

**BAC INTERNATIONAL BANK, INC.  
AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Financial Statements**

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

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**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

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## INDEPENDENT AUDITORS' REPORT

### **The Board of Directors and Stockholder**

BAC International Bank, Inc.:

We have audited the accompanying consolidated balance sheets of BAC International Bank, Inc. and Subsidiaries (the Bank) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholder's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BAC International Bank, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*KPMG*

March 11, 2008  
Panama, Republic of Panama

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Balance Sheets**

December 31, 2007 and 2006

	<b><u>2007</u></b>	<b><u>2006</u></b>
<b><u>Assets</u></b>		
Cash and cash equivalents	US\$ 1,196,468,020	841,332,455
Interest-bearing deposits	21,394,356	33,632,579
Trading securities	27,347,792	3,702,712
Securities available for sale	245,011,560	292,699,040
Securities held to maturity	19,155,737	4,983,517
Loans	4,673,544,697	2,884,115,612
Less:		
Allowance for loan losses	127,780,918	69,808,464
Unearned income and deferred loan fees and costs	25,077,546	18,495,810
<b>Loans, net</b>	<b><u>4,520,686,233</u></b>	<b><u>2,795,811,338</u></b>
Property and equipment, net	161,575,891	127,819,464
Investments in unconsolidated entities	4,169,090	2,609,249
Customers' liability under acceptances outstanding	3,079,401	3,283,491
Accrued interest receivable	30,606,130	16,986,255
Other accounts receivable	82,727,523	74,679,132
Goodwill	78,495,109	2,632,748
Intangible assets	11,678,380	0
Other assets	104,391,056	39,596,353
<b>Total assets</b>	<b><u>US\$ 6,506,786,278</u></b>	<b><u>4,239,768,333</u></b>
<b><u>Liabilities and Stockholder's Equity</u></b>		
Deposits:		
Demand non-interest-bearing	US\$ 269,093,936	219,553,037
Demand interest-bearing	1,403,764,589	1,081,297,077
Savings	721,954,588	303,427,161
Time deposits	1,798,706,950	1,233,272,255
<b>Total deposits</b>	<b><u>4,193,520,063</u></b>	<b><u>2,837,549,530</u></b>
Securities sold under agreements to repurchase	49,201,840	35,863,334
Borrowings	1,123,103,587	546,710,873
Other borrowed funds	213,476,324	130,288,780
Acceptances outstanding	3,079,401	3,283,491
Accrued interest payable	25,321,475	21,699,499
Other liabilities	257,209,722	181,698,085
<b>Total liabilities</b>	<b><u>5,864,912,412</u></b>	<b><u>3,757,093,592</u></b>
Minority interest	30,709,232	21,311,147
Stockholder's equity:		
Common stock, US\$1,000 par value. Authorized 100,000 shares; 78,947 shares issued and outstanding	78,947,000	78,947,000
Additional paid-in capital	34,618,254	34,618,254
Retained earnings	553,098,814	407,435,135
Accumulated other comprehensive loss	(55,499,434)	(59,636,795)
<b>Total stockholder's equity</b>	<b><u>611,164,634</u></b>	<b><u>461,363,594</u></b>
<b>Total liabilities and stockholder's equity</b>	<b><u>US\$ 6,506,786,278</u></b>	<b><u>4,239,768,333</u></b>

See accompanying notes to consolidated financial statements.

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Consolidated Statements of Income**

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interest income:		
Loans	US\$ 546,400,985	393,580,923
Interest-bearing deposits	22,671,695	14,341,824
Trading securities	592,488	263,478
Securities available for sale	17,899,055	22,416,197
Securities held to maturity	385,017	507,475
<b>Total interest income</b>	<b>587,949,240</b>	<b>431,109,897</b>
Interest expense:		
Deposits	129,866,944	92,766,185
Securities sold under agreements to repurchase	3,332,307	3,822,213
Borrowings and other borrowed funds	66,560,602	42,769,994
<b>Total interest expense</b>	<b>199,759,853</b>	<b>139,358,392</b>
<b>Net interest income before provision for loan losses</b>	<b>388,189,387</b>	<b>291,751,505</b>
Provision for loan losses	88,764,845	53,738,816
<b>Net interest income after provision for loan losses</b>	<b>299,424,542</b>	<b>238,012,689</b>
Other income (expenses):		
Service charges	146,916,928	100,692,601
Commissions and other fees, net	78,490,920	72,186,048
Foreign currency gains, net	21,682,106	20,857,905
Net gain on trading securities	394,619	149,838
Net gain on sale of securities available for sale	12,238,704	6,636,455
Gain on other investments	32,510,635	0
Other income	22,677,772	18,211,564
<b>Total other income</b>	<b>314,911,684</b>	<b>218,734,411</b>
Operating expenses:		
Salaries and employee benefits	162,430,805	126,589,118
Depreciation and amortization	26,162,043	22,333,749
Administrative expenses	21,775,112	17,532,109
Occupancy and related expenses	25,318,384	18,391,148
Other operating expenses	149,659,766	114,001,923
<b>Total operating expenses</b>	<b>385,346,110</b>	<b>298,848,047</b>
<b>Income before income tax expense and minority interest</b>	<b>228,990,116</b>	<b>157,899,053</b>
Income tax expense	35,914,587	30,419,779
<b>Income before minority interest</b>	<b>193,075,529</b>	<b>127,479,274</b>
Minority interest	9,411,850	5,410,919
<b>Net income</b>	<b>US\$ 183,663,679</b>	<b>122,068,355</b>

*See accompanying notes to consolidated financial statements.*

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIE**  
(Panama, Republic of Panama)

**Consolidated Statements of Changes in Stockholder's Equity**

Years ended December 31, 2007 and 2006

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholder's Equity</u>
Balance as of December 31, 2005	US\$ 78,947,000	34,618,254	321,941,780	(53,676,173)	381,830,861
Dividends	0	0	(36,575,000)	0	(36,575,000)
Comprehensive income:					
Net income	0	0	122,068,355	0	122,068,355
Other comprehensive income (loss):					
Foreign currency translation	0	0	0	(6,953,417)	(6,953,417)
Changes in unrealized gain on securities available for sale, net of tax	0	0	0	992,795	992,795
Comprehensive income					<u>116,107,733</u>
<b>Balance as of December 31, 2006</b>	<u>78,947,000</u>	<u>34,618,254</u>	<u>407,435,135</u>	<u>(59,636,795)</u>	<u>461,363,594</u>
Dividends	0	0	(38,000,000)	0	(38,000,000)
Comprehensive income:					
Net income	0	0	183,663,679	0	183,663,679
Other comprehensive income (loss):					
Foreign currency translation	0	0	0	3,918,637	3,918,637
Changes in unrealized gain on securities available for sale, net of tax	0	0	0	218,724	218,724
Comprehensive income					<u>187,801,040</u>
<b>Balance as of December 31, 2007</b>	<u>US\$ 78,947,000</u>	<u>34,618,254</u>	<u>553,098,814</u>	<u>(55,499,434)</u>	<u>611,164,634</u>

See accompanying notes to consolidated financial statements.

