

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

Consolidated Financial Statements

December 31, 2004 and 2003

(With Independent Audithors' Report thereon)



BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
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, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' 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 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BAC International Bank, Inc. and Subsidiaries as of December 31, 2004 and 2003, 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 24, 2005
Panama, Republic of Panama

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Balance Sheets

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and due from banks (notes 3 and 4)	US\$ 533,252,660	431,413,130
Interest-bearing deposits (notes 3 and 4)	34,835,093	40,848,347
Trading securities (notes 3 and 5)	0	19,804,206
Securities available for sale (notes 3 and 6)	308,546,784	323,419,874
Securities held to maturity (note 7)	8,983,922	4,069,168
Loans (notes 3 and 8)	1,652,885,533	1,339,828,206
Less:		
Allowance for loan losses (note 9)	44,731,917	42,993,780
Unearned income and deferred loan fees and costs	8,879,530	5,881,448
Loans, net	<u>1,599,274,086</u>	<u>1,290,952,978</u>
Property and equipment, net (note 11)	90,207,815	91,288,069
Investments in unconsolidated entities	2,592,863	4,250,900
Customers' liability on acceptances	5,044,790	11,123,536
Accrued interest receivable (note 3)	10,372,062	10,105,915
Other accounts receivable (note 3)	37,147,107	34,483,588
Other assets (note 8)	34,505,938	31,446,998
Total assets	<u>US\$ 2,664,763,120</u>	<u>2,293,206,709</u>
Liabilities and Stockholders' Equity		
Deposits (note 3):		
Demand	785,466,562	695,155,851
Savings	235,532,279	192,738,255
Time deposits (note 13)	802,983,920	682,942,647
Total deposits	<u>1,823,982,761</u>	<u>1,570,836,753</u>
Securities sold under agreements to repurchase (note 14)	18,116,414	27,736,043
Borrowings (notes 3 and 15)	386,858,766	314,262,662
Acceptances outstanding	5,044,790	11,123,536
Accrued interest payable (note 3)	9,318,532	8,811,839
Other liabilities (note 3)	91,465,426	79,704,090
Total liabilities	<u>2,334,786,689</u>	<u>2,012,474,923</u>
Minority interest	<u>32,756,955</u>	<u>29,233,140</u>
Stockholders' equity:		
Common stock, US\$1,000 and US\$10,000 par value in 2004 and 2003, respectively. Authorized 100,000 and 10,000 shares, issued and outstanding 78,947 and 7,894.7 shares, respectively	78,947,000	78,947,000
Additional paid in capital	13,160,541	13,160,541
Retained earnings	247,033,683	189,430,105
Accumulated other comprehensive loss (note 18)	(41,921,748)	(30,039,000)
Total stockholders' equity	<u>297,219,476</u>	<u>251,498,646</u>
Total liabilities and stockholders' equity	<u>US\$ 2,664,763,120</u>	<u>2,293,206,709</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Interest income (note 3) :		
Loans	US\$ 235,566,806	205,191,194
Interest-bearing deposits	5,118,148	4,191,944
Securities available for sale	19,375,583	25,894,127
Securities held to maturity	405,936	2,325,276
Total interest income	<u>260,466,473</u>	<u>237,602,541</u>
Interest expense (note 3):		
Deposits	53,771,017	55,750,383
Securities sold under agreements to repurchase	2,522,611	3,056,283
Borrowings	13,648,834	11,091,578
Total interest expense	<u>69,942,462</u>	<u>69,898,244</u>
Net interest income before provision for loan losses	<u>190,524,011</u>	<u>167,704,297</u>
Provision for loan losses (note 9)	25,604,036	25,831,858
Net interest income after provision for loan losses	<u>164,919,975</u>	<u>141,872,439</u>
Other income (expenses) (note 3):		
Service charges	60,211,310	50,710,419
Commissions and other fees, net of commission expenses of US\$50,846,056 and US\$41,457,685, respectively	59,279,036	50,979,761
Credit card membership fees	9,837,344	8,786,900
Foreign currency gains, net	16,186,242	12,521,840
Net gain on trading securities (note 5)	172,403	1,511,535
Impairment loss on securities (note 6)	0	(96,250)
Net gain on sale of securities available for sale (note 6)	8,800,298	4,358,488
Valuation allowance on retained interest on securitization (note 6)	(163,178)	0
Gain on sale of investment in unconsolidated entity	3,101,576	0
Other income	11,871,766	11,091,412
Total other income	<u>169,296,797</u>	<u>139,864,105</u>
Operating expenses (note 3):		
Salaries and employee benefits	90,169,617	73,916,162
Depreciation and amortization	17,812,161	18,750,797
Administrative expenses	9,949,597	9,455,431
Occupancy and related expenses	12,404,111	10,436,139
Other operating expenses (note 16)	90,361,606	78,899,221
Total operating expenses	<u>220,697,092</u>	<u>191,457,750</u>
Income before income tax expense and minority interest	<u>113,519,680</u>	<u>90,278,794</u>
Income tax expense (note 17)	15,519,030	10,899,517
Income before minority interest	<u>98,000,650</u>	<u>79,379,277</u>
Minority interest	10,197,072	12,044,486
Net income	<u>US\$ 87,803,578</u>	<u>67,334,791</u>

