

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

**Consolidated Financial Statements**

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

---

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

Table of Contents

Independent Auditors' Report

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Changes in Stockholder's Equity

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements





**KPMG**  
Apartado Postal 816-1089  
Panamá 5, República de Panamá

Teléfono: (507) 208-0700  
Fax: (507) 263-9852  
Internet: www.kpmg.com.pa

## 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, 2006 and 2005, 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, 2006 and 2005, 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

January 23, 2007  
Panama, Republic of Panama

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

**Consolidated Balance Sheets**

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>		
Cash and due from banks (notes 4 and 5)	US\$ 841,332,455	670,545,262
Interest-bearing deposits (notes 4 and 5)	33,632,579	14,761,008
Trading securities (note 6)	3,702,712	5,215,833
Securities available for sale (notes 4 and 7)	292,699,040	324,153,053
Securities held to maturity (note 8)	4,983,517	5,944,167
Loans (notes 4 and 9)	2,884,115,612	2,170,554,149
Less:		
Allowance for loan losses (note 10)	69,808,464	52,546,837
Unearned income and deferred loan fees and costs	18,495,810	16,201,899
<b>Loans, net</b>	<u>2,795,811,338</u>	<u>2,101,805,413</u>
Property and equipment, net (note 12)	127,819,464	120,020,395
Investments in unconsolidated entities	2,609,249	2,458,942
Customers' liability on acceptances	3,283,491	9,284,767
Accrued interest receivable (note 4)	16,986,255	12,731,217
Other accounts receivable (notes 4 and 7)	74,679,132	54,758,609
Other assets (notes 9 and 13)	42,229,101	34,524,736
<b>Total assets</b>	<u>US\$ 4,239,768,333</u>	<u>3,356,203,402</u>
 <b><u>Liabilities and Stockholder's Equity</u></b>		
Deposits (note 4):		
Demand non-interest-bearing	219,553,037	192,831,575
Demand interest-bearing	1,081,297,077	764,451,450
Savings	303,427,161	260,199,826
Time deposits (note 14)	1,233,272,255	1,043,982,706
<b>Total deposits</b>	<u>2,837,549,530</u>	<u>2,261,465,557</u>
Securities sold under agreements to repurchase (note 15)	35,863,334	23,863,176
Borrowings (notes 4 and 16)	546,710,873	409,223,754
Other borrowed funds (note 17)	130,288,780	112,985,344
Acceptances outstanding	3,283,491	9,284,767
Accrued interest payable (note 4)	21,699,499	15,825,669
Other liabilities (notes 4 and 11)	181,698,085	124,144,936
<b>Total liabilities</b>	<u>3,757,093,592</u>	<u>2,956,793,203</u>
Minority interest	<u>21,311,147</u>	<u>17,579,338</u>
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	407,435,135	321,941,780
Accumulated other comprehensive loss (note 20)	(59,636,795)	(53,676,173)
<b>Total stockholder's equity</b>	<u>461,363,594</u>	<u>381,830,861</u>
<b>Total liabilities and stockholder's equity</b>	<u>US\$ 4,239,768,333</u>	<u>3,356,203,402</u>

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Interest income (note 4) :		
Loans	US\$ 393,580,923	295,938,001
Interest-bearing deposits	14,341,824	9,754,834
Trading securities	263,478	143,189
Securities available for sale	22,416,197	19,389,506
Securities held to maturity	507,475	598,293
<b>Total interest income</b>	<b>431,109,897</b>	<b>325,823,823</b>
Interest expense (note 4):		
Deposits	92,766,185	64,305,424
Securities sold under agreements to repurchase	3,822,213	2,255,161
Borrowings and other borrowed funds	42,769,994	31,175,415
<b>Total interest expense</b>	<b>139,358,392</b>	<b>97,736,000</b>
<b>Net interest income before provision for loan losses</b>	<b>291,751,505</b>	<b>228,087,823</b>
Provision for loan losses (note 10)	53,738,816	34,831,247
<b>Net interest income after provision for loan losses</b>	<b>238,012,689</b>	<b>193,256,576</b>
Other income (expenses) (note 4):		
Service charges	100,692,601	77,726,580
Commissions and other fees, net of commission expenses of US\$74,959,573 and US\$62,674,806, respectively	85,685,595	70,146,894
Credit card membership fees, net	4,875,396	3,955,133
Foreign currency gains, net	20,857,905	17,901,887
Net gain on trading securities (note 6)	149,838	141,792
Net gain on sale of securities available for sale (note 7)	6,636,455	1,849,243
Valuation allowance on retained interests on securitization (note 7)	0	(372,014)
Other income	18,211,564	13,042,411
<b>Total other income</b>	<b>237,109,354</b>	<b>184,391,926</b>
Operating expenses (note 4):		
Salaries and employee benefits	126,589,118	102,035,864
Depreciation and amortization	22,333,749	19,659,574
Administrative expenses	17,532,109	12,363,115
Occupancy and related expenses	18,391,148	14,721,841
Other operating expenses (note 18)	132,376,866	111,358,940
<b>Total operating expenses</b>	<b>317,222,990</b>	<b>260,139,334</b>
<b>Income before income tax expense and minority interest</b>	<b>157,899,053</b>	<b>117,509,168</b>
Income tax expense (note 19)	30,419,779	15,654,513
<b>Income before minority interest</b>	<b>127,479,274</b>	<b>101,854,655</b>
Minority interest	5,410,919	9,646,558
<b>Net income</b>	<b>US\$ 122,068,355</b>	<b>92,208,097</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, 2006 and 2005

