Financial Statements

ATLANTIC SECURITY BANK

Year ended December 31, 2003 and 2002
with Independent Auditors' Report

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GENERAL INFORMATION

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Banco de Credito del Peru – Miami Agency
Banco de Credito del Peru – Panama Branch
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Report of Independent Auditors

The Directors and Shareholder of
Atlantic Security Bank

We have audited the accompanying balance sheet of Atlantic Security Bank (the Bank) as of December 31, 2003, and the related statements of income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2002, were audited by other auditors whose report dated February 10, 2003 expressed an unqualified opinion.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Security Bank at December 31, 2003, and the results of its operations, the changes in shareholder's equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

February 18, 2004

BALANCE SHEET
December 31, 2003

	Notes	2003 US$000	2002 US$000
ASSETS			
Cash and cash equivalents			
Cash and deposits with banks		**61**	592
Overnight placements		**29,000**	29,000
Total cash and cash equivalents		**29,061**	29,592
Interest- bearing deposits with banks	3, 7	**149,136**	150,588
Risk portfolio, net	4, 7	**550,724**	460,112
Premises and equipment, net	5	**148**	261
Due from customers on acceptance	7	**624**	55
Interest receivable	7	**8,293**	8,316
Other assets	7	**6,517**	3,353
TOTAL ASSETS		**744,503**	652,277
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Deposits			
Non interest- bearing – demand		**27,111**	19,468
Interest- bearing			
Demand	7	**51,342**	23,351
Time	7	**555,453**	504,308
Purchased funds		**2,943**	2,823
Other borrowed funds	6, 7	**-**	3,112
Acceptances outstanding	7	**624**	55
Interest payable		**3,736**	3,827
Other liabilities		**5,454**	2,066
Total liabilities		**646,663**	559,010
Commitments and contingent liabilities	10		
Shareholder's Equity			
Share capital	9	**40,000**	40,000
Reserve for valuation of available for sale financial assets	4	**10,975**	(7,417)
Retained earnings		**46,865**	60,684
Total Shareholder's Equity		**97,840**	93,267
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**744,503**	652,277

STATEMENT OF INCOME

For the year ended December 31, 2003

	Notes	***2003*** *US$000*	*2002* *US$000*
Interest and dividend income			
Interest on deposits with banks and overnight placements		**10,466**	9,543
Interest and dividends on risk portfolio		**17,218**	18,868
Interest on loans		**10,164**	12,156
Total interest and dividend income	7	**37,848**	40,567
Interest expense			
Interest on deposits	7	**21,986**	22,612
Interest on borrowed funds	7	**15**	315
Interest on purchased funds		**41**	64
Total interest expense		**22,042**	22,991
Net interest income		**15,806**	17,576
Allowance for loan losses	4	**(2,945)**	(1,310)
Net interest income after provision for loan losses		**12,861**	16,266
Non-interest income (expenses)			
Fees and commission income	7	**5,438**	5,385
Fees and commission expense	7	**(1,848)**	(95)
Net realized gain (loss) on sales of financial assets	7	**6,791**	(4,038)
Provision for impairment of investment securities	4	**(9,416)**	(8,129)
Foreign exchange gain		**846**	922
Other		**36**	570
Total non-interest income (expenses) net		**1,847**	(5,385)
Operating expenses			
Salaries and employee benefits		**3,582**	5,622
General and administrative expenses		**2,181**	3,052
Depreciation and amortization	5	**181**	242
Other		**59**	43
Total operating expenses		**6,003**	8,959
Net income		**8,705**	1,922

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the year ended December 31, 2003

	Note	*Share Capital US$000*	*Reserve for Valuation of Available for Sale Financial Assets US$000*	*Retained Earnings US$000*	*Total Shareholder's Equity US$000*
At January 1, 2002		40,000	(8,168)	79,762	111,594
Net change in fair value of available-for-sale financial assets	4	-	751	-	751
Net income		-	-	1,922	1,922
Dividends paid		-	-	(21,000)	(21,000)
At December 31, 2002		40,000	(7,417)	60,684	93,267
Net change in fair value of available-for-sale financial assets	4	-	**18,392**	-	**18,392**
Net income		-	-	**8,705**	**8,705**
Dividends paid		-	-	**(22,524)**	**(22,524)**
At December 31, 2003		**40,000**	**10,975**	**46,865**	**97,840**

