

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

(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

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

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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, 2005 and 2004, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As stated in note 29, management is not required to issue an assertion regarding its internal control over financial reporting.

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, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG

January 23, 2006
Panama, Republic of Panama

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Balance Sheets

December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|---------------------------|----------------------|
| Assets | | |
| Cash and due from banks (notes 4 and 5) | US\$ 670,545,262 | 533,252,660 |
| Interest-bearing deposits (notes 4 and 5) | 14,761,008 | 34,835,093 |
| Trading securities (note 6) | 5,215,833 | 0 |
| Securities available for sale (notes 4 and 7) | 324,188,053 | 308,546,784 |
| Securities held to maturity (note 8) | 5,944,167 | 8,983,922 |
| Loans (notes 4 and 9) | 2,170,554,149 | 1,652,885,533 |
| Less: | | |
| Allowance for loan losses (note 10) | 52,546,837 | 44,731,917 |
| Unearned income and deferred loan fees and costs | 16,201,899 | 8,879,530 |
| Loans, net | <u>2,101,805,413</u> | <u>1,599,274,086</u> |
| Property and equipment, net (note 12) | 119,642,627 | 90,207,815 |
| Investments in unconsolidated entities | 2,458,942 | 2,592,863 |
| Customers' liability on acceptances | 9,284,767 | 5,044,790 |
| Accrued interest receivable (note 4) | 12,731,217 | 10,372,062 |
| Other accounts receivable (notes 4 and 7) | 54,758,609 | 37,147,107 |
| Other assets (notes 9 and 13) | 34,867,504 | 34,505,938 |
| Total assets | <u>US\$ 3,356,203,402</u> | <u>2,664,763,120</u> |
| Liabilities and Stockholder's Equity | | |
| Deposits (note 4): | | |
| Demand | 957,283,025 | 785,466,562 |
| Savings | 260,199,826 | 235,532,279 |
| Time deposits (note 14) | 1,043,982,706 | 720,121,470 |
| Total deposits | <u>2,261,465,557</u> | <u>1,741,120,311</u> |
| Securities sold under agreements to repurchase (note 15) | 23,863,176 | 18,116,414 |
| Borrowings (notes 4 and 16) | 409,223,754 | 386,858,766 |
| Other borrowed funds (note 17) | 112,985,344 | 82,862,450 |
| Acceptances outstanding | 9,284,767 | 5,044,790 |
| Accrued interest payable (note 4) | 15,825,669 | 9,318,532 |
| Other liabilities (notes 4 and 11) | 124,144,936 | 91,465,426 |
| Total liabilities | <u>2,956,793,203</u> | <u>2,334,786,689</u> |
| Minority interest | 17,579,338 | 32,756,955 |
| 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 | 13,160,541 |
| Retained earnings | 321,941,780 | 247,033,683 |
| Accumulated other comprehensive loss (note 20) | (53,676,173) | (41,921,748) |
| Total stockholder's equity | <u>381,830,861</u> | <u>297,219,476</u> |
| Total liabilities and stockholder's equity | <u>US\$ 3,356,203,402</u> | <u>2,664,763,120</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, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|------------------------|--------------------|
| Interest income (note 4) : | | |
| Loans | US\$ 295,938,001 | 235,566,806 |
| Interest-bearing deposits | 9,754,834 | 5,118,148 |
| Trading securities | 143,189 | 0 |
| Securities available for sale | 19,389,506 | 19,375,583 |
| Securities held to maturity | 598,293 | 405,936 |
| Total interest income | <u>325,823,823</u> | <u>260,466,473</u> |
| Interest expense (note 4): | | |
| Deposits | 64,305,424 | 47,214,757 |
| Securities sold under agreements to repurchase | 2,255,161 | 2,522,611 |
| Borrowings and other borrowed funds | 31,175,415 | 20,205,094 |
| Total interest expense | <u>97,736,000</u> | <u>69,942,462</u> |
| Net interest income before provision for loan losses | <u>228,087,823</u> | <u>190,524,011</u> |
| Provision for loan losses (note 10) | 34,831,247 | 25,604,036 |
| Net interest income after provision for loan losses | <u>193,256,576</u> | <u>164,919,975</u> |
| Other income (expenses) (note 4): | | |
| Service charges | 77,726,580 | 60,211,310 |
| Commissions and other fees, net of commission expenses of US\$62,674,806 and US\$50,846,056, respectively | 70,146,894 | 59,279,036 |
| Credit card membership fees | 11,530,078 | 9,837,344 |
| Foreign currency gains, net | 17,901,887 | 16,186,242 |
| Net gain on trading securities (note 6) | 141,792 | 172,403 |
| Net gain on sale of securities available for sale (note 7) | 1,849,243 | 8,800,298 |
| Valuation allowance on retained interests on securitization (note 7) | (372,014) | (163,178) |
| Gain on sale of investment in unconsolidated entity | 0 | 3,101,576 |
| Other income | 13,042,411 | 11,871,766 |
| Total other income | <u>191,966,871</u> | <u>169,296,797</u> |
| Operating expenses (note 4): | | |
| Salaries and employee benefits | 108,620,680 | 90,448,901 |
| Depreciation and amortization | 19,659,574 | 17,812,161 |
| Administrative expenses | 12,902,280 | 9,670,313 |
| Occupancy and related expenses | 14,721,841 | 12,404,111 |
| Other operating expenses (note 18) | 111,809,904 | 90,361,606 |
| Total operating expenses | <u>267,714,279</u> | <u>220,697,092</u> |
| Income before income tax expense and minority interest | <u>117,509,168</u> | <u>113,519,680</u> |
| Income tax expense (note 19) | 15,654,513 | 15,519,030 |
| Income before minority interest | <u>101,854,655</u> | <u>98,000,650</u> |
| Minority interest | 9,646,558 | 10,197,072 |
| Net income | <u>US\$ 92,208,097</u> | <u>87,803,578</u> |

