

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

Consolidated Financial Statements

March 31, 2008 and 2007



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

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

Consolidated Balance Sheets

March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	US\$ 1,277,060,459	858,879,093
Interest-bearing deposits	9,756,763	58,893,323
Trading securities	27,761,404	5,472,899
Securities available for sale	202,576,416	290,989,357
Securities held to maturity	15,896,066	4,985,017
Loans	4,830,791,692	3,055,010,483
Less:		
Allowance for loan losses	142,737,054	72,251,739
Unearned income and deferred loan fees and costs	23,886,317	18,253,991
Loans, net	<u>4,664,168,321</u>	<u>2,964,504,753</u>
Property and equipment, net	166,024,810	127,391,636
Investment in unconsolidated entities	4,252,595	2,788,519
Customers' liability under acceptances outstanding	4,212,356	4,495,183
Accrued interest receivable	29,327,042	15,457,202
Other accounts receivable	129,896,176	60,360,017
Goodwill and Intangible Assets	80,418,797	2,663,925
Other assets	117,037,832	44,272,066
Total assets	<u>US\$ 6,728,389,037</u>	<u>4,441,152,990</u>
Liabilities and Stockholder's Equity		
Deposits:		
Demand non-interest-bearing	US\$ 308,888,414	218,167,203
Demand interest-bearing	1,456,089,292	1,048,423,757
Savings	757,901,972	349,207,279
Time deposits	1,841,528,290	1,322,842,118
Total deposits	<u>4,364,407,968</u>	<u>2,938,640,357</u>
Securities sold under agreements to repurchase	19,356,342	39,704,451
Borrowings	1,166,489,265	596,111,543
Other borrowed funds	231,042,494	139,813,290
Acceptances outstanding	4,212,356	4,495,183
Accrued interest payable	24,712,609	23,568,003
Other liabilities	248,083,208	179,234,120
Total liabilities	<u>6,058,304,242</u>	<u>3,921,566,947</u>
Minority interest	<u>367,754</u>	<u>22,803,672</u>
Stockholder's equity:		
Common stock, US\$1000 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	609,742,039	444,553,809
Accumulated other comprehensive loss	(53,590,252)	(61,336,692)
Total stockholder's equity	<u>669,717,041</u>	<u>496,782,371</u>
Total liabilities and stockholder's equity	<u>US\$ 6,728,389,037</u>	<u>4,441,152,990</u>

See accompanying notes to consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES
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Consolidated Statements of Income

For the three-month periods ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Interest income:		
Loans	US\$ 167,327,532	114,258,301
Interest-bearing deposits	4,425,911	5,024,862
Trading securities	207,309	81,347
Securities available for sale	3,881,400	4,847,140
Securities held to maturity	120,499	52,736
Total interest income	<u>175,962,651</u>	<u>124,264,386</u>
Interest expense:		
Deposits	37,027,617	26,939,924
Securities sold under agreements to repurchase	448,741	844,378
Borrowings and other borrowed funds	<u>22,245,949</u>	<u>12,539,192</u>
Total interest expense	<u>59,722,307</u>	<u>40,323,494</u>
Net interest income before provision for loan losses	<u>116,240,344</u>	<u>83,940,892</u>
Provision for loan losses	43,145,693	15,702,833
Net interest income after provision for loan losses	<u>73,094,651</u>	<u>68,238,059</u>
Other income (expenses) :		
Service charges	44,879,330	29,027,592
Commissions and other fees, net	18,866,332	16,949,809
Foreign currency gains, net	8,876,150	5,917,029
Net gain on trading securities	871,431	173,460
Net gain on sale of securities available for sale	1,123,890	990,685
Gain on other investment	21,661,673	0
Other income	<u>5,256,652</u>	<u>6,021,292</u>
Total other income	<u>101,535,458</u>	<u>59,079,867</u>
Operating expenses:		
Salaries and employee benefits	48,994,456	34,748,431
Depreciation and amortization	7,441,296	5,491,469
Administrative expenses	5,285,688	4,042,917
Occupancy and related expenses	7,307,556	5,110,477
Other operating expenses	<u>40,672,327</u>	<u>32,071,131</u>
Total operating expenses	<u>109,701,323</u>	<u>81,464,425</u>
Income before income tax expense and minority interest	64,928,786	45,853,501
Income tax expense	<u>8,525,123</u>	<u>7,238,090</u>
Income before minority interest	<u>56,403,663</u>	<u>38,615,411</u>
Minority interest	1,342,125	1,496,737
Net income	<u>US\$ <u>55,061,538</u></u>	<u>37,118,674</u>