See accompanying notes to consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2004 and 2003

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>
Balance as of December 31, 2002	US\$ 60,000,000	4,298,946	129,295,314	(23,008,314)	170,585,946
Issuance of common stock:					
For cash	15,000,000	0	0	0	15,000,000
In acquisition of minority interest (note 2-b)	3,947,000	8,861,595	0	(1,554,807)	11,253,788
Cash dividends	0	0	(7,200,000)	0	(7,200,000)
Comprehensive income:					
Net income	0	0	67,334,791	0	67,334,791
Other comprehensive income (loss) (note 18):					
Foreign currency translation	0	0	0	(9,563,127)	(9,563,127)
Changes in unrealized gain (loss) on securities available for sale, net	0	0	0	4,087,248	4,087,248
Comprehensive income					<u>61,858,912</u>
Balance as of December 31, 2003	<u>78,947,000</u>	<u>13,160,541</u>	<u>189,430,105</u>	<u>(30,039,000)</u>	<u>251,498,646</u>
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 18):					
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	US\$ <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>

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, 2004 and 2003

		<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Net income	US\$	87,803,578	67,334,791
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		25,604,036	25,831,858
Impairment loss on foreclosed assets		1,626,807	1,478,281
Provision for losses on off-balance sheet items		508,812	911,918
Depreciation and amortization of property and equipment		16,987,051	17,856,732
Amortization of intangible assets		825,110	894,065
Net gain on trading securities		-172,403	-1,511,535
Net decrease (increase) in trading securities		7,890,884	-7,230,248
Net gain on sale of securities available for sale		-8,800,298	-4,358,488
Impairment loss on securities		0	96,250
Valuation allowance on retained interest on securitization		163,178	0
Net (gain) loss on sale of property		-1,082,704	25,202
Unearned income		-5,921,645	-2,918,162
Deferred taxes		361,077	-2,877,562
Gain on sale of investment in unconsolidated entity		-3,101,576	0
Equity participation in unconsolidated entities		-577,907	-188,571
Minority interest		10,197,072	12,044,486
Increase in accrued interest receivable		-415,425	-2,358,715
Increase in other accounts receivable		-3,860,230	-327,781
(Increase) decrease in other assets		-5,848,124	6,472,698
Increase in accrued interest payable		698,244	945,935
Increase in other liabilities		8,292,065	12,528,072
Net cash provided by operating activities		<u>131,177,602</u>	<u>124,649,226</u>
Cash flows from investing activities:			
Net decrease (increase) in deposits placed with original maturity over 90 days		3,985,097	-12,326,166
Proceeds from sale of securities available for sale		324,798,951	371,480,888
Maturities, prepayment and calls of securities available for sale		117,342,584	176,543,875
Purchases of securities available for sale		-422,730,405	-604,559,255
Maturities, prepayment and calls of securities held to maturity		0	58,894,133
Purchases of securities held to maturity		-4,970,000	-26,095,611
Proceeds from sale of investment in unconsolidated entity		4,890,834	0
Net advances to unconsolidated entities		212,055	-158,901
Net increase in loans		-364,768,532	-322,737,222
Purchases of property and equipment		-22,093,730	-34,040,128
Proceeds from sale of property and equipment		4,480,554	295,409
Net cash used in investing activities		<u>-358,852,592</u>	<u>-392,702,978</u>
Cash flows from financing activities:			
Net increase in deposits received		315,541,795	173,174,664
Net increase in securities sold under agreements to repurchase		-5,177,429	-13,296,457
Proceeds from borrowings		1,089,346,940	892,409,726
Repayment of borrowings		-1,014,002,731	-774,691,131
Distributions to minority interest		-4,825,946	-6,517,552
Issuance of common stock		0	15,000,000
Dividends paid		-30,200,000	-7,200,000
Net cash provided by financing activities		<u>350,682,629</u>	<u>278,879,250</u>
Effect of exchange rate fluctuations on cash held		<u>-21,168,109</u>	<u>-22,992,787</u>
Net increase (decrease) in cash and cash equivalents		101,839,530	-12,167,289
Cash and cash equivalents at beginning of year		431,413,130	443,580,419
Cash and cash equivalents at end of year	US\$	<u>533,252,660</u>	<u>431,413,130</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest during the year	US\$	<u>69,435,769</u>	<u>69,958,729</u>
Cash paid for income taxes during the year	US\$	<u>13,608,244</u>	<u>10,877,123</u>
Supplemental disclosure of noncash investing and financing activities:			
Change in unrealized gain (loss) on securities available for sale, net	US\$	<u>-3,695,594</u>	<u>4,269,168</u>
Properties acquired in settlement of loans	US\$	<u>5,867,657</u>	<u>6,223,566</u>
Common stock issued in acquisition of minority interest (note 2-b)	US\$	<u>0</u>	<u>11,253,788</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, 2004 and 2003

(1) Organization

BAC International Bank, Inc., was incorporated on August 25, 1995, in Panama City, Republic of Panama, as a banking institution. It is a 95% owned subsidiary of BAC International Corporation (the "Parent Company") and provides, directly and through its wholly owned subsidiaries, BAC International Bank (Grand Cayman) ("BAC Caimán"), BAC Bank, Inc., Credomatic International Corporation (CIC), Premier Asset Management, Inc., Rudas Hill Financial, Inc., BAC Valores (Panamá), S. A. y 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.