See accompanying notes to consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statements of Changes in Stockholder's Equity

Years ended December 31, 2005 and 2004

| | | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholder's Equity |
|---|------|-------------------------|---|------------------------------|---|---|
| Balance as of December 31, 2003 | US\$ | 78,947,000 | 13,160,541 | 189,430,105 | (30,039,000) | 251,498,646 |
| Cash dividends | | 0 | 0 | (30,200,000) | 0 | (30,200,000) |
| Comprehensive income: | | | | | | |
| Net income | | 0 | 0 | 87,803,578 | 0 | 87,803,578 |
| Other comprehensive income (loss) (note 20): | | | | | | |
| Foreign currency translation | | 0 | 0 | 0 | (8,187,154) | (8,187,154) |
| Changes in unrealized gain (loss) on securities available for sale, net | | 0 | 0 | 0 | (3,695,594) | (3,695,594) |
| Comprehensive income | | | | | | <u>75,920,830</u> |
| Balance as of December 31, 2004 | | <u>78,947,000</u> | <u>13,160,541</u> | <u>247,033,683</u> | <u>(41,921,748)</u> | <u>297,219,476</u> |
| Cash dividends | | 0 | 0 | (17,300,000) | 0 | (17,300,000) |
| Capitalization: | | | | | | |
| In acquisition of minority interest | | 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) on securities available for sale, net | | 0 | 0 | 0 | (1,325,584) | (1,325,584) |
| Comprehensive income | | | | | | <u>80,453,672</u> |
| Balance as of December 31, 2005 | US\$ | <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> |

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, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|-------------------------|----------------------|
| Cash flows from operating activities: | | |
| Net income | US\$ 92,208,097 | 87,803,578 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 34,831,247 | 25,604,036 |
| Impairment loss on foreclosed assets | 473,604 | 1,626,807 |
| Provision for losses on off-balance sheet items | 97,667 | 508,812 |
| Provision for claims receivable for unreturned securities | 5,602,436 | 0 |
| Depreciation and amortization of property and equipment | 18,885,272 | 16,987,051 |
| Amortization of intangible assets | 774,302 | 825,110 |
| Net gain on trading securities | (141,792) | (172,403) |
| Net (increase) decrease in trading securities | (5,215,833) | 7,877,824 |
| Net gain on sale of securities available for sale | (1,849,243) | (8,800,298) |
| Valuation allowance on retained interests on securitization | 372,014 | 163,178 |
| Net gain on sale of property | (25,057) | (1,082,704) |
| Amortization of deferred loan fees and costs | (5,133,253) | (4,148,941) |
| Deferred taxes | (4,245,228) | 361,077 |
| Gain on sale of investment in unconsolidated entity | 0 | (3,101,576) |
| Equity participation in unconsolidated entities | (550,211) | (577,907) |
| Minority interest | 9,646,558 | 10,197,072 |
| Increase in accrued interest receivable | (2,757,387) | (415,425) |
| Increase in other accounts receivable | (14,473,776) | (3,860,230) |
| Decrease (increase) in other assets | 1,535,013 | (5,848,124) |
| Increase in accrued interest payable | 6,788,722 | 698,244 |
| Increase in other liabilities | 39,083,572 | 8,305,125 |
| Net cash provided by operating activities | <u>175,906,724</u> | <u>132,950,306</u> |
| Cash flows from investing activities: | | |
| Net decrease in deposits placed with original maturity over 90 days | 17,784,051 | 3,985,097 |
| Proceeds from sale of securities available for sale | 146,253,606 | 324,798,951 |
| Maturities, prepayment and calls of securities available for sale | 176,020,174 | 117,342,584 |
| Purchases of securities available for sale | (358,118,526) | (422,730,405) |
| Maturities, prepayment and calls of securities held to maturity | 4,000,000 | 0 |
| Purchases of securities held to maturity | (1,161,945) | (4,970,000) |
| Proceeds from sale of investment in subsidiaries (note 3) | 487,545 | 0 |
| Proceeds from sale of investment in unconsolidated entity | 415,360 | 4,890,834 |
| Dividends received from unconsolidated entities, net of advances | 261,798 | 212,055 |
| Net increase in loans | (569,408,420) | (366,541,236) |
| Purchases of property and equipment | (45,820,682) | (22,093,730) |
| Proceeds from sale of property and equipment | 2,148,006 | 4,480,554 |
| Net cash used in investing activities | <u>(627,139,033)</u> | <u>(360,625,296)</u> |
| Cash flows from financing activities: | | |
| Net increase in deposits received | 570,628,731 | 295,754,958 |
| Net increase in other borrowed funds | 31,675,566 | 19,786,837 |
| Net increase (decrease) in securities sold under agreements to repurchase | 7,294,814 | (5,177,429) |
| Proceeds from borrowings | 1,171,344,898 | 1,089,346,940 |
| Repayment of borrowings | (1,150,099,291) | (1,014,002,731) |
| Distributions to minority interest | (2,417,876) | (4,825,946) |
| Dividends paid | (17,300,000) | (30,200,000) |
| Net cash provided by financing activities | <u>611,126,842</u> | <u>350,682,629</u> |
| Effect of exchange rate fluctuations on cash held | <u>(22,601,931)</u> | <u>(21,168,109)</u> |
| Net increase in cash and cash equivalents | 137,292,602 | 101,839,530 |
| Cash and cash equivalents at beginning of the year | 533,252,660 | 431,413,130 |
| Cash and cash equivalents at end of year | <u>US\$ 670,545,262</u> | <u>533,252,660</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest during the year | US\$ <u>91,228,863</u> | <u>69,432,769</u> |
| Cash paid for income taxes during the year | US\$ <u>17,666,142</u> | <u>13,608,244</u> |
| Supplemental disclosure of noncash investing and financing activities: | | |
| Change in unrealized gain (loss) on securities available for sale, net | US\$ <u>(1,325,584)</u> | <u>(3,695,594)</u> |
| Claims receivable for unreturned securities (note 7) | US\$ <u>16,006,960</u> | <u>0</u> |
| Properties acquired in settlement of loans | US\$ <u>4,888,596</u> | <u>5,867,657</u> |
| Capitalization through acquisition of minority interest (note 1) | US\$ <u>21,457,713</u> | <u>0</u> |
| Lease financing arrangement entered into for acquisition of equipment (note 16) | US\$ <u>8,126,800</u> | <u>0</u> |

See accompanying notes to consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(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% (95% at December 31, 2004) 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 transferred to its subsidiaries as capitalization. As part of that transaction, 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 accounting principles generally accepted in the United States of America ("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 principally in various Central American countries, Mexico (began operations in June 2004) and in Florida, United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in companies in which the percentage of

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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. Income from investment in less than 20% owned companies is generally recognized when dividends are received.