See accompanying notes to consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES
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Consolidated Statements of Changes in Stockholder's Equity

For the three-month periods ended March 31, 2008 and 2007

		<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, 2006	US\$	78,947,000	34,618,254	407,435,135	(59,636,795)	461,363,594
Comprehensive income:						
Net income		0	0	37,118,674	0	37,118,674
Other comprehensive income (loss):						
Foreign currency translation		0	0	0	(2,229,816)	(2,229,816)
Changes in unrealized gain on securities available for sale, net of tax		0	0	0	529,919	529,919
Comprehensive income						<u>35,418,777</u>
Balance as of March 31, 2007		<u>78,947,000</u>	<u>34,618,254</u>	<u>444,553,809</u>	<u>(61,336,692)</u>	<u>496,782,371</u>
Balance as of December 31, 2007		78,947,000	34,618,254	553,098,814	(55,499,434)	611,164,634
Net effect of adoption new accounting principle		0	0	1,581,687	0	1,581,687
Comprehensive income:						
Net income		0	0	55,061,538	0	55,061,538
Other comprehensive income (loss):						
Foreign currency translation		0	0	0	990,875	990,875
Changes in unrealized gain on securities available for sale, net of tax		0	0	0	918,307	918,307
Comprehensive income						<u>56,970,720</u>
Balance as of March 31, 2008	US\$	<u>78,947,000</u>	<u>34,618,254</u>	<u>609,742,039</u>	<u>(53,590,252)</u>	<u>669,717,041</u>

See accompanying notes to consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES
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Consolidated Statements of Cash Flows

For the three-month periods ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income	US\$ 55,061,538	37,118,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	43,145,693	15,702,833
Net loss on impairment loss on foreclosed assets	37,125	25,224
Release of provision for unfunded commitments	(66,754)	(46,875)
Depreciation and amortization	7,441,296	5,491,469
Amortization of deferred loan fees and costs	(3,129,125)	(3,160,958)
Release of provision for claims receivable for unreturned securities	(56,532)	(262,889)
Gain on derivative financial instruments	(55,951)	0
Deferred taxes	(3,445,968)	(515,395)
Net decrease (increase) in trading securities	664,827	(1,605,218)
Net gain on sale of securities	(1,995,321)	(1,164,145)
Gain on other investments	(21,661,673)	0
Net gain on sale of property and equipment	(23,708)	0
Equity participation in unconsolidated entities	0	(1,183,097)
Minority interest	1,342,125	1,496,737
Decrease in accrued interest receivable	528,421	1,573,512
(Increase) decrease in other accounts receivable	(21,286,236)	13,122,443
Decrease (increase) in other assets	5,786,210	(2,877,724)
Increase in accrued interest payable	237,696	1,840,249
(Decrease) increase in other liabilities	(26,823,260)	1,081,175
Net cash provided by operating activities	<u>35,700,403</u>	<u>66,636,015</u>
Cash flows from investing activities:		
Net decrease (increase) in deposits placed with original maturity over 90 days	40,978,818	(36,649,283)
Proceeds from sale of securities available for sale	71,522,604	45,388,161
Maturities, prepayment and calls of securities available for sale	39,597,231	85,133,310
Purchases of securities available for sale	(53,989,724)	(127,226,033)
Maturities, prepayment and calls of securities held to maturity	243,616	0
Net increase in loans	(170,591,697)	(195,939,668)
Purchases of property and equipment	(11,300,876)	(5,489,498)
Proceeds from sale of property and equipment	367,526	0
Cash paid in purchase of minority interest	(35,000,000)	0
Net cash used in investing activities	<u>(118,172,502)</u>	<u>(234,783,011)</u>
Cash flows from financing activities:		
Net proceeds from deposits received	127,411,355	104,028,500
Net proceeds from other borrowed funds	16,782,442	12,594,939
Net decrease in securities sold under agreements to repurchase	(30,022,616)	(9,582,330)
Proceeds from borrowings	978,434,330	521,082,966
Repayment of borrowings	(937,984,839)	(437,699,424)
Net change on overdraft line of credit	(5,447,898)	0
Net cash provided by financing activities	<u>149,172,774</u>	<u>190,424,651</u>
Effect of exchange rate fluctuations on cash held	<u>13,891,764</u>	<u>(4,731,017)</u>
Net increase in cash and cash equivalents	80,592,439	17,546,638
Cash and cash equivalents at beginning of period	1,196,468,020	841,332,455
Cash and cash equivalents at end of period	<u>US\$ 1,277,060,459</u>	<u>858,879,093</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	US\$ 60,331,173	38,454,990
Cash paid for income taxes during the period	US\$ 13,450,584	12,618,700
Supplemental schedule of non cash investing and financing activities:		
Changes in unrealized gain (loss) on securities available for sale, net of tax	US\$ 918,307	529,919
Gain on other investments	US\$ 21,661,673	0
Properties acquired in settlement of loans	US\$ 680,882	530,447

