL INFORMATION**

### **Shareholder**

Atlantic Security Holding Corporation

### **Registered Office**

Cayman National Building  
Elgin Avenue P.O. Box 10340 APO  
Grand Cayman  
Cayman Islands, British West Indies

### **Lawyers**

Maples and Calder, Cayman Islands  
Holland & Knight, United States of America  
Galindo, Arias & Lopez, Panama  
Aleman, Arias & Mora, Panama

### **Banks**

Standard Chartered Bank  
Banco de Credito – Miami Agency  
Banco de Credito – Panama Branch  
Banco de Credito – Lima  
HSBC Bank USA  
Bank of America, N.A.  
Barclays Bank  
ABN Amro Bank NV  
Wachovia Bank  
Pershing, LLC  
CIBC Oppenheimer  
Lehman Brothers Inc.  
Banco de Credito e Inversiones  
Royal Bank of Scotland  
Bladex USA  
JP Morgan Chase

### **Auditor**

Ernst & Young, Cayman Islands

## Independent Auditors' Report

The Board of Directors  
Atlantic Security Bank

We have audited the accompanying financial statements of Atlantic Security Bank (the "Bank") which comprise the balance sheet as at December 31, 2007, and the statements of income, changes in shareholder's equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Managements' 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's 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 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.

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



## Independent Auditors' Report (continued)

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Atlantic Security Bank as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst + Young*

April 2, 2008

**Atlantic Security Bank****Balance Sheet****At December 31, 2007***(Amounts expressed in US\$ dollars)*

<i>Notes</i>		2007 US\$ 000	2006 US\$ 000
	<b>ASSETS</b>		
	Cash and cash equivalents		
	Cash	65	61
11	Interest - bearing deposits with banks	218,167	130,253
	Overnight placements	17,450	51,000
	Total cash and cash equivalents	<u>235,682</u>	<u>181,314</u>
7, 11	Other interest - bearing deposits with banks	312,424	248,519
8, 11	Risk portfolio, net	983,834	868,990
11, 17	Derivative financial instruments	383	80
	Due from customers on acceptances	79	144
	Premises and equipment, net	188	207
9	Intangible asset, net	491	825
11	Accumulated interest receivable	15,997	14,297
11	Other assets	4,773	2,812
	<b>TOTAL ASSETS</b>	<u>1,553,851</u>	<u>1,317,188</u>
	<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
	<b>Liabilities</b>		
	Deposits		
11	Non interest - bearing - demand	52,281	61,557
	Interest - bearing		
11	Demand	49,358	49,753
	Time	1,286,257	1,060,992
	Purchased funds	-	3,063
10, 11	Other borrowed funds	-	15,000
11, 17	Derivative financial instruments	499	461
	Acceptances outstanding	79	144
11	Accumulated interest payable	13,525	12,358
11	Other liabilities	4,587	2,670
	<b>Total liabilities</b>	<u>1,406,586</u>	<u>1,205,998</u>
14, 15, 17	<b>Commitments and contingencies</b>		
	<b>Shareholder's Equity</b>		
13	Share capital	50,000	40,000
	Reserve for valuation of available for sale		
8	financial assets	17,471	12,689
17	Loss in translation of derivative financial		
	instruments, net	(116)	-
	Retained earnings	79,910	58,501
	<b>Total Shareholder's Equity</b>	<u>147,265</u>	<u>111,190</u>
	<b>TOTAL LIABILITIES AND SHAREHOLDER'S</b>		
	<b>EQUITY</b>	<u>1,553,851</u>	<u>1,317,188</u>

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

**Atlantic Security Bank**  
**Statement of Income**  
**For the year ended**  
**December 31, 2007**

*(Amounts expressed in US\$ dollars)*

<i>Notes</i>	2007 US\$ 000	2006 US\$ 000
<b>Interest and dividend income</b>		
Interest on deposits with banks and overnight placements	33,695	30,391
Interest and dividends on risk portfolio	45,589	31,663
Interest on loans	<u>9,199</u>	<u>9,491</u>
11 Total interest and dividend income	<u>88,483</u>	<u>71,545</u>
<b>Interest expense</b>		
Interest on deposits	68,778	56,568
Interest on borrowed funds	245	729
Interest on purchased funds	<u>244</u>	<u>32</u>
11 Total interest expense	<u>69,267</u>	<u>57,329</u>
Net interest income	19,216	14,216
8 Provision for possible loan losses	<u>(292)</u>	<u>-</u>
Net interest income after provision for possible loan losses	<u>18,924</u>	<u>14,216</u>
<b>Non-interest income (expenses)</b>		
11 Fees and commission income	11,091	7,965
11 Fees and commission expense	(1,922)	(1,825)
8 Net realized gains on sales of financial assets	4,578	5,535
8 Provision for impairment of investment securities	(5,017)	(1,856)
Net expense on derivatives financial instruments	(1,998)	(325)
11 Foreign exchange gain (loss), net	2,039	(717)
8 Provision reversals	1,542	720
Others	<u>105</u>	<u>54</u>
Total non-interest income, net	<u>10,418</u>	<u>9,551</u>
<b>Operating expenses</b>		
Salaries and employee benefits	4,167	3,993
11 General and administrative expenses	3,312	2,463
9 Intangible amortization	334	323
Depreciation and amortization	<u>120</u>	<u>157</u>
Total operating expenses	<u>7,933</u>	<u>6,936</u>
<b>Net income</b>	<u>21,409</u>	<u>16,831</u>