	<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, 2004	US\$ 78,947,000	13,160,541	247,033,683	(41,921,748)	297,219,476
Cash dividends	0	0	(17,300,000)	0	(17,300,000)
Capitalization due to acquisition of minority interes	0	21,457,713	0	0	21,457,713
Comprehensive income:					
Net income	0	0	92,208,097	0	92,208,097
Other comprehensive income (loss) (note 20):					
Foreign currency translation	0	0	0	(10,428,841)	(10,428,841)
Changes in unrealized gain (loss) or securities available for sale, ne	0	0	0	(1,325,584)	(1,325,584)
Comprehensive income					<u>80,453,672</u>
<b>Balance as of December 31, 2005</b>	<u>78,947,000</u>	<u>34,618,254</u>	<u>321,941,780</u>	<u>(53,676,173)</u>	<u>381,830,861</u>
Cash 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) (note 20):					
Foreign currency translation	0	0	0	(6,953,417)	(6,953,417)
Changes in unrealized gain (loss) or securities available for sale, ne	0	0	0	992,795	992,795
Comprehensive income					<u>116,107,733</u>
<b>Balance as of December 31, 2006</b>	<u>US\$ 78,947,000</u>	<u>34,618,254</u>	<u>407,435,135</u>	<u>(59,636,795)</u>	<u>461,363,594</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net income	US\$ 122,068,355	92,208,097
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses:	53,738,816	34,831,247
Impairment loss on foreclosed asset:	215,169	473,604
Provision for (reversal of) losses on off-balance sheet items:	(141,949)	97,667
Provision for claims receivable for unreturned securities, net of reversals:	480,248	5,602,436
Depreciation and amortization of property and equipment:	21,705,389	18,885,272
Amortization of intangible assets:	628,360	774,302
Net gain on trading securities:	(149,838)	(141,792)
Net decrease (increase) in trading securities:	1,471,996	(5,215,833)
Net gain on sale of securities available for sale:	(6,636,455)	(1,849,243)
Valuation allowance on retained interests on securitized assets:	0	372,014
Net gain on sale of property and equipment:	(796,525)	(25,057)
Amortization of deferred loan fees and costs:	(9,505,876)	(5,133,253)
Deferred taxes:	3,291,083	(4,245,228)
Equity participation in unconsolidated entities:	(463,157)	(550,211)
Minority interests:	5,410,919	9,646,558
Increase in accrued interest receivable:	(4,532,386)	(2,757,387)
Increase in other accounts receivable:	(16,362,505)	(14,473,776)
(Increase) decrease in other assets:	(11,796,765)	1,535,013
Increase in accrued interest payable:	6,188,015	6,788,722
Increase in other liabilities:	59,991,956	39,083,572
<b>Net cash provided by operating activities</b>	<u>224,804,850</u>	<u>175,906,724</u>
Cash flows from investing activities		
Net (Increase) decrease in deposits placed with original maturity over 90 days:	(14,804,202)	17,784,051
Proceeds from sale of securities available for sale:	142,753,902	146,253,606
Maturities, prepayment and calls of securities available for sale:	302,441,245	176,020,174
Purchases of securities available for sale:	(409,216,391)	(358,118,526)
Maturities, prepayment and calls of securities held to maturity:	973,270	4,000,000
Purchases of securities held to maturity:	(35,465)	(1,161,945)
Proceeds from sale of investment in subsidiary (note 3):	0	487,545
Proceeds from sale of investment in unconsolidated entities:	0	415,360
Dividends received from unconsolidated entities, net of advances:	254,033	261,798
Net increase in loans:	(779,818,110)	(569,408,420)
Purchases of property and equipment:	(34,957,196)	(45,820,682)
Proceeds from sale of property and equipment:	3,526,734	2,148,006
<b>Net cash used in investing activities</b>	<u>(788,882,180)</u>	<u>(627,139,033)</u>
Cash flows from financing activities		
Net proceeds from deposits received:	599,240,162	570,628,731
Net proceeds from other borrowed funds:	18,636,824	31,675,566
Net increase in securities sold under agreements to repurchase:	25,967,939	7,294,814
Proceeds from borrowings:	1,301,407,419	1,171,344,898
Repayment of borrowings:	(1,156,452,708)	(1,150,099,291)
Distributions to minority interests:	(20,222)	(2,417,876)
Dividends paid:	(36,575,000)	(17,300,000)
<b>Net cash provided by financing activities</b>	<u>752,204,414</u>	<u>611,126,842</u>
Effect of exchange rate fluctuations on cash held:	(17,339,891)	(22,601,931)
Net decrease in cash and cash equivalents:	170,787,193	137,292,602
Cash and cash equivalents at beginning of the year:	670,545,262	533,252,660
<b>Cash and cash equivalents at end of year</b>	<u>US\$ 841,332,455</u>	<u>670,545,262</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year:	US\$ 133,484,562	91,228,863
Cash paid for income taxes during the year:	US\$ 24,596,335	17,666,142
Supplemental disclosures of noncash investing and financing activities:		
Change in unrealized gain (loss) on securities available for sale, net:	US\$ 992,795	(1,325,584)
Transfer of claims receivable for unreturned securities:	US\$ 0	16,006,960
Properties acquired in settlement of loan:	US\$ 3,342,426	4,888,596
Capitalization through acquisition of minority interest (note 3):	US\$ 0	21,457,713
Lease financing arrangement entered into for acquisition of equipment:	US\$ 0	8,126,800

See accompanying notes to consolidated financial statements:

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

December 31, 2006 and 2005

---

### (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"), BAC Bank, Inc., 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.

As part of the sale of 49.99% ownership in the Bank by BAC Credomatic Holding Co., Ltd. (BAC-COM, the Ultimate Parent Company) to GE Consumer Finance Central Holdings Co. (a subsidiary of General Electric Company), BAC-COM conducted a reorganization of its subsidiaries and acquired participations from minority interest in some countries, mainly in Central America, which were subsequently contributed to its subsidiaries as capitalization. As part of that transaction, on September 30, 2005, BAC International Bank, Inc. was capitalized by Parent Company for an amount of US\$21,457,713, which represents the carrying value of the minority interest acquired.

On March 31, 2005, BAC Cayman spun-off its wholly-owned subsidiary to BAC Credomatic Holding Company, Ltd. This transaction has been accounted for as a reorganization of entities under common control, at the carrying value of the net assets transferred; consequently, no gain resulted from such transaction.

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 US dollars.

### (2) Summary of Significant Accounting Policies

The accounting policies of BAC International Bank, Inc. and its subsidiaries conform to US generally accepted accounting principles ("US GAAP") and to predominant practices within the banking 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 with operations in various Central American countries, Mexico and Florida, United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation. 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.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

---

(b) *Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated balance sheets and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the future relate to the determination of the allowances for loan losses and losses on off-balance sheet items.

(c) *Cash and Cash Equivalents*

For the purposes of the consolidated statements of cash flows, cash and cash equivalents represent those amounts that are included in cash and due from banks. Cash and due from banks include cash, due from banks, certain securities, and term interest-bearing deposits with original maturities of three months or less.

(d) *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 related tax effects, if any, on available-for-sale securities are excluded from earnings and reported as a component of other comprehensive income in stockholder's equity until realized.

Realized gains and losses from the sale of securities are recorded on a trade-date basis and determined on a specific-identification basis.

