



**BANCO INTERNACIONAL DE COSTA
RICA, S.A. – MIAMI AGENCY**

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
200 South Biscayne Boulevard
Miami, FL 33131

Independent Auditors' Report

The Board of Directors
Banco Internacional de Costa Rica, S.A.:

We have audited the accompanying statements of assets, liabilities, and Head Office accounts of Banco Internacional de Costa Rica, S.A. – Miami Agency (the Agency) as of December 31, 2010 and 2009, and the related statements of income and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in note 2(e) to the financial statements, the Agency's general allowance for loan losses is recorded on the books of the Head Office located in Panama and the allowance for classified and impaired loans is recorded on the books of the Agency. In addition, the specific loss percentages used to calculate the reserve on classified loans are established by the Head Office and the Bank Superintendency of Panama. In our opinion, the general allowance for loan losses should be recorded on the books of the Agency and loss factors used to calculate the allowance should be based on a continuing evaluation of the losses foreseen in the portfolio, changes in the nature of the loan portfolio, overall portfolio quality, historic loss experience, and current economic conditions in order for the financial statements to conform to U.S. generally accepted accounting principles.

In our opinion, except for the effects of not recording of the general allowance for loan losses and the calculation of the reserve on classified loans, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Internacional de Costa Rica, S.A. – Miami Agency as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



The Agency is part of Banco Internacional de Costa Rica, S.A., whose Head Office is located in Panama, and as such, is not a separately incorporated legal entity. As described in note 9, the Agency has extensive transactions and relationships with its Head Office and affiliated entities. As a result of these relationships, it is possible that the terms of these transactions are not the same as those which would result from transactions among wholly unrelated parties.

KPMG LLP

March 29, 2011
Certified Public Accountants

**BANCO INTERNACIONAL DE COSTA
RICA, S.A. – MIAMI AGENCY**

Statements of Assets, Liabilities, and Head Office Accounts

December 31, 2010 and 2009

Assets	2010	2009
Cash and cash equivalents:		
Cash on hand	\$ 69,366	85,475
Due from banks:		
Domestic	86,236,963	39,203,878
Foreign	1,962,614	955,005
Total cash and cash equivalents	88,268,943	40,244,358
Securities held to maturity	9,500,000	8,000,000
Loans, net	192,347,890	153,263,170
Customers' liability under acceptances outstanding	1,070,268	1,397,462
Accrued interest receivable	929,578	1,055,982
Premises and equipment, net	273,271	254,607
Other assets	256,452	323,370
Total assets	\$ 292,646,402	204,538,949
Liabilities and Head Office Accounts		
Deposits:		
Noninterest-bearing:		
Demand	\$ 22,132,355	25,152,630
Interest-bearing:		
Demand	43,970,906	14,643,612
Overnight	19,649,052	12,836,382
Time	68,463,161	53,797,259
Total deposits	154,215,474	106,429,883
Acceptances outstanding	1,070,268	1,397,462
Official checks outstanding	181,401	176,263
Accrued interest payable	756,658	438,138
Other liabilities	1,201,736	759,156
Total liabilities	157,425,537	109,200,902
Head Office accounts:		
Contribution from Head Office	79,986	79,986
Due to Head Office – noninterest-bearing	272,341	287,899
Due to Head Office – interest-bearing	110,850,000	77,239,421
Retained earnings	24,018,538	17,730,741
Total Head Office accounts	135,220,865	95,338,047
Commitments and contingencies		
Total liabilities and Head Office accounts	\$ 292,646,402	204,538,949

See accompanying notes to financial statements.