(b) *Use of Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ 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 available-for-sale 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.

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 the credit capacity of the issuer or discounted cash flows.

A decline in the fair value of any held-to-maturity and 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.

Interest income on securities is recognized when earned.

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(e) *Loans Held for Sale*

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

(f) *Loans*

Loans are stated at their outstanding unpaid principal balances adjusted for unearned income and deferred loan fees or costs. 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 charge-offs of existing loans, which may become uncollectible. 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 and trends 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 homogeneous 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

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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.

(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 | 30 – 50 |
| Equipment and furniture | 5 – 10 |
| Computers | 3 – 5 |
| Vehicles | 5 |

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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.

(k) *Goodwill and Intangible Assets*

Goodwill including previously existing goodwill and intangible assets with indefinite useful lives are not be 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 reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount 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*

Nonrefundable fees and related direct costs associated with the origination of loans are deferred and netted against outstanding loan balances. The amortization of net deferred fees and costs is recognized as an adjustment to the related loan yield by using a

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method that approximates the interest method, based on the estimated lives of the loans. Nonrefundable fees related to lending activities other than direct loan origination are recognized as other income over the period the related service is provided.

(o) *Credit Card Revenue*

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.

Fees for credit card issuance or renewal are, by contract, not refundable to the cardholders. Such fees are charged monthly or annually to cardholders and are taken into income at that time. This accounting treatment is common industry practice in countries in which the Bank principally conducts its credit card business. The effect of this treatment rather than deferral of income throughout the issuance or renewal period is not material to the accompanying consolidated financial statements.

(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 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

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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 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 of the 2004 consolidated financial statements have been reclassified to conform to the 2005 consolidated financial statement presentation.

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(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> |

(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, 2005 and 2004 and for the years then ended:

| | | <u>2005</u> | <u>2004</u> |
|--|------|--------------------|--------------------|
| Assets: | | | |
| Due from banks | US\$ | 44,132,050 | 45,545,454 |
| Interest-bearing deposits | | 11,807,489 | 5,727,224 |
| Securities available for sale | | 19,717,879 | 22,861,541 |
| Loans receivable | | 84,013,441 | 65,975,402 |
| Accrued interest and other receivables | | <u>721,717</u> | <u>4,465,581</u> |
| | | <u>160,392,576</u> | <u>144,575,202</u> |
| Liabilities: | | | |
| Demand deposits | | 31,400,708 | 35,694,625 |
| Time deposits | | 72,638,252 | 17,025,808 |
| Borrowings | | 296,359 | 0 |
| Accrued interest and other liabilities | | <u>983,611</u> | <u>132,742</u> |
| | | <u>105,318,930</u> | <u>52,853,175</u> |
| Net assets due from related parties | US\$ | <u>55,073,646</u> | <u>91,722,027</u> |
| Interest and other operating income | US\$ | <u>8,794,897</u> | <u>7,585,193</u> |
| Interest and other operating expenses | US\$ | <u>2,917,883</u> | <u>1,201,187</u> |

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

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

At December 31, 2005 and 2004, cash and due from banks aggregating US\$336,364,347 and US\$276,149,516, respectively, are placed at Central Banks in the various Central American countries to cover legal liquidity reserve requirements.

At December 31, 2005 and 2004, interest-bearing deposits amounting to approximately US\$12,080,883 and US\$28,783,910 are placed as legal liquidity or to guarantee borrowings and other credit facilities.

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(6) Trading Securities

At December 31, 2005 and 2004, trading securities, at fair value, consist of government bonds amounting to US\$5,215,833 and US\$0, respectively.

Net gains on security trading activities included in earnings for the years ended December 31, 2005 and 2004 amount to US\$141,792 and US\$172,403, respectively, including unrealized holding losses on trading securities for US\$5,877 and US\$0, respectively.

(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, 2005 and 2004 are as follows:

| | | 2005 | | | |
|--|------|--------------------|---|--|--------------------|
| | | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
| 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 |
| Panama | | 1,000,000 | 0 | (10,000) | 990,000 |
| 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 related 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 (note 11) | | | | | |
| | | <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> |
| Other securities: | | | | | |
| Panama | | <u>35,000</u> | <u>0</u> | <u>0</u> | <u>35,000</u> |
| | US\$ | <u>324,373,869</u> | <u>1,584,779</u> | <u>(1,770,595)</u> | <u>324,188,053</u> |