Purchase premiums and discounts are recognized in interest income over the term of the security using a method that approximates the interest method. Interest income on securities is recognized when earned.

The estimated fair value of a security is determined on current quotations, when available. When current quotations are not available, the estimated fair value is determined based primarily on discounted future cash flows and the credit capacity of the issuer.

A decline in the fair value of any held-to-maturity or available-for-sale securities below cost that is deemed other than temporary results in a reduction of the carrying amount to fair value. The impairment is recorded as a realized loss and a new cost basis for the security is established.

(e) *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.

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

**Notes to Consolidated Financial Statements**

---

(f) *Loans*

Loans are stated at their outstanding unpaid principal balances adjusted for unearned income, deferred loan fees and costs and allowance for loan losses. Interest income on loans is recognized as earned based upon the principal amounts outstanding. 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 contractually past due by 90 days or more with respect to interest or principal, or in the case of credit card receivables when the account is assigned to legal status, usually after 120 days. 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. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Bank charges off loans when collectibility of principal is not probable.

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 a deterioration in the borrower's financial condition. Interest on these loans is accrued at the renegotiated rates.

(g) *Allowance for Loan Losses*

The allowance for loan losses represents the amount, which, in management's judgment, will be adequate to absorb inherent losses of the existing loan portfolio. 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. Management believes that the allowance for loan losses is adequate.

The allowance for the portfolio of smaller-balance, homogeneous loans is established based on estimates of probable losses inherent in the portfolio, according to various statistical analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analysis that reflects current trends and conditions. It is the Bank's policy to fully reserve all credit card receivable balances over 150 days past due.

Specific allowances are provided in the event that the specific analysis on each classified loan, other than those included in large groups of smaller-balance homogenous loans, indicates that the loan is impaired as it is probable that the Bank will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate or the fair value of the collateral of a collateral dependent loan. Collateral dependent loans are those loans for which the repayment of the loan is to be provided solely by the underlying collateral. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

---

(h) *Foreclosed Assets*

Assets acquired through, or in lieu of, loans foreclosure are held for sale and are initially recorded at the lower of the outstanding loan balance or net realizable value 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 are included in other operating expenses.

(i) *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.

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 value 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.

(j) *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 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.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

---

(k) *Goodwill and Intangible Assets*

Goodwill including previously existing goodwill and intangible assets with indefinite useful lives are not being amortized but rather tested for impairment at least annually. Intangible assets with a definite useful life continue to be amortized through their useful lives.

All recorded goodwill must be assigned to one or more reporting units of the entity and evaluated for impairment at that level. Impairment testing requires that the fair value of each reporting unit be compared to its carrying amount, including the goodwill.

Goodwill, representing the excess of purchase price over the fair value of net assets acquired, results from purchase acquisitions made by the Bank.

(l) *Impairment or Disposal of Long-Lived Assets*

The Bank evaluates its long-lived assets and certain identifiable amortizable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying value or fair value less costs to sell.

(m) *Repurchase Agreements*

The Bank sells securities under agreements to repurchase ("repurchase agreements") substantially identical securities. Repurchase agreements are accounted for as secured borrowing transactions.

The amounts borrowed under repurchase agreements are carried on the consolidated balance sheets at the amount borrowed. Interest incurred on repurchase agreements is reported as interest expense. Securities underlying the repurchase agreements remain on the asset accounts but under custody of a third party guaranteeing these transactions. The market value of securities subject to repurchase agreements are regularly monitored to ensure appropriate collateral coverage of these secured financing transactions.

(n) *Loan Fees*

Non refundable fees and related direct costs associated with the origination of loans are deferred and netted against loan balances. The amortization of net deferred fees and costs is recognized in interest income, generally by the interest method, based on the contractual live of the related loans. Nonrefundable fees related to lending activities other than direct loan origination are recognized as other revenues over the period in which the related service is provided. Other credit-related fees, such as standby letter of credit fees, are recognized as other operating income over the period the related service is performed.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

---

(o) *Credit Card Revenue*

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.

(p) *Derivative Financial Instruments*

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

Interest rate swaps are contracts that represent an exchange of US dollar interest payment streams based on an agreed-upon notional principal amount, with one stream based on a specified floating rate or fixed rate. These financial instruments 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 as adjustments to interest.

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.

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.

(q) *Deferred Income Tax*

The Bank uses the asset and liability method of accounting for deferred 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

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

---

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.

(r) *Foreign Currency*

The Bank operates through a number of entities in various countries in Central America, Mexico and the United States of America. The local currency of these countries is the functional currency of the entities.

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.

The financial statements of subsidiaries where the local currency is considered as the functional currency are translated to US dollars using (i) exchanges rates prevailing at balance sheet date for assets and liabilities, and (ii) average exchange rates for the year for revenue and expenses. Adjustments resulting from the translation of these financial statements into US dollars are included as a component of other comprehensive income (loss) in stockholder's equity.

(s) *Reclassifications*

Certain amounts in the 2005 consolidated financial statements have been reclassified to conform to the 2006 consolidated financial statement presentation.

**(3) Reorganization**

The following table summarizes the carrying value of the assets and liabilities of subsidiaries sold to Parent Company, as a result of the reorganization discussed in note 1:

Interest-bearing deposits	US\$	10,000
Property and equipment, net		127,366
Other assets		350,916
Other liabilities		<u>(737)</u>
Cash received, net of cash paid	US\$	<u>487,545</u>

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

**Notes to Consolidated Financial Statements**

**(4) 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, 2006 and 2005 and for the years then ended:

		<u>2006</u>	<u>2005</u>
<b>Assets:</b>			
Due from banks	US\$	40,962,777	44,132,050
Interest-bearing deposits		10,818,496	11,807,489
Securities available for sale		11,822,217	19,717,879
Loans receivable		75,239,449	84,013,441
Accrued interest and other receivables		<u>591,656</u>	<u>721,717</u>
		<u>139,434,595</u>	<u>160,392,576</u>
<b>Liabilities:</b>			
Demand deposits		49,985,692	31,400,708
Time deposits		75,374,379	72,638,252
Borrowings		9,977,242	296,359
Accrued interest and other liabilities		<u>4,827,717</u>	<u>983,611</u>
		<u>140,165,030</u>	<u>105,318,930</u>
Net (liabilities) assets due from related parties	US\$	<u>(730,435)</u>	<u>55,073,646</u>
Interest and other operating income	US\$	<u>9,026,638</u>	<u>8,794,897</u>
Interest and other operating expenses	US\$	<u>4,594,806</u>	<u>2,917,883</u>

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

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

At December 31, 2006 and 2005, cash and due from banks aggregating US\$439,246,995 and US\$336,364,347, respectively, are placed at Central Banks in Central American countries to cover legal liquidity reserve requirements.