**BANCO INTERNACIONAL DE COSTA
RICA, S.A. – MIAMI AGENCY**

Statements of Income and Changes in Retained Earnings

Years ended December 31, 2010 and 2009

	2010	2009
Interest income:		
Loans	\$ 11,696,526	10,824,248
Securities	152,886	172,774
Interest-earning deposits with banks and Federal funds sold	175,576	147,592
Total interest income	12,024,988	11,144,614
Interest expense:		
Time and demand deposits	2,592,646	2,206,417
Overnight deposits	586,617	414,046
Borrowed funds	—	115,847
Total interest expense	3,179,263	2,736,310
Net interest income	8,845,725	8,408,304
(Recovery of) provision for loan losses	(2,416,878)	651,664
Net interest income after (recovery of) provision for loan losses	11,262,603	7,756,640
Other noninterest income:		
Commissions on letters of credit, service fees, and other income	901,358	857,919
Total other noninterest income	901,358	857,919
Other noninterest expenses:		
Salaries and employee benefits	3,509,752	2,926,755
Occupancy	862,318	672,856
Severance	—	31,014
Professional fees	430,145	536,395
Equipment, car rentals, and related expenses	289,437	241,113
Depreciation and amortization	157,394	208,272
Telephone and communications	94,470	85,615
Commission expense	92,543	—
Postage and freight	49,490	47,173
Printing and stationery	37,420	38,237
Travel and entertainment	36,964	36,924
Other	269,171	442,505
Total other noninterest expenses	5,829,104	5,266,859
Income before income taxes	6,334,857	3,347,700
Income tax expense	47,060	63,303
Net income	6,287,797	3,284,397
Retained earnings, beginning of year	17,730,741	14,446,344
Retained earnings, end of year	\$ 24,018,538	17,730,741

See accompanying notes to financial statements.

**BANCO INTERNACIONAL DE COSTA
RICA, S.A. – MIAMI AGENCY**

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net income	\$ 6,287,797	3,284,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157,394	208,272
Loss on disposal of equipment	—	34,697
(Recovery of) provision for loan losses	(2,416,878)	651,664
Changes in assets and liabilities:		
Accrued interest receivable and other assets	193,322	128,494
Accrued interest payable and other liabilities	761,100	115,523
Net cash provided by operating activities	<u>4,982,735</u>	<u>4,423,047</u>
Cash flows from investing activities:		
Net increase in loans	(36,667,842)	(3,773,484)
Proceeds from maturities and redemptions of securities held to maturity	29,500,000	25,500,000
Purchases of securities held to maturity	(31,000,000)	(25,500,000)
Purchases of premises and equipment	(176,058)	(103,543)
Net cash used in investing activities	<u>(38,343,900)</u>	<u>(3,877,027)</u>
Cash flows from financing activities:		
Net increase (decrease) in demand deposits	26,307,019	(2,124,961)
Net increase (decrease) in overnight deposits	6,812,670	(12,964,681)
Net increase in time deposits	14,665,902	3,880,457
Net decrease in borrowed funds	—	(8,450,000)
Net increase in official checks outstanding	5,138	4,013
Net increase in due to Head Office	33,595,021	13,711,709
Net cash provided by (used in) financing activities	<u>81,385,750</u>	<u>(5,943,463)</u>
Net increase (decrease) in cash and cash equivalents	48,024,585	(5,397,443)
Cash and cash equivalents, beginning of year	<u>40,244,358</u>	<u>45,641,801</u>
Cash and cash equivalents, end of year	<u>\$ 88,268,943</u>	<u>40,244,358</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 2,860,743	2,949,950
Cash paid for taxes	—	95,000
Supplemental disclosure of noncash investing and financing activities:		
Customers' liability under acceptances outstanding and acceptances outstanding	\$ (327,194)	1,203,643

See accompanying notes to financial statements.

**BANCO INTERNACIONAL DE COSTA
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Notes to Financial Statements

December 31, 2010 and 2009

(1) Organization and Business

Banco Internacional de Costa Rica, S.A. – Miami Agency (the Agency), an agency of Banco Internacional de Costa Rica, S.A., Panama (the Head Office), operates in Miami, Florida, under a license granted by the Office of the Comptroller of the State of Florida.

The Agency provides a full range of banking services to foreign individuals and corporate customers. The majority of the Agency's loans are with private-sector borrowers in Costa Rica and other Central American countries. Private individuals and financial institutions provide most of the Agency's liquidity. Accordingly, the Agency's funding sources and the ultimate collectibility of a substantial portion of the Agency's loan portfolio are susceptible to changes in the Costa Rican and other Central American countries' economies, foreign trade, balance-of-payment status, foreign exchange, and other fiscal controls that may be established.

The Agency is subject to the regulations of certain State of Florida and federal agencies and undergoes periodic examinations by those regulatory authorities. The Agency has entered into an agreement with the Federal Regulatory and State Regulatory Authorities, which requires, among other things, the continued maintenance and reporting of certain minimum capital ratios and maturity guidelines. Among the requirements of the Agreement, the Agency must maintain the ratio of its eligible assets to third-party liabilities at a minimum of 110% on a daily basis. The Agency was in compliance with these provisions at December 31, 2010.