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Consolidated Statements of Cash Flows**

Years ended December 31, 2007 and 2006

		<u>2007</u>	<u>2006</u>
Cash flows from operating activities			
Net income	US\$	183,663,679	122,068,355
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses		88,764,845	53,738,816
Net loss on impairment loss on foreclosed assets		240,329	215,169
Release of provision for unfunded commitments		(66,408)	(141,949)
(Release) provision for claims receivable for unreturned securities		(4,136,939)	480,248
Depreciation and amortization		26,162,043	22,333,749
Amortization of deferred loans fees and costs		(5,308,958)	(9,505,876)
Loss on derivative financial instrument		67,801	407,908
Net (increase) decrease in trading securities		(4,839,560)	1,471,996
Net gain on sale of securities		(12,633,323)	(6,786,293)
Gain on other investments		(32,510,635)	0
Net loss (gain) on sale of property and equipment		72,272	(796,525)
Deferred taxes		(8,264,567)	3,291,083
Equity participation in unconsolidated entities		(312,694)	(463,157)
Minority interest		9,411,850	5,410,919
Increase in accrued interest receivable		(6,838,935)	(4,532,386)
Increase in other accounts receivable		(5,169,021)	(16,362,505)
Increase in other assets		(30,544,301)	(11,796,765)
Increase in accrued interest payable		293,219	6,188,015
Increase in other liabilities		62,796,580	59,584,048
<b>Net cash provided by operating activities</b>		<u>260,847,277</u>	<u>224,804,850</u>
Cash flows from investing activities			
Net decrease (increase) in deposits placed with original maturity over 90 day		20,528,071	(14,804,202)
Proceeds from sale of securities available for sale		129,528,624	142,753,902
Maturities, prepayment and calls of securities available for sale		450,993,023	302,441,245
Purchases of securities available for sale		(510,942,923)	(409,216,391)
Maturities, prepayment and calls of securities held to maturity		183,835	973,270
Purchases of securities held to maturity		(9,814,396)	(35,465)
Dividends received from unconsolidated entities, net of advance		190,525	254,033
Net increase in loans		(1,198,297,446)	(779,818,110)
Purchases of property and equipment		(36,044,691)	(34,957,196)
Proceeds from sale of property and equipment		516,284	3,526,734
Cash paid in purchase of businesses, net of cash received		(4,688,303)	0
<b>Net cash used in investing activities</b>		<u>(1,157,847,397)</u>	<u>(788,882,180)</u>
Cash flows from financing activities			
Net proceeds from deposits received		799,111,498	599,240,162
Net proceeds from other borrowed funds		76,242,693	18,636,824
Net (decrease) increase in securities sold under agreements to repurchase		(7,375,631)	25,967,939
Proceeds from borrowings		3,222,503,773	1,301,407,419
Repayment of borrowings		(2,806,165,377)	(1,156,452,708)
Distributions to minority interest		(17,600)	(20,222)
Dividends paid		(38,000,000)	(36,575,000)
<b>Net cash provided by financing activities</b>		<u>1,246,299,356</u>	<u>752,204,414</u>
Effect of exchange rate fluctuations on cash held		<u>5,836,329</u>	<u>(17,339,891)</u>
Net increase in cash and cash equivalents		355,135,565	170,787,193
Cash and cash equivalents at beginning of the year		841,332,455	670,545,262
<b>Cash and cash equivalents at end of year</b>	US\$	<u>1,196,468,020</u>	<u>841,332,455</u>

(continued)

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Consolidated Statements of Cash Flows, continued**

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	US\$ 196,137,877	133,484,562
Cash paid for income taxes during the year	US\$ 38,762,891	24,596,335
Supplemental schedule of noncash investing and financing activities		
Changes in unrealized gain (loss) on securities available for sale, net of tax	US\$ 218,724	992,795
Gain on other investments	US\$ 32,510,635	0
Properties acquired in settlement of loans	US\$ 4,650,623	3,342,426
In conjunction with the acquisitions, liabilities assumed were as follows		
Fair value of assets acquired	US\$ 939,582,514	0
Cash paid	(194,349,103)	0
Liabilities assumed	US\$ 745,233,411	0

*See accompanying notes to consolidated financial statements.*

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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### (1) Organization

BAC International Bank, Inc. was incorporated on August 25, 1995, in Panama City, Republic of Panama, as a banking institution. BAC International Bank, Inc. is a 100% owned subsidiary of BAC International Corporation (the "Parent Company", which is an indirect subsidiary of BAC Credomatic Holding Company, Ltd.) and provides, directly and through its wholly owned subsidiaries, BAC International Bank (Grand Cayman) ("BAC Cayman"), Credomatic International Corporation (CIC), Premier Asset Management, Inc., Rudas Hill Financial, Inc., BAC Valores (Panama), S. A. and BAC Leasing, Inc. (collectively the "Bank"), a wide variety of financial services to individuals and institutions, principally in Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. Credit card operations are carried out through CIC and its subsidiaries.

The banking operations in Panama are subject to regulatory requirements of the Superintendency of Banks of the Republic of Panama, pursuant to decree No.9 of February 26, 1998 and other regulatory standards.

These consolidated financial statements are denominated in U.S. dollars.

### (2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank and its subsidiaries are in accordance with U.S. generally accepted accounting principles ("US GAAP") and they conform to general practices within the industry. The following is a description of significant policies and practices:

#### (a) Principles of Consolidation

These consolidated financial statements include the accounts of BAC International Bank, Inc. and all majority owned subsidiaries. In consolidation all significant intercompany accounts and transactions are eliminated. Investments in companies in which the percentage of ownership is at least 20%, but not more than 50%, are accounted for under the equity method and the pro rata share of their income (loss) is included in other income. Investments in companies with less than 20% ownership are accounted for under the cost method; income is recognized when dividends are received.

#### (b) Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with U. S. generally accepted accounting principles. Actual results could differ from those estimates.

#### (c) Cash and Cash Equivalents

Cash and cash equivalents include cash, due from banks, certain securities, and term interest-bearing deposits with original maturities of three months or less.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

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(d) *Securities Purchased and Sold Agreements*

Securities purchased under resale agreements and securities sold under repurchase agreements are generally accounted for as collateralized financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest. It is the Bank's policy to take possession of securities purchased under resale agreements. The Bank monitors the market value of securities purchased and sold and obtains collateral from or returns it to counterparties when appropriate.

(e) *Securities*

Securities that are held principally for resale in the near term are classified as trading securities and recorded at fair value with changes in fair value recorded in earnings. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. All other securities are classified as available for sale and recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, if any, on available-for-sale securities are reported as a component of accumulated other comprehensive income (loss).

Realized gains and losses from the sale of securities are recorded on a trade-date basis and determined on a specific identification basis. Realized gains and losses are included in other income as securities gains (losses) in the consolidated statement of income.

Premiums and discounts are recognized as an adjustment to yield over the contractual term of the security using a method that approximates the interest method. If a prepayment occurs on a security, any related premium or discount is recognized as an adjustment to yield in the period in which the prepayment occurs. Interest on securities is recognized in interest income on an accrual basis.

The Bank makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on another-than-temporary basis. The Bank considers many factors including the severity and duration of the impairment; the intent and ability of the Bank to hold the security for a period of time sufficient for a recovery in value; recent events specific to the issuer or industry; and for debt securities, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other than-temporary are written down to fair value with the write-down recorded as a realized loss in securities gains (losses).