At December 31, 2006 and 2005, interest-bearing deposits amounting to US\$22,681,029 and US\$12,080,883, respectively, are placed as legal liquidity or to guarantee borrowings and other credit facilities.

**(6) Trading Securities**

At December 31, 2006 and 2005, trading securities, consist of government bonds amounting to US\$3,702,712 and US\$5,215,833, respectively.

Net gains on security trading activities included in earnings for the years ended December 31, 2006 and 2005 amount to US\$149,838 and US\$141,792, respectively, including unrealized holding gains (losses) on trading securities for US\$23,051 and (US\$5,877), respectively.

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

**Notes to Consolidated Financial Statements**

**(7) 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, 2006 and 2005 is as follows:

		<b>2006</b>			
		<b>Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Gross Unrealized Holding Losses</b>	<b>Fair Value</b>
Government bonds and agencies:					
United States of America	US\$	106,869,255	11,124	(129,105)	106,751,274
Guatemala		25,177,471	40,029	(1,663)	25,215,837
El Salvador		29,104,397	209,477	(17,831)	29,296,043
Nicaragua		1,327,576	336,841	(60,392)	1,604,025
Costa Rica		74,032,430	1,122,308	(15,978)	75,138,760
Panama		25,112,381	1,497	(82,569)	25,031,309
		<u>261,623,510</u>	<u>1,721,276</u>	<u>(307,538)</u>	<u>263,037,248</u>
Corporate debentures:					
United States of America		2,001,590	610	0	2,002,200
Costa Rica		97,553	2,375	0	99,928
Panama		1,000,000	0	(1,843)	998,157
France		2,000,000	0	(350,600)	1,649,400
		<u>5,099,143</u>	<u>2,985</u>	<u>(352,443)</u>	<u>4,749,685</u>
Mortgage-backed securities – Costa Rica					
		<u>5,798,988</u>	<u>216,524</u>	<u>0</u>	<u>6,015,512</u>
Retained interests on securitization of mortgages – Costa Rica					
		<u>4,572,409</u>	<u>0</u>	<u>0</u>	<u>4,572,409</u>
Mutual funds:					
United States of America		2,471,963	0	0	2,471,963
Costa Rica		2,027,110	19,730	0	2,046,840
Panama		10,000,000	0	(224,623)	9,775,377
		<u>14,499,073</u>	<u>19,730</u>	<u>(224,623)</u>	<u>14,294,180</u>
Other securities:					
Costa Rica		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>

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

**Notes to Consolidated Financial Statements**

		2005			
		<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>
Government and agency securities:					
United States of America	US\$	109,271,010	12,803	(397,066)	108,886,747
Guatemala		39,990,791	770,650	(233,489)	40,527,952
El Salvador		30,913,366	84,331	(78,519)	30,919,178
Nicaragua		27,573,747	257,844	(57,241)	27,774,350
Costa Rica		53,398,311	308,334	(146,289)	53,560,356
Panama		<u>17,535,027</u>	<u>39,329</u>	<u>(36,115)</u>	<u>17,538,241</u>
		<u>278,682,252</u>	<u>1,473,291</u>	<u>(948,719)</u>	<u>279,206,824</u>
Corporate debentures:					
United States of America		8,008,403	0	(30,995)	7,977,408
El Salvador		1,487,700	322	(13,880)	1,474,142
Costa Rica		257,233	0	0	257,233
		1,000,000	0		990,000
Panama				(10,000)	
France		<u>2,000,000</u>	<u>0</u>	<u>(396,000)</u>	<u>1,604,000</u>
		<u>12,753,336</u>	<u>322</u>	<u>(450,875)</u>	<u>12,302,783</u>
Mortgage-backed securities – Costa Rica					
		<u>5,752,659</u>	<u>111,166</u>	<u>0</u>	<u>5,863,825</u>
Retained interests on securitization of mortgages – Costa Rica					
		<u>4,572,409</u>	<u>0</u>	<u>0</u>	<u>4,572,409</u>
Mutual funds:					
United States of America		2,559,332	0	0	2,559,332
Costa Rica		10,018,881	0	(67,525)	9,951,356
Panama		<u>10,000,000</u>	<u>0</u>	<u>(303,476)</u>	<u>9,696,524</u>
		<u>22,578,213</u>	<u>0</u>	<u>(371,001)</u>	<u>22,207,212</u>
	US\$	<u>324,338,869</u>	<u>1,584,779</u>	<u>(1,770,595)</u>	<u>324,153,053</u>

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

**Notes to Consolidated Financial Statements**

A summary of securities available for sale as of December 31, 2006 and 2005, 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.

		<u>2006</u>		<u>2005</u>	
		<u>Amortized</u>	<u>Fair Value</u>	<u>Amortized</u>	<u>Fair Value</u>
		<u>Cost</u>		<u>Cost</u>	<u>Fair Value</u>
Government and agency securities:					
Due within one year	US\$	102,891,594	102,924,015	130,651,562	130,641,281
Due after one year but within five years		110,782,485	111,677,511	80,188,585	80,324,238
Due after five years but within ten years		36,079,607	36,433,652	58,596,911	58,953,001
Due after ten years		<u>11,869,824</u>	<u>12,002,070</u>	<u>9,245,194</u>	<u>9,288,304</u>
		<u>261,623,510</u>	<u>263,037,248</u>	<u>278,682,252</u>	<u>279,206,824</u>
Corporate debentures:					
Due within one year		1,045,502	1,043,811	7,105,423	7,065,745
Due after one year but within five years		4,053,641	3,705,874	3,647,913	3,633,038
Due after five years but within ten years		<u>0</u>	<u>0</u>	<u>2,000,000</u>	<u>1,604,000</u>
		<u>5,099,143</u>	<u>4,749,685</u>	<u>12,753,336</u>	<u>12,302,783</u>
Mortgage-backed securities:					
Due after ten years		<u>5,798,988</u>	<u>6,015,512</u>	<u>5,752,659</u>	<u>5,863,825</u>
Retained interests on securitization of mortgages:					
Due after ten years		<u>4,572,409</u>	<u>4,572,409</u>	<u>4,572,409</u>	<u>4,572,409</u>
Mutual funds, without maturity		<u>14,499,073</u>	<u>14,294,180</u>	<u>22,578,213</u>	<u>22,207,212</u>
Other:					
Without maturity		19,397	30,006	0	0
	US\$	<u>291,612,520</u>	<u>292,699,040</u>	<u>324,338,869</u>	<u>324,153,053</u>

At December 31, 2006 and 2005, securities with a carrying value of US\$46,662,186 and US\$26,845,997, respectively, were pledged to secure borrowings and repurchase agreements.