These consolidated financial statements are denominated in US dollars.

(2) Summary of Significant Accounting Policies

The accounting and reporting 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 the significant policies and practices:

(a) Principles of Consolidation

These consolidated financial statements include the accounts of BAC International Bank, Inc. and its subsidiaries and all majority owned subsidiaries with operations principally in various Central American countries, Mexico (since 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 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) Reorganization

Until December 31, 2003, CIC was a 95%-owned subsidiary of BAC Cayman. On that date, BAC Cayman spun off its investment in CIC and transferred it to BAC International Bank, Inc. Such transaction has been accounted for as a reorganization of entities under common control, based on the underlying carrying values of net assets transferred at such date; consequently, such transaction originates no effect on the consolidated financial statements.

In addition, as part of that transaction, the Parent Company capitalized BAC International Bank, Inc. through the acquisition of the remaining 5% minority interest from related parties for an amount of US\$11,253,788. Likewise, such transaction has been treated as part of the aforementioned reorganization of entities under common control. Accordingly, no goodwill was originated in such acquisition of interest.

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Notes to Consolidated Financial Statements

(c) *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 off-balance sheet items.

(d) *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.

(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 excluded from earnings and reported as a component of other comprehensive income in stockholders' 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, where available. Where 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.

(f) *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.

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Notes to Consolidated Financial Statements

(g) *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.

(h) *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 homogenous loans, indicates that the loan is impaired as it is probable that the Bank will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate or the fair value of the collateral of a collateral dependent loan. Collateral dependent loans are those loans for which the repayment of the loan is to be provided solely by the underlying collateral. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a

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valuation allowance. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses.

(i) *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.

(j) *Transfer of Financial Assets*

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

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 interest, 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	30 – 50
Equipment and fixtures	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.

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(l) *Goodwill and Intangible Assets*

Goodwill and Intangible Assets with indefinite useful lives are not be amortized but rather tested for impairment at least annually. 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.

(m) *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.

(n) *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. The market value of the securities subject to repurchase agreements are regularly monitored to ensure appropriate collateral coverage of these secured financing transactions.

(o) *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 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.

(p) *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. 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

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throughout the issuance or renewal period is not material to the accompanying consolidated financial statements.

(q) *Deferred Income Taxes*

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 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 the functional currency are translated to U.S. dollars using (i) exchanges rates prevailing at balance sheet date for assets and liabilities, and (ii) average exchange rates during the reporting period for revenue and expenses. Adjustments resulting from the translation of these financial statements into U.S. dollars are included as a component of other comprehensive income (loss) in stockholders' equity.

(s) *Reclassifications*

Certain amounts of the 2003 consolidated financial statements have been reclassified to conform to the 2004 consolidated financial statement presentation.

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(3) 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, 2004 and 2003:

		<u>2004</u>	<u>2003</u>
Assets:			
Due from banks	US\$	45,545,454	53,967,433
Interest-bearing deposits		5,727,224	3,809,900
Trading Securities		0	11,774,098
Securities available for sale		22,861,541	13,069,735
Loans receivable		65,975,402	37,953,021
Accrued interest and other receivables		<u>4,465,581</u>	<u>1,197,994</u>
		<u>144,575,202</u>	<u>121,772,181</u>
Liabilities:			
Deposits		35,694,625	28,995,922
Time deposits		17,025,808	11,319,387
Borrowings		0	12,557,498
Accrued interest and other liabilities		<u>132,742</u>	<u>92,935</u>
		<u>52,853,175</u>	<u>52,965,742</u>
Net assets due from related parties	US\$	<u>91,722,027</u>	<u>68,806,439</u>
Interest and other operating income	US\$	<u>7,585,193</u>	<u>7,312,861</u>
Interest and Other operating expenses	US\$	<u>1,201,187</u>	<u>1,370,708</u>

Available for sale securities are placed in mutual funds managed by a subsidiary of the Bank.

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

At December 31, 2004 and 2003, cash and due from banks aggregating US\$276,149,516 and US\$217,111,699, respectively, are placed at Central American Central Banks to cover legal liquidity reserve requirements.

At December 31, 2004 and 2003, interest-bearing deposits amounting to approximately US\$28,783,910 and US\$15,807,894 are placed as legal liquidity or to guarantee borrowings and other credit facilities.

(5) Trading Securities

At December 31, 2004 and 2003, trading securities, at fair value, consist of mutual funds for US\$19,804,206.

The net gains on security trading activities included in earnings for the years ended December 31, 2004 and 2003 amount to US\$172,403 and US\$1,511,535, respectively.