(f) *Loans Held for Sale*

Loans originated and intended for sale in the secondary market are carried at lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

(g) *Loans*

Loans are stated at their outstanding unpaid principal balances adjusted for unearned income, when applicable. Interest income on loans is recognized on an accrual basis. Loan origination fees and direct costs as well as premiums and discounts are amortized as an adjustment to yield over the term of the loan. Loans include direct financing leases that are recorded at the aggregate of future lease payments receivable plus the estimated residual value of the leased property, less unearned income.

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to Consolidated Financial Statements**

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A loan is considered to be impaired when based on current information, it is probable the Bank will not receive all amounts due in accordance with the contractual terms of a loan agreement. The fair value is measured based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan is also considered impaired if its terms are modified in a troubled debt restructuring. When the ultimate collectibility of the principal balance of an impaired loan is in doubt, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are recorded as recoveries of any amounts previously charged off, and then to interest income to the extent any interest has been forgone.

Restructured loans are loans for which the original contractual terms have been modified to provide for terms that are less than those the Bank would be willing to accept for new loans with comparable risk because of deterioration in the borrower's financial condition. Interest on these loans is accrued at the renegotiated rates.

The Bank's policy is to discontinue accrual of interest either when reasonable doubt exists as to the full, timely collection of interest or principal, or when a loan becomes 90 days or more past due as to principal or interest. Credit card receivables that become 120 days past due or assigned to legal status are placed on non accrual status. The accrued and unpaid interest is reversed against interest income and, thereafter, the loan is accounted for on the cash method until it qualifies for return to accrual. When borrowers demonstrate over an extended period the ability to repay a loan in accordance with the contractual terms of a loan classified as non accrual, the loan is returned to accrual status. The Bank charges off loans when collectibility of principal is not probable.

(h) *Allowance for Loan Losses and Reserve for Unfunded Lending Commitments*

The allowance for loan losses and reserve for unfunded lending commitments represent the amounts, which, in management's judgment, will be adequate to absorb inherent losses of the existing loan portfolio and unfunded commercial lending commitments, respectively, at balance sheet date. The Bank has developed policies and procedures for assessing the adequacy of the allowance for loan losses and reserve for unfunded lending commitments that reflect the assessment of credit risk considering all available information. Where appropriate, this assessment includes monitoring qualitative and quantitative trends including changes in the levels of past due, criticized and nonperforming loans. In developing this assessment, the Bank must rely on estimates and exercise judgment in assessing credit risk. Depending on changes in circumstances, future assessments of credit risk may yield materially different results from the estimates, which may require an increase or a decrease in the allowance for loan losses or reserve for unfunded lending commitments. Additions to the allowance for loan losses are based on several factors which include, but are not limited to, analytical review of loan loss experience in relation to outstanding loans, a continuing review of problem or non performing loans, overall portfolio quality and adequacy of collateral, results of regulatory examinations, evaluation of independent appraisals, and management's judgment with respect to the impact of current economic conditions on the existing loan portfolio.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

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The allowance on certain homogeneous loan portfolios is based on aggregated portfolio segment evaluations generally by product type. Loss forecast models are utilized for these segments which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, economic conditions and credit scores. The consumer loss forecast models are updated at least on a quarterly basis in order to incorporate information reflective of the current economic environment. The remaining commercial portfolios are reviewed on an individual loan basis. Loans subject to individual reviews are analyzed and segregated by risk according to the Bank's internal risk rating scale. These risk classifications, in conjunction with an analysis of current economic conditions, industry performance trends, and any other pertinent information (including individual valuations on nonperforming loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" (SFAS 114)) result in the estimation of the allowance for loan losses. The historical loss experience is updated at least quarterly to incorporate the most recent data reflective of the current economic environment.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Bank's internal risk rating scale. These risk classifications, in conjunction with an analysis of current economic conditions, performance trends and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for loan losses related to the loan portfolio, and the reserve for unfunded lending commitments are reported on the consolidated balance sheets in the allowance for loan losses, and other liabilities, respectively. Provision for loan losses related to the loan portfolio and unfunded lending commitments are reported in the consolidated statement of income in the provision for loan losses and other operating expenses, respectively.

(i) *Foreclosed Assets*

Assets acquired through, or in lieu of, loans foreclosure are held for sale and are initially recorded at the lower of its cost or fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance of those assets are included in other operating expenses.

(j) *Transfer of Financial Assets*

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

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When the Bank sells receivables in securitizations of loans, it might retain servicing rights, and in some cases residual values and cash reserve accounts, all of which are retained interests in the securitized loans. Gain or loss on sale of the loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Bank generally estimates fair value based on the present value of future expected cash flows determined by using management's best estimates of the key assumptions - credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

(k) *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

	<u>Years</u>
Buildings and improvements	20 – 50
Equipment and furniture	5 – 10
Computers	3 – 5
Vehicles	5

Leasehold improvements are amortized in three to five years or the lease term, whichever is lower.

Expenditures for major renewals and improvements are capitalized. Repairs and maintenance expenditures are charged to expense as incurred. The cost and accumulated depreciation and amortization relating to premises and equipment retired or otherwise disposed of are eliminated from the accounts and any resulting gains or losses are credited or charged to income.

(l) *Goodwill and Intangible Assets*

Goodwill and identified intangible assets with indefinite useful lives are not amortized but rather tested for impairment annually. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of impairment.

Identified intangible assets that have a definite useful life are amortized over that life in a manner that approximates the estimated decline in the economic value of the identified intangible asset. Identified intangible assets that have a definite useful life are periodically reviewed to determine whether there have been any events or circumstances to indicate the recorded amount is not recoverable from projected undiscounted net operating cash flows. If the projected undiscounted net operating cash flows are less than the carrying amount, a loss is recognized to reduce the carrying amount to fair value, and when appropriate, the amortization period is also reduced.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

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(m) *Revenue Recognition*

Revenue is recognized when the earnings process is complete and collectibility is assured. Specifically, brokerage commission fees are recognized in income on a trade date basis. Asset management fees, measured by assets at a particular date, are accrued as earned. Advisory fees are recognized when the transaction is complete. Commission expenses are recorded when the related revenue is recognized. Transaction-related expenses are recognized as incurred.

Credit card annual fees, net of direct lending costs, are deferred and amortized on a straight-line basis over a one-year term. Merchant's commission income is determined based on the amount and type of purchase by the cardholder and is recognized at the time the charges are billed.

The Bank offers rewards programs that allow its cardholders to earn points that can be redeemed for a broad range of rewards including cash, travel and discounted products. The Bank establishes a rewards liability based upon the points earned which are expected to be redeemed and the average cost per point redemption. The points to be redeemed are estimated based on past redemption behavior, card product type, account transaction activity and other historical card performance. The liability is reduced as the points are redeemed. The estimated cost of the rewards programs is recorded as contra-revenue against credit card commissions.

(n) *Derivative Financial Instruments*

The Bank makes use of derivative financial instruments, primarily as part of its management of interest rate risks.

Derivative financial instruments such as interest rate swaps and interest rate caps are used to manage interest rate risk through the exchange of interest payments based on a predetermined notional principal amount. The underlying principal balances are not affected. Net settlement amounts are reported in other income.

The Bank carries all derivatives in the consolidated balance sheets at fair value. The accounting for changes in fair value (i.e. gains or losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the type of hedge. That is, the derivative is designated by the Bank as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); or (2) a hedge of the variability of cash flows of a forecasted transaction to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (3) as a freestanding.