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| 2004 | | | | | |
|--|------|--------------------|---|--|--------------------|
| | | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
| Government and agency securities: | | | | | |
| United States of America | US\$ | 51,577,051 | 8,252 | (130,631) | 51,454,672 |
| Guatemala | | 37,812,234 | 789,623 | (52,645) | 38,549,212 |
| El Salvador | | 33,135,481 | 389,596 | (95,776) | 33,429,301 |
| Nicaragua | | 47,310,404 | 214,488 | 0 | 47,524,892 |
| Costa Rica | | 59,116,741 | 391,398 | (437,088) | 59,071,051 |
| Panama | | 26,628,999 | 329,026 | (67,150) | 26,890,875 |
| Colombia | | 5,110,182 | 49,443 | 0 | 5,159,625 |
| Brazil | | 1,678,908 | 4,243 | 0 | 1,683,151 |
| | | <u>262,370,000</u> | <u>2,176,069</u> | <u>(783,290)</u> | <u>263,762,779</u> |
| Corporate debentures: | | | | | |
| United States of America | | 4,001,668 | 0 | (1,220) | 4,000,448 |
| El Salvador | | 1,847,700 | 0 | (5,148) | 1,842,552 |
| Costa Rica | | 277,340 | 1,002 | 0 | 278,342 |
| Colombia | | 529,905 | 8,845 | 0 | 538,750 |
| France | | 2,000,000 | 0 | (50,000) | 1,950,000 |
| | | <u>8,656,613</u> | <u>9,847</u> | <u>(56,368)</u> | <u>8,610,092</u> |
| Mortgage-backed related securities | | | | | |
| – Costa Rica | | <u>5,706,330</u> | <u>15,311</u> | <u>0</u> | <u>5,721,641</u> |
| Retained interests on securitization of mortgages – Costa Rica (note 11) | | | | | |
| | | <u>4,944,071</u> | <u>0</u> | <u>0</u> | <u>4,944,071</u> |
| Mutual funds: | | | | | |
| United States of America | | 2,550,000 | 0 | 0 | 2,550,000 |
| Costa Rica | | 10,018,881 | 0 | (139,317) | 9,879,564 |
| Panama | | 13,038,201 | 0 | (126,224) | 12,911,977 |
| | | <u>25,607,082</u> | <u>0</u> | <u>(265,541)</u> | <u>25,341,541</u> |
| Other securities: | | | | | |
| Costa Rica | | 159,439 | 0 | (27,779) | 131,660 |
| Panama | | 35,000 | 0 | 0 | 35,000 |
| | | <u>194,439</u> | <u>0</u> | <u>(27,779)</u> | <u>166,660</u> |
| US\$ | | <u>307,478,535</u> | <u>2,201,227</u> | <u>(1,132,978)</u> | <u>308,546,784</u> |

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A summary of securities available for sale as of December 31, 2005 and 2004, 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>2005</u> | | <u>2004</u> | |
|--|------|---------------------------|--------------------|---------------------------|--------------------|
| | | <u>Amortized Cost</u> | <u>Fair Value</u> | <u>Amortized Cost</u> | <u>Fair Value</u> |
| Government and agency securities: | | | | | |
| Due within one year | US\$ | 130,651,562 | 130,641,281 | 108,849,097 | 108,876,754 |
| Due after one year but within five years | | 80,188,585 | 80,324,238 | 78,688,453 | 78,757,824 |
| Due after five years but within ten years | | 58,596,911 | 58,953,001 | 61,070,963 | 61,817,867 |
| Due after ten years | | 9,245,194 | 9,288,304 | 13,761,487 | 14,310,334 |
| | | <u>278,682,252</u> | <u>279,206,824</u> | <u>262,370,000</u> | <u>263,762,779</u> |
| Corporate debentures: | | | | | |
| Due within one year | | 7,105,423 | 7,065,745 | 3,001,668 | 3,001,668 |
| Due after one year but within five years | | 3,647,913 | 3,633,038 | 3,125,040 | 3,119,674 |
| Due after five years but within ten years | | 2,000,000 | 1,604,000 | 2,529,905 | 2,488,750 |
| | | <u>12,753,336</u> | <u>12,302,783</u> | <u>8,656,613</u> | <u>8,610,092</u> |
| Mortgage-backed related securities: | | | | | |
| Due after ten years | | <u>5,752,659</u> | <u>5,863,825</u> | <u>5,706,330</u> | <u>5,721,641</u> |
| Retained interests on securitization of mortgages: | | | | | |
| Due after ten years | | <u>4,572,409</u> | <u>4,572,409</u> | <u>4,944,071</u> | <u>4,944,071</u> |
| Mutual funds, without maturity | | <u>22,578,213</u> | <u>22,207,212</u> | <u>25,607,082</u> | <u>25,341,541</u> |
| Other: | | | | | |
| Without maturity | | 35,000 | 35,000 | 194,439 | 166,660 |
| | US\$ | <u>324,373,869</u> | <u>324,188,053</u> | <u>307,478,535</u> | <u>308,546,784</u> |

At December 31, 2005 and 2004, securities available for sale with a carrying value of US\$26,845,997 and US\$66,183,783, respectively, were pledged to secure borrowings and repurchase agreements.

During the years ended December 31, 2005 and 2004, the Bank recognized an increase to the valuation allowance on retained interests on securitization of mortgages for an amount of US\$372,014 and US\$163,178, respectively.

For the years ended December 31, 2005 and 2004, proceeds from sale of securities available for sale amounted to US\$146,253,606 and US\$324,798,951, respectively. Gross realized gains amounted to US\$2,482,869 and US\$11,162,588 for the years ended December 31, 2005 and 2004, respectively. Gross realized losses amounted to US\$633,626 and US\$2,362,290 for the years ended December 31, 2005 and 2004, respectively.

Gross unrealized losses on securities available for sale and their fair value, aggregated by category at December 31, 2005, are detailed below:

| Description of securities | | <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 bonds | 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 | | 9,951,356 | (67,525) | 9,696,524 | (303,476) | 19,647,880 | (371,001) |
| Total | 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> |

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Most of the unrealized losses on securities available for sale are caused by interest rate increases. Because the decline in fair value is mainly attributable to changes in interest rates and not credit quality, and because the Bank has the intent and ability to hold those securities until a market price recovery or maturity, these securities are not considered other-than-temporarily impaired.

On October 17, 2005, Refco, Inc. (hereinafter referred to as "Refco") and many of its subsidiaries, including Refco Capital Markets, Ltd. (hereinafter referred to as "RCM"), filed for protection under Chapter 11 of the US Bankruptcy Code in the US Bankruptcy Court for the Southern District of New York. Two days later, liquidation proceedings were commenced in Bermuda for the subsidiaries of Refco established in that country, including RCM.