*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, 2007**

*(Amounts expressed in US\$ dollars)*

Notes	Share Capital US\$ 000	Reserve for Valuation of Financial Assets US\$ 000	(Loss) Gain in Translation of Derivative Financial Instruments US\$ 000	Retained Earnings US\$ 000	Total Shareholder's Equity US\$ 000
At January 1, 2006	40,000	8,698	(119)	53,670	102,249
Net change in fair value of available for sale financial assets	-	3,991	-	-	3,991
Gain in translation of forward currency contracts	-	-	119	-	119
Net income	-	-	-	16,831	16,831
Dividends paid	-	-	-	(12,000)	(12,000)
At December 31, 2006	40,000	12,689	-	58,501	111,190
Issuance of share capital	10,000	-	-	-	10,000
Net change in fair value of available for sale financial assets	-	4,782	-	-	4,782
Loss in translation of forward currency contracts, net	-	-	(116)	-	(116)
Net income	-	-	-	21,409	21,409
At December 31, 2007	50,000	17,471	(116)	79,910	147,265

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

**Atlantic Security Bank**  
**Statement of Cash Flows**  
**For the year ended**  
**December 31, 2007**

*(Amounts expressed in US\$ dollars)*

	2007 US\$ 000	2006 US\$ 000
<b>Cash flows from operating activities</b>		
Net income	21,409	16,831
Adjustments:		
Interest expense	69,267	57,329
Interest and dividend income	(88,483)	(71,545)
Provision relating to risk portfolio	3,767	1,136
Gain on sale of financial assets	(4,578)	(5,535)
Net expense on derivatives financial assets	1,998	325
Depreciation and amortization	120	157
Intangible amortization	334	323
Operating results before working capital changes	3,834	(979)
Loans	774	28,160
Other interest-bearing deposits with banks	(63,905)	(46,829)
Deposits	215,595	237,910
Net cash flows generated from operations	156,298	218,262
Interest paid	(68,099)	(52,028)
Interest and dividends received	86,783	67,883
Net changes in other assets and other liabilities	(427)	(459)
<b>Net cash flows from operating activities</b>	<b>174,555</b>	<b>233,658</b>
<b>Cash flows from investing activities</b>		
Purchases of financial assets	(446,740)	(582,868)
Disposal of financial assets	334,717	373,734
Acquisition of premises and equipment	(101)	(184)
Intangible asset	-	(362)
<b>Net cash flows used in investing activities</b>	<b>(112,124)</b>	<b>(209,680)</b>
<b>Cash flows from financing activities</b>		
Purchased funds	(3,059)	(302)
Borrowed funds	(15,004)	12,029
Additional paid in capital	10,000	-
Dividends paid	-	(12,000)
<b>Net cash flows used in financing activities</b>	<b>(8,063)</b>	<b>(273)</b>
Net increase in cash and cash equivalents	54,368	23,705
Cash and cash equivalents at January 1	181,314	157,609
<b>Cash and cash equivalents at December 31</b>	<b>235,682</b>	<b>181,314</b>

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

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**1. Corporate Information**

The financial statements were approved for issuance by President Carlos Muñoz on behalf of the Board of Directors of Atlantic Security Bank on March 19, 2008.

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.

**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**

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 recognised 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 dollar 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.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**3.1 Changes in accounting policies and disclosures in accordance to the International Financial Reporting Standards (IFRS) and Interpretations**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Bank has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Bank. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 - Financial Instruments Disclosures
- IAS 1 Amendment – Presentation of Financial Statements
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Reassessment of Embedded Derivatives

The principal effects of these changes are as follows:

*IFRS 7 Financial Instruments: Disclosures:* This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank financial instruments and the nature and extent of risk arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

*IAS 1 Presentation of Financial Statements:* This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank objectives, policies and processes for managing capital.

*IFRIC 8 Scope of IFRS 2:* This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This interpretation had no impact on the financial position or performance of the Bank.

*IFRIC 9 Reassessment of Embedded Derivatives:* This interpretation states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Bank has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Bank.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**3.1 Changes in accounting policies and disclosures in accordance to the International Financial Reporting Standards (IFRS) and Interpretations (continued)**

*Changes in accounting policies in accordance to the International Financial Reporting Standards (IFRS) and Interpretations no yet adopted.*

As of December 31, 2007 the Bank has not yet adopted the following new and amended IFRS and IFRIC interpretations during the year, which were not effective for the year then ended.

- *IFRS 8 Operatives Segments*: This standard requires disclosure of information about the Bank's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. The Bank determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 5, including revised comparative information.
- *IAS 23 (Amendment), Borrowing costs* (effective from January 1, 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Bank will apply IAS 23 (Amended) from January 1, 2009 but is currently not applicable to the Bank as there are no qualifying assets.