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(6) Securities Available for Sale

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of securities available for sale as of December 31, 2004 and 2003 is as follows:

		2004			
		Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Government bonds:					
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
Brasil		<u>1,678,908</u>	<u>4,243</u>	<u>0</u>	<u>1,683,151</u>
		<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		6,001,668	0	(51,220)	5,950,448
El Salvador		1,847,700	0	(5,148)	1,842,552
Costa Rica		277,340	1,002	0	278,342
Colombia		<u>529,905</u>	<u>8,845</u>	<u>0</u>	<u>538,750</u>
		<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 interest on securitization of mortgage loans (note 10)					
		<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	(139,217)	9,879,564
Panama		<u>13,038,201</u>	<u>0</u>	<u>(126,224)</u>	<u>12,911,977</u>
		<u>25,607,082</u>	<u>0</u>	<u>(265,541)</u>	<u>25,341,541</u>
Other investments:					
Costa Rica		159,439	0	(27,779)	131,660
Panama		<u>35,000</u>	<u>0</u>	<u>0</u>	<u>35,000</u>
		<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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2003				
	<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>
Government bonds:				
United States of America US\$	47,064,257	46,779	(800,264)	46,310,772
Guatemala	30,133,431	104,175	(23,987)	30,213,619
El Salvador	25,056,917	719,095	(65,915)	25,710,097
Nicaragua	65,965,538	4,269,803	0	70,235,341
Costa Rica	38,806,204	734,262	(24,836)	39,515,630
Panama	38,732,647	766,398	(21,101)	39,477,944
Dominican Republic	778,876	0	(126,375)	652,501
Colombia	4,309,488	62,580	0	4,372,068
Chile	2,931,388	1,257	0	2,932,645
Brazil	1,986,383	157,417	0	2,143,800
	<u>255,765,129</u>	<u>6,861,766</u>	<u>(1,062,478)</u>	<u>261,564,417</u>
Corporate debentures:				
United States of America	23,524,677	123,781	(407,277)	23,241,181
Mexico	5,325,406	28,441	(11,173)	5,342,674
Honduras	1,406,406	51,595	0	1,458,001
Brazil	3,051,640	199,813	0	3,251,453
	<u>33,308,129</u>	<u>403,630</u>	<u>(418,450)</u>	<u>33,293,309</u>
Mortgage-backed related securities – Costa Rica	<u>5,607,573</u>	<u>0</u>	<u>(153,437)</u>	<u>5,454,136</u>
Retained interests on securitization of mortgage – Costa Rica (note 10)	<u>5,163,270</u>	<u>0</u>	<u>(96,924)</u>	<u>5,066,346</u>
Mutual funds				
United States of America	2,550,000	0	0	2,550,000
Panama	13,155,039	135,566	(220,870)	13,069,735
	<u>15,705,039</u>	<u>135,566</u>	<u>(220,870)</u>	<u>15,619,735</u>
Other securities:				
United States of America	2,070,000	0	0	2,070,000
Costa Rica	366,326	0	(49,395)	316,931
Panama	35,000	0	0	35,000
	<u>2,471,326</u>	<u>0</u>	<u>(49,395)</u>	<u>2,421,931</u>
US\$	<u>318,020,466</u>	<u>7,400,962</u>	<u>(2,001,554)</u>	<u>323,419,874</u>

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A summary of securities available for sale as of December 31, 2004 and 2003, 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>2004</u>		<u>2003</u>	
	<u>Amortized</u>	<u>Fair Value</u>	<u>Amortized</u>	<u>Fair Value</u>
	<u>Cost</u>		<u>Cost</u>	<u>Fair Value</u>
Government bonds:				
Due within one year	US\$ 108,849,097	108,876,754	87,238,159	87,235,574
Due after one year but within five years	78,688,453	78,757,824	100,494,745	101,479,695
Due after five years but within ten years	61,070,963	61,817,867	46,937,981	47,552,745
Due after ten years	<u>13,761,487</u>	<u>14,310,334</u>	<u>21,094,244</u>	<u>25,296,403</u>
	<u>262,370,000</u>	<u>263,762,779</u>	<u>255,765,129</u>	<u>261,564,417</u>
Corporate debentures				
Due within one year	3,001,668	3,001,668	0	0
Due after one year but within five years	3,125,040	3,119,674	1,104,561	1,120,174
Due after five year but within ten years	2,529,905	2,488,750	30,207,453	30,046,382
Due after ten years	<u>0</u>	<u>0</u>	<u>1,996,115</u>	<u>2,126,753</u>
	<u>8,656,613</u>	<u>8,610,092</u>	<u>33,308,129</u>	<u>33,293,309</u>
Mortgage backed related securities –				
Due after five but within ten years	<u>5,706,330</u>	<u>5,721,641</u>	<u>5,607,573</u>	<u>5,454,136</u>
Retained interest on securitization of mortgage loans - due after ten years	<u>4,944,071</u>	<u>4,944,071</u>	<u>5,163,270</u>	<u>5,066,346</u>
Mutual Funds	<u>25,607,082</u>	<u>25,341,541</u>	<u>15,705,039</u>	<u>15,619,735</u>
Other:				
Due within one year	159,439	131,660	2,105,000	2,105,000
Due after ten years	<u>35,000</u>	<u>35,000</u>	<u>366,326</u>	<u>316,931</u>
	<u>194,439</u>	<u>166,660</u>	<u>2,471,326</u>	<u>2,421,931</u>
US\$	<u>307,478,535</u>	<u>308,546,784</u>	<u>318,020,466</u>	<u>323,419,874</u>

At December 31, 2004 and 2003, securities with a carrying value of US\$66,183,783 and US\$57,737,407 respectively, were pledged to secure borrowings and repurchase agreements.