STATEMENT OF CASH FLOWS
For the year ended December 31, 2003

	2003 *US$000*	*2002* *US$000*
Cash flows from operating activities		
Net income	**8,705**	1,922
Adjustments:		
Interest expense	**22,042**	22,991
Interest and dividend income	**(37,848)**	(40,567)
Provision relating to risk portfolio	**12,361**	9,439
Depreciation and amortization	**181**	242
Net decrease in loans	**5,150**	14,278
Net decrease in interest-bearing deposits with banks	**1,452**	7,650
Net increase (decrease) in deposits	**86,779**	(11,499)
Interest paid	**(22,133)**	(24,383)
Interest and dividends received	**37,871**	42,532
Net changes in other assets and other liabilities	**224**	(187)
Net cash flows from operating activities	**114,784**	22,418
Cash flows from investing activities		
Purchases of financial assets	**(332,984)**	(279,299)
Disposal of financial assets	**243,253**	288,658
Acquisition of premises and equipment	**(87)**	(131)
Proceeds from sale of premises and equipment	**19**	-
Net cash flows (used in) from investing activities	**(89,799)**	9,228
Cash flows from financing activities		
Net increase (decrease) in purchased funds	**120**	(2,659)
Net decrease in other borrowed funds	**(3,112)**	(5,135)
Dividends paid	**(22,524)**	(21,000)
Net cash flows used in financing activities	**(25,516)**	(28,794)
Net (decrease) increase in cash and cash equivalents	**(531)**	2,852
Cash and cash equivalents at January 1	**29,592**	26,740
Cash and cash equivalents at December 31	**29,061**	29,592

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

1. Corporate Information

The financial statements were approved for issue by President Carlos Muñoz on behalf of the Board of Directors of Atlantic Security Bank on February 18, 2004.

Atlantic Security Bank ("the Bank") which is a wholly-owned subsidiary of Atlantic Security Holding Corporation (ASHC), is incorporated under the laws of the Cayman Islands and operates under a Category "B" Banking and Trust license granted by 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. Credicorp Ltd., a limited liability company organized under the laws of Bermuda, which owns 100% of ASHC's shares, is the ultimate parent company. The Bank is incorporated and domiciled in the Cayman Islands.

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"), which has an international license granted by the Banking Superintendency of Panama, that allows banks to conduct, exclusively from an office established in Panama, transactions which are intended to take effect outside the country. The Bank maintained an Agency in Miami that was closed at the end of 2002.

As of December 31, 2003 and 2002, the Bank employed 52 and 54 persons, respectively.

2. Summary of Significant Accounting Policies

Basis of presentation

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"), and International Accounting Standards and Standing Interpretations Committee, interpretations approved by the IASC that remain in effect.

The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of investment, derivative financial instruments and available-for-sale financial assets. The carrying values of recognized assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

Use of 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 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 ultimately may differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For presentation purposes, in the 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, 2003, cash and cash equivalents are represented by deposits with banks and overnight placements.

Financial instruments

Financial instruments are used by the Bank to manage market risk, facilitate customer transactions, holding 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 8 to the financial statements.

Financial risk management policies

The Bank's operations are exposed to a wide variety of financial risks, including the effects of changes in prices of debt and equity instruments, foreign currency rates and interest rates.

The Bank seeks to minimize and control its risk exposure through the establishment of 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, 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 undertake in its business.

This 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.

Interest income and expense

Interest income and expense are recognized in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and accreted discount on debt instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

2. Summary of Significant Accounting Policies (continued)

Fees and commissions income

Fees and commissions are generally recognized on an accrual basis when service has been provided. Loan origination fees are deferred and recognized during the life of the loan.

Investment securities and purchased loans

On January 1, 2000 the Bank adopted International Financial Reporting Standards No.39 (IFRS 39) – Financial Instruments: Recognition and Measurement. This Standard allows classification of investment securities and purchased loans into the following categories:

Trading – Financial assets that are readily realizable and are acquired with the intention of obtaining profits from market fluctuations.

Held to Maturity – Financial assets with fixed maturities for which management of the Company has the positive intention and ability to hold until its maturity.