In addition, the International Financial Reporting Interpretations Committee (IFRIC) – (which is the committee appointed by the IASC Foundation Trustees that assists the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements) had issued new interpretations, that were not applied to this financial statement at December 31, 2007. Among others, those that could affect the Bank reporting are the following:

- IFRIC 11 - IFRS 2 - Group Treasury Share Transactions: (effective for annual periods beginning on or after March 1, 2007).
- IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: (effective for annual periods beginning on or after January 1, 2008).

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**3.1 Changes in accounting policies and disclosures in accordance to the International Financial Reporting Standards (IFRS) and Interpretations (continued)**

*Changes in accounting policies in accordance to the International Financial Reporting Standards (IFRS) and Interpretations no yet adopted. (Continued)*

The Bank is in process of assessing the impact, if any, that the application of these standards may have on their financial statements.

*Standards, amendments and interpretations effective in 2007 but not relevant*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2007 but they are not relevant to the Bank operations:

- IFRS 4 - Insurance contracts;
- IFRIC 7 - Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies.

*Interpretations to existing standards that are not yet effective and not relevant for the Bank operations*

The following interpretations to existing standards have been published and are mandatory for the accounting periods beginning on or after January 1, 2008 or later periods but are not relevant for the Bank's operations:

- IFRIC 12 - Service concession arrangements: (effective from January 1, 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Bank operations because none of the Bank companies provide for public sector services.
- IFRIC 13 - Customer loyalty programmes: (effective from July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Bank operations because none of the Banks companies operate any loyalty programmes.
- IFRIC 14 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an assets under IAS 19 Employee Benefits. The Bank expects that this Interpretation will have no impact on the financial position or performance.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

### **3.2 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.

#### **Impairment of financial assets**

The Bank periodically reviews its problem loans and investments, in order to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flow when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future 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 statements 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, 2007, 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 12 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.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**4. Summary of Significant Accounting Policies (continued)**

**Financial assets (continued)**

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

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

- Designated. 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 balance sheet. Fair value changes on AFS assets are recognised directly in equity, through the statement of changes in equity, except for interest on AFS assets (which is recognised 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 recognised in equity is recognised in profit or loss when an available-for-sale financial asset is derecognised.

*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.

*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.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**4. Summary of Significant Accounting Policies (continued)**

**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.

**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 recognised at fair value and transaction costs are expensed in the income statement. A regular way purchase or sale of financial assets and liabilities is recognised and derecognised 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 recognised on the balance sheet, including all derivatives as described in 'Derivative financial instruments' section.

**Measurement subsequent to initial recognition**

Subsequently, the Bank measure 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 has been measured at amortised cost using the effective interest method.

An investment in equity instruments with no reliable fair value measurement (and derivatives indexed to such equity instruments) has been measured at cost.

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 entire portfolio 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.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**4. Summary of Significant Accounting Policies (continued)**

**Measurement subsequent to initial recognition (continued)**

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.

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 recognised 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 recognised in profit or loss.

**Interest income and expense**

Interest income and expense is recognised in the statements of income 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 accreted discount on debt instruments. When a loan becomes of doubtful collection, it is written down to recoverable amount and interest income is thereafter recognised 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 recognised on an accrual basis once service has been rendered. Loan origination fees are deferred and recognised 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 and liabilities* denominated in foreign currencies are recognised in the statement of income.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

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*(Amount expressed in US\$ dollars)*

**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 recognised in the income statement.

**Derivative financial instruments**

The Bank makes use of derivative financial instruments, such as options and forward foreign currency contracts, 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 recognised 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 statement of income.

*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 recognised 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 recognised 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 recognised directly in equity and the ineffective portion is recognised 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 recognised, the associated gains or losses that had previously been recognised 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 recognised 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.

For derivatives that do not qualify for hedge accounting, as 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.

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*(Amount expressed in US\$ dollars)*

**4. Summary of Significant Accounting Policies (continued)**

**Derivative financial instruments (continued)**

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 recognised 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 recognised 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.

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 recognised 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 recognised as intangible asset.

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

**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 has been granted an exemption from taxation in the Cayman Islands and in the Republic of Panama.

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**5. Financial 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.

*a) 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 arise 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 Executive Committee 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.

*Foreign exchange risk*

The Bank operations are exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from investments transactions, recognised as assets and/or liabilities. The Bank uses derivative financial instruments (forwards and options contracts) to hedge foreign exchange risk exposure arising from investment securities position in currencies other than US\$ dollars.

*Cash Flow and fair value 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.

The Bank's investment portfolio is managed through a long term investment 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.

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**Notes to the Financial Statements**  
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*(Amount expressed in US\$ dollars)*

**5. Financial Risk Management (continued)**

*b) 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.

*c) 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.

*d) 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.

**6. Capital Risk Management**

The Bank's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Bank monitors capital on the basis of the capital ratio adequacy. This ratio is comparable to those suggested by the Basel Committee on Banking Regulation and Supervisory Practices, is calculated as comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and other risk position at a weighted amount.

During 2007, the Bank's strategy, which was unchanged from 2006, was to maintain the capital ratio over 14%. The capital ratio adequacy calculation is presented in the Note 12.