(2) Summary of Significant Accounting Policies

The following is a description of the significant accounting policies and practices followed by the Agency, which, except for the general allowance for loan losses and the allowance for classified loans, conform to accounting principles generally accepted in the United States of America (GAAP) and reflect banking industry practices.

(a) Adoption of Accounting Standards Codification

In September 2009, the Agency adopted Accounting Standards Update (ASU) No. 2009-01, *Topic 105 – Generally Accepted Accounting Principles amendments based on Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASU 2009-01). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The hierarchy of GAAP, which became effective on November 13, 2008, identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP and arranged these sources of GAAP in a hierarchy for users to apply accordingly. All of the hierarchy's content carries the same level of authority with only two levels of GAAP: authoritative and nonauthoritative. ASU 2009-01 was effective for reporting periods ending after September 15, 2009.

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(b) *Basis of Presentation*

The Agency is part of Banco Internacional de Costa Rica, S.A. whose Head Office is located in Panama and, as such, the Agency is not a separately incorporated legal entity. The financial statements have been prepared from the records of the Agency, which contain evidence that transactions have been entered into and recorded locally. Because the Agency is part of the Head Office, its financial statements do not necessarily reflect all allocations or other financial matters that may be applicable to the Agency. Further, because of the relationship with the Head Office and certain affiliates, it is possible that the transactions recorded locally may not be the same as transactions among wholly unrelated parties.

(c) *Cash and Cash Equivalents*

Cash equivalents include due from banks, federal funds sold, and time deposits due from banks purchased with original maturities of 90 days or less.

(d) *Securities*

The Agency classifies its debt securities as held-to-maturity. Held-to-maturity securities are those for which the Agency has the ability and intent to hold until maturity and are recorded at amortized cost, adjusted for the amortization of premiums or accretion of discounts. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective-interest method. Interest income is recognized on the accrual basis. A decline in the market value of any held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value.

(e) *Loans and Allowance for Loan Losses*

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and deferred loan fees. Loan fees are amortized over the term of the related loan as an adjustment to interest income. Interest income is recognized on the accrual basis. Accrual of interest is discontinued on a loan when principal or interest is delinquent for more than 90 days, or when management believes that the borrower's financial condition is such that collection of interest is unlikely. Collection of interest on nonperforming loans is recognized as income on a cash basis unless collection of principal is doubtful, in which case cash collections are applied to unpaid principal. Loans are charged off against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Collections of previously charged off loans are recognized as a recovery in the allowance for loan losses on a cash basis.

Management, using current information and events regarding a borrower's ability to repay their obligations, considers a loan to be impaired when it is probable that the Agency will be unable to collect all amounts due according to the contractual terms of the loan. When a loan is considered to be impaired, the amount of the impairment is measured based on the expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Impairment losses are included in the allowance for loan losses through a charge to the provision.

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The Agency currently maintains its general allowance for loan losses at the Head Office and the specific loss percentages to calculate the reserve on classified loans are established by Head Office and the Bank Superintendency of Panama. Although this practice is in accordance with regulatory accounting principles, it is not in accordance with GAAP. In accordance with GAAP, the general reserves should be held at the Agency level and loss factors used to calculate the allowance should present an amount, which in the judgment of management, is adequate to absorb losses on existing loans based upon a continuing evaluation of the losses foreseen in the portfolio. Management's evaluation should take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, historic loss experience, loan collateral review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

(f) Premises and Equipment

Premises and equipment are carried at cost net of accumulated depreciation and amortization. Depreciation for furniture and equipment is charged to other noninterest expenses using the straight-line method over a seven-year period for furniture and fixtures, a five-year period for equipment, and a three-year period for computer equipment, which approximates the useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or the estimated economic life of the improvements. Maintenance and repairs are charged to expenses as incurred and betterments are capitalized.

(g) Commissions and Fees

Loan origination fees are deferred and recognized as an adjustment of yield on a straight-line basis over the contractual term of the loan. Commissions and fees on letters of credit are deferred and recognized in income as commissions on letters of credit and service fee income on a straight-line basis over the term of the letter of credit.