Available- for- Sale – Financial assets investments intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates.

The Bank has classified its entire investment portfolio and purchased loans as available-for-sale. Under this category, investment securities and purchased loans are initially recognized at cost (which includes discounts and premium on fixed income investments and purchased loans amortizations). Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized as a separate component of shareholder's equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. For quoted investments included in this category, quoted market prices are used to determine the fair value of such investments. The fair value of investment funds are determined by reference to the net asset values of the funds as provided by the respective administrators of such funds. While the fair value for purchased loans is based on the present value of expected cash flows.

Management gives the appropriate classification to investments and purchased loans at the time of purchase and evaluates on a regular basis such classification. Purchases and sales of investments are recognized on trade date basis, which is the date that the Bank commits to purchase or sell the asset.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

2. Summary of Significant Accounting Policies (continued)

Originated loans and allowance for loan losses

Loans originated by the Bank by providing money directly to the borrower or to a subparticipation agent at draw down, are categorized as loans originated by the Bank and are carried at amortized cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.

An allowance for loan losses is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Foreign currency conversion and translation

Substantially all of the Bank's transactions are performed in U. S. dollars. Foreign currency transactions are translated to U. S. dollars at the prevailing exchange rates as of the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated to U.S. dollars at the prevailing exchange rates as of the balance sheet date. Gains and losses from translation are reflected in the current year statement of income.

Premises and equipment

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

Furniture and office equipment	2 to 3 years
Vehicles	5 years
Leasehold improvements	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. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the income statement.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

2. Summary of Significant Accounting Policies (continued)

Fiduciary activities

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

Income taxes

The Bank is not subject to taxation in the Cayman Islands or Panama since its activities are carried out offshore.

Comparatives

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

3. Interest – Bearing Deposits with Banks

At December 31 the interest- bearing deposits with banks were deposited as follows:

	2003	*2002*
	US$000	*US$000*
Banco de Credito del Peru and Subsidiaries		
(a subsidiary of Credicorp Ltd.)	**114,510**	105,706
Other financial institutions	**34,626**	44,882
	149,136	150,588

4. Risk Portfolio, Net

As of December 31, the risk portfolio is summarized as follows:

	2003	*2002*
	US$000	*US$000*
Available-for-sale financial assets, net	**398,336**	299,629
Loan portfolio, net	**152,388**	160,483
	550,724	460,112

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

4. Risk Portfolio, Net (continued)

Available-for-sale financial assets

The available-for-sale financial assets portfolio is summarized as follows:

	2003		
	Cost US$000	*Unrealized Gains US$000*	*Fair Value US$000*
U. S. corporate bonds	**198,424**	**3,661**	**202,085**
Non - U. S. corporate bonds	**68,079**	**1,032**	**69,111**
Equity securities (including mutual funds)	**43,136**	**2,535**	**45,671**
Sovereign debt	**36,057**	**412**	**36,469**
Purchased loans	**45,000**	**-**	**45,000**
	390,696	**7,640**	**398,336**
Less:			
Provision for impairment of investment securities	**(3,335)**	**3,335**	**-**
	387,361	**10,975**	**398,336**

	2002		
	Cost US$000	*Unrealized Gains (Losses) US$000*	*Fair Value US$000*
U. S. corporate bonds	127,564	(3,644)	123,920
Non - U. S. corporate bonds	105,212	292	105,504
Equity securities (including mutual funds)	40,667	(3,967)	36,700
Sovereign debt	17,613	(763)	16,850
Purchased loans	16,655	-	16,655
	307,711	(8,082)	299,629
Less:			
Provision for impairment of investment securities	(665)	665	-
	307,046	(7,417)	299,629

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

4. Risk Portfolio, Net (continued)

Available-for-sale financial assets (continued)

Fair value for available-for-sale financial assets portfolio is represented by available market quotations of active markets where investments are traded and discounted cash flows for purchased loans. Amounts reported in the statement of income relating to gains on available-for-sale financial assets are detailed as follows at December 31:

	2003 *US$000*	*2002* *US$000*
Realized gains (losses) on sales of available-for-sale financial assets	**6,791**	(4,038)