See accompanying notes to consolidated financial statements.

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(1) Organization

BAC International Bank, Inc., was incorporated on August 25, 1995, in Panama City, Republic of Panama, as a banking institution. BAC International Bank, Inc. is a 100% owned subsidiary of BAC International Corporation (the "Parent Company", which is an indirect subsidiary of BAC Credomatic Holding Company, Ltd.) and provides, directly and through its wholly owned subsidiaries, BAC International Bank (Grand Cayman) ("BAC Cayman"), Credomatic International Corporation (CIC), Premier Asset Management, Inc., Rudas Hill Financial, Inc., BAC Valores (Panamá), 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 y Panama. Credit card operations are carried out through CIC and its subsidiaries.

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

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

(2) Summary of Significant Accounting Policies

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

(a) Principles of Consolidation

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

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

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(d) *Securities Purchased and Sold Agreements*

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

(e) *Securities*

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

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

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

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

(f) *Loans Held for Sale*

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

(g) *Loans*

Loans are stated at their outstanding unpaid principal balances adjusted for unearned income, when applicable. Interest income on loans is recognized on an accrual basis. Loan origination fees and direct costs as well as premiums and discounts are amortized as an adjustment to yield over the term of the loan. Loans include direct financing

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leases that are recorded at the aggregate of future lease payments receivable plus the estimated residual value of the leased property, less unearned income.

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

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

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

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

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

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management's judgment with respect to the impact of current economic conditions on the existing loan portfolio.

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

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

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

(i) *Foreclosed Assets*

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

(j) *Transfer of Financial Assets*

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or

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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 interest based on their relative fair values at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Bank generally estimates fair value based on the present value of future expected cash flows determined by using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

(k) *Property and Equipment*

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

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

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

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

(l) *Goodwill and Intangible Assets*

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

Identified intangible assets that have a definite useful life are amortized over that life in a manner that approximates the estimated decline in the economic value of the identified intangible asset. Identified intangible assets that have a definite useful life are periodically reviewed to determine whether there have been any events or circumstances to indicate the recorded amount is not recoverable from projected

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undiscounted net operating cash flows. If the projected undiscounted net operating cash flows are less than the carrying amount, a loss is recognized to reduce the carrying amount to fair value, and when appropriate, the amortization period is also reduced.

(m) Revenue Recognition

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

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

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

(n) Derivative Financial Instruments

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

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

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

Changes in the fair value of a derivative that has been designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are included in other income (expense) and recorded as derivative and hedging activities. Changes in the fair value of a derivative that has

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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.