At December 31, 2004, the valuation allowance on retained interest on securitization of mortgage amounts to US\$163,178

For the years ended December 31, 2004 and 2003, proceeds from sale of securities available for sale amounted to US\$324,798,951 and US\$371,480,888 respectively. Gross realized gains amounted to US\$11,162,588 and US\$6,021,750 for 2004 and 2003. Gross realized losses amounted US\$2,362,290 and US\$1,663,262 for 2004 and 2003.

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Gross unrealized losses on securities available for sale and their fair value, aggregated by category at December 31, 2004, are detailed below:

Description Of securities	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Fair Value	Unrealised Losses	Fair Value	Unrealised Losses	Fair Value	Unrealised Losses
Government bonds	US\$ 52,159,618	(656,415)	6,107,024	(126,875)	58,266,642	(783,290)
Corporates bonds	4,691,632	(56,368)	0	0	4,691,632	(56,368)
Mutual Funds	22,791,541	(265,541)	0	0	22,791,541	(265,541)
Other Securities	0	0	131,660	(27,779)	131,660	(27,779)
Total	US\$ <u>79,642,791</u>	<u>(978,324)</u>	<u>6,238,684</u>	<u>(154,654)</u>	<u>85,881,475</u>	<u>(1,132,978)</u>

Most of the unrealized losses on investments 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 investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

During the later part of 2001 and into early 2003, political and economic conditions in Argentina deteriorated considerably. As a result of this deterioration, the Bank recognized during the years ended December 31, 2003 an other than temporary impairment on certain debt securities issued by the government of and corporations in Argentina amounting to US\$96,250.

(7) Securities Held to Maturity

The amortized cost and fair value of securities held to maturity as of December 31, 2004 and 2003 is follows:

	<u>2004</u>		<u>2003</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortize d Cost</u>	<u>Fair Value</u>
Government bonds:				
Costa Rica	<u>4,012,405</u>	<u>4,037,693</u>	<u>4,069,168</u>	<u>4,182,445</u>
Corporate debentures:				
United States of America	<u>4,971,517</u>	<u>4,907,100</u>	0	0
	<u>4,971,517</u>	<u>4,907,100</u>	0	0
US\$	<u>8,983,922</u>	<u>8,944,793</u>	<u>4,069,168</u>	<u>4,182,445</u>

As of December 31, 2004 and 2003 fair value approximates carrying value. The gross unrealized holding gains and losses are not considered to be material.

A summary of securities held to maturity as of December 31, 2004 and 2003, 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.

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		<u>2004</u>		<u>2003</u>	
		<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Government bonds:					
Due after one year but within five years	US\$	4,012,405	4,037,693	4,069,168	4,182,445
Corporate debentures:					
Due within one year		2,971,517	2,953,500	0	0
Due after five year but within ten years		<u>2,000,000</u>	<u>1,953,600</u>	<u>0</u>	<u>0</u>
		<u>4,971,517</u>	<u>4,907,100</u>	<u>0</u>	<u>0</u>
	US\$	<u>8,983,922</u>	<u>8,944,793</u>	<u>4,069,168</u>	<u>4,182,445</u>

(8) Loans

The composition of loans as December 31, 2004 and 2003, is as follows:

		<u>2004</u>	<u>2003</u>
Commercial, financial and industrial	US\$	544,902,937	497,219,951
Real estate – residential and construction		260,470,965	173,826,032
Credit card		561,875,651	450,743,335
Vehicles financing		119,463,931	72,630,270
Other personal		51,295,447	65,595,983
Back to back (cash collateralized)		75,714,972	63,367,568
Leasing		17,182,637	9,196,000
Overdraft		<u>11,978,993</u>	<u>7,249,067</u>
	US\$	<u>1,652,885,533</u>	<u>1,339,828,206</u>

At December 31, 2004 and 2003, the Bank had loans for US\$ US\$58,859,026 and US\$59,549,979 respectively, pledged to secure borrowings.

At December 31, 2004 and 2003 the Bank's non-accruing loans amounted to US\$15,363,270 and US\$13,577,890, respectively. Interest, which would have been recorded, if the loans had not been classified as non accruing, amounted to US\$1,306,943 y US\$1,567,422 during the years ended December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, the Bank had no commitments to lend additional funds to borrowers whose loans are classified as non-accruing.

Other real estate owned assets; net included in other assets amounted to US\$7,718,905 and US\$8,631,249 at December 31, 2004 and 2003, respectively.