At December 31, the movement in available-for-sale financial assets is summarized as follows:

	2003 *US$000*	*2002* *US$000*
Balance at January 1st	**299,629**	316,366
Purchases	**332,984**	279,299
Disposals and written-off	**(249,334)**	(296,122)
Gains from changes in fair value	**18,392**	751
Provision for impairment of investment securities	**(3,335)**	(665)
Balance at December 31	**398,336**	299,629

Loan portfolio, net

At December 31, the composition of the loan portfolio by industry is as follows:

	2003 *US$000*	*2002* *US$000*
Corporate:		
Manufacturing	**35,901**	66,310
Commercial	**28,218**	16,060
Financial services	**2,027**	23,360
Agriculture	**4,697**	5,160
Real estate and construction	**9,594**	10,859
Mining and other related activities	**9,000**	-
Transportation and communications	**11,127**	3,910
Public utilities	**1,988**	10,000
Education, health and other services	**350**	350
Fishing	**7,120**	6,800
	110,022	142,809
Personal loans and others	**47,127**	19,555
	157,149	162,364
Less: Allowance for loan losses	**(4,761)**	(1,881)
	152,388	160,483

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

4. Risk Portfolio, Net (continued)

Loan portfolio, net (continued)

At December 31, the distribution for loan portfolio by type of interest rates is as follows:

	2003	*2002*
	US$000	*US$000*
Fixed interest rates	**99,468**	140,152
Floating interest rates	**57,681**	22,212
	157,149	162,364

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

	2003				
		Loan Collateral			
	Carrying Value US$000	*U. S. Securities and Real Estate US$000*	*U. S. Dollar Deposits US$000*	*Other Collateral US$000*	*Uncollate-realized Portion US$000*
Peru	**99,503**	**2,530**	**70,430**	**24,539**	**2,004**
Bolivia	**17,500**	**-**	**-**	**-**	**17,500**
Bermuda	**6,666**	**-**	**-**	**-**	**6,666**
British Virgin Islands	**7,224**	**1,235**	**300**	**5,689**	**-**
Dominican Republic	**988**	**-**	**-**	**-**	**988**
Colombia	**7,225**	**80**	**7,013**	**132**	**-**
Chile	**5,500**	**-**	**-**	**-**	**5,500**
Honduras	**4,766**	**-**	**-**	**4,766**	**-**
United States of America	**441**	**20**	**71**	**350**	**-**
Nicaragua	**5,500**	**-**	**-**	**-**	**5,500**
Guatemala	**1,303**	**25**	**-**	**28**	**1,250**
El Salvador	**194**	**-**	**-**	**194**	**-**
Panama	**339**	**-**	**339**	**-**	**-**
	157,149	**3,890**	**78,153**	**35,698**	**39,408**

	2002				
		Loan Collateral			
	Carrying Value US$000	*U. S. Securities and Real Estate US$000*	*U. S. Dollar Deposits US$000*	*Other Collateral US$000*	*Uncollate-realized Portion US$000*
Peru	94,747	9,101	57,480	25,222	2,944
Bolivia	22,020	-	-	20	22,000
Argentina	10,000	-	-	-	10,000
Dominican Republic	10,000	-	-	-	10,000
Colombia	9,527	-	7,921	1,606	-
Honduras	4,947	-	-	4,947	-
United States of America	2,925	-	2,925	-	-
Venezuela	2,700	-	2,700	-	-
Nicaragua	2,000	-	-	-	2,000
Guatemala	1,500	-	-	-	1,500
Cayman Islands	1,194	-	-	1,194	-
El Salvador	566	-	-	566	-
Panama	238	-	238	-	-
	162,364	9,101	71,264	33,555	48,444

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

4. Risk Portfolio, Net (continued)

Loan portfolio, net (continued)

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

	2003		
	Provision for Impairment of Investment Securities US$000	*Allowance for Loan Losses US$000*	*Total US$000*
Balance at January 1st	**665**	**1,881**	**2,546**
Increase	**9,416**	**2,945**	**12,361**
Written-off	**(6,746)**	**(65)**	**(6,811)**
Balance at December 31	**3,335**	**4,761**	**8,096**

As of December 31, 2003 there was a loan in non accrual status for US$3,635,398 with accrued interest of US$10,268.