(o) *Fair Value*

Effective January 1, 2008, the Bank determines the fair market values of its financial instruments based on the fair value hierarchy established in SFAS 157 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is used on a recurring basis for assets and liabilities that are elected to be accounted for under SFAS No. 159 as well as for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Bank uses various valuation techniques and assumptions when estimating fair value, which are in accordance with SFAS No. 157.

In accordance with SFAS No. 157, the Bank applied the following fair value hierarchy:

Level 1 – Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or futures contracts.

Level 2 – Assets and liabilities valued based on observable market data for similar instruments, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and considers risk premiums that a market participant would require.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at and/or marked to fair value, the Bank considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Bank looks to active and observable markets to price identical assets or liabilities. When

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identical assets and liabilities are not traded in active markets, the Bank looks to market observable data for similar assets and liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to derive a fair value measurement.

(p) *Income Tax*

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

(q) *Foreign Currency*

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

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

(r) *Reclassifications*

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 consolidated financial statement presentation.

(3) Business Combinations

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

The Bank acquired 99.9 percent of the outstanding stock of Banco Mercantil, S. A. (BAMER), a Honduran banking institution, on June 13, 2007. The aggregate purchase price was approximately US\$132,449,000, including a cash payment of approximately US\$130,222,000. The acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations". Accordingly, the results of operations of BAMER's operations have been included in the consolidated financial statements since the

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acquisition date. Certain plans related to the disposition of assets and the termination of employees are estimates and, when finalized, may result in adjustments to goodwill.

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

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

Of the US\$12.6 million of acquired intangibles assets, US\$11 million was assigned to core deposit intangible with a weighted-average useful life of approximately 17 years. The intangible assets that make up the remaining amount include purchased credit card relationships for US\$1.4 million (10-year weighted-average useful life), and other assets of US\$0.2 million (1-year useful life). None of the intangible assets are tax deductible. Goodwill of US\$57.9 million is not deductible for tax purposes.

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

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

Goodwill preliminary recognized in those transactions amounted to approximately US\$17.9 million and approximately US\$10.2 million is expected to be deductible for tax purposes.

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(4) Trading Securities

At March 31, 2008 and 2007, trading securities consist of government bonds amounting to US\$27,761,404 and US\$5,472,899, respectively.

Net gains on security trading activities included in earnings for the three-month periods ended March 31, 2008 and 2007 amount to US\$871,431 and US\$173,460, respectively, including unrealized holding gains on trading securities for US\$428,342 and US\$59,429, respectively.

At March 31, 2008 and 2007, securities with a carrying value of US\$13,833,004 and US\$6,127,074, respectively, were pledged to secure repurchase agreements.

(5) 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 March 31, 2008 and 2007 is as follows:

		2008			
		Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Government bonds and agency securities	US\$	166,648,659	2,442,534	(171,711)	168,919,483
Corporate debentures		10,795,812	252,523	(87,043)	10,961,292
Mortgage-backed securities		5,856,870	392,797	0	6,249,667
Retained interests on securitization		4,572,410	0	0	4,572,410
Mutual funds		12,396,236	0	(556,678)	11,839,557
Other securities		20,347	13,660	0	34,007
	US\$	<u>200,290,333</u>	<u>3,101,514</u>	<u>(815,432)</u>	<u>202,576,416</u>

		2007			
		Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Government bonds and agency securities	US\$	261,198,998	2,469,269	(356,284)	263,311,983
Corporate debentures		5,099,663	2,154	(327,794)	4,774,023
Mortgage-backed securities		5,810,412	212,701	0	6,023,113
Retained interests on securitization		4,572,409	0	0	4,572,409
Mutual funds		12,342,803	0	(67,144)	12,275,659
Other securities		19,351	12,819	0	32,170
	US\$	<u>289,043,636</u>	<u>2,696,943</u>	<u>(751,222)</u>	<u>290,989,357</u>