(h) Income Taxes

The Agency is subject to U.S. federal and Florida state income taxes. For the years ended December 31, 2010 and 2009, income tax expense was determined using the "adjusted U.S. booked liabilities" method of calculating interest expense as described in Section 1.882-5 of the U.S. Department of the Treasury Regulations. For years before 2007, the Agency is no longer subject to U.S. federal or Florida income tax examinations.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the 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 credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply 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 period that includes the enactment date.

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Beginning with the adoption of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, included in ASC Subtopic 740-10, *Income Taxes – Overall*, as of January 1, 2009, the Agency recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, the Agency recognized the effect of income tax positions only if such positions were probable of being sustained. It was determined that there were no material uncertain tax positions that are more likely than not to not be sustained as of December 31, 2010.

The Agency records interest and penalties related to unrecognized tax benefits in other expenses.

(i) Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period to prepare the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and off-balance-sheet credit risk, the valuation of deferred tax assets, and reserves for income tax uncertainties and other contingencies. Management believes that these estimates are adequate. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(j) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets are reviewed 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.

(k) Fair Value Measurements

On January 1, 2008, the Agency adopted the provisions of ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 13).

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On January 1, 2009, the Agency adopted the provisions of ASC Topic 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

(l) Fair Value Option

Effective January 1, 2008, the Agency adopted the fair value option provisions of ASC Subtopic 825-10. ASC Subtopic 825-10 gives the Agency the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. The Agency did not apply the provisions of ASC Subtopic 825-10 to any instruments for the years ended December 31, 2010 or 2009.

(m) Interest Rate Risk

The Agency's profitability is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and interest expense on interest-bearing liabilities. The Agency, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities, and is measured in terms of the ratio of the interest rate sensitivity gap to total assets. More assets repricing or maturing than liabilities over a given time frame is considered asset sensitive or a positive gap, and more liabilities repricing or maturing than assets over a given time frame is considered liability sensitive or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and reduce earnings in a falling interest rate environment, while a liability-sensitive position will generally enhance earnings in a falling interest rate environment and reduce earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Agency has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income of changes in market interest rates.

(n) Recently Issued Accounting Pronouncements

The FASB issued ASU 2009-16, *Transfers and Servicing* (ASC Topic 860): *Accounting for Transfers of Financial Assets* (FASB Statement No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*), in December 2009. ASU 2009-16 removes the concept of a qualifying special-purpose entity (QSPE) from ASC Topic 860, and the exception from applying ASC 810-10 to QSPEs, thereby requiring transferors of financial assets to evaluate whether to consolidate transferees that previously were considered QSPEs. Transferor-imposed constraints on transferees whose sole purpose is to engage in securitization or asset-backed financing activities are evaluated in the same manner under the provisions of the ASU as transferor-imposed constraints on QSPEs were evaluated under the provisions of ASC Topic 860 prior to the effective date of the ASU when determining whether a transfer of financial assets qualifies for sale accounting. The ASU also clarifies the ASC Topic 860 sale-accounting criteria pertaining to legal isolation and effective control and creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale. The adoption of ASU 2009-16 did not have a material impact on the financial statements.

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(3) Securities Held to Maturity

The amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2010 and 2009 are summarized as follows:

	2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government-sponsored entity debt securities	\$ 9,500,000	11,760	(86,700)	9,425,060

	2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government-sponsored entity debt securities	\$ 8,000,000	8,795	(21,450)	7,987,345

Contractual maturities of securities held to maturity were as follows at December 31, 2010:

	2010	
	Amortized cost	Estimated fair value
Due within one year	\$ 1,500,000	1,499,985
Due from one to five years	8,000,000	7,925,075
	\$ 9,500,000	9,425,060

At both December 31, 2010 and 2009, the Agency had investment securities of approximately \$9,500,000 and \$8,000,000, respectively, pledged as collateral to secure certain repurchase agreements. As of December 31, 2010 and 2009, the Agency had \$7,769,052 and \$4,646,382, respectively, of repurchase agreements outstanding included in overnight interest-bearing deposits.