	2002		
	Provision for Impairment of Investment Securities US$000	*Allowance for Loan Losses US$000*	*Total US$000*
Balance at January 1st	1,834	688	2,522
Increase	8,129	1,310	9,439
Written-off	(9,298)	(117)	(9,415)
Balance at December 31	665	1,881	2,546

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

5. Premises and Equipment, Net

A summary of premises and equipment is as follows:

	2003	*2002*
	US$000	*US$000*
Furniture and office equipment	**1,009**	1,113
Vehicles	**70**	70
Leasehold improvements	**259**	308
	1,338	1,491
Less: accumulated depreciation and amortization	**(1,190)**	(1,230)
	148	261

Changes in premises and equipment for 2003 are detailed as follows:

	Cost	*Depreciation and Amortization*
	US$000	*US$000*
Balance at January 1st	**1,491**	**1,230**
Additions	**87**	**-**
Depreciation and amortization charge	**-**	**181**
Disposals	**(240)**	**(221)**
Balance at December 31	**1,338**	**1,190**

6. Other Borrowed Funds

At December 31, 2003, there were no borrowed funds (2002 - US$3,112,000), from related parties and financial institutions.

The following table details the Bank's other borrowed funds:

	2003	*2002*
	US$000	*US$000*
Amount outstanding at the end of the year	**-**	3,112
Average outstanding during the year	**885**	6,508
Maximum outstanding at any month end	**3,223**	11,195

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

7. Balances and Transactions with Related Parties

The term related parties is defined by Management to encompass other affiliated parties in which there exists control or significant influence through common ownership, management or directorship.

Related party balances and transactions comprise:

	2003	*2002*
	US$000	*US$000*
Balance Sheet		
Assets:		
Interest-bearing deposits with banks	**114,510**	105,706
Risk portfolio:		
Investments in mutual funds managed by the Bank and other related parties	**9,745**	4,222
Loans	**22,458**	22,429
Due from customers on acceptance	**624**	-
Other assets	**1,363**	3,263
Liabilities:		
Deposits (demand and time)	**7,540**	17,471
Acceptances outstanding	**624**	-
Off-balance sheet:		
Commitments for letters of credit	**1,108**	44
Investment on behalf of customers	**256,571**	211,055
Guarantees received	**1,003**	1,018
Guarantees granted	**111,617**	99,681
Statement of Income		
Transactions:		
Interest and dividend income	**9,745**	9,196
Interest on deposits	**776**	397
Fees and commissions income	**2,546**	2,712
Fees and commissions expense	**1,008**	36
Net realized loss on sale of financial assets	**-**	(364)

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

7. Balances and Transactions with Related Parties (continued)

At December 31, 2003, loans receivable from related parties of US$31,496,928 (2002 – US$20,855,182), are not included in the balance sheet due to the fact that full risk participations have been sold to customers without recourse to the Bank.

As of December 31, 2003, the interest-bearing deposits with banks include deposits with Banco de Credito del Peru and Subsidiaries of US$109,624,192 (2002 – US$97,008,323), where full risk participation has been sold to customers without recourse to the Bank and the full amount is guaranteed by deposits received from customers.

8. Financial Risk Management

Capital adequacy

The Bank monitors its capital adequacy using ratios comparable to those suggested by the Basle 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 an Internal Value At Risk model. The Value At Risk measure used by the Bank is an estimate of the potential loss that may occur if assets have remained unchanged during a specific period of time and downward market volatility affects the general risk exposures (interest rate, market and credit risk) of the Bank.

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 and debt, and equity securities included in the risk portfolio. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting average according to the capital amount deemed to be 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 that no capital is required to support the holding of these assets. Premises and equipment carry a 100% risk weighting, meaning that it must be supported by capital equal to 15% of the carrying amount.