The Bank has accounts at RCM which, at the times referenced above, held securities with a carrying value of approximately US\$16 million. These accounts were established for the purpose of facilitating certain liquidity transactions with the securities deposited in RCM's custody. At the times referenced above, the Bank had no liquidity transactions pending or outstanding. With respect to these accounts at RCM, it is the position of the Bank, based on the relevant account documentation and course of dealings between the parties, that RCM had to hold in custody all securities owned by the Bank and not to use them as part of any liquidity transaction. Accordingly, it is the position of the Bank that it is a customer and not a creditor of RCM. Although this position is shared by many others similarly situated, Refco has taken the opposite position. On November 18, 2005, the Bank filed complaints against RCM in the New York Bankruptcy Court to recover its securities or its equivalent value on the basis of the Bank's status as a customer of RCM. Many others similarly situated have filed similar complaints, and the matters are pending before the New York Bankruptcy Court.

Although management believes that its position will prevail, there is some level of uncertainty as to the outcome of the pending proceedings and as to RCM's ability to cover all customer claims with its remaining assets. Accordingly, the Bank has discontinued recording the accrual of interest on the securities held at Refco from the date of the bankruptcy filing. In addition, these formerly available for sale securities have been reclassified as claims receivable for unreturned securities. In the absence of these changes, interest on securities that would have been accrued for the year ended December 31, 2005, amounted to US\$491,160. The RCM claim is included in other accounts receivable, net of reserves, at December 31, 2005, in an amount of US\$10.4 million.

(8) Securities Held to Maturity

The amortized cost and fair value of securities held to maturity as of December 31, 2005 and 2004 is follows:

| | | <u>2005</u> | | <u>2004</u> | |
|-----------------------|------|-----------------------|-------------------|-----------------------|-------------------|
| | | <u>Amortized Cost</u> | <u>Fair Value</u> | <u>Amortized Cost</u> | <u>Fair Value</u> |
| Government bonds: | | | | | |
| Costa Rica | US\$ | 966,650 | 963,669 | 4,012,405 | 4,037,693 |
| Corporate debentures: | | | | | |
| France | | <u>4,977,517</u> | <u>4,193,300</u> | <u>4,971,517</u> | <u>4,907,100</u> |
| | US\$ | <u>5,944,167</u> | <u>5,156,969</u> | <u>8,983,922</u> | <u>8,944,793</u> |

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

A summary of securities held to maturity as of December 31, 2005 and 2004, 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>2005</u> | | <u>2004</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\$ | 377,095 | 374,113 | 0 | 0 |
| Due after one year but within five years | | <u>589,555</u> | <u>589,556</u> | <u>4,012,405</u> | <u>4,037,693</u> |
| | | <u>966,650</u> | <u>963,669</u> | <u>4,012,405</u> | <u>4,037,693</u> |
| Corporate debentures: | | | | | |
| Due after one year but within five years | | 2,977,517 | 2,589,300 | 2,971,517 | 2,953,500 |
| Due after five years but within ten years | | <u>2,000,000</u> | <u>1,604,000</u> | <u>2,000,000</u> | <u>1,953,600</u> |
| | | <u>4,977,517</u> | <u>4,193,300</u> | <u>4,971,517</u> | <u>4,907,100</u> |
| | US\$ | <u>5,944,167</u> | <u>5,156,969</u> | <u>8,983,922</u> | <u>8,944,793</u> |

(9) Loans

The composition of loans as of December 31, 2005 and 2004 is as follows:

| | | <u>2005</u> | <u>2004</u> |
|--|------|----------------------|----------------------|
| Commercial, financial and industrial | US\$ | 612,933,110 | 554,902,937 |
| Real estate – residential and for construction | | 361,224,437 | 260,470,965 |
| Credit card | | 705,731,489 | 561,875,651 |
| Vehicles financing | | 177,581,405 | 119,463,931 |
| Other personal | | 113,607,043 | 51,295,447 |
| Cash collateralized (back to back) | | 159,987,767 | 75,714,972 |
| Leasing | | 25,697,021 | 17,182,637 |
| Overdrafts | | <u>13,791,877</u> | <u>11,978,993</u> |
| | US\$ | <u>2,170,554,149</u> | <u>1,652,885,533</u> |

At December 31, 2005 and 2004, the Bank had loans for US\$103,310,055 and US\$58,859,026, respectively, pledged to secure borrowings and other credit facilities.

At December 31, 2005 and 2004 the Bank's non-accruing loans amounted to US\$12,308,513 and US\$15,363,270 respectively. Interest, which would have been recorded, if the loans had not been classified as non-accruing, amounted to US\$957,573 y US\$1,306,943 for the years ended December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the Bank had no commitments to lend additional funds to borrowers whose loans are classified as non-accruing.

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Other real estate owned assets included in other assets amounted to US\$7,662,109 and US\$7,718,905 at December 31, 2005 and 2004, respectively.

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

| | | <u>2005</u> | <u>2004</u> |
|--|------|-------------------|-------------------|
| Impaired loans with a valuation allowance | US\$ | <u>12,231,507</u> | <u>16,078,504</u> |
| Valuation allowance | US\$ | <u>4,211,062</u> | <u>5,234,114</u> |
| Average balance | US\$ | <u>13,705,264</u> | <u>16,772,881</u> |
| Interest income recognized on a cash basis | US\$ | <u>1,415,748</u> | <u>1,295,676</u> |

(10) Allowance for Loan Losses

The changes in the allowance for loan losses during the years then ended December 31, 2005 and 2004 are presented below:

| | | <u>2005</u> | <u>2004</u> |
|------------------------------|------|-------------------|-------------------|
| Balance, beginning of year | US\$ | 44,731,917 | 42,993,780 |
| Provision for loan losses | | 34,831,247 | 25,604,036 |
| Charge-offs | | (36,556,186) | (31,095,146) |
| Recoveries | | 9,986,392 | 8,020,964 |
| Foreign currency translation | | <u>(446,533)</u> | <u>(791,717)</u> |
| Balance, end of year | US\$ | <u>52,546,837</u> | <u>44,731,917</u> |

(11) Securitization of Mortgage Loans Held for Sale

On August 2002, one of the subsidiaries sold mortgage loans in a securitization transaction. The subsidiary retained the servicing responsibilities and subordinated interests. The subsidiaries 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, 2005 and 2004 amounted to US\$4,572,409 and US\$4,944,071, respectively (weighted average life of 2.62 years and 3.12 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.