The Agency's investment securities with unrealized losses are summarized below:

	December 31, 2010					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
U.S. government-sponsored entity debt securities	\$ 1,500,000	(15)	6,500,000	(86,685)	8,000,000	(86,700)
	\$ 1,500,000	(15)	6,500,000	(86,685)	8,000,000	(86,700)

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	December 31, 2009					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
U.S. government-sponsored entity debt securities	\$ 4,478,550	(21,450)	—	—	4,478,550	(21,450)
	<u>\$ 4,478,550</u>	<u>(21,450)</u>	<u>—</u>	<u>—</u>	<u>4,478,550</u>	<u>(21,450)</u>

The unrealized losses within the investment portfolio are considered temporary and are mainly due to changes in the interest rate cycle. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Agency (a) does not intend to sell the securities and (b) believes that it is not more likely than not that it will be required to sell the securities before recovery of their amortized cost basis, the securities are not considered to be other-than-temporarily impaired.

(4) Loans, Net

The Agency's loans to borrowers primarily comprise 90- to 180-day trade financing lines of credit principally to Central American borrowers with which the Head Office or the Agency has prior relationships. Commercial and industrial loans are primarily trade financing loans established under lines of credit with foreign entities other than financial institutions. At December 31, 2010 and 2009, the Agency had loans outstanding as follows:

	<u>2010</u>	<u>2009</u>
Commercial and industrial	\$ 167,995,373	137,633,348
Public institutions	20,202,320	16,514,584
Acceptances discounted	4,663,755	—
Individuals	515,718	250,701
	<u>193,377,166</u>	<u>154,398,633</u>
Less allowance for loan losses	<u>(1,029,276)</u>	<u>(1,135,463)</u>
	<u>\$ 192,347,890</u>	<u>153,263,170</u>

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The Agency had loans outstanding to borrowers located in the following countries:

	<u>2010</u>	<u>2009</u>
Costa Rica	\$ 95,456,681	99,868,048
United States	47,616,811	15,617,875
El Salvador	17,125,079	16,314,140
Peru	14,875,652	—
Guatemala	9,328,896	18,437,762
Honduras	8,674,047	2,778,631
Bolivia	300,000	—
Panama	—	1,382,177
	<u>\$ 193,377,166</u>	<u>154,398,633</u>

Changes in the allowance for loan losses are summarized 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 1,135,463	295,324
(Recovery of) provision for loan losses	(2,416,878)	651,664
Recoveries	2,842,641	274,922
Charge-offs	(531,950)	(86,447)
Balance, end of year	<u>\$ 1,029,276</u>	<u>1,135,463</u>

At December 31, 2010 and 2009, the Head Office had allocated \$1,500,000 and \$1,000,000, respectively, in general allowance for loan losses to the Agency. At December 31, 2010 and 2009, the Agency had recorded a specific reserve of \$1,029,276 and \$1,135,463, respectively, in the allowance for loan losses.

At December 31, 2010 and 2009, the Agency had investments in loans that are considered to be impaired, which amounted to \$91,422 and \$1,256,503, respectively, with a related allowance for loan losses of \$18,284 and \$978,254, respectively. The average recorded investment in impaired loans during the years ended December 31, 2010 and 2009 amounted to \$1,395,738 and \$331,092, respectively. There are no commitments to lend additional funds to these borrowers. Management believes that the net carrying value of these loans does not exceed the estimated net realizable value of the underlying collateral.

Loans on which the accrual of interest has been discontinued amounted to \$91,422 and \$1,256,503 at December 31, 2010 and 2009, respectively. If nonaccrual loans were on a full accrual basis, additional interest income of \$8,258 and \$14,658 would have been recorded in 2010 and 2009, respectively.

During 2005, the Agency along with other financial institutions entered into an agreement with an unrelated third party for purposes of financing the purchase of a company whose loans in the amount of \$1,512,000 were charged off by the Agency in 2004. This troubled debt restructuring is maintained off balance sheet and payments received under this agreement are being recorded as a recovery of loan losses on a cash basis.