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A summary of securities available for sale as of March 31, 2008 and 2007 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>2008</u>		<u>2007</u>	
		<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Government bonds and agency securities:					
Due within one year	US\$	58,850,806	59,037,201	102,685,682	102,768,091
Due after one year but within five years		47,929,480	48,915,741	97,934,833	99,265,434
Due after five years but within ten years		31,630,515	31,999,384	345,959,146	46,081,027
Due after ten years		<u>28,237,857</u>	<u>28,967,157</u>	<u>14,619,337</u>	<u>15,197,431</u>
		<u>166,648,659</u>	<u>168,919,483</u>	<u>261,198,998</u>	<u>263,311,983</u>
Corporate debentures:					
Due within one year		49,860	49,699	1,046,608	1,046,736
Due after one year but within five years		6,260,327	6,313,192	4,053,055	3,727,287
Due after five years but within ten years		<u>4,485,625</u>	<u>4,598,401</u>	<u>0</u>	<u>0</u>
		<u>10,795,812</u>	<u>10,961,292</u>	<u>5,099,663</u>	<u>4,774,023</u>
Mortgage-backed securities:					
Due after ten years		<u>5,856,870</u>	<u>6,249,667</u>	<u>5,810,412</u>	<u>6,023,113</u>
Retained interests on securitization of mortgages:					
Due after ten years		<u>4,572,410</u>	<u>4,572,410</u>	<u>4,572,409</u>	<u>4,572,409</u>
Mutual funds:					
Without maturity		<u>12,396,236</u>	<u>11,839,557</u>	<u>12,342,803</u>	<u>12,275,659</u>
Other:					
Without maturity		<u>20,347</u>	<u>34,007</u>	<u>19,351</u>	<u>32,170</u>
	US\$	<u>200,290,333</u>	<u>202,576,416</u>	<u>289,043,636</u>	<u>290,989,357</u>

At March 31, 2008 and 2007, securities with a carrying value of US\$9,264,725 and US\$18,583,984, respectively, were pledged to secure borrowings and repurchase agreements.

For the three-month periods ended March 31, 2008 and 2007, proceeds from sale of securities available for sale amounted to US\$71,534,513 and US\$45,388,161, respectively. Gross realized gains amounted to US\$1,136,777 and US\$1,099,640, for 2008 and 2007, respectively. Gross realized losses amounted to US\$12,887 and US\$108,955, for 2008 and 2007, respectively.

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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 March 31, 2008 and 2007, were as follows:

		2008					
		<u>12 Months or Less</u>		<u>More than 12 months</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\$	8,217,611	(31,692)	21,971,049	(140,019)	30,188,660	(171,711)
Corporate debentures		2,049,942	(4,055)	4,639,923	(82,988)	6,689,865	(87,043)
Mutual Funds		<u>9,250,000</u>	<u>(533,341)</u>	<u>568,316</u>	<u>(23,337)</u>	<u>9,818,316</u>	<u>(556,678)</u>
	US\$	<u>19,517,553</u>	<u>(569,088)</u>	<u>27,179,288</u>	<u>(246,344)</u>	<u>46,696,841</u>	<u>(815,432)</u>

		2007					
		<u>12 Months or Less</u>		<u>More than 12 months</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\$	102,060,037	(297,944)	17,997,426	(58,340)	120,057,463	(356,284)
Corporate debentures		999,406	(594)	1,672,800	(327,200)	2,672,206	(327,794)
Mutual Funds		<u>5,998,811</u>	<u>(1,189)</u>	<u>3,825,142</u>	<u>(65,955)</u>	<u>9,823,953</u>	<u>(67,144)</u>
	US\$	<u>109,058,254</u>	<u>(299,727)</u>	<u>23,495,368</u>	<u>(451,495)</u>	<u>132,553,622</u>	<u>(751,222)</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.