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Key assumptions used for mortgage loans during the year ended December 31, 2005, 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 | 2.98 |
| 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, 2005 and 2004 relating to servicing fees amounted US\$205,609 and US\$244,252, respectively.

(12) Property and Equipment

Property and equipment as of December 31, 2005 and 2004 are as follows:

| | | <u>2005</u> | <u>2004</u> |
|---|------|---------------------|---------------------|
| Land | US\$ | 7,535,951 | 7,839,977 |
| Buildings and improvements | | 47,490,835 | 45,322,723 |
| Equipment, furniture and vehicles | | 148,455,086 | 112,958,779 |
| Constructions in progress | | <u>2,174,926</u> | <u>655,985</u> |
| | | 205,656,798 | 166,777,464 |
| | | | <u>(76,569,649)</u> |
| Less: accumulated depreciation and amortization | | <u>(86,014,171)</u> | |
| | US\$ | <u>119,642,627</u> | <u>90,207,815</u> |

(13) Goodwill and Intangible Assets

At December 31, 2005 and 2004, 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>2005</u> | <u>2004</u> |
|---|------|------------------|------------------|
| Goodwill: | | | |
| Costa Rica | US\$ | 1,017,381 | 1,017,381 |
| Nicaragua | | 843,760 | 843,760 |
| El Salvador | | <u>771,530</u> | <u>771,530</u> |
| | | 2,632,671 | 2,632,671 |
| Core deposit intangible subject to amortization – | | | |
| Costa Rica | | <u>637,727</u> | <u>1,470,681</u> |
| | US\$ | <u>3,270,398</u> | <u>4,103,352</u> |

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(14) Deposits

As of December 31, 2005 and 2004, the Bank held US\$787,565,586 and US\$509,119,714 respectively, of time deposits with principal balances of US\$100,000 and over.

Scheduled maturities of time deposits at December 31, 2005 are as follows:

| <u>Year ending December 31,</u> | | | |
|---------------------------------|--|------|----------------------|
| 2006 | | US\$ | 982,222,190 |
| 2007 | | | 36,093,877 |
| 2008 | | | 12,943,461 |
| 2009 | | | 3,834,119 |
| 2010 | | | 4,389,059 |
| Thereafter | | | 4,500,000 |
| | | US\$ | <u>1,043,982,706</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, 2005 and 2004:

| | | <u>2005</u> | <u>2004</u> |
|---|------|-------------------|-------------------|
| Carrying amount at December 31 | US\$ | <u>23,863,176</u> | <u>18,116,414</u> |
| Maximum amount outstanding at any month end | US\$ | <u>39,825,842</u> | <u>48,068,144</u> |
| Average amount outstanding during the year | US\$ | <u>26,089,213</u> | <u>28,596,925</u> |
| Weighted average interest rate for the year | | <u>8.57%</u> | <u>8.73%</u> |
| Weighted average interest rate at end of year | | <u>8.67%</u> | <u>6.53%</u> |

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(16) Borrowings

At December 31, 2005 and 2004, borrowings consist of the following:

| | 2005 | | | Carrying Amount |
|--|--------------------------|-------------------------------------|------|----------------------------|
| | Interest Rate | Maturity Various Through | | |
| Payable in 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> |

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| | 2004 | | |
|--|----------------------|---------------------------------|-------------------------|
| | <u>Interest Rate</u> | <u>Maturity Various Through</u> | <u>Carrying Amount</u> |
| Payable in dollars (United States of America): | | | |
| Fixed rate | 2.45% to 10.75% | 2011 | US\$ 190,102,584 |
| Floating rate | 2.60% to 6.80% | 2014 | 158,792,439 |
| Payable in Quetzals (Guatemala): | | | |
| Floating rate | 7.25% to 10.00% | 2005 | 21,755,422 |
| Payable in Lempiras (Honduras): | | | |
| Fixed rate | 7.00% to 15.00% | 2024 | 2,184,464 |
| Payable in Cordobas (Nicaragua): | | | |
| Fixed rate | 5.00% to 6.53% | 2019 | 1,539,019 |
| Floating rate | 7.20% | 2006 | 78,110 |
| Payable in Colones (Costa Rica): | | | |
| Fixed rate | 17.00% | 2005 | 1,162,328 |
| Floating rate | 13.75% to 16.36% | 2009 | 11,244,400 |
| | | | US\$ <u>386,858,766</u> |

On December 16, 2002, one of the subsidiaries of 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 on January 8, 2010. On November 23, 2005 the original program was amended to issue additional certificates for US\$275 million, which increases the total amount under the program to US\$400 million due on December 31, 2012. As of December 31, 2005 and 2004, the amount outstanding under this program aggregated US\$107,004,812 and US\$107,500,000, 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 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 subsidiary. 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 (6.59% and 4.39% at December 31, 2005 and 2004, 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 4.68 years. The certificates currently have a weighted average duration of 4.68 years as amended.

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At December 31, 2005 and 2004, secured borrowings amounted to US\$226,167,336 and US\$215,884,487, respectively, including the amount outstanding under the CIC Receivables Master Trust.

As of December 31, 2005, secured borrowings include a lease financing arrangement for acquisition of an aircraft. The lease, with an aggregate outstanding balance of US\$7,585,143, calls for monthly installments of US\$89,986, including interest, through January 1, 2015.