During the year ended December 31, 2005, the Bank recognized an increase to the valuation allowance on retained interests on securitization of mortgages for an amount of US\$372,014.

For the years ended December 31, 2006 and 2005, proceeds from sale of securities available for sale amounted to US\$142,753,902 and US\$146,253,606, respectively. Gross realized gains amounted to US\$6,937,646 and US\$2,482,869 for 2006 and 2005, respectively. Gross realized losses amounted to US\$301,191 and US\$633,626 for 2006 and 2005, 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, 2006, were as follows:

Description of securities		<u>2006</u>					
		<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
		<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
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>

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

**Notes to Consolidated Financial Statements**

Description of securities	2005					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and agency securities	US\$ 87,466,483	(564,387)	39,536,311	(384,332)	127,002,794	(948,719)
Corporate debentures	4,365,805	(24,875)	2,574,000	(426,000)	6,939,805	(450,875)
Mutual funds	<u>9,951,356</u>	<u>(67,525)</u>	<u>9,696,524</u>	<u>(303,476)</u>	<u>19,647,880</u>	<u>(371,001)</u>
<b>Total</b>	US\$ <u>101,783,644</u>	<u>(656,787)</u>	<u>51,806,835</u>	<u>(1,113,808)</u>	<u>153,590,479</u>	<u>(1,770,595)</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.

**(8) Securities Held to Maturity**

The amortized cost and fair value of securities held to maturity as of December 31, 2006 and 2005 is as follows:

		2006		2005	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value
Government bonds:					
Costa Rica	US\$	0	0	966,650	963,668
Corporate debentures:					
France		<u>4,983,517</u>	<u>4,294,800</u>	<u>4,977,517</u>	<u>4,193,300</u>
	US\$	<u>4,983,517</u>	<u>4,294,800</u>	<u>5,944,167</u>	<u>5,156,968</u>

As of December 31, 2006 and 2005 the gross unrealized losses amount to approximately US\$688,717 and US\$787,199, 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 increases 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.

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

**Notes to Consolidated Financial Statements**

A summary of securities held to maturity as of December 31, 2006 and 2005, 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>2006</u>		<u>2005</u>	
		<u>Amortized</u>	<u>Fair</u>	<u>Amortized</u>	<u>Fair</u>
		<u>Cost</u>	<u>Value</u>	<u>Cost</u>	<u>Value</u>
Government bonds:					
Due within one year	US\$	0	0	377,095	374,113
Due after one year but within five years		<u>0</u>	<u>0</u>	<u>589,555</u>	<u>589,555</u>
		<u>0</u>	<u>0</u>	<u>966,650</u>	<u>963,668</u>
Corporate debentures:					
Due after one year but within five years		2,983,517	2,645,400	2,977,517	2,589,300
Due after five years but within ten years		<u>2,000,000</u>	<u>1,649,400</u>	<u>2,000,000</u>	<u>1,604,000</u>
		<u>4,983,517</u>	<u>4,294,800</u>	<u>4,977,517</u>	<u>4,193,300</u>
		<u>4,983,517</u>	<u>4,294,800</u>	<u>5,944,167</u>	<u>5,156,968</u>
	US\$				

**(9) Loans**

The composition of loans as December 31, 2006 and 2005 is as follows:

		<u>2006</u>	<u>2005</u>
Commercial, financial and industrial	US\$	747,423,213	612,933,110
Real estate – residential and for construction		593,683,304	361,224,437
Credit card		925,962,792	705,731,489
Vehicles financing		240,812,061	177,581,405
Other personal		192,111,839	113,607,043
Cash collateralized (back to back)		119,274,319	159,987,767
Leasing		48,393,028	25,697,021
Overdrafts		<u>16,455,056</u>	<u>13,791,877</u>
	US\$	<u>2,884,115,612</u>	<u>2,170,554,149</u>

At December 31, 2006 and 2005, the Bank had loans for US\$122,138,194 and US\$103,310,055, respectively, pledged to secure borrowings and other credit facilities.

At December 31, 2006 and 2005, the Bank's non-accruing loans amounted to US\$40,994,109 and US\$31,771,540. At December 31, 2006 and 2005, 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\$7,479,433 and US\$7,662,109 at December 31, 2006 and 2005, respectively.

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

**Notes to Consolidated Financial Statements**

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

		<u>2006</u>	<u>2005</u>
Impaired loans, all with a valuation allowance	US\$	<u>10,239,784</u>	<u>12,231,507</u>
Valuation allowance	US\$	<u>4,910,335</u>	<u>4,211,062</u>
Average recorded investment	US\$	<u>16,228,268</u>	<u>13,705,264</u>
Interest income recognized on a cash basis	US\$	<u>1,345,966</u>	<u>1,415,748</u>

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

**(10) Allowance for Loan Losses**

The changes in the allowance for loan losses during the years ended December 31, 2006 and 2005 are presented below:

		<u>2006</u>	<u>2005</u>
Balance, beginning of year	US\$	52,546,837	44,731,917
Provision for loan losses		53,738,816	34,831,247
Charge-offs		(48,999,468)	(36,556,186)
Recoveries		13,051,538	9,986,392
Foreign currency translation		<u>(529,259)</u>	<u>(446,533)</u>
Balance, end of year	US\$	<u>69,808,464</u>	<u>52,546,837</u>

**(11) Securitization of Mortgage Loans Held for Sale**

On August 2002, the Bank sold mortgage loans in a securitization transaction. The Bank retained the servicing responsibilities and subordinated interests. The Bank receives annual servicing fees approximating 1% of the outstanding balance and rights to future cash flows arising after the investors in the securitization trust have received the return for which they contracted. No servicing asset was recognized as the fee to be received is considered adequate compensation. The investors and the securitization trust have no recourse to the Bank's other assets for failure of debtors to pay when due. The Bank's retained interests are subordinated to investors' interests. Their value is subject to credit, prepayment, and interest rate risk on the transferred financial assets.

The fair value of the retained interests at December 31, 2006 and 2005 amounted to US\$4,572,409 (weighted average life of 1.07 years and 2.62 years, respectively). Such retained interests are included as available for sale securities. Furthermore, the Bank holds a liability for US\$4,987,756 relating to the clean up option on the securitization of the mortgage loans.