Changes in the fair value of a derivative that has been designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are included in other income (expense) and recorded as derivative and hedging activities. Changes in the fair value of a derivative that has been designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss) to the extent of its effectiveness, until earnings are impacted by the variability of cash flows from the hedged item. Changes in the fair value of derivatives held for trading purposes or those that do not qualify as hedges (freestanding) are included in other income (expense) and recorded as derivative and hedging activities.

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At the inception of each hedge, when applicable, the Bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the consolidated balance sheets, or to specific firm commitments or forecasted transactions.

(o) *Income Tax*

The Bank uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the enactment date period. A valuation allowance is recognized when it is more likely than not that some portion or all of the deferred tax assets will not be realizable.

(p) *Foreign Currency*

Assets, liabilities and operations of foreign subsidiaries are recorded based on the functional currency of each entity. For foreign operations, the functional currency is the local currency, in which case the assets, liabilities and operations are translated, for consolidation purposes, at period-end rates from the local currency to the reporting currency, the U.S. dollar. The resulting unrealized gains or losses are reported as a component of accumulated other comprehensive income (loss).

When the foreign entity's functional currency is determined to be the U.S. dollar, foreign currency transactions are recorded at the exchange rate prevailing at the date of the transaction. Assets and liabilities denominated in foreign currency are re-measured into the functional currency at the exchange rate prevailing at balance sheet date. Resulting gains and losses on foreign currency transactions are included within other income in the consolidated statements of income.

(q) *Reclassifications*

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 consolidated financial statement presentation.

**(3) Business Combinations**

The Bank believes the following acquisitions will enhance stockholder value by expanding the Bank's range of available products and services and increasing the distribution channels available to customers.

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The Bank acquired 99.9 percent of the outstanding stock of Banco Mercantil, S. A. (BAMER), a Honduran banking institution, on June 13, 2007. The aggregate purchase price was approximately US\$132,449,000, including a cash payment of approximately US\$130,222,000. The acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations". Accordingly, the results of operations of BAMER's operations have been included in the consolidated financial statements since the acquisition date. Certain plans related to the disposition of assets and the termination of employees are estimates and, when finalized, may result in adjustments to goodwill.

The total purchase price of approximately US\$132,449,000 has been allocated to the assets acquired and the liabilities assumed based on their fair values at the BAMER purchase date as summarized in the following table:

		<b>June 13, 2007</b>
<b>Assets</b>		
Cash and cash equivalents	US\$	189,045,217
Securities		27,473,273
Loans, net of unearned income		535,262,228
Allowance for loan losses		<u>(20,524,886)</u>
<i>Loans, net</i>		514,737,342
Property and equipment		21,200,644
Intangible assets		12,610,000
Goodwill		57,961,469
Other assets		<u>20,408,528</u>
<b>Total assets</b>		<u>843,436,473</u>
<b>Liabilities</b>		
Deposits		532,312,308
Borrowings		151,292,964
Other liabilities		<u>27,382,615</u>
<b>Total liabilities</b>		<u>710,987,887</u>
<b>Net assets acquired</b>	US\$	<u>132,448,586</u>

Of the US\$12.6 million of acquired intangibles assets, US\$11.0 million was assigned to core deposit intangible with a weighted-average useful life of approximately 17 years. The intangible assets that make up the remaining amount include purchased credit card relationships for US\$1.4 million (10-year weighted average useful life), and other assets of US\$0.2 million (1-year useful life). None of the intangible assets are tax deductible. Goodwill of US\$57.9 million is not deductible for tax purposes.

During 2007, the Bank acquired the following two entities for a total cost of approximately US\$64.1 million, which was paid in cash:

- Corporacion Financiera Miravalles S. A., based in Costa Rica, a financial group that offered primarily consumer loans.
- Fundacion Salvadoreña para el Desarrollo Economico y Social, based in El Salvador, a financial group that offered primarily small business loans.

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Goodwill preliminary recognized in those transactions amounted to approximately US\$17,882,000 and approximately US\$10,163,000 is expected to be deductible for tax purposes.

**(4) Cash and Due from Banks, and Pledged Interest-Bearing Deposits**

At December 31, 2007 and 2006, cash and due from banks aggregating US\$743,890,147 and US\$439,246,995, respectively, are placed at Central Banks in Central American countries to cover legal liquidity reserve requirements.

At December 31, 2007 and 2006, interest-bearing deposits amounting to US\$14,215,955 and US\$22,681,029, respectively, are placed as legal liquidity or to guarantee borrowings and other credit facilities.

**(5) Trading Securities**

At December 31, 2007 and 2006, trading securities consist of government bonds amounting to US\$27,347,792 and US\$3,702,712, respectively.

Net gains on security trading activities included in earnings for the years ended December 31, 2007 and 2006 amount to US\$394,619 and US\$149,838, respectively, including unrealized holding gains on trading securities for US\$62,587 and US\$23,051, respectively.

At December 31, 2007 and 2006, securities with a carrying value of US\$16,541,128 and US\$0, respectively, were pledged to secure repurchase agreements.

**(6) Securities Available for Sale**

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of securities available for sale as of December 31, 2007 and 2006 is as follows:

		2007			
		Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Government bonds and agency securities	US\$	205,251,927	1,604,677	(347,946)	206,508,658
Corporate debentures		15,924,228	186,674	(182,995)	15,927,907
Mortgage-backed securities		5,845,319	253,566	0	6,098,885
Retained interests on securitization		4,572,409	0	0	4,572,409
Mutual funds		12,390,838	0	(521,930)	11,868,908
Other securities		20,197	14,596	0	34,793
	US\$	<u>244,004,918</u>	<u>2,059,513</u>	<u>(1,052,871)</u>	<u>245,011,560</u>

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2006					
		<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>
Government bonds and agency securities	US\$	261,623,510	1,721,276	(307,538)	263,037,248
Corporate debentures		5,099,143	2,985	(352,443)	4,749,685
Mortgage-backed securities		5,798,988	216,524	0	6,015,512
Retained interests on securitization		4,572,409	0	0	4,572,409
Mutual funds		14,499,073	19,730	(224,623)	14,294,180
Others securities		19,397	10,609	0	30,006
	US\$	<u>291,612,520</u>	<u>1,971,124</u>	<u>(884,604)</u>	<u>292,699,040</u>

A summary of securities available for sale as of December 31, 2007 and 2006 by contractual maturity is presented below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

		2007		2006	
		<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Government bonds and agency securities:					
Due within one year	US\$	43,920,603	43,931,318	102,891,594	102,924,015
Due after one year but within five years		65,740,662	65,886,602	110,782,485	111,677,511
Due after five years but within ten years		59,566,113	59,970,529	36,079,607	36,433,652
Due after ten years		36,024,549	36,720,209	11,869,824	12,002,070
		<u>205,251,927</u>	<u>206,508,658</u>	<u>261,623,510</u>	<u>263,037,248</u>
Corporate debentures:					
Due within one year		0	0	1,045,502	1,043,811
Due after one year but within five years		8,253,557	8,246,583	4,053,641	3,705,874
Due after five years but within ten years		7,670,671	7,681,324	0	0
		<u>15,924,228</u>	<u>15,927,907</u>	<u>5,099,143</u>	<u>4,749,685</u>
Mortgage-backed securities:					
Due after ten years		5,845,319	6,098,885	5,798,988	6,015,512
Retained interests on securitization of mortgages:					
Due after ten years		4,572,409	4,572,409	4,572,409	4,572,409
Mutual funds:					
Without maturity		12,390,838	11,868,908	14,499,073	14,294,180
Other:					
Without maturity		20,197	34,793	19,397	30,006
	US\$	<u>244,004,918</u>	<u>245,011,560</u>	<u>291,612,520</u>	<u>292,699,040</u>

At December 31, 2007 and 2006, securities with a carrying value of US\$42,935,635 and US\$46,662,186, respectively, were pledged to secure borrowings and repurchase agreements.