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**7. Other Interest – Bearing Deposits with Banks**

	<u>December 31,</u>	
	2007	2006
	US\$ 000	US\$ 000
Banco de Credito and subsidiaries (a subsidiary of Credicorp Ltd.)	283,957	239,867
Other financial institutions	<u>28,467</u>	<u>8,652</u>
	<u>312,424</u>	<u>248,519</u>

**8. Risk Portfolio, Net**

The Bank risk portfolio as of December 31 has represented as follows:

	<u>December 31,</u>	
	2007	2006
	US\$ 000	US\$ 000
Available-for-sale financial assets, net	853,738	737,828
Loan portfolio, net	<u>130,096</u>	<u>131,162</u>
	<u>983,834</u>	<u>868,990</u>

**Available-for-sale financial assets**

	2007			Fair value US\$000
	Cost US\$000	Gross unrealized gain US\$000	Gross unrealized loss US\$000	
Federal Agencies notes - U.S.	65,964	216	(280)	65,900
U.S. Corporate bonds	554,953	3,449	(8,326)	550,076
Non - U.S. Corporate bonds	112,935	422	(777)	112,580
Equity securities (including mutual funds)	59,563	17,651	(242)	76,972
Sovereign debt	<u>48,108</u>	<u>184</u>	<u>(82)</u>	<u>48,210</u>
	841,523	21,922	(9,707)	853,738
Less:				
Provision for impairment of financial assets	<u>(5,256)</u>	<u>-</u>	<u>5,256</u>	<u>-</u>
	<u>836,267</u>	<u>21,922</u>	<u>(4,451)</u>	<u>853,738</u>

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**8. Risk Portfolio, Net (continued)**

**Available-for-sale financial assets (continued)**

	2006			Fair value US\$000
	Cost US\$000	Gross unrealized gain US\$000	Gross unrealized loss US\$000	
Federal Agencies notes - U.S.	97,095	39	(1,253)	95,881
U.S. Corporate bonds	425,889	2,153	(3,081)	424,961
Non - U.S. Corporate bonds	78,076	332	(493)	77,915
Equity securities (including mutual funds)	53,637	11,938	(736)	64,839
Sovereign debt	73,647	291	(206)	73,732
Purchased loans	500	-	-	500
	<u>728,844</u>	<u>14,753</u>	<u>(5,769)</u>	<u>737,828</u>
Less:				
Provision for impairment of financial assets	(3,705)	-	3,705	-
	<u>725,139</u>	<u>14,753</u>	<u>(2,064)</u>	<u>737,828</u>

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 detail below shows by type of AFS investments, its source of valuation as of December 31, 2007:

	Valuation Techniques - market		Total
	Quoted Market Price	observable inputs	
Federal Agencies notes - U.S.	65,900	-	65,900
U.S. Corporate bonds	493,595	56,481	550,076
Non - U.S. Corporate bonds	107,312	5,268	112,580
Equity securities (including mutual funds)	9,133	67,839	76,972
Sovereign debt	39,320	8,890	48,210
	<u>715,260</u>	<u>138,478</u>	<u>853,738</u>

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

	December 31,	
	2007 US\$000	2006 US\$000
Realized gains on sales of financial assets	<u>4,578</u>	<u>5,535</u>

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**8. Risk Portfolio, Net (continued)**

**Available-for-sale financial assets (continued)**

At December 31, the available-for-sale financial assets are summarized as follows:

	December 31,	
	2007 US\$000	2006 US\$000
Balance on January 1st	737,828	520,529
Purchases	446,741	582,868
Disposals and written-off, net	(335,613)	(369,560)
Gain from changes in fair value	<u>4,782</u>	<u>3,991</u>
Balance on December 31	<u>853,738</u>	<u>737,828</u>

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

	2007					Total
	Federal Agencies Notes	US - Corporate Bonds	Non - US Corporate Bonds	Sovereign Debt	Equities & Funds	
AAA	33,043	151,151	388	-	-	184,582
AA- to AA+	-	18,309	3,330	-	-	21,639
A- to A+	-	76,034	22,968	4,997	-	103,999
BBB- to BBB+	-	222,313	52,981	19,408	-	294,702
Lower than BBB-	-	75,481	18,595	14,915	-	108,991
Unrated	32,857	6,788	14,318	8,890	76,972	139,825
<b>Total</b>	<u>65,900</u>	<u>550,076</u>	<u>112,580</u>	<u>48,210</u>	<u>76,972</u>	<u>853,738</u>

	2006					Total
	Federal Agencies Notes	US - Corporate Bonds	Non - US Corporate Bonds	Sovereign Debt	Equities & Funds	
AAA	70,308	99,948	-	-	-	170,256
AA- to AA+	-	13,690	-	-	-	13,690
A- to A+	-	83,869	2,585	6,605	-	93,059
BBB- to BBB+	-	174,896	42,474	12,673	-	230,043
Lower than BBB-	-	51,814	29,867	54,454	-	136,135
Unrated	25,573	744	2,989	-	64,839	94,145
<b>Total</b>	<u>95,881</u>	<u>424,961</u>	<u>77,915</u>	<u>73,732</u>	<u>64,839</u>	<u>737,328</u>

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**8. Risk Portfolio, Net (continued)**

**Loan portfolio, net**

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

	<u>December 31,</u>	
	2007 US\$ 000	2006 US\$ 000
Corporate:		
Manufacturing	37,565	36,179
Commercial	17,728	17,326
Financial services	18,907	17,819
Agriculture	12,171	12,157
Real estate and construction	10,576	15,260
Mining and other related activities	7,658	13,240
Transportation and communications	5,127	4,883
Public utilities	9	9
Education, health and other services	589	2,360
Fishing	4,465	4,416
	<u>114,795</u>	<u>123,649</u>
Personal loans and others	<u>16,624</u>	<u>10,102</u>
	131,419	133,751
Less: provision for loan losses	<u>(1,323)</u>	<u>(2,589)</u>
	<u>130,096</u>	<u>131,162</u>

As of December 31, 2007 the loans guaranteed with cash amounted to US\$57,382,042 (2006 US\$62,712,127). These loans were matched in amount and maturity.