At December 31, 2005, the Bank had approximately US\$492,160,953 available in unused lines of credit that expire through 2012, including the unfunded portion of the CIC Receivables Master Trust of US\$292,995,188.

Scheduled maturities of borrowings at December 31, 2005, are as follows:

| <u>Year ending December 31,</u> | | | |
|---------------------------------|------|--------------------|--|
| 2006 | US\$ | 116,838,875 | |
| 2007 | | 66,241,109 | |
| 2008 | | 84,087,749 | |
| 2009 | | 36,221,798 | |
| 2010 | | 36,186,515 | |
| Thereafter | | <u>69,647,708</u> | |
| | US\$ | <u>409,223,754</u> | |

(17) Other Borrowed Funds

Carrying amount of other borrowed funds at December 31, 2005 and 2004 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>2005</u> | <u>2004</u> |
|--------------------|----------------------|------|--------------------|-------------------|
| US dollars | 4.59% to 6.56% | US\$ | 35,000,000 | 25,057,142 |
| Quetzals | 7.02% to 9.38% | | 42,924,886 | 37,208,136 |
| Colones | 14.19% to 18.32% | | <u>35,060,458</u> | <u>20,597,172</u> |
| | | US\$ | <u>112,985,344</u> | <u>82,862,450</u> |

Scheduled maturities of other borrowed funds at December 31, 2005 are as follows:

| <u>Year ending December 31,</u> | | | |
|---------------------------------|------|--------------------|--|
| 2006 | US\$ | 57,355,181 | |
| 2007 | | 4,106,753 | |
| 2008 | | 9,316,684 | |
| 2009 | | 13,120,240 | |
| 2010 | | 24,000,000 | |
| Thereafter | | <u>5,086,486</u> | |
| | US\$ | <u>112,985,344</u> | |

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At December 31, 2005 and 2004, the Bank had loans receivable for US\$44,156,116 and US\$21,623,687, 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, 2005 and 2004:

| | | <u>2005</u> | <u>2004</u> |
|---|------|--------------------|-------------------|
| Advertising and loyalty programs | US\$ | 26,485,982 | 21,027,346 |
| Communications | | 10,237,388 | 8,479,249 |
| Office supplies | | 5,477,147 | 5,854,183 |
| Maintenance | | 9,770,979 | 8,246,658 |
| Credit card franchise and authorization fees | | 10,068,661 | 7,011,341 |
| Taxes other than income | | 5,658,442 | 4,168,416 |
| Processing fees | | 2,972,875 | 2,885,141 |
| Deposit insurance | | 1,979,600 | 3,021,009 |
| Security | | 2,749,287 | 2,469,116 |
| Armored services | | 2,318,042 | 1,644,503 |
| Travel expenses | | 2,855,410 | 2,844,893 |
| Provision for claims receivable for unreturned securities | | 5,602,436 | 0 |
| Other | | <u>25,633,655</u> | <u>22,709,751</u> |
| | US\$ | <u>111,809,904</u> | <u>90,361,606</u> |

(19) Income Taxes

Income tax expense consists of:

| | | <u>2005</u> | <u>2004</u> |
|----------|------|--------------------|-------------------|
| Current | US\$ | 19,899,741 | 15,157,953 |
| Deferred | | <u>(4,245,228)</u> | <u>361,077</u> |
| | US\$ | <u>15,654,513</u> | <u>15,519,030</u> |

Income tax expense was US\$15,654,513 and US\$15,519,030 for the years ended December 31, 2005 and 2004, respectively, and differed from the amounts computed by applying the income tax rate percent to pretax consolidated earnings as a result of the following:

| | | <u>2005</u> | <u>2004</u> |
|---|------|--------------|--------------|
| Computed "expected" tax expense | US\$ | 34,367,858 | 32,560,708 |
| Increase (decrease) in income taxes resulting from: | | | |
| Exempt and foreign source income | | (23,806,583) | (21,953,552) |
| Tax incentives | | 321,231 | (86,235) |
| Change in allowance | | (3,564,206) | (835,314) |

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| | | | |
|------------------------|------|-------------------|-------------------|
| Nondeductible expenses | | <u>8,336,213</u> | <u>5,833,423</u> |
| Income tax expense | US\$ | <u>15,654,513</u> | <u>15,519,030</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, 2005 and 2004 are as follows:

| | | <u>2005</u> | <u>2004</u> |
|---|------|--------------------|--------------------|
| Deferred tax assets: | | | |
| Net operating tax loss carryforwards | US\$ | 2,235,615 | 5,291,695 |
| Allowance for loan losses | | 6,273,513 | 2,928,528 |
| Organizational costs | | 0 | 490,496 |
| Deferred loan origination fees and costs | | 393,831 | 355,261 |
| Accrual of employment benefits | | <u>1,246,253</u> | <u>651,260</u> |
| Gross deferred tax assets | | 10,149,212 | 9,717,240 |
| Less-valuation allowance | | <u>(3,161,421)</u> | <u>(6,725,627)</u> |
| Net deferred tax assets | | 6,987,791 | 2,991,613 |
| Deferred tax liabilities - tax depreciation | | <u>(1,876,827)</u> | <u>(2,020,398)</u> |
| Deferred tax asset, net | US\$ | <u>5,110,964</u> | <u>971,215</u> |

The valuation allowance for deferred tax assets as of December 31, 2005 and 2004 was US\$3,161,421 and US\$6,725,627, respectively.