(6) Securities Held to Maturity

The amortized cost and fair value of securities held to maturity as of March 31, 2008 and 2007, is as follows:

		2008		2007	
		<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Government bonds	US\$	13,896,066	14,095,816	0	0
Corporate debentures		<u>2,000,000</u>	<u>1,918,400</u>	<u>4,985,017</u>	<u>4,350,600</u>
	US\$	<u>15,896,066</u>	<u>16,014,216</u>	<u>4,985,017</u>	<u>4,350,600</u>

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A summary of securities held to maturity as of March 31, 2008 and 2007, 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>2008</u>		<u>2007</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 after one year but within five years	US\$	4,869,364	5,069,114	0	0
Due after five years but within ten years		20,781	20,781	0	0
Due after ten years		<u>9,005,921</u>	<u>9,005,921</u>	<u>0</u>	<u>0</u>
		<u>13,896,066</u>	<u>14,095,816</u>	<u>0</u>	<u>0</u>
Corporate debentures:					
Due after one year but within five years		2,000,000	1,918,400	2,985,017	2,677,800
Due after five years but within ten years		<u>0</u>	<u>0</u>	<u>2,000,000</u>	<u>1,672,800</u>
		<u>2,000,000</u>	<u>1,918,400</u>	<u>4,985,017</u>	<u>4,350,600</u>
	US\$	<u>15,896,066</u>	<u>16,014,216</u>	<u>4,985,017</u>	<u>4,350,600</u>

(7) Loans

The composition of loans as March 31, 2008 and 2007 is as follows:

		<u>2008</u>	<u>2007</u>
Commercial, financial and industrial	US\$	1,332,127,296	769,206,105
Real estate – residential and for construction		1,152,578,887	691,115,243
Credit card		1,199,111,057	938,961,233
Vehicles financing		368,851,341	256,861,641
Other personal		329,642,031	202,976,273
Cash collateralized (back to back)		132,260,430	122,725,030
Leasing		270,475,209	56,281,266
Overdrafts		<u>45,745,441</u>	<u>16,877,192</u>
	US\$	<u>4,830,791,692</u>	<u>3,055,010,483</u>

At March 31, 2008 and 2007, the Bank had loans for US\$293,298,136 and US\$143,781,302, respectively, pledged to secure borrowings and other credit facilities.

At March 31, 2008 and 2007, the Bank's non-accrual, amounted to US\$109,324,934 and US\$38,672,656, respectively. At March 31, 2008 and 2007, 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\$12,143,467 and US\$7,631,894 at March 31, 2008 and 2007, respectively.

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

		<u>2008</u>	<u>2007</u>
Impaired loans, all with a valuation allowance	US\$	26,372,611	9,066,033
Valuation allowance	US\$	9,795,640	4,557,554
Average recorded investment	US\$	29,013,715	9,538,378
Interest income recognized on a cash basis	US\$	858,087	250,214

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

(8) Allowance for Loan Losses

The changes in the allowance for loan losses during the periods ended March 31, 2008 and 2007 are presented below:

		<u>2008</u>	<u>2007</u>
Balance, beginning of period	US\$	127,780,918	69,808,464
Provision for loan losses		43,145,693	15,702,833
Charge-offs		(33,072,535)	(16,832,075)
Recoveries		4,494,344	3,757,971
Foreign currency translation		388,634	(185,454)
Balance, end of period	US\$	142,737,054	72,251,739

(9) Deposits

As of March 31, 2008 and 2007, the Bank held US\$1,571,457,784 and US\$1,104,207,074, respectively, of time deposits with principal balances of US\$100.000 and over.

Scheduled maturities of time deposits at March 31, 2008 are as follows:

Year ending December 31,

2008	US\$	1,546,154,782
2009		260,210,910
2010		19,540,391
2011		8,757,680
2012		5,070,734
Thereafter		1,793,793
	US\$	<u>1,841,528,290</u>

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(10) Borrowings

Borrowings at March 31, 2008 and 2007 consist of the following:

	2008				
	<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\$	103,137,920	
Floating rate	3.75% to 12.50%	2017		869,646,822	
Payable in Mexican Pesos (Mexico):					
Floating rate	9.28%	2010		85,057,063	
Payable in Quetzals (Guatemala):					
Floating rate	7.25% to 8.50%	2008		37,250,760	
Payable in Lempiras (Honduras):					
Floating rate	5.00% to 15.00%	2038		55,757,986	
Payable in Cordobas (Nicaragua):					
Fixed rate	5.00% to 6.53%	2019		804,665	
Payable in Colones (Costa Rica):					
Fixed rate	9.00%	2009		1,788,107	
Floating rate	2.00% to 8.00%	2010		<u>13,045,942</u>	
			US\$	<u>1,166,489,265</u>	