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

	<u>December 31</u>	
	2007 US\$ 000	2006 US\$ 000
Fixed interest rates	94,060	107,429
Floating interest rates	<u>37,359</u>	<u>26,322</u>
	<u>131,419</u>	<u>133,751</u>

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**8. 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:

	2007				
	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
Argentina	4,311	-	-	-	4,311
Bolivia	5,801	-	755	-	5,046
British Virgin Islands	18,518	45	3,525	14,617	331
Canada	300	100	200	-	-
Chile	1,650	-	1,650	-	-
Colombia	15,578	40	2,177	-	13,361
El Salvador	625	-	-	-	625
Guatemala	1,313	-	-	-	1,313
Mexico	12,515	-	-	-	12,515
Panama	4,874	1,665	2,939	265	5
Peru	61,274	4,983	46,116	10,145	30
United States of America	4,660	4,660	-	-	-
	<u>131,419</u>	<u>11,493</u>	<u>57,362</u>	<u>25,027</u>	<u>37,537</u>

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*(Amount expressed in US\$ dollars)*

**8. Risk Portfolio, Net (continued)**

**Loan portfolio, net (continued)**

	2006				
	<i>Loan Collaterals</i>				
	<i>Carrying</i>	<i>U.S. securities</i>	<i>U.S. dollar</i>	<i>Other</i>	<i>Unsecured</i>
	<i>value</i>	<i>and real</i>	<i>deposits</i>	<i>collateral</i>	<i>portion</i>
	<i>US\$000</i>	<i>estate</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
Bolivia	5,100	-	100	-	5,000
Brazil	11,778	-	-	-	11,778
British Virgin Islands	7,423	250	4,563	2,605	5
Chile	1,715	-	1,715	-	-
Colombia	9,267	125	4,142	-	5,000
Costa Rica	964	-	-	-	964
El Salvador	5,231	-	-	31	5,200
Cayman Islands	2,500	-	-	2,500	-
Guatemala	1,563	-	-	-	1,563
Mexico	6,558	-	-	-	6,558
Nicaragua	1,000	-	-	-	1,000
Panama	3,528	975	1,894	654	5
Peru	68,099	7,652	55,997	2,594	1,856
United States of America	9,025	-	-	1,454	7,571
	<u>133,751</u>	<u>9,002</u>	<u>68,411</u>	<u>9,838</u>	<u>46,500</u>

Changes in the provision for impairment of investment securities and provision for loan losses are as follows:

	2007		
	<i>Provision for</i>	<i>Provision</i>	<i>Total</i>
	<i>impairment of</i>	<i>for loan</i>	<i>US\$000</i>
	<i>Financial</i>	<i>losses</i>	<i>US\$000</i>
	<i>Assets</i>	<i>US\$000</i>	<i>US\$000</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
Balance at January 1st	3,705	2,589	6,294
Increase	5,017	292	5,309
Reversion	(1,542)	-	(1,542)
Written-off	(1,924)	(1,558)	(3,482)
Balance at December 31	<u>5,256</u>	<u>1,323</u>	<u>6,579</u>

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**8. Risk Portfolio, Net (continued)**

**Loan portfolio, net (continued)**

	2006		
	<i>Provision for impairment of Financial Assets</i>	<i>Provision for loan losses</i>	<i>Total</i>
	US\$000	US\$000	US\$000
Balance at January 1st	2,625	2,909	5,534
Increase	1,856	-	1,856
Reversion	(420)	(300)	(720)
Written-off	(356)	(20)	(376)
Balance at December 31	<u>3,705</u>	<u>2,589</u>	<u>6,294</u>

**9. Intangible Asset, Net**

	<u>December 31</u>	
	2007	2006
	US\$000	US\$000
Intangible	1,631	1,631
Less: accumulated amortization	<u>(1,140)</u>	<u>(806)</u>
	<u>491</u>	<u>825</u>

**10. Other Borrowed Funds**

As of December 31, 2007 the Bank does not maintain any balance in other borrowed funds. (2006-Subordinated Debt for US\$15,000,000, fully paid during 2007).