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

		<u>2004</u>	<u>2003</u>
Impaired loans with a valuation allowance		16,078,504	20,256,403
Valuation allowance related to impaired loans	US\$	<u>5,234,114</u>	<u>7,421,991</u>
Average balance in impaired loans	US\$	<u>16,772,881</u>	<u>23,028,511</u>
Interest income recognized on a cash basis on impaired loans	US\$	<u>1,295,676</u>	<u>2,147,371</u>

(9) Allowance for Loan Losses

The changes in the allowance for loan losses during the years ended December 31, 2004 and 2003 is presented below:

		<u>2004</u>	<u>2003</u>
Balance, beginning of year	US\$	42,993,780	42,080,465
Provision for loan losses		25,604,036	25,831,858
Charge-offs		(31,095,146)	(29,624,939)
Recoveries		8,020,964	6,126,021
Foreign currency translation		<u>(791,717)</u>	<u>(1,419,625)</u>
Balance, end of year	US\$	<u>44,731,917</u>	<u>42,993,780</u>

(10) Securitization of Mortgage Loans Held for Sale

On August 2002, one of the subsidiaries of the Bank sold mortgage loans in a securitization transaction. The subsidiary retained the servicing responsibilities and subordinated interests. The subsidiary 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 subsidiary's other assets for failure of debtors to pay when due. The subsidiary'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 interest at December 31, 2004 and 2003 amounted to US\$4,944,071 and US\$5,066,346, respectively (weighted average life of 3.61 years). Such retained interest is included as available for sale securities. Furthermore, during the year ended periods ended December 31, 2002 the subsidiary also recognized a liability for US\$4,987,756 relating to the clean up option on the securitization of the mortgage loans.

Key assumptions used for mortgages loans during years ended December 31, 2004 in measuring the fair value of retained interests at the date of sale or securitization and at the end of the reporting period follows:

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	<u>Date of Securitization</u>	<u>Year - end</u>
Prepayment speed (%)	3	5.25
Weighted – average life (in years)	6.48	4.64
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, 2004 and 2003 related to servicing fees amounted US\$244,252 and US\$271,732, respectively.

(11) Property and Equipment

Property and equipment as of December 31, 2004 and 2003 are as follows:

		<u>2004</u>	<u>2003</u>
Land	US\$	7,839,977	9,550,012
Buildings and improvements		45,322,723	40,286,997
Equipment, furniture and vehicles		112,958,779	109,044,437
Construction in progress		<u>655,985</u>	<u>2,822,197</u>
		166,777,464	161,703,643
Less accumulated depreciation and amortization		<u>(76,569,649)</u>	<u>(70,415,574)</u>
	US\$	<u>90,207,815</u>	<u>91,288,069</u>

(12) Goodwill and Intangible Assets

At December 31, 2004 and 2003, 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>2004</u>	<u>2003</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 – Costa Rica		<u>1,470,681</u>	<u>2,431,408</u>
	US\$	<u>4,103,352</u>	<u>5,064,079</u>

(13) Deposits

As of December 31, 2004 and 2003, the Bank held US\$395,896,324 and US\$402,749,559 respectively, of time deposits with principal balances of US\$100,000 and over.

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Scheduled maturities of time deposits at December 31, 2004 are as follows:

<u>Year ending December 31,</u>			
2005	US\$	760,619,717	
2006		17,394,171	
2007		3,787,080	
2008		9,852,265	
2009		10,888,354	
Thereafter		<u>442,333</u>	
	US\$	<u>802,983,920</u>	

(14) 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, 2004 and 2003:

		<u>2004</u>	<u>2003</u>
Carrying amount at December 31	US\$	<u>18,116,414</u>	<u>27,736,043</u>
Maximum amount outstanding at any month end	US\$	<u>48,068,144</u>	<u>46,706,421</u>
Average amount outstanding during the year	US\$	<u>28,596,925</u>	<u>33,520,211</u>
Weighted average interest rate for the year		<u>8.73%</u>	<u>9.12%</u>
Weighted average interest rate at year end		<u>6.53%</u>	<u>11.37%</u>

(15) Borrowings

Borrowings at December 31, 2004 and 2003 consist of the following:

	<u>2004</u>		
	<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	<u>11,244,400</u>
			US\$ <u>386,858,766</u>

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	2003		
	<u>Interest Rate</u>	<u>Maturity Various Through</u>	<u>Carrying Amount</u>
Payable in dollars (United States of America):			
Fixed rate	1.25% to 10.75%	2014	US\$ 59,411,613
Floating rate	1.90% to 5.80%	2012	231,413,285
Payable in Quetzals (Guatemala):			
Floating rate	8.50% to 23.00%	2004	7,827,246
Payable in Lempiras (Honduras):			
Fixed rate	7.00% to 16.00%	2023	1,533,856
Payable in Cordobas (Nicaragua):			
Fixed rate	5.00% to 6.53%	2012	3,908,396
Floating rate	5.63% to 5.79%	2006	300,629
Payable in Colones (Costa Rica):			
Fixed rate	17.00%	2004	1,073,840
Floating rate	14.25% to 17.50%	2009	<u>8,793,797</u>
			US\$ <u><u>314,262,662</u></u>

On December 16, 2002, the Company, 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. As of December 31, 2004 and 2003, the amount outstanding under this program aggregated US\$107,500,000 and US\$105,000,000, 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 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 Company. 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 (4.39% and 3.54% at December 31, 2004 and 2003, respectively). Principal amortization amounts will be paid to certificate holders beginning on April 7, 2005. The certificates currently have original maturity of 4.68 years. The certificates have a weighted average maturity of 2.68 years.