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For the years ended December 31, 2007 and 2006, proceeds from sale of securities available for sale amounted to US\$129,528,624 and US\$142,753,902, respectively. Gross realized gains amounted to US\$12,430,373 and US\$6,937,646 for 2007 and 2006, respectively. Gross realized losses amounted to US\$191,669 and US\$301,191 for 2007 and 2006, respectively.

Gross unrealized losses on securities available for sale and the fair value of the related securities, aggregated by category and length of time the individual security has been in the continuous unrealized loss position at December 31, 2007 and 2006, were as follows:

		<b>2007</b>					
		<b>12 Months or less</b>		<b>More than 12 Months</b>		<b>Total</b>	
		<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Government and agency securities	US\$	24,529,848	(296,247)	21,319,985	(51,699)	45,849,833	(347,946)
Corporate debentures		5,362,928	(9,595)	4,411,650	(173,400)	9,774,578	(182,995)
Mutual funds		<u>8,752,374</u>	<u>(497,626)</u>	<u>544,011</u>	<u>(24,304)</u>	<u>9,296,385</u>	<u>(521,930)</u>
<b>Total</b>	US\$	<u>38,645,150</u>	<u>(803,468)</u>	<u>26,275,646</u>	<u>(249,403)</u>	<u>64,920,796</u>	<u>(1,052,871)</u>

  

		<b>2006</b>					
		<b>12 Months or less</b>		<b>More than 12 Months</b>		<b>Total</b>	
		<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Government and agency securities	US\$	61,198,113	(130,568)	26,940,075	(176,970)	88,138,188	(307,538)
Corporate debentures		998,157	(1,843)	1,649,400	(350,600)	2,647,557	(352,443)
Mutual funds		<u>0</u>	<u>(0)</u>	<u>9,775,377</u>	<u>(224,623)</u>	<u>9,775,377</u>	<u>(224,623)</u>
<b>Total</b>	US\$	<u>62,196,270</u>	<u>(132,411)</u>	<u>38,364,852</u>	<u>(752,193)</u>	<u>100,561,122</u>	<u>(884,604)</u>

The unrealized losses on investments are caused by interest rate increases. The decline in fair value is mainly attributable to changes in interest rates and not credit quality, and the Bank has the intent and ability to hold those investments until a market price recovery or maturity; therefore, these investments are not considered other-than-temporarily impaired.

**(7) Securities Held to Maturity**

The amortized cost and fair value of securities held to maturity as of December 31, 2007 and 2006 is as follows:

		<b>2007</b>		<b>2006</b>	
		<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Government bonds	US\$	14,167,646	14,308,202	0	0
Corporate debentures		<u>4,988,091</u>	<u>4,689,800</u>	<u>4,983,517</u>	<u>4,294,800</u>
	US\$	<u>19,155,737</u>	<u>18,998,002</u>	<u>4,983,517</u>	<u>4,294,800</u>

As of December 31, 2007 and 2006 the gross unrealized losses amount to US\$157,735 and US\$688,717, respectively; most of the securities have been on a continuous unrealized loss position for more than 12 months. Management considers the unrealized losses to be attributable to increase in interest rates and not due to decline in the credit quality of the issuers. Therefore, these securities are not considered to be other-than-temporarily impaired.

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A summary of securities held to maturity as of December 31, 2007 and 2006, by contractual maturity, is presented below. Expected maturities would differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

		<u>2007</u>		<u>2006</u>	
		<u>Amortized</u> <u>Cost</u>	<u>Fair</u> <u>Value</u>	<u>Amortized</u> <u>Cost</u>	<u>Fair</u> <u>Value</u>
Government bonds:					
Due after one year but within five years	US\$	4,912,204	5,052,760	0	0
Due after five years but within ten years		16,567	16,567	0	0
Due after ten years		<u>9,238,875</u>	<u>9,238,875</u>	<u>0</u>	<u>0</u>
		<u>14,167,646</u>	<u>14,308,202</u>	<u>0</u>	<u>0</u>
Corporate debentures:					
Due after one year but within five years		2,988,091	2,863,200	2,983,517	2,645,400
Due after five years but within ten years		<u>2,000,000</u>	<u>1,826,600</u>	<u>2,000,000</u>	<u>1,649,400</u>
		<u>4,988,091</u>	<u>4,689,800</u>	<u>4,983,517</u>	<u>4,294,800</u>
	US\$	<u>19,155,737</u>	<u>18,998,002</u>	<u>4,983,517</u>	<u>4,294,800</u>

**(8) Loans**

The composition of loans as December 31, 2007 and 2006 is as follows:

		<u>2007</u>	<u>2006</u>
Commercial, financial and industrial	US\$	1,398,760,868	747,423,213
Real estate – residential and for construction		1,066,118,678	593,683,304
Credit card		1,187,112,013	925,962,792
Vehicles financing		342,244,325	240,812,061
Other personal		324,587,294	192,111,839
Cash collateralized (back to back)		137,242,463	119,274,319
Leasing		178,629,276	48,393,028
Overdrafts		<u>38,849,780</u>	<u>16,455,056</u>
	US\$	<u>4,673,544,697</u>	<u>2,884,115,612</u>

At December 31, 2007 and 2006, the Bank had loans for US\$283,868,587 and US\$122,138,194, respectively, pledged to secure borrowings and other credit facilities.

At December 31, 2007 and 2006, the Bank's non-accrual and restructured loans, including impaired loans, amounted to US\$84,629,438 and US\$40,994,109, respectively. At December 31, 2007 and 2006, the Bank has no commitments to lend additional funds to borrowers whose loans are classified as non-accruing.

Other real estate owned assets included in other assets amounted to US\$11,774,980 and US\$7,479,433 at December 31, 2007 and 2006, respectively.

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The following is a summary of information pertaining to impaired loans:

		<u>2007</u>	<u>2006</u>
Impaired loans, all with a valuation allowance	US\$	<u>23,658,065</u>	<u>10,239,784</u>
Valuation allowance	US\$	<u>9,108,564</u>	<u>4,910,335</u>
Average recorded investment	US\$	<u>22,116,873</u>	<u>16,228,268</u>
Interest income recognized on a cash basis	US\$	<u>2,368,526</u>	<u>1,345,966</u>

The Bank has no commitments to lend additional funds to borrowers whose loans are impaired.