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

**Notes to Consolidated Financial Statements**

Key assumptions used for mortgage loans during the year ended December 31, 2006, in measuring the fair value of retained interests at the date of sale or securitization and at the end of the year follows:

	<u>Date of Securitization</u>	<u>Year - end</u>
Prepayment speed (%)	3	5.25
Weighted - average life (in years)	6.48	4.53
Expected credit losses (US\$)	0	0
Residual cash flows discounted at (%)	12	12
Variable returns to transferees	3-month LIBOR plus a spread of 0.95%	3-month LIBOR plus a spread of 0.95%

Cash flows received from securitization trust during the years ended December 31, 2006 and 2005 relating to servicing fees amounted US\$165,562 and US\$205,209, respectively.

**(12) Property and Equipment**

Property and equipment as of December 31, 2006 and 2005 are detailed as follows:

		<u>2006</u>	<u>2005</u>
Land	US\$	13,051,713	7,535,951
Buildings and improvements		52,419,868	47,490,835
Equipment, furniture and vehicles		153,278,501	148,455,086
Constructions in progress		<u>1,497,325</u>	<u>2,552,694</u>
		220,247,407	206,034,566
Less: accumulated depreciation and amortization		<u>(92,427,943)</u>	<u>(86,014,171)</u>
	US\$	<u>127,819,464</u>	<u>120,020,395</u>

**(13) Goodwill and Intangible Assets**

At December 31, 2006 and 2005, a detail of goodwill allocation related to the Bank's investments in various countries and intangible assets, which are included in other assets, follows:

		<u>2006</u>	<u>2005</u>
Goodwill:			
Costa Rica	US\$	1,017,381	1,017,381
Nicaragua		843,761	843,761
El Salvador		<u>771,606</u>	<u>771,606</u>
		2,632,748	2,632,748
Core deposit intangible subject to amortization –			
Costa Rica		<u>0</u>	<u>637,627</u>
	US\$	<u>2,632,748</u>	<u>3,270,375</u>

**(14) Deposits**

As of December 31, 2006 and 2005, the Bank held US\$1,014,318,975 and US\$787,565,586 respectively, of time deposits with principal balances of US\$100,000 and over.

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

**Notes to Consolidated Financial Statements**

Scheduled maturities of time deposits at December 31, 2006 are as follows:

<u>Year ending December 31,</u>	
2007	US\$ 1,166,375,452
2008	38,934,457
2009	15,512,896
2010	6,450,102
2011	2,001,530
Thereafter	<u>3,997,818</u>
	US\$ <u><u>1,233,272,255</u></u>

**(15) 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, 2006 and 2005:

		<u>2006</u>	<u>2005</u>
Carrying amount at end of year	US\$	<u>35,863,334</u>	<u>23,863,176</u>
Maximum amount outstanding at any month end	US\$	<u>49,925,024</u>	<u>39,825,842</u>
Average amount outstanding during the year	US\$	<u>38,094,779</u>	<u>26,089,213</u>
Weighted average interest rate for the year		<u>7.76%</u>	<u>5.44%</u>
Weighted average interest rate at end of year		<u>6.59%</u>	<u>8.19%</u>

**(16) Borrowings**

Borrowings at December 31, 2006 and 2005 consist of the following:

	<u>2006</u>		
	<u>Interest Rate</u>	<u>Maturity Various Through</u>	<u>Carrying Amount</u>
Payable in U.S. dollars (United States of America):			
Fixed rate	3.23% to 10.75%	2025	US\$ 96,823,062
Floating rate	3.25% to 13.50%	2016	347,929,075
Payable in Mexican Pesos (Mexico):			
Floating rate	7.84% to 8.88%	2007	53,256,534
Payable in Quetzals (Guatemala):			
Floating rate	6.50% to 10.00%	2007	28,349,501
Payable in Lempiras (Honduras):			
Floating rate	7.00% to 15.00%	2034	2,306,381
Payable in Cordobas (Nicaragua):			
Fixed rate	5.00% to 6.53%	2019	973,690
Payable in Colones (Costa Rica):			
Fixed rate	17.00%	2007	1,445,857
Floating rate	9.00% to 15.25%	2010	<u>15,626,773</u>
			US\$ <u><u>546,710,873</u></u>

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

**Notes to Consolidated Financial Statements**

	<u>Interest Rate</u>	<u>2005 Maturity Various Through</u>	<u>Carrying Amount</u>
Payable in U. S. dollars (United States of America):			
Fixed rate	2.86% to 10.75%	2025	US\$ 24,706,925
Floating rate	2.75% to 12.62%	2015	320,692,184
Payable in Mexican Pesos (Mexico):			
Floating rate	9.20% to 11.51%	2006	15,505,700
Payable in Quetzals (Guatemala):			
Floating rate	7.25% to 10.00%	2006	28,868,780
Payable in Lempiras (Honduras):			
Fixed rate	7.50% to 18.00%	2006	21,542
Floating rate	7.00% to 13.00%	2034	2,237,637
Payable in Cordobas (Nicaragua):			
Fixed rate	5.00% to 6.53%	2010	1,091,558
Floating rate	9.17%	2006	15,600
Payable in Colones (Costa Rica):			
Fixed rate	17.00%	2006	1,271,090
Floating rate	12.20% to 16.36%	2010	14,812,738
			US\$ <u>409,223,754</u>

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 issue additional certificates for US\$275 million which increases the total amount under the program to US\$400 million due December 31, 2012. As of December 31, 2006 and 2005, the amount outstanding under this program aggregated US\$74,504,812 and US\$107,004,812, respectively. The certificates are issued and managed by CIC Receivables Master Trust for the benefit of the certificate holders. The Master Trust currently holds an '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 financial guarantee insurance policies provided by Ambac Assurance Corp. and XL Capital Assurance, Inc. (both are insurance companies holding a 'AAA' financial strength rating from Standard & Poor's) which guarantee 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 (7.38% and 6.59% at December 31, 2006 and 2005, respectively). In accordance with the provisions of the amendment, principal amortization amounts will be paid to certificate holders beginning on April 4, 2008. The certificates have original duration of 4.43 years. The certificates currently have a weighted average duration of 3.93 years as amended.

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

**Notes to Consolidated Financial Statements**

At December 31, 2006 and 2005, secured borrowings amounted to US\$225,499,721 and US\$226,167,336, respectively, including the amount outstanding under the CIC Receivables Master Trust.