	2007				
	<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\$	73,616,418	
Floating rate	3.25% to 13.50%	2016		419,565,988	
Payable in Mexican Pesos (Mexico):					
Fixed rate	7.96% to 8.60%	2007		22,227,436	
Floating rate	7.96% to 8.60%	2007		39,499,532	
Payable in Quetzals (Guatemala):					
Floating rate	7.25% to 10.00%	2008		14,637,084	
Payable in Lempiras (Honduras):					
Fixed rate	5.25%	2007		1,058,475	
Floating rate	6.00% to 15.00%	2034		2,529,488	
Payable in Cordobas (Nicaragua):					
Fixed rate	5.00% to 6.53%	2019		926,733	
Payable in Colones (Costa Rica):					
Fixed rate	17.00%	2007		1,503,747	
Floating rate	2.85% to 10.00%	2010		<u>20,546,642</u>	
			US\$	<u>596,111,543</u>	

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On December 16, 2002, the Bank, through a consolidated special purpose entity, issued US\$50,000,000 under its US\$125 million CIC floating-rate trust certificates series 2002-A, due January 8, 2010. On November 23, 2005 the Bank amended the original program and issued additional certificates for US\$275 million which increased the total amount under the program to US\$400 million, due December 2012. In May 2007, through another amendment, the final maturity was extended to April 5, 2017. As of March 31, 2008 and 2007, the amount outstanding under this program aggregated US\$333,504,812 and US\$99,504,812, respectively. The certificates are issued and managed by CIC Receivables Master Trust for the benefit of the certificate holders. The Master Trust currently holds a 'AAA' rating from Standard & Poor's Rating Services. Such certificates are secured in first degree by future cash flows originating in Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica from merchant vouchers and by a financial guarantee insurance policy provided by Ambac Assurance Corp. (an insurance company holding a 'AAA' financial strength rating from Standard & Poor's) which guarantees timely payment of certificate interest and principal when due. The merchant vouchers are those to be generated by holders of credit cards issued by third-party international financial institutions, under Visa and MasterCard Credit Card Programs which are being serviced by the Bank. The certificates pay interest quarterly the fifth day of each January, April, July and October at a rate of three-month U.S. dollar LIBOR plus a margin (6.13% and 7.37%, including surety premiums, at March 31, 2008 and 2007, respectively). Principal amortization amounts will be paid to certificate holders beginning in April 2010. The certificates had an original duration of 4.68 years. At March 31, 2008, the certificates have a weighted average duration of 5.8855 years (as amended).

At March 31, 2008 and 2007 secured borrowings amounted to US\$643,413,593 and US\$259,324,737, respectively, including the amount outstanding under the CIC Receivables Master Trust.

As of March 31, 2008, secured borrowings include a lease financing arrangement for acquisition of an aircraft. The lease, with an aggregated outstanding balance of US\$6,404,710, calls for monthly advance installments of US\$91,390, including interest, to be paid through January 1, 2015.

At March 31, 2008, the Bank had approximately US\$500,577,713 available in unused lines of credit that expire through 2012, including the unfunded portion of the CIC Receivables Master Trust of US\$66,495,188.

Scheduled maturities of borrowings at March 31, 2008 are as follows:

Year ending December 31,

2008	US\$	431,230,811
2009		63,074,653
2010		167,093,344
2011		104,084,771
2012		131,314,204
Thereafter		<u>269,691,482</u>
	US\$	<u>1,166,489,265</u>

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(11) Other Borrowed Funds

Carrying amount of other borrowed funds at March 31, 2008 and 2007 consists of certificates of indebtedness registered at and negotiable through the corresponding local stock exchanges in Guatemala, El Salvador and Costa Rica, at fixed and variable interest rates, and is detailed as follows:

<u>Payable in</u>	<u>Interest Rate</u>		<u>2008</u>	<u>2007</u>
US dollars	4.63% to 8.24%	US\$	79,932,278	57,824,132
Quetzals	7.02% to 8.92%		55,463,401	52,497,065
Colones	5.71% to 9.25%		<u>95,646,815</u>	<u>29,492,093</u>
		US\$	<u>231,042,494</u>	<u>139,813,290</u>