**(9) Allowance for Loan Losses**

The changes in the allowance for loan losses during the years ended December 31, 2007 and 2006 are presented below:

		<u>2007</u>	<u>2006</u>
Balance, beginning of year	US\$	69,808,464	52,546,837
Provision for loan losses		88,764,845	53,738,816
Balance from acquired entities at purchase date		26,295,681	0
Charge-offs		(75,080,817)	(48,999,468)
Recoveries		16,866,651	13,051,538
Foreign currency translation		<u>1,126,094</u>	<u>(529,259)</u>
Balance, end of year	US\$	<u>127,780,918</u>	<u>69,808,464</u>

**(10) Property and Equipment**

Property and equipment as of December 31, 2007 and 2006 are detailed as follows:

		<u>2007</u>	<u>2006</u>
Land	US\$	19,737,308	13,051,713
Buildings and improvements		68,169,623	52,419,868
Equipment, furniture and vehicles		182,465,148	153,278,501
Constructions in progress		<u>5,135,309</u>	<u>1,497,325</u>
		275,507,388	220,247,407
Less: accumulated depreciation and amortization		<u>(113,931,497)</u>	<u>(92,427,943)</u>
	US\$	<u>161,575,891</u>	<u>127,819,464</u>

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**(11) Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
Goodwill:		
Balance, beginning of the year	US\$ 2,632,748	2,632,748
Goodwill acquired during the year	75,843,596	0
Foreign exchange	<u>18,765</u>	<u>0</u>
Balance, end of the year	US\$ <u>78,495,109</u>	<u>2,632,748</u>

The gross carrying amount and accumulated amortization for each of the Bank's identified intangible assets subject to amortization at December 31, 2007 and 2006, are presented below:

	<u>2007</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Core deposit intangible	US\$ 10,980,000	787,220
Purchased credit card relationships	1,400,000	29,400
Trade name	<u>230,000</u>	<u>115,000</u>
	US\$ <u>12,610,000</u>	<u>931,620</u>

Amortization expense related to identified intangible assets for the year ended December 31, 2007, is presented below:

		<u>2007</u>
Core deposit intangible	US\$	787,220
Purchased credit card relationships		29,400
Trade name		<u>115,000</u>
	US\$	<u>931,620</u>

Amortization expense related to identified intangible assets in each of the five years subsequent to December 31, 2007, is as follows: 2008: US\$1,667,970, 2009: US\$1,366,000, 2010: US\$1,215,720, 2011: US\$1,072,550, 2012 and thereafter: US\$6,356,140.

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**(12) Deposits**

As of December 31, 2007 and 2006, the Bank held US\$1,471,108,452 and US\$1,014,318,975 respectively, of time deposits with principal balances of US\$100,000 and over.

Scheduled maturities of time deposits at December 31, 2007 are as follows:

**Year ending December 31,**

2008	US\$ 1,706,066,328
2009	70,789,573
2010	9,048,509
2011	6,592,040
2012	4,581,735
Thereafter	<u>1,628,765</u>
	US\$ <u>1,798,706,950</u>

**(13) Securities Sold under Agreements to Repurchase**

The following table summarizes certain information on securities sold under agreements to repurchase at or for the years ended December 31, 2007 and 2006:

		<b><u>2007</u></b>	<b><u>2006</u></b>
Carrying amount at end of year	US\$	<u>49,201,840</u>	<u>35,863,334</u>
Maximum amount outstanding at any month end	US\$	<u>49,201,840</u>	<u>49,925,024</u>
Average amount outstanding during the year	US\$	<u>40,503,923</u>	<u>38,094,779</u>
Weighted average interest rate for the year		<u>7.63%</u>	<u>7.76%</u>
Weighted average interest rate at end of year		<u>7.69%</u>	<u>6.59%</u>



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On December 16, 2002, the Bank, through a consolidated special purpose entity, issued US\$50,000,000 under its US\$125 million CIC floating-rate trust certificates series 2002-A, due January 8, 2010. On November 23, 2005 the Bank amended the original program and issued additional certificates for US\$275 million which increased the total amount under the program to US\$400 million due December 31, 2012. In May 2007, through another amendment, the final maturity was extended to April 5, 2017. As of December 31, 2007 and 2006, the amount outstanding under this program aggregated US\$288,504,812 and US\$74,504,812, respectively. The certificates are issued and managed by CIC Receivables Master Trust for the benefit of the certificate holders. The Master Trust currently holds a 'AAA' rating from Standard & Poor's Rating Services. Such certificates are secured in first degree by future cash flows originating in Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica from merchant vouchers and by a financial guarantee insurance policy provided by Ambac Assurance Corp. (an insurance company holding a 'AAA' financial strength rating from Standard & Poor's) which guarantees timely payment of certificate interest and principal when due. The merchant vouchers are those to be generated by holders of credit cards issued by third-party international financial institutions, under Visa and MasterCard Credit Card Programs which are being serviced by the Bank. The certificates pay interest quarterly the fifth day of each January, April, July and October at a rate of three-month U. S. dollar LIBOR plus a margin (6.63% and 7.38%, including surety premiums, at December 31, 2007 and 2006, respectively). Principal amortization amounts will be paid to certificates holders beginning in April 2010. The certificates had an original duration of 4.68 years. At December 31, 2007, the certificates currently have a weighted average duration of 6.1355 years (as amended).

At December 31, 2007 and 2006, secured borrowings amounted to US\$601,758,968 and US\$225,499,721, respectively, including the amount outstanding under the CIC Receivables Master Trust.

As of December 31, 2007, secured borrowings include a lease financing arrangement for acquisition of an aircraft. The lease, with an aggregate outstanding balance of US\$6,500,364, calls for monthly advance installments of US\$91,616, including interest, to be paid through January 1, 2015.

At December 31, 2007, the Bank had approximately US\$559,325,297 available in unused lines of credit that expire through 2012, including the unfunded portion of the CIC Receivables Master Trust of US\$111,495,188.

Scheduled maturities of borrowings at December 31, 2007, are as follows:

### Year ending December 31,

2008	US\$	314,856,608
2009		236,457,813
2010		197,099,542
2011		84,602,107
2012		61,763,547
Thereafter		<u>228,323,970</u>
	US\$	<u>1,123,103,587</u>

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**(15) Other Borrowed Funds**

Carrying amount of other borrowed funds at December 31, 2007 and 2006 consist of certificates of indebtedness registered at and negotiable through the corresponding local stock exchanges in Guatemala, El Salvador and Costa Rica, at fixed and variable interest rates, and is detailed as follows:

<u>Payable in:</u>	<u>Interest Rate</u>		<u>2007</u>	<u>2006</u>
US dollars	5.10% to 8.24%	US\$	69,888,577	48,641,426
Quetzals	7.02% to 8.69%		52,973,486	52,036,150
Colones	5.71% to 9.25%		<u>90,614,261</u>	<u>29,611,204</u>
		US\$	<u>213,476,324</u>	<u>130,288,780</u>

Scheduled maturities of other borrowed funds at December 31, 2007 are as follows:

Year ending December 31,

2008	US\$	106,214,984
2009		19,230,517
2010		42,979,303
2011		8,500,000
2012		<u>36,551,520</u>
	US\$	<u>213,476,324</u>

At December 31, 2007 and 2006, the Bank had loans receivable for US\$84,570,469 and US\$59,285,100, respectively, pledged to secure these other borrowed funds.