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

8. Financial Risk Management (continued)

Capital adequacy (continued)

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:

Balance Sheet Assets and Off-Balance Sheet Positions (Net of Provision)	*Weight %*	*Nominal Amount US$000*	*Weighted Assets US$000*
Cash	0	61	-
Deposits with banks	20	178,136	35,627
Available-for-sale securities Zone A, Government and Banks-Up to 1 year	20	6,837	1,367
Available-for-sale securities	100	393,199	393,199
Cash collateralized loans	0	74,135	-
Loans covered by bank guarantees	20	2,133	427
Other loans	100	77,700	77,700
Premises and equipment	100	148	148
Other assets	100	14,813	14,813
Customers' acceptances	100	624	624
Letters of credit	100	9,464	9,464
Short term letters of credit	20	1,108	222
Cash covered letters of credit	0	13,694	-
Asset pledged on behalf third parties (cash collateralized portion)	0	110,715	-
Assets pledged on behalf of third parties	100	902	902
Total risk weighted assets			534,493
Capital base			97,840
Add:			
Unallocated allowance for loans losses			1,580
Unallocated provision for impairment of investments securities			1,700
Adjusted capital base			101,120
Capital adequacy ratio as of December 31, 2003			**18.92%**
Capital adequacy ratio as of December 31, 2002			21.66%
Minimum capital adequacy regulatory ratio			**15%**

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

8. Financial Risk Management (continued)

Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and the geographical segment. Such risks are monitored on a revolving basis and subject to a periodic review. Limits on the level 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 is provided in Note 4.

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 changing these lending limits where 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 a customer as required. Guarantees and stand-by letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same risk as loans. Documentary and commercial letter of credit, which are written undertakings by the Bank on behalf 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 for extension of credits that are recorded on balance sheet and take into account the collateral and other security, if any.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

8. Financial Risk Management (continued)

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in 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 arises.

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

			2003				
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	**29,000**	-	-	-	-	**61**	**29,061**
Due from banks	**61,428**	**25,278**	**49,285**	**12,375**	**770**	-	**149,136**
Investments	**14,722**	**20,225**	**64,024**	**197,811**	**55,883**	**45,671**	**398,336**
Loans	**36,026**	**30,634**	**72,412**	**13,316**	-	-	**152,388**
Other assets	-	-	-	-	-	**15,582**	**15,582**
	141,176	**76,137**	**185,721**	**223,502**	**56,653**	**61,314**	**744,503**
Liabilities	*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*
Deposits:							
Non-interest bearing	-	-	-	-	-	**27,111**	**27,111**
Interest bearing	**219,237**	**109,647**	**152,531**	**125,380**			**606,795**
Purchased funds	**2,943**	-	-	-	-	-	**2,943**
Other liabilities	-	-	-	-	-	**9,814**	**9,814**
	222,180	**109,647**	**152,531**	**125,380**	-	**36,925**	**646,663**
Total interest sensitivity gap	**(81,004)**	**(33,510)**	**33,190**	**98,122**	**56,653**		

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

8. Financial Risk Management (continued)

Interest rate risk (continued)

2002							
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	29,000	-	-	-	-	592	29,592
Due from banks	63,430	47,739	33,112	5,538	769	-	150,588
Investments	5,117	40,264	41,127	126,856	50,817	35,448	299,629
Loans	65,140	24,361	61,415	4,985	4,582	-	160,483
Other assets	-	-	-	-	-	11,985	11,985
	162,687	112,364	135,654	137,379	56,168	48,025	652,277

Liabilities	*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*
Deposits:							
Non-interest bearing	-	-	-	-	-	19,468	19,468
Interest bearing	181,629	123,417	165,186	52,072	5,355	-	527,659
Purchased funds	2,823	-	-	-	-	-	2,823
Other borrowed funds	-	-	3,112	-	-	-	3,112
Other liabilities	-	-	-	-	-	5,948	5,948
	184,452	123,417	168,298	52,072	5,355	25,416	559,010
Total interest sensitivity gap	(21,765)	(11,053)	(32,644)	85,307	50,813		

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

	2003 %		*2002 %*	
	End of Year	***During the Year***	*End of Year*	*During the Year*
Assets				
Interest - bearing deposits with banks	**6.53**	**5.28**	6.79	5.58
Investments	**4.86**	**4.43**	6.36	6.04
Loans	**5.19**	**5.76**	6.67	7.46
Liabilities				
Deposits	**3.60**	**3.57**	4.37	4.78
Borrowed funds	**1.37**	**1.78**	2.00	2.90

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

8. Financial Risk Management (continued)

Liquidity risk

The Bank is exposed to daily calls on its 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 shows that a minimum level of reinvesting of maturing funds can be predicted with a high level of certainty. At December 31, 2003 and 2002, the Bank holds a substantial amount of investment grade securities which Management considers a secondary liquidity source.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheets date to the contractual maturity date.