As of December 31, 2006, secured borrowings include a lease financing arrangement for acquisition of an aircraft. The lease, with an aggregate outstanding balance of US\$7,007,178, calls for monthly advance installments of US\$94,912, including interest, to be paid through January 1, 2015.

At December 31, 2006, the Bank had approximately US\$644,001,256 available in unused lines of credit that expire through 2012, including the unfunded portion of the CIC Receivables Master Trust of US\$325,495,188.

Scheduled maturities of borrowings at December 31, 2006, are as follows:

<u>Year ending December 31,</u>			
2007		US\$	276,566,641
2008			106,912,359
2009			58,853,060
2010			28,878,496
2011			28,699,284
Thereafter			<u>46,801,033</u>
		US\$	<u>546,710,873</u>

**(17) Other Borrowed Funds**

Carrying amount of other borrowed funds at December 31, 2006 and 2005 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 are detailed as follows:

<u>Payable in:</u>	<u>Interest Rate</u>		<u>2006</u>	<u>2005</u>
US dollars	5.36% to 8.61%	US\$	48,641,426	35,000,000
Quetzals	7.49% to 8.75%		52,036,150	42,924,886
Colones	13.50% to 18.32%		<u>29,611,204</u>	<u>35,060,458</u>
		US\$	<u>130,288,780</u>	<u>112,985,344</u>

Scheduled maturities of other borrowed funds at December 31, 2006 are as follows:

<u>Year ending December 31,</u>			
2007		US\$	60,249,420
2008			8,000,000
2009			12,715,512
2010			24,843,256
2011			8,500,000
Thereafter			<u>15,980,592</u>
		US\$	<u>130,288,780</u>

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

**Notes to Consolidated Financial Statements**

At December 31, 2006 and 2005, the Bank had loans receivable for US\$59,285,100 and US\$44,156,116, respectively, pledged to secure these other borrowed funds.

**(18) Other Operating Expenses**

The following table sets forth the components of other operating expenses for the years ended December 31, 2006 and 2005:

		<u>2006</u>	<u>2005</u>
Advertising and loyalty programs	US\$	33,610,141	26,485,982
Communications		11,815,940	10,237,388
Office supplies		6,782,908	5,477,147
Maintenance		11,809,586	9,770,979
Credit card franchise and authorization fees		11,553,285	10,068,661
Taxes other than income tax		6,136,373	5,658,442
Processing fees		3,189,416	2,972,875
Deposit insurance		1,824,967	1,979,600
Security		3,062,816	2,749,287
Armored services		3,287,594	2,318,042
Travel expenses		4,174,314	2,855,410
Provision for claims receivable for unreturned securities		1,562,337	5,602,436
Other		<u>33,567,189</u>	<u>25,182,691</u>
	US\$	<u>132,376,866</u>	<u>111,358,940</u>

**(19) Income Taxes**

Income tax expense consists of:

		<u>2006</u>	<u>2005</u>
Current	US\$	26,803,912	19,899,741
Deferred		<u>3,615,867</u>	<u>(4,245,228)</u>
	US\$	<u>30,419,779</u>	<u>15,654,513</u>

Income tax expense was US\$30,419,779 and US\$15,654,513 for the years ended December 31, 2006 and 2005, 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>2006</u>	<u>2005</u>
Computed "expected" tax expense	US\$	47,369,716	35,252,750
Increase (decrease) in income taxes resulting from:			
Exempt and foreign source income		(21,493,414)	(23,806,583)
Tax incentives		(168,309)	321,231
Change in allowance		1,364,786	(3,564,206)
Nondeductible expenses		7,521,590	8,336,213
Foreign income taxes rate differential		<u>(4,174,590)</u>	<u>(884,892)</u>
Income tax expense	US\$	<u>30,419,779</u>	<u>15,654,513</u>

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

**Notes to Consolidated Financial Statements**

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, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Net operating tax loss carryforwards	US\$ 1,770,566	2,235,615
Allowance for loan losses	6,299,913	6,273,513
Deferred loan origination fees and costs	51,926	393,831
Accrued expenses	<u>1,521,442</u>	<u>1,246,253</u>
Gross deferred tax assets	9,643,847	10,149,212
Less-valuation allowance	<u>(4,526,207)</u>	<u>(3,161,421)</u>
Total deferred tax assets	5,117,640	6,987,791
Deferred tax liabilities:		
Net premises and equipment depreciation difference	(3,137,483)	(1,876,827)
Allowance for doubtful accounts	(485,060)	0
Unrealized gains on securities available for sale	<u>(324,784)</u>	<u>0</u>
Total deferred tax liabilities	<u>(3,947,327)</u>	<u>(1,876,827)</u>
Net deferred tax assets	US\$ <u>1,170,313</u>	<u>5,110,964</u>

The valuation allowance for deferred tax assets as of December 31, 2006 and 2005 was US\$4,526,207 and US\$3,161,421, respectively.

The net change in the total valuation allowance for the years ended December 31, 2006 and 2005 was an increase of US\$1,364,786 and a decrease of US\$3,564,206, 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, 2006, subsidiaries of the Bank have incurred in net operating tax loss carry forwards of US\$6,204,217 which are available to offset future taxable income of the applicable subsidiaries, if any, through 2015.

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

**Notes to Consolidated Financial Statements**

**(20) Other Comprehensive Loss**

The following table presents the components of and changes in accumulated other comprehensive loss for the years ended December 31, 2006 and 2005:

		<u>Foreign Currency Translation</u>	<u>Unrealized Net Gain (Loss) on Securities</u>	<u>Accumulated Other Comprehensive Loss</u>
Balances as of December 31, 2004	US\$	(42,921,699)	999,951	(41,921,748)
Current year changes		<u>(10,428,841)</u>	<u>(1,325,584)</u>	<u>(11,754,425)</u>
Balances as of December 31, 2005		(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	US\$	<u>(60,303,957)</u>	<u>667,162</u>	<u>(59,636,795)</u>

The following table presents details of other comprehensive income (loss) for the years ended December 31, 2006 and 2005:

		<u>2006</u>	<u>2005</u>
Foreign currency translation:			
Adjustment for the year	US\$	<u>(6,953,417)</u>	<u>(10,428,841)</u>
Unrealized gain on securities:			
Unrealized holding gains arising during the year, net of income tax expense.		7,629,250	523,659
Less: reclassification adjustments to net income for net gains realized		<u>(6,636,455)</u>	<u>(1,849,243)</u>
Change during year, net		<u>992,795</u>	<u>(1,325,584)</u>
Other comprehensive loss for the year	US\$	<u>(5,960,622)</u>	<u>(11,754,425)</u>

**(21) 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

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

**Notes to Consolidated Financial Statements**

customer. At December 31, 2006 and 2005, the Bank had not entered into non-cancelable commitments to extend credit.