The following table details other borrowed funds:

	<u>December 31</u>	
	2007	2006
	US\$000	US\$000
Amount at the end of the year	-	15,000
Average during the year	5,228	9,385
Maximum at any month end	16,826	15,000

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**11. 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			
	2007			2006
	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
<b>Balance Sheets</b>				
<b>Assets:</b>				
Interest-bearing deposits with banks	-	17,588	-	5,869
Other interest-bearing deposits with banks	-	283,957	-	239,867
Overnight placements	-	300	-	-
<b>Risk portfolio:</b>				
Investments in financial instruments, mutual funds managed by the Bank and other related parties	5,539	9,671	7,256	10,106
Loans	21,242	-	9,024	7,569
Derivative financial instruments	-	383	-	-
Accumulated interest receivable	316	4,328	135	3,596
Other assets	63	98	-	80
<b>Liabilities:</b>				
Deposits (demand and time)	147,012	16,379	89,362	9,228
Other borrowed funds	-	-	3,059	15,000
Derivative financial instruments	-	499	-	-
Accumulated interest payable	2,237	-	1,430	561
Other liabilities	-	406	-	453

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**11. Balances and Transactions with Related Parties (continued)**

For the years ended December 31, 2007 and 2006, 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 ascended to US\$15,911,110 (2006: US\$3,391,470).

	December 31			
	2007			2006
	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
<b>Off-balance sheets:</b>				
Forward currency contracts	-	22,604	-	-
Commitments for letter of credit	-	275	-	250
Investment on behalf of customers	650,022	-	455,361	-
Guarantees received	-	1,200	-	1,200
Guarantees granted	-	318,427	-	271,108
<b>Statements of income and expenses:</b>				
Interest and dividend income	730	24,804	514	19,601
Interest expense	5,996	556	3,329	748
Fee and commission income	8,388	125	6,133	12
Fee and commission expense	-	1,257	-	1,249
Net realized gain on foreign exchange	-	292	-	110
General and administrative expenses	-	151	-	60

As of December 31, 2007, loans receivable from related parties of US\$14,902,050 (2006: US\$15,117,468), are not included in the balance sheets due to the fact that full risk participations have been sold off to customers without recourse to the Bank.

As of December 31, 2007, the other interest-bearing deposits with banks include deposits with Banco de Credito and Subsidiaries for US\$283,956,728 (2006: US\$239,866,950), 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.

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*(Amount expressed in US\$ dollars)*

## **12. Risk Management**

### **Credit risk**

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.

Financial assets which potentially subject the Bank to concentrations of credit risk consist primarily of cash and cash equivalents, interest-bearing deposits with banks, certain available-for-sale investment 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 8.

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.

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**12. Risk Management (continued)**

**Interest rate risk**

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.

<i>Assets</i>	2007					Non interest bearing US\$000	Total US\$000
	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		
Cash and cash equivalents	196,479	12,418	26,625	95	-	65	235,682
Due from banks	46,606	75,745	178,039	6,152	5,882	-	312,424
Financial assets	93,131	135,425	93,743	283,546	176,384	71,509	853,738
Loans	22,596	28,564	37,884	41,052	-	-	130,096
Other assets	-	-	-	-	-	21,911	21,911
	<u>358,812</u>	<u>252,152</u>	<u>336,291</u>	<u>330,845</u>	<u>182,266</u>	<u>93,485</u>	<u>1,553,851</u>
<i>Liabilities</i>							
Deposits:							
Non-interest bearing	-	-	-	-	-	52,281	52,281
Interest bearing	502,516	300,801	447,804	78,612	5,882	-	1,335,615
Other liabilities	-	-	-	-	-	18,690	18,690
	<u>502,516</u>	<u>300,801</u>	<u>447,804</u>	<u>78,612</u>	<u>5,882</u>	<u>70,971</u>	<u>1,406,586</u>
Total interest sensitivity gap	<u>(143,704)</u>	<u>(48,649)</u>	<u>(111,513)</u>	<u>252,233</u>	<u>176,384</u>		

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
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*(Amount expressed in US\$ dollars)*

**12. Risk Management (continued)**

**Interest rate risk (continued)**

<i>Assets</i>	Up to 1 month US\$000	1 to 3 months US\$000	3 to 12 months US\$000	2006		Non interest bearing US\$000	Total US\$000
				1 to 5 years US\$000	Over 5 years US\$000		
Cash and cash equivalents	170,322	1,850	9,081	-	-	61	181,314
Due from banks	43,622	65,968	126,864	5,948	6,117	-	248,519
Financial assets	45,056	78,024	83,390	279,325	187,193	64,840	737,828
Loans	20,697	20,632	54,207	32,106	3,520	-	131,162
Other assets	-	-	-	-	-	18,365	18,365
	<u>279,697</u>	<u>166,474</u>	<u>273,542</u>	<u>317,379</u>	<u>196,830</u>	<u>83,266</u>	<u>1,317,188</u>
<i>Liabilities</i>							
Deposits:							
Non-interest bearing	-	-	-	-	-	61,557	61,557
Interest bearing	377,950	244,414	404,132	78,132	6,117	-	1,110,745
Purchased funds	3,063	-	-	-	-	-	3,063
Other borrowed funds	15,000	-	-	-	-	-	15,000
Other liabilities	-	-	-	-	-	15,633	15,633
	<u>396,013</u>	<u>244,414</u>	<u>404,132</u>	<u>78,132</u>	<u>6,117</u>	<u>77,190</u>	<u>1,205,998</u>
Total interest sensitivity gap	<u>(116,316)</u>	<u>(77,940)</u>	<u>(130,590)</u>	<u>239,247</u>	<u>190,713</u>		

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

	2007 %		2006 %	
	<i>End of year</i>	<i>During the year</i>	<i>End of year</i>	<i>During the year</i>
<b>Assets:</b>				
Interest-bearing deposits with banks	6.94	7.20	7.46	6.59
Financial assets	5.87	5.50	5.92	5.06
Loans	6.80	7.38	7.13	7.02
<b>Liabilities</b>				
Deposits	5.55	5.88	5.53	5.12
Borrowed funds	-	5.96	7.08	6.19

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
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*(Amount expressed in US\$ dollars)*

**12. Risk Management (continued)**

**Liquidity risk**

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, 2007 and 2006, the Bank holds a substantial amount of investment grade securities which Management considers a 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.