The net change in the total valuation allowance for the years ended December 31, 2005 and 2004 was a decrease of US\$3,564,206 and US\$835,314, 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, 2005, subsidiaries of the Bank have incurred in net operating tax loss carry forwards of US\$7,452,049 which are available to offset future taxable income of the applicable subsidiaries, if any, through 2015 as follows:

| <u>Year ending December 31,</u> | | |
|---------------------------------|------|------------------|
| 2006 | US\$ | 2,380,144 |
| 2007 | | 1,213,172 |
| 2008 | | 327,327 |
| 2009 | | 118,557 |
| Thereafter | | <u>3,412,849</u> |
| | US\$ | <u>7,452,049</u> |

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The following table presents the components of and changes in accumulated other comprehensive loss for the years ended December 31, 2005 and 2004:

| | | <u>Foreign Currency Translation</u> | <u>Unrealized Net Gain (Loss) on Securities</u> | <u>Accumulated Other Comprehensive Loss</u> |
|----------------------------------|------|---|---|---|
| Balances as of December 31, 2003 | US\$ | (34,734,545) | 4,695,545 | (30,039,000) |
| Current year changes | | <u>(8,187,154)</u> | <u>(3,695,594)</u> | <u>(11,882,748)</u> |
| Balances as of December 31, 2004 | | (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 | US\$ | <u>(53,350,540)</u> | <u>(325,633)</u> | <u>(53,676,173)</u> |

The following table presents details of other comprehensive income (loss) for the years ended December 31, 2005 and 2004:

| | | <u>2005</u> | <u>2004</u> |
|---|------|---------------------|---------------------|
| Foreign currency translation: | | | |
| Adjustment for the year | US\$ | <u>(10,428,841)</u> | <u>(8,187,154)</u> |
| Unrealized gain (loss) on securities: | | | |
| Unrealized holding gains arising during the year, net of income tax expense of US\$39,283 in 2005 | | 523,659 | 5,104,704 |
| Less: reclassification adjustments to net income for net (gains) losses realized | | <u>(1,849,243)</u> | <u>(8,800,298)</u> |
| Change during year, net | | <u>(1,325,584)</u> | <u>(3,695,594)</u> |
| Other comprehensive loss for the year | US\$ | <u>(11,754,425)</u> | <u>(11,882,748)</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 breach 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

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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, 2005 and 2004, the Bank had not entered into non-cancelable commitments to extend credit.

As of December 31, 2005 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\$52 million to US\$730 million (US\$70 million to US\$516 million in 2004). The unused portion of the total amount available in each country, aggregated approximately from US\$37 million to US\$637 million (US\$33 million to US\$377 million in 2004). 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, 2005 and 2004 outstanding letters of credit and financial guarantees are as follows:

| | | <u>2005</u> | <u>2004</u> |
|----------------------|------|--------------------|--------------------|
| Letters of credit | US\$ | 43,332,600 | 47,236,199 |
| Financial guarantees | | <u>56,887,944</u> | <u>53,344,106</u> |
| | US\$ | <u>100,220,544</u> | <u>100,580,305</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, 2005 and 2004, are detailed as follows:

| | | <u>2005</u> | <u>2004</u> |
|--------------|------|--------------------|--------------------|
| Up to 1 year | US\$ | 86,105,767 | 94,251,738 |
| Over 1 year | | <u>14,114,777</u> | <u>6,328,567</u> |
| | US\$ | <u>100,220,544</u> | <u>100,580,305</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, 2005 and 2004, amounted to US\$19,422,029 and US\$20,363,029, respectively.

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The Bank has recorded a liability under the letters of credit and guarantees as of December 31, 2005 and 2004 of US\$569,954 and US\$497,900, respectively, according to Financial Accounting Standards Board (FASB) Interpretation No.45.

(22) Derivative Financial Instruments

The Bank follows the Statement of Financial Accounting Standard No. 133 (SFAS 133) for 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. 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.

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

| | | <u>Nominal Amount</u> | <u>Fair Value</u> | |
|---------------------|------|---------------------------|-------------------|------------------|
| | | | <u>Asset</u> | <u>Liability</u> |
| Freestanding: | | | | |
| Interest rate swaps | US\$ | <u>7,000,000</u> | <u>0</u> | <u>102,620</u> |

There were no derivative financial instruments outstanding at December 31, 2004.

(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, 2005 and 2004, accounts for approximately 33% and 34% 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 and El Salvador.

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(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, customers' liability on acceptances, accrued interest receivable and certain financial liabilities, including securities sold under agreements to repurchase, acceptances outstanding, accrued interest payable, 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 or based on the discounted value of contractual cash flows. Trading and available for sale securities are carried at fair value. Refer to notes 6, 7 and 8 for fair value information as of December 31, 2005 and 2004.

(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

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at December 31, 2005 and 2004 was approximately US\$ 2,103,296,978 and US\$1,603,466,579 (carrying value was of US\$2,101,805,413 and US\$1,599,274,086), 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, 2005 and 2004. 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, 2005 and 2004 was approximately US\$1,043,536,735 and US\$720,279,785 (carrying value of US\$1,043,982,706 and US\$720,121,470), 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, 2005 and 2004 was approximately US\$406,200,091 and US\$387,946,237 (carrying value of US\$409,223,754 and US\$386,858,766), 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, 2005 and 2004 was approximately US\$113,055,281 and US\$82,852,428 (carrying value of US\$112,985,344 and US\$82,862,450), 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, 2005 and 2004, various of the Bank's subsidiaries administer and are custodian of assets which amounted to approximately US\$310,049,000 and US\$238,227,000, respectively.

(26) Tax Contingencies

During 2004, Tax Authorities of the Republic of Guatemala assessed certain of the Company's Guatemalan subsidiaries an aggregate amount of approximately US\$3.3 million in taxes, not including penalties and imputable interest. Management of those subsidiary companies filed appeals with the Tax Authorities. Through the date of this report, the Tax Authorities have revised their assessment to approximately US\$904 thousand, not including

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penalties and imputable interest. Based on the revised assessment of tax and opinions of legal counsel, Management believes that the subsidiary companies' position will prevail with no material adverse effect on the Company's consolidated financial position or consolidated results of operations. A provision of US\$750 thousand has been established to cover for any taxes and penalties that might ultimately result from these proceedings.

(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, 2005 and 2004 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 Statement*, 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.