At December 31, 2004 and 2003, secured borrowings amounted to US\$215,884,487 and US\$196,656,644, respectively, including the amount outstanding under the CIC Receivables Master Trust.

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At December 31, 2004, the Company had approximately US\$181,257,101 available in unused lines of credit that expire through 2010, including the unfunded portion of the CIC Receivables Master Trust of US\$17,500,000.

Scheduled maturities of borrowings at December 31, 2004, are as follows:

<u>Year ending December 31,</u>			
2005	US\$	124,469,848	
2006		114,760,344	
2007		44,091,088	
2008		36,228,306	
2009		33,159,101	
Thereafter		<u>34,150,079</u>	
	US\$		<u><u>386,858,766</u></u>

(16) Other Operating Expenses

The following table sets forth the components of other operating expenses for the years ended December 31, 2004 and 2003:

		<u>2004</u>	<u>2003</u>
Advertising and loyalty programs	US\$	21,027,346	18,019,823
Communications		8,479,249	7,115,075
Office supplies		5,854,183	5,032,825
Maintenance		8,246,658	6,662,596
Credit card franchise and authorization fees		7,011,341	6,089,251
Taxes other than income		4,168,416	4,011,515
Processing fees		2,885,141	3,340,953
Deposit insurance		3,021,009	2,888,755
Security		2,469,116	2,065,866
Armour Services		1,644,503	1,594,728
Travel Expenses		2,844,893	2,462,857
Other		<u>22,709,751</u>	<u>19,614,977</u>
Total other operating expenses	US\$	<u><u>90,361,606</u></u>	<u><u>78,899,221</u></u>

(17) Income Taxes

Income tax expense consists of:

		<u>2004</u>	<u>2003</u>
Current	US\$	15,157,953	13,777,079
Deferred		<u>361,077</u>	<u>(2,877,562)</u>
	US\$	<u><u>15,519,030</u></u>	<u><u>10,899,517</u></u>

Income tax expense was US\$15,519,030 and US\$10,899,517 for the years ended December 31, 2004 and 2003, respectively, and differed from the amounts computed by applying the income tax rate percent to pretax consolidated earnings as a result of the following:

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		<u>2004</u>	<u>2003</u>
Computed "expected" tax expense	US\$	32,560,708	27,059,211
Increase (decrease) in income taxes resulting from:			
Exempt and foreign source income		(21,953,552)	(20,294,849)
Fiscal incentives		(86,235)	383,796
Change in allowance		(835,314)	(4,387,979)
Nondeductible expenses		<u>5,833,423</u>	<u>8,139,338</u>
	US\$	<u>15,519,030</u>	<u>10,899,517</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, 2004 and 2003 are as follows:

		<u>2004</u>	<u>2003</u>
Deferred tax assets:			
Net operating tax loss carryforwards	US\$	5,058,677	5,882,402
Allowance for loan losses		2,928,528	3,774,395
Organizational costs		490,496	0
Deferred loan origination fees and costs		355,261	413,051
Accrual of employment benefits		<u>651,260</u>	<u>655,628</u>
Gross deferred tax assets		9,484,222	10,725,476
Less-valuation allowance		<u>(6,492,609)</u>	<u>(7,327,923)</u>
Net deferred tax assets		2,991,613	3,397,553
Deferred tax liabilities-			
Tax depreciation		<u>(2,020,398)</u>	<u>(1,767,871)</u>
Deferred tax asset, net	US\$	<u>971,215</u>	<u>1,629,682</u>

The valuation allowance for deferred tax assets as of December 31, 2004 and 2003 was US\$6,492,609 and US\$7,327,923, respectively.

The net change in the total valuation allowance for the years ended December 31, 2004 and 2003 was a decrease of US\$835,314 and US\$4,387,979, 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, 2004, subsidiaries of the Bank have incurred in net operating tax loss carryforwards of US\$17,056,478 which are available to offset future taxable income of the applicable subsidiaries, if any, through 2008 as follows:

<u>Year ending December 31,</u>			
2005		US\$	5,739,919
2006			10,013,174
2007			1,094,615
2008			<u>208,770</u>
Total		US\$	<u>17,056,478</u>

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(18) Other Comprehensive Loss

The following table presents the components of and changes in accumulated other comprehensive loss for years ended December 31, 2004 and 2003:

		Foreign Currency	Unrealized Net Gain (Loss) on	Accumulated Other Comprehensiv e
		<u>Translation</u>	<u>Securities</u>	<u>Loss</u>
Beginning balance	US\$	(23,434,691)	426,377	(23,008,314)
Current period changes		<u>(11,299,854)</u>	<u>4,269,168</u>	<u>(7,030,686)</u>
Balances as of December 31, 2003		(34,734,545)	4,695,545	(30,039,000)
Current period changes		<u>(8,187,154)</u>	<u>(3,695,594)</u>	<u>(11,882,748)</u>
Balances as of December 31, 2004	US\$	<u>(42,921,699)</u>	<u>(999,951)</u>	<u>(41,921,748)</u>

The following table presents details of other comprehensive income (loss) for the years ended December 31, 2004 and 2003:

		<u>2004</u>	<u>2003</u>
Foreign currency translation:			
Adjustment for the year		(8,187,154)	(9,563,127)
Acquired from minority interest	US\$	<u>0</u>	<u>(1,736,727)</u>
		<u>(8,187,154)</u>	<u>(11,299,854)</u>
Unrealized gain (loss) on securities:			
Unrealized holding gains arising during the period		5,104,704	8,531,406
Acquired from minority interest		0	181,920
Less, reclassification adjustment to net income for net (gains) losses realized		<u>(8,800,298)</u>	<u>(4,444,158)</u>
Net unrealized gain		<u>(3,695,594)</u>	<u>4,269,168</u>
Other comprehensive loss for the year	US\$	<u>(11,882,748)</u>	<u>(7,030,686)</u>

(19) Off-Balance Sheet Financial Instruments

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

Commercial 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

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expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer. At December 31, 2004 and 2003, the Bank had not entered into non-cancellable commitments to extend credit.

As of December 31, 2004 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\$70 million to US\$516 million (US\$39 million to US\$425 million in 2003). The unused portion of the total amount available in each country, aggregated approximately from US\$33 million to US\$377 million (US\$21 million to US\$312 million in 2003). 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, 2004 and 2003 outstanding letters of credit and financial guarantees are as follows:

		<u>2004</u>	<u>2003</u>
Letters of credit	US\$	47,236,199	31,950,544
Financial guarantees		<u>53,344,106</u>	<u>48,262,971</u>
	US\$	<u>100,580,305</u>	<u>80,213,515</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, 2004 and 2003, are detailed as follows:

		<u>2004</u>	<u>2003</u>
Up to 1 year	US\$	94,251,738	74,647,570
Over 1 year		<u>6,328,567</u>	<u>5,565,945</u>
	US\$	<u>100,580,305</u>	<u>80,213,515</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, 2004 and 2003, amounted to US\$20,363,029 and US\$22,260,265, respectively.

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The Bank has recorded a liability under the stand-by letters of credit and guarantees as of December 31, 2004 and 2003 amounted to US\$497,900 and US\$1,037,657, respectively, according to FASB Interpretation No.45.

(20) 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, 2004 and 2003, accounts for approximately 34% and 33% of total loans, respectively. Through the operation of subsidiary banks in Central American countries, however, the Bank has widened its lending activities, diversifying into other consumer and commercial products. The loan book is well diversified by economic sector and by individual exposures. By country the largest loan exposures are held in Costa Rica and El Salvador.

(21) Disclosures about Fair Value of Financial Instruments

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

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' liabilities under 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. Trading and available for sale securities are carried at fair value. Refer to notes 5, 6 and 7 for fair value information as of December 31, 2004 and 2003.

(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

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segmented into fixed and adjustable rate interest terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting scheduled cash flows through the estimated maturity of the loans using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by segmenting loans into homogeneous categories and by reference to quotations available in markets where these loans were traded. Fair value for significant non-performing loans is based on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information. The fair value of loans at December 31, 2004 and 2003 was US\$1,603,466,579 and US\$1,285,272,947 (carrying value was of US\$1,599,274,086 and US\$1,290,952,978) 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, 2004 and 2003. 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, 2004 and 2003 was US\$803,132,213 and US\$684,216,477 (carrying value of US\$802,983,920 and US\$682,942,647).

(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, 2004 and 2003 was US\$387,946,237 and US\$313,996,197 (carrying value of US\$386,858,766 and US\$314,262,662).

(f) *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.

(22) Administration of Trust Contracts and Asset Management

As of December 31, 2004 and 2003, various of the Bank's subsidiaries administer and are custodian of assets which amounted to approximately US\$238,227,000 and US\$302,186,000 respectively.

(23) Tax Contingencies

As of December 31, 2004, the Superintendence for Tax Management of the Republic of Guatemala (Tax Authorities) has assessed various of the Company's Guatemala Subsidiaries for an aggregate amount of \$3.3 million in taxes, excluding penalties and imputable interest. Management of those subsidiary companies had filed appeals with the Tax Authorities in various instances and, based on the assessment of tax and legal counsels, believe that the Company subsidiaries position will prevail with no material adverse effect of the Company's

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consolidated financial position or results of operations. Nonetheless, a provision of \$750 thousands has been established to cover for any taxes and penalties that might result from these proceedings.

(24) 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.

(25) 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, 2004 and 2003, the Bank's operations were in compliance with such regulatory requirements.