Scheduled maturities of other borrowed funds at March 31, 2008 are as follows:

Year ending December 31,

2008	US\$	95,200,291
2009		37,551,387
2010		43,139,680
2011		8,500,000
2012		36,651,136
Thereafter		<u>10,000,000</u>
	US\$	<u>231,042,494</u>

At March 31, 2008 and 2007, the Bank had loans receivable for US\$97,534,348 and US\$71,128,962, respectively, pledged to secure these other borrowed funds.

(12) 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

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of the customer. At March 31, 2008 and 2007 the Bank had not entered into non-cancellable commitments to extend credit.

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 March 31, 2008 and 2007, outstanding letters of credit and financial guarantees are as follows:

		<u>2008</u>	<u>2007</u>
Standby letters of credit	US\$	20,951,280	40,167,064
Commercial letters of credit		42,512,148	102,172,965
Financial guarantees		<u>166,646,256</u>	<u>23,245,205</u>
	US\$	<u>230,109,684</u>	<u>165,585,234</u>

The nature, terms and maximum potential amount of future payments the Bank could be required to make under the standby letters of credit and financial guarantees as of March 31, 2008 and 2007, are detailed as follows:

		<u>2008</u>	<u>2007</u>
Up to 1 year	US\$	148,992,873	126,800,645
Over 1 year		<u>38,604,663</u>	<u>15,539,385</u>
	US\$	<u>187,597,536</u>	<u>142,340,030</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 March 31, 2008 and 2007 amounted to US\$46,565,603 and US\$14,543,927, respectively.

The fair value of the letters of credit and guarantees as March 31, 2008 and 2007 are of US\$1,630,553 and US\$961,123, respectively.

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(13) 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 March 31, 2008 and 2007 and for the periods then ended:

		<u>2008</u>	<u>2007</u>
Assets:			
Due from banks	US\$	20,514,254	22,685,533
Interest-bearing deposits		21,842,517	27,568,495
Securities available for sale		9,261,637	9,823,953
Loans receivable		114,508,339	71,847,207
Accrued interest and other receivables		986,748	683,403
	US\$	<u>167,113,495</u>	<u>132,608,591</u>
Liabilities:			
Demand deposits	US\$	29,969,600	29,298,237
Time deposits		73,631,521	73,195,448
Borrowings		95,819,514	9,800,908
Accrued interest and other liabilities		1,748,670	1,986,768
	US\$	<u>201,169,305</u>	<u>114,281,451</u>
Interest and other operating income	US\$	<u>2,338,097</u>	<u>1,977,423</u>
Interest and other operating expenses	US\$	<u>3,314,767</u>	<u>1,075,219</u>

(14) Concentration of Credit Risk

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

(15) Litigation

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

(16) Fair Value

In February 2007, the FASB issued SFAS 159, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

The Bank's fair value elections were intended to mitigate the volatility in earnings that had been created by recording financial instruments and the related risk management instruments on a different basis of accounting and to eliminate the operational complexities of applying

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hedge accounting to economic hedges. The following table provides detail regarding the Company's elections by consolidated balance sheet line as of January 1, 2008.

Impact on Retained earnings of certain fair-value elections in accordance with SFAS 159

Detailed below are the December 31, 2007 carrying values prior to adoption of SFAS 159, the transition adjustments booked to opening Retained earnings and the fair values (that is, the carrying values at January 1, 2008 after adoption) for those items that were selected for fair-value option accounting and that had an impact on retained earnings:

	Ending Balance Sheet 12/31/2007		Adoption Net Gain Or (Loss)		Opening Balance Sheet January 1st, 2008
Impact of adopting the fair value option under SFAS 159					
Loans	US\$ 381,691,962	US\$	1,592,194	US\$	383,284,156
Cumulative effect of adoption of SFAS 159					
	US\$ 381,691,962	US\$	1,592,194	US\$	383,284,156