2003

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*	*Without Maturity/ Past Due Loans US$000*	*Total US$000*
Cash and cash equivalents	**29,061**	**-**	**-**	**-**	**-**	**-**	**29,061**
Due from banks	**61,428**	**25,278**	**49,285**	**12,375**	**770**	**-**	**149,136**
Investments	**-**	**4,771**	**64,025**	**227,987**	**55,882**	**45,671**	**398,336**
Loans	**22,462**	**21,438**	**81,145**	**25,889**	**-**	**1,454**	**152,388**
Other assets	**-**	**-**	**-**	**-**	**-**	**15,582**	**15,582**
Total assets	**112,951**	**51,487**	**194,455**	**266,251**	**56,652**	**62,707**	**744,503**

Liabilities	*Up to 1 month US$000*	*1 to 3 months US$000*	*3 to 12 months US$000*	*1 to5 years US$000*	*Over 5 years US$000*	*Without Maturity/ Past Due Loans US$000*	*Total US$000*
Deposits:							
Non-interest bearing	**27,111**	**-**	**-**	**-**	**-**	**-**	**27,111**
Interest bearing	**219,237**	**109,645**	**152,532**	**125,381**	**-**	**-**	**606,795**
Purchased funds	**2,943**	**-**	**-**	**-**	**-**	**-**	**2,943**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**9,814**	**9,814**
Total liabilities	**249,291**	**109,645**	**152,532**	**125,381**	**-**	**9,814**	**646,663**
Net liquidity gap	**(136,340)**	**(58,158)**	**41,923**	**140,870**	**56,652**	**52,893**	**97,840**

2002

Total assets	129,128	108,820	134,741	165,399	62,301	51,888	652,277
Total liabilities	203,920	123,417	168,298	52,072	5,355	5,948	559,010
Net liquidity gap	(74,792)	(14,597)	(33,557)	113,327	56,946	45,940	93,267

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

8. Financial Risk Management (continued)

Liquidity risk (continued)

The matching and controlled mis-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 of uncertain term 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 requirements 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 requirements, since many of these commitments will expire or terminate without being funded.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

For quoted investments, quoted 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

8. Financial Risk Management (continued)

Fair value of financial instruments (continued)

- *Available-for-sale-securities.* The fair values are based on quoted market values of securities and net asset value of the shares of investment funds as reported by the administrators of the investee funds.

- *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.

9. Share Capital

The number of authorized, issued and outstanding ordinary shares of the Bank as of December 31, 2003 and 2002 were 40,000,000 at US$1 per share.

10. Commitments and Contingent Liabilities

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

	2003	*2002*
	US$000	*US$000*
Commercial letters of credit	**1,108**	200
Stand-by letters-of-credit and guarantees	**23,158**	12,382
Assets pledged on behalf of third parties (Note 7)	**111,617**	99,681

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

10. Commitments and Contingent Liabilities (continued)

Commercial and stand-by letters-of-credit and guarantees include exposure to credit risk in the event of nonperformance by the 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.

11. Fiduciary Activities

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

Assets managed on behalf of customers of the Bank comprised loans and investment securities totaling US$664,142,291 and US$545,338,201, in 2003 and 2002 respectively. These assets include mutual funds with net assets of US$403,199,492 and US$214,332,452, according to statements of net assets prepared by the funds' management at December 31, 2003 and 2002, respectively.

12. Concentration of Assets and Liabilities

At December 31, 2003 and 2002, 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:

	2003	
	Assets *US$000*	*Liabilities* *US$000*
Latin America and the Caribbean	**461,523**	**633,319**
United States of America	**238,482**	**3,515**
Other countries	**28,916**	**15**
	728,921	**636,849**

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

12. Concentration of Assets and Liabilities (continued)

	2002	
	Assets	*Liabilities*
	US$000	*US$000*
Latin America and the Caribbean	430,268	542,234
United States of America	198,751	10,740
Other countries	11,273	88
	640,292	553,062