**(16) Other Operating Expenses**

The following table sets forth the components of other operating expenses for the years ended December 31, 2007 and 2006:

		<u>2007</u>	<u>2006</u>
Advertising	US\$	22,045,269	15,235,198
Communications		16,242,070	11,815,940
Office supplies		7,887,697	6,782,908
Maintenance		14,363,588	11,809,586
Credit card franchise and authorization fees		13,633,411	11,553,285
Taxes other than income tax		8,371,903	6,136,373
Processing fees		4,911,921	3,189,416
Deposit insurance		2,876,044	1,824,967
Security		4,052,779	3,002,483
Armored services		4,218,177	3,347,927
Travel expenses		5,220,973	4,174,314
Provision for claims receivable for unreturned securities		0	1,562,337
Other		<u>45,835,934</u>	<u>33,567,189</u>
	US\$	<u>149,659,766</u>	<u>114,001,923</u>

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**(17) Income Taxes**

Income tax expense consists of:

		<u>2007</u>	<u>2006</u>
Current	US\$	44,179,154	27,128,696
Deferred		<u>(8,264,567)</u>	<u>3,291,083</u>
	US\$	<u>35,914,587</u>	<u>30,419,779</u>

Income tax expense was US\$35,914,587 and US\$30,419,779 for the years ended December 31, 2007 and 2006, respectively, and differed from the amounts computed by applying the statutory income tax rate to pretax consolidated earnings as a result of the following:

		<u>2007</u>	<u>2006</u>
Computed "expected" tax expense	US\$	68,697,035	47,369,716
Increase (decrease) in income taxes resulting from:			
Exempt and foreign source income		(30,839,676)	(21,493,414)
Tax incentives		(525,426)	(168,309)
Change in allowance		(4,478,631)	1,364,786
Nondeductible expenses		10,934,509	7,521,590
Foreign income taxes rate differential		<u>(7,873,224)</u>	<u>(4,174,590)</u>
Income tax expense	US\$	<u>35,914,587</u>	<u>30,419,779</u>

Temporary differences between financial statement carrying amounts and tax bases of assets and liabilities that give rise to the deferred tax assets and liabilities as of December 31, 2007 and 2006 are as follows:

		<u>2007</u>	<u>2006</u>
Deferred tax assets:			
Net operating tax loss carryforwards	US\$	730,001	1,770,566
Allowance for loan losses		14,422,163	5,814,853
Deferred loan origination fees and costs		383,482	51,926
Accrued expenses		<u>2,394,190</u>	<u>1,521,442</u>
Gross deferred tax assets		17,929,836	9,158,787
Less-valuation allowance		<u>(47,576)</u>	<u>(4,526,207)</u>
Net deferred tax assets		<u>17,882,260</u>	<u>4,632,580</u>
Deferred tax liabilities:			
Net premises and equipment depreciation difference		(4,481,306)	(3,137,483)
Organizational costs		(375,307)	0
Deferred commissions and accrued interest receivable		(1,777,142)	0
Unrealized gains on securities available for sale		<u>(120,756)</u>	<u>(324,784)</u>
Total deferred tax liabilities		<u>(6,754,511)</u>	<u>(3,462,267)</u>
Net deferred tax assets	US\$	<u>11,127,749</u>	<u>1,170,313</u>

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The valuation allowance for deferred tax assets as of December 31, 2007 and 2006 was US\$47,576 and US\$4,526,207, respectively.

The net change in the total valuation allowance for the years ended December 31, 2007 and 2006 was a decrease of US\$4,478,631 and an increase of US\$1,364,786, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

At December 31, 2007, subsidiaries of the Bank have incurred in net operating tax loss carryforwards of US\$2,752,384, which are available to offset future taxable income of the applicable subsidiaries, if any, through 2016.

**(18) Accumulated Other Comprehensive Loss, Net**

The following table presents the components of and changes in accumulated other comprehensive loss for the years ended December 31, 2007 and 2006:

		<u>Foreign Currency Translation</u>	<u>Unrealized Net Gain (Loss) on Securities</u>	<u>Accumulated Other Comprehensive Loss</u>
Balances as of December 31, 2005	US\$	(53,350,540)	(325,633)	(53,676,173)
Current year changes		<u>(6,953,417)</u>	<u>992,795</u>	<u>(5,960,622)</u>
Balances as of December 31, 2006		(60,303,957)	667,162	(59,636,795)
Current year changes		<u>3,918,637</u>	<u>218,724</u>	<u>4,137,361</u>
Balances as of December 31, 2007	US\$	<u>(56,385,320)</u>	<u>885,886</u>	<u>(55,499,434)</u>

The following table presents details of other comprehensive income (loss) for the years ended December 31, 2007 and 2006:

		<u>December 31, 2007</u>		
		<u>Pre-tax Amount</u>	<u>Income tax (Expense) Benefit</u>	<u>After-tax Amount</u>
Foreign currency translation adjustment	US\$	<u>3,918,637</u>	<u>0</u>	<u>3,918,637</u>
Unrealized gains (loss) on securities:				
Unrealized net holding gains (losses) on securities		(2,004,539)	857,790	(1,146,749)
Less: reclassification adjustment for realized gains (losses) in net income		<u>2,019,235</u>	<u>(653,762)</u>	<u>1,365,473</u>
Net unrealized gains		<u>14,696</u>	<u>204,028</u>	<u>218,724</u>
Other comprehensive income for the year	US\$	<u>3,933,333</u>	<u>204,028</u>	<u>4,137,361</u>

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		December 31, 2006		
		<u>Pre-tax Amount</u>	<u>Income tax (Expense) Benefit</u>	<u>After-tax Amount</u>
Foreign currency translation adjustment	US\$	(6,953,417)	0	(6,953,417)
Unrealized gains (loss) on securities:				
Unrealized net holding gains (losses) on securities		9,100,769	(1,471,519)	7,629,250
Less: reclassification adjustment for realized gains (losses) in net income		(7,783,190)	1,146,735	(6,636,455)
Net unrealized gains		<u>1,317,579</u>	<u>(324,784)</u>	<u>992,795</u>
Other comprehensive loss, for the year	US\$	<u>(5,635,838)</u>	<u>(324,784)</u>	<u>(5,960,622)</u>

**(19) Off-Balance Sheet Financial Instruments**

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include, principally, commitments to extend credit, financial guarantees and letters of credit, the balances of which are not reflected in the accompanying consolidated balance sheets.

Letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Those letters of credit are primarily used to support trade transactions and borrowing arrangements. Generally, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer. At December 31, 2007 and 2006, the Bank had not entered into non-cancelable commitments to extend credit.

As of December 31, 2007 the Bank had outstanding revolving lines of credit available to its credit card customers in each of the various countries of operation that ranged from approximately US\$150 million to US\$1,208 million (US\$160 million to US\$1,023 million in 2006). The unused portion of the total amount available in each country, aggregated approximately from US\$93 million to US\$934 million (US\$89 million to US\$800 million in 2006). While these amounts represented the available lines of credit to customers per country, the Bank has not experienced, and does not anticipate, that all of its customers will exercise their entire available lines at any given point in time. The Bank generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

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Financial guarantees are used in various transactions to enhance the credit standing of the Bank's customers. They represent irrevocable assurances that the Bank will make payment in the event that the customer fails to fulfill its obligations to third parties.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At December 31, 2007 and 2006 outstanding letters of credit and financial guarantees are as follows:

		<u>2007</u>	<u>2006</u>
Standby letters of credit	US\$	20,247,079	37,615,615
Commercial letters of credit		45,597,110	21,403,261
Financial guarantees		<u>179,113,306</u>	<u>104,075,325</u>
	US\$	<u>244,957,495</u>	<u>163,094,201</u>

The nature, terms and maximum potential amount of future payments the Bank could be required to make under the standby letters of credit and guarantees as of December 31, 2007 and 2006, are detailed as follows:

		<u>2007</u>	<u>2006</u>
Up to 1 year	US\$	169,774,735	125,986,713
Over 1 year		<u>29,585,650</u>	<u>15,704,227</u>
	US\$	<u>199,360,385</u>	<u>141,690,940</u>

Generally, the Bank has resources to recover from clients the amounts paid under these guarantees; additionally, the Bank can hold cash or other collateral to cover for these guarantees. The assets held as collateral, that the Bank can obtain and liquidate to recover totally or partially the amounts paid under guarantees as of December 31, 2007 and 2006, amounted to US\$22,425,486 and US\$12,485,962, respectively.