<i>Assets</i>	2007					<b>Total US\$000</b>
	<b>Up to 1 month US\$000</b>	<b>1 to 3 month US\$000</b>	<b>3 to 12 month US\$000</b>	<b>1 to 5 years US\$000</b>	<b>Over 5 years US\$000</b>	
Cash and cash equivalents	196,544	12,418	26,625	95	-	235,682
Due from banks	46,606	75,745	178,039	6,152	5,882	312,424
Financial assets	36,051	80,680	120,915	392,881	223,211	853,738
Loans	17,932	22,590	46,297	43,277	-	130,096
Other assets	3,099	6,043	10,043	2,726	-	21,911
<b>Total assets</b>	<b>300,232</b>	<b>197,476</b>	<b>381,919</b>	<b>445,131</b>	<b>229,093</b>	<b>1,553,851</b>
<b><i>Liabilities</i></b>						
Deposits:						
Non-interest bearing	4,357	8,714	39,210	-	-	52,281
Interest bearing	457,271	309,029	484,821	78,612	5,882	1,335,615
Other liabilities	3,244	6,332	9,114	-	-	18,690
<b>Total liabilities</b>	<b>464,872</b>	<b>324,075</b>	<b>533,145</b>	<b>78,612</b>	<b>5,882</b>	<b>1,406,586</b>
<b>Net liquidity gap</b>	<b>(164,640)</b>	<b>(126,599)</b>	<b>(151,226)</b>	<b>366,519</b>	<b>223,211</b>	<b>147,265</b>

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
**December 31, 2007**

*(Amount expressed in US\$ dollars)*

**12. Risk Management (continued)**

**Liquidity risk (continued)**

<i>Assets</i>	2006					Total US\$000
	Up to 1 month US\$000	1 to 3 month US\$000	3 to 12 month US\$000	1 to 5 years US\$000	Over 5 years US\$000	
Cash and cash equivalents	170,383	1,850	9,081	-	-	181,314
Due from banks	43,622	65,968	126,864	5,948	6,117	248,519
Financial assets	24,530	61,456	74,963	355,360	221,519	737,828
Loans	16,701	18,764	56,818	33,860	5,019	131,162
Other assets	2,687	5,086	7,709	2,883	-	18,365
<b>Total assets</b>	<b>257,923</b>	<b>153,124</b>	<b>275,435</b>	<b>398,051</b>	<b>232,655</b>	<b>1,317,188</b>
<i>Liabilities</i>						
Deposits:						
Non-interest bearing	61,557	-	-	-	-	61,557
Interest bearing	332,344	252,706	441,446	78,132	6,117	1,110,745
Purchased funds	3,063	-	-	-	-	3,063
Other borrowed	-	-	-	-	15,000	15,000
Other liabilities	5,154	5,009	5,470	-	-	15,633
<b>Total liabilities</b>	<b>402,118</b>	<b>257,715</b>	<b>446,916</b>	<b>78,132</b>	<b>21,117</b>	<b>1,205,998</b>
<b>Net liquidity gap</b>	<b>(144,195)</b>	<b>(104,591)</b>	<b>(171,481)</b>	<b>319,919</b>	<b>211,538</b>	<b>111,190</b>

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.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
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*(Amount expressed in US\$ dollars)*

**12. Risk Management (continued)**

**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.

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 balance sheet 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.

**Atlantic Security Bank**  
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*(Amount expressed in US\$ dollars)*

**12. Risk Management (continued)**

<i>Assets</i>	2007		2006	
	Carrying Value US\$000	Fair Value US\$000	Carrying Value US\$000	Fair Value US\$000
Cash and cash equivalents	235,682	235,682	181,314	181,314
Due from banks	312,424	312,424	248,519	248,519
Financial assets	853,738	853,738	737,828	737,828
Loans	130,096	130,096	131,162	131,162
Other assets	21,911	21,911	18,365	18,365
<b>Total assets</b>	<b>1,553,851</b>	<b>1,553,851</b>	<b>1,317,188</b>	<b>1,317,188</b>
 <i>Liabilities</i>				
Deposits:				
Non-interest bearing	52,281	52,281	61,557	61,557
Interest bearing	1,335,615	1,335,615	1,110,745	1,110,745
Purchased funds	-	-	3,063	3,063
Other borrowed	-	-	15,000	15,000
Other liabilities	18,690	18,690	15,633	15,633
<b>Total liabilities</b>	<b>1,406,586</b>	<b>1,406,586</b>	<b>1,205,998</b>	<b>1,205,998</b>

**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 balance sheet 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 balance sheet 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.