As of December 31, 2006 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\$160 million to US\$1,023 million (US\$52 million to US\$730 million in 2005). The unused portion of the total amount available in each country, aggregated approximately from US\$89 million to US\$800 million (US\$37 million to US\$637 million in 2005). 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.

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, 2006 and 2005 outstanding letters of credit and financial guarantees are as follows:

		<u>2006</u>	<u>2005</u>
Letters of credit	US\$	59,018,876	43,332,600
Financial guarantees		<u>104,075,325</u>	<u>56,887,944</u>
	US\$	<u>163,094,201</u>	<u>100,220,544</u>

The nature, terms and maximum potential amount of future payments the Bank could be required to make under the letters of credit and guarantees as of December 31, 2006 and 2005, are detailed as follows:

		<u>2006</u>	<u>2005</u>
Up to 1 year	US\$	147,089,973	86,105,767
Over 1 year		<u>16,004,228</u>	<u>14,114,777</u>
	US\$	<u>163,094,201</u>	<u>100,220,544</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, 2006 and 2005, amounted to US\$12,485,962 and US\$19,422,029, respectively.

The fair value of the letters of credit and guarantees as of December 31, 2006 and 2005 are of US\$969,509 and US\$569,954.

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

**Notes to Consolidated Financial Statements**

**(22) Derivative Financial Instruments**

The Bank follows the Statement of Financial Accounting Standards No. 133 (SFAS 133) related to the accounting of financial instruments that are considered to be derivatives, which requires that these financial instruments be recorded on the consolidated balance sheets at their fair value (included in other liabilities). For control purposes, these financial instruments are recorded at their nominal amount ("notional amount") on memoranda accounts.

In the normal course of business, the Bank uses interest rate derivatives primarily for hedging purposes in its consolidated balance sheets 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.

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 client's maximum loss on a cap transaction is the premium.

The following table provides quantitative information on derivative financial instruments outstanding at December 31, 2006 and 2005:

		2006			2005	
		Notional Amount	Fair Value		Notional Amount	Fair Value Liability
			Assets	Liability		
Freestanding:						
Interest rate swaps	US\$	35,000,000	0	540,873	7,000,000	102,620
Interest rate cap						
		<u>7,000,000</u>	<u>30,345</u>	<u>0</u>	<u>0</u>	<u>0</u>
	US\$	<u>42,000,000</u>	<u>30,345</u>	<u>540,873</u>	<u>7,000,000</u>	<u>102,620</u>

**(23) Concentration of Credit Risk**

Concentrations of credit risk arise when changes in economic, industry or geographic factors similarly affect a group of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank's loan portfolio is concentrated in the credit card business, which at December 31, 2006 and 2005, accounts for approximately 32% and 33% of total loans, respectively. 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, Guatemala and El Salvador.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

---

### (24) 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 rates 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 due from banks, interest-bearing deposits with banks, accrued interest receivable and costumers' liabilities under acceptances, as well as certain financial liabilities, including securities sold under agreements to repurchase, accrued interest payable, acceptances outstanding and other liabilities, approximate fair value due to the short term nature of the instruments.

#### (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. Available for sale securities are carried at fair value. Refer to notes 6, 7 and 8 for fair value information as of December 31, 2006 and 2005.

#### (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, 2006 and 2005 was approximately US\$2,794,634,551 and US\$2,103,296,978 (carrying value was of US\$2,795,811,338 and US\$2,101,805,413), respectively.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to Consolidated Financial Statements

---

(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, 2006 and 2005. 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, 2006 and 2005 was approximately US\$1,234,750,876 and US\$1,043,536,735 (carrying value of US\$1,233,272,255 and US\$1,043,982,706), 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, 2006 and 2005 was approximately US\$543,663,691 and US\$406,200,091 (carrying value of US\$546,710,873 and US\$409,223,754), respectively.

(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, 2006 and 2005 was approximately US\$131,588,669 and US\$113,055,281 (carrying value of US\$130,288,780 and US\$112,985,344), 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. The fair value of these financial instruments is not significant.

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

As of December 31, 2006 and 2005, several of the Bank's subsidiaries administer and are custodian of assets which amounted to approximately US\$338,345,000 and US\$310,049,000, respectively.

**(26) Contingencies**

During 2004, Tax Authorities of the Republic of Guatemala assessed certain of the Bank's Guatemalan subsidiaries an aggregate amount of approximately US\$3,300,000 in taxes, not including penalties and interest. Management of those subsidiaries filed appeals with the Tax Authorities. Through the date of this report, the Tax Authorities have revised their assessment to approximately US\$1,204,000, not including penalties and interest. Based on the opinions of tax and legal counsel, Management believes that the subsidiary companies' position will prevail with no material adverse effect on the Bank's consolidated financial position or consolidated results of operations.

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

**Notes to Consolidated Financial Statements**

---

On October 17, 2005, Refco, Inc. (hereafter "Refco") and many of its subsidiaries, including Refco Capital Markets, Ltd. (hereafter "RCM"), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. BAC International Bank, Inc. and one of its subsidiaries have custody accounts at RCM which, at the times referenced above, held securities with a carrying value of approximately US\$16 million. On November 18, 2005, the Bank filed claims against RCM in the New York Bankruptcy Court to recover its securities or its equivalent value. At December 31, 2006, the RCM claims are included in other accounts receivable, net of reserves, and amount to approximately US\$10.7 million.

**(27) Litigation**

To the best knowledge of management, the Bank is not engaged in any litigation, which is likely to have a material adverse effect on its business, consolidated financial position or consolidated results of operations.

**(28) Regulatory Matters**

The banking operations of the Bank are subject to various regulatory requirements administered by governmental agencies in the countries they operate. 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, 2006 and 2005 the Bank's banking operations were in compliance with such regulatory requirements.

**(29) Assertion on Internal Control Over Financial Reporting**

The Public Company Accounting Oversight Board Auditing Standard No.2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*, requires that management of a public entity must assess and report on the effectiveness of its internal control over financial reporting. The Bank is not a public entity and, consequently, Bank's management is not required to issue an assertion regarding its internal control over financial reporting.