The fair value of the letters of credit and guarantees as of December 31, 2007 and 2006 are of US\$1,606,424 and US\$969,509, respectively.

**(20) Derivative Financial Instruments**

The accounting of derivatives financial instruments requires that these financial instruments be recorded on the consolidated balance sheets at their fair value.

In the normal course of business, the Bank uses interest rate derivatives primarily for economic hedging purposes in its balance sheet management activities.

**Types of Derivative Instruments**

Derivative instruments negotiated by the Bank are executed mainly over-the-counter (OTC). These contracts are executed between two counterparties that negotiate specific agreement terms, including notional amount, exercise price and maturity.

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For purposes of asset/liability activities, the Bank uses the following instruments: Interest rate swaps are contracts in which a series of interest rate flows, which involve fixed for floating interest payments or vice-versa. The Bank has designated these derivative instruments as freestanding derivatives.

An interest rate cap is a contract that guarantees a maximum level of LIBOR. Caps are also known as ceilings. In return for making this guarantee, the buyer pays a premium. Caps generally guarantee a maximum level of either 3 or 6 month LIBOR or whatever the prevailing floating rate index is in the particular market. The Bank's maximum loss on a cap transaction is the premium.

The following table provides quantitative information on derivative financial instruments outstanding at December 31, 2007 and 2006.

		2007			2006		
		Notional	Fair Value		Notional	Fair Value	
		Amount	Assets	Liability	Amount	Assets	Liability
Freestanding:							
Interest rate swaps	US\$	25,000,000	0	822,491	35,000,000	0	540,873
Interest rate caps		<u>82,000,000</u>	<u>244,882</u>	<u>0</u>	<u>7,000,000</u>	<u>30,345</u>	<u>0</u>
	US\$	<u>107,000,000</u>	<u>244,882</u>	<u>822,491</u>	<u>42,000,000</u>	<u>30,345</u>	<u>540,873</u>

**(21) Concentration of Credit Risk**

Concentrations of credit risk arise when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. Through the operation of subsidiary banks in Central American countries, however, the Bank has widened its lending activities, diversifying into other consumer and commercial products. The loan book is well diversified by economic sector and by individual exposures. By country the largest loan exposures are held in Costa Rica, Honduras and El Salvador.

**(22) Disclosures about Fair Value of Financial Instruments**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank's financial instruments.

The following is a description of the methods and assumptions used to estimate fair value of the most significant financial instruments held by the Bank:

*(a) Financial Instruments with Carrying Value Approximating Fair Value*

The carrying value of certain financial assets including cash and cash equivalents, interest-bearing deposits, and customers' liability under acceptances outstanding, as well as certain financial liabilities, including securities sold under agreements to repurchase and acceptances outstanding, approximate fair value due to the short term nature of the instruments.

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(b) *Investment Securities*

The fair value of investment securities (trading, available for sale and held to maturity) is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or based on the discounted value of contractual cash flows. Available for sale securities are carried at fair value. Refer to notes 5, 6 and 7 for fair value information.

(c) *Loans*

The fair value is estimated based on portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential mortgage and other consumer. Each loan category is further segmented into fixed and adjustable rate interest terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting scheduled cash flows through the estimated maturity of the loans using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by segmenting loans into homogeneous categories and by reference to quotations available in markets where these loans were traded. Fair value for significant non-performing loans is based on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information. The fair value of loans at December 31, 2007 and 2006 was approximately US\$4,521,702,816 and US\$2,794,634,551 (carrying value was of US\$4,520,686,233 and US\$2,795,811,338), respectively.

(d) *Deposits*

The fair value of deposits with no stated maturity, such as demand, savings, and money market deposits, is equal to the amount payable on demand as of December 31, 2007 and 2006. The fair value of time deposits is calculated based on the discounted value of contractual cash flows. The discount rate used represents the interest rates currently offered for time deposits of similar remaining maturities. The fair value of time deposits at December 31, 2007 and 2006 was approximately US\$1,801,691,918 and US\$1,234,750,876 (carrying value of US\$1,798,706,950 and US\$1,233,272,255), respectively.

(e) *Borrowings*

The fair value of borrowings was calculated based on the discounted value of contractual cash flows. The discount rate used represents the interest rates currently offered for similar types of borrowings and remaining maturities. The fair value of borrowings at December 31, 2007 and 2006 was approximately US\$1,120,048,703 and US\$543,663,691 (carrying value of US\$1,123,103,587 and US\$546,710,873), respectively.

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(f) *Other borrowed funds*

The fair value of other borrowed funds was calculated based on the discounted value of contractual cash flows. The discount rate used represents the interest rates currently offered for similar types of other borrowed funds and remaining maturities. The fair value of other borrowed funds at December 31, 2007 and 2006 was approximately US\$212,905,391 and US\$131,588,669 (carrying value of US\$213,476,324 and US\$130,288,780), respectively.

(g) *Off-balance sheet instruments*

The fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Refer to note 19 for fair value information.

**(23) Administration of Trust Contracts and Asset Management**

As of December 31, 2007 and 2006, several of the Bank's subsidiaries administer and are custodian of assets which amounted to approximately US\$786,488,113 and US\$338,345,000, respectively.

**(24) Related Party Transactions**

The Bank in the normal course of business enters into transactions with related parties, including principal officers and directors. The following table sets forth balances and transactions with related parties as of December 31, 2007 and 2006 and for the years then ended:

		<u>2007</u>	<u>2006</u>
Assets:			
Due from banks	US\$	42,480,800	40,962,777
Interest-bearing deposits		6,139,851	10,818,496
Securities available for sale		9,296,385	11,822,217
Loans receivable		92,088,255	75,239,449
Accrued interest and other receivables		890,611	591,656
	US\$	<u>150,895,902</u>	<u>139,434,595</u>
Liabilities:			
Demand deposits		46,447,518	49,985,692
Time deposits		66,203,452	75,374,379
Borrowings		98,748,043	9,977,242
Accrued interest and other liabilities		1,522,159	4,827,717
	US\$	<u>212,921,172</u>	<u>140,165,030</u>
Interest and other operating income	US\$	<u>8,164,924</u>	<u>9,026,638</u>
Interest and other operating expenses	US\$	<u>7,594,985</u>	<u>4,594,806</u>

Securities available for sale are placed in mutual funds managed by the subsidiaries of the Bank.

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### **(25) Litigation**

To the best knowledge of Bank's management, there is currently no litigation or assessment that may result in a material adverse effect on its business, its consolidated financial condition or consolidated results of operations.

### **(26) Regulatory Matters**

Banking operations of the Bank are subject to various regulatory requirements administered by governmental agencies in the countries they operate or are licensed. Failure to meet these regulatory requirements can initiate certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a material effect on the Bank's consolidated financial statements. In the opinion of management, at December 31, 2007 and 2006, the Bank's banking operations were in compliance with such regulatory requirements.