**Atlantic Security Bank**  
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*(Amount expressed in US\$ dollars)*

**12. Risk Management (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:

<i>Balance sheet assets and off-balance sheet positions (Net of provision)</i>	<i>Weight %</i>	<i>Nominal Amount US\$ 000</i>	<i>Weighted Assets US\$ 000</i>
Cash	0	65	-
Deposits with banks granted to third parties	0	312,424	-
Deposits with banks	20	235,617	47,123
Available-for-sale securities zone A, government and banks-up to 1 year	20	119,223	23,845
Financial assets available-for-sale	100	734,515	734,515
Cash collateralized loan	0	53,166	-
Loans covered by bank guarantees	20	27,434	5,487
Other loans	100	50,819	50,819
Premises and equipment	100	188	188
Other assets	100	21,340	21,340
Letters of credit	100	8,361	8,361
Cash covered letters of credit	0	33,806	-
Total risk weighted assets			<u>891,678</u>
Capital base			147,265
Less: Reserve for valuation of available for sale financial assets			<u>(17,355)</u>
<b>Adjusted Capital base</b>			<b>129,910</b>
<b>Capital adequacy ratio as of December 31, 2007</b>			<b>14.6%</b>
Capital adequacy ratio as of December 31, 2006			15.0%
<b>Minimum capital adequacy regulatory ratio</b>			<b>12.0%</b>

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
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*(Amount expressed in US\$ dollars)*

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**12. Risk Management (continued)**

Since December 7 of 2006, the Bank was authorized to adjust its minimum capital adequacy regulatory ratio from 15% to a new minimum of 12%.

**13. Share Capital**

The number of authorized, issued and outstanding ordinary shares of the Bank as of December 31, 2007 was 50,000,000 (2006: 40,000,000) at US\$1 per share. The additional paid in capital was authorized by the Board of Directors on January 17, 2007.

**14. 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:

	<u>December 31</u>	
	<b>2007</b>	<b>2006</b>
	<b>US\$ 000</b>	<b>US\$ 000</b>
Commercial letters of credit	527	298
Stand by letters of credit and guarantees	41,987	38,315
Assets pledged on behalf of third parties (Note 11)	286,912	247,457

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.

**15. 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.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
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*(Amount expressed in US\$ dollars)*

**15. Fiduciary Activities (continued)**

Assets managed on behalf of customers by the Bank comprised loans and investment securities totaling US\$2,241,789,862 and US\$1,396,168,789 in 2007 and 2006, respectively. These assets include mutual funds with net assets of US\$650,022,398 and US\$455,361,416, according to statements of net assets prepared by the funds' management at December 31, 2007 and 2006.

**16. Concentration of Assets and Liabilities**

At December 31, 2007 and 2006, 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:

	2007	
	Assets	Liabilities
	US\$000	US\$000
Latin America and the Caribbean	611,815	1,372,345
United States of America	846,435	13,424
Other countries	73,690	2,128
	<u>1,531,940</u>	<u>1,387,897</u>
	2006	
	Assets	Liabilities
	US\$000	US\$000
Latin America and the Caribbean	551,598	1,186,846
United States of America	720,393	2,899
Other countries	27,056	1,225
	<u>1,299,047</u>	<u>1,190,970</u>

**17. Derivative Financial Instruments**

The Bank uses the following derivative instruments exclusively for hedging 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.

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(Amount expressed in US\$ dollars)

**17. Derivative Financial Instruments (continued)**

	2007			2006		
	<i>Assets</i> <i>US\$000</i>	<i>Liabilities</i> <i>US\$000</i>	<i>Notional</i> <i>Amount</i> <i>US\$000</i>	<i>Assets</i> <i>US\$000</i>	<i>Liabilities</i> <i>US\$000</i>	<i>Notional</i> <i>Amount</i> <i>US\$000</i>
<b>Derivatives held for trading</b>						
Interest rate option	-	-	-	80	(461)	17,308
<b>Derivatives held as fair value hedge</b>						
Forward foreign currency contracts - purchase	383	-	6,926	-	-	-
Forward foreign currency contracts - sale	-	499	14,791	-	-	-
	<u>383</u>	<u>499</u>	<u>21,717</u>	<u>80</u>	<u>(461)</u>	<u>17,308</u>

For the year ended 31 December 2007, the Bank recognized a net loss of US\$1,997,991 (2006: US\$325,742), representing the net loss in derivative financial instruments held for trading and hedge purposes. This realized loss has been compensated with a similar gain included in foreign exchange income for US\$1,392,800.

As of December 31, 2007, the Bank has positions in the following types of derivatives:

**Forward Currency Contracts**

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency contracts are contractual obligations to receive or pay a net amount based on changes in currency rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in organized financial markets. The credit risk is negligible, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

During 2007, the Bank also maintained other derivative instruments such as options, options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a future date or at any time within a specified period.

**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 foreign exchange 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.

**Atlantic Security Bank**  
**Notes to the Financial Statements**  
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*(Amount expressed in US\$ dollars)*

**17. Derivative Financial Instruments (continued)**

**Derivatives 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".