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(5) Premises and Equipment, Net

Premises and equipment, net, are summarized 2010 and 2009 as follows:

	2010	2009
Equipment	\$ 1,532,864	1,548,340
Furniture and fixtures	180,244	254,743
Leasehold improvements	313,962	216,691
	2,027,070	2,019,774
Less accumulated depreciation and amortization	(1,753,799)	(1,765,167)
	\$ 273,271	254,607

(6) Deposits

Time certificates of deposit to parties other than Head Office in denominations of \$100,000 or more amounted to \$64,474,270 and \$49,456,116 at December 31, 2010 and 2009, respectively. The majority of these time deposits mature within one year and the average interest rate was approximately 3.40% and 3.72% at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, there was \$13,389,199 and \$2,170,376, respectively, in time certificates of deposit in denominations of \$100,000 or more with maturities between one and four years. At December 31, 2010 and 2009, there were overdrafts of \$199,901 and \$507, respectively, which have been included within loans, net and presented within the respective categories.

(7) Borrowed Funds

The Head Office and Agency maintain lines of credit with other financial institutions amounting to \$39,337,000 and \$41,536,000 as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, \$30,805,000 and \$38,795,000, respectively, remained unused.

At December 31, 2010 and 2009, the Agency had no outstanding borrowings from foreign or domestic banks. Off-balance-sheet borrowings for letters of credit against these lines of credit amounted to \$8,532,000 and \$2,741,000 as of December 31, 2010 and 2009.

(8) Income Taxes

The Head Office files its U.S. federal income tax return with operating results of the Agency, relating to the portion of income, which is effectively connected with its U.S. operations.

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Income tax expense for the years ended December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Current tax expense:		
Federal	\$ 47,060	63,303
State	—	—
Total current	<u>47,060</u>	<u>63,303</u>
Deferred tax expense:		
Federal	—	—
State	—	—
Total deferred	<u>—</u>	<u>—</u>
Total income tax expense	<u>\$ 47,060</u>	<u>63,303</u>

The actual income tax expense differs from the “expected” tax expense for the years ended December 31, 2010 and 2009 (computed by applying the U.S. federal corporate tax rate of 34% to income before taxes) as follows:

	<u>2010</u>	<u>2009</u>
Computed “expected” income tax expense	\$ 2,153,851	1,138,218
State and local income taxes, net of federal benefits	80,051	(8,828)
Expenses of Head Office and branches, allocable to Agency	(213,085)	(231,422)
Interbranch interest income, net of interest expense	(4,271)	(3,093)
Tax interest expense	307,747	332,973
Meals and entertainment	1,115	1,120
Noneffectively connected income	(2,721,991)	(2,518,786)
Noneffectively connected expenses	1,164,750	1,198,299
Other	61,202	60,859
Change in valuation allowance	(782,309)	93,963
Income tax expense	<u>\$ 47,060</u>	<u>63,303</u>

For the years ended December 31, 2010 and 2009, there was no federal branch profits tax liability or federal branch-level interest tax liability.

At December 31, 2010 and 2009, the Agency had federal net operating loss carryforwards of approximately \$24,096,000 and \$26,032,000, respectively, which expire in various amounts and in various years through 2027. The Agency had state of Florida net operating loss carryforwards at December 31, 2010 and 2009 of approximately \$23,106,000 and \$25,067,000, respectively. The unused federal and state

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net operating losses are the Agency's most significant deferred tax asset. The tax effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 9,067,390	9,795,631
Depreciation	5,275	40,003
Allowance for losses	387,317	427,274
Nonaccrual interest	4,899	23,342
Accrued bonus	—	4,614
Alternative minimum tax credit	69,223	22,163
Charitable contributions	—	3,386
	<u>9,534,104</u>	<u>10,316,413</u>
Less valuation allowance	<u>(9,534,104)</u>	<u>(10,316,413)</u>
Total deferred tax asset	<u>\$ —</u>	<u>—</u>

The valuation allowance for deferred tax assets decreased \$782,309 for the year ended December 31, 2010 and increased \$93,963 for the year ended December 31, 2009. 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. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods, which the deferred tax assets are deductible, management believes it is more likely than not Head Office will not realize the benefits of these deductible differences.

At December 31, 2010, the Agency's federal and Florida net operating losses expire as follows:

	<u>Federal</u>	<u>Florida</u>
2022	\$ 1,052,000	69,000
2023	5,287,000	5,285,000
2024	6,461,000	6,459,000
2025	1,800,000	1,799,000
2026	5,540,000	5,539,000
2027	3,956,000	3,955,000
	<u>\$ 24,096,000</u>	<u>23,106,000</u>

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(9) Related-Party Transactions

The Agency engages in numerous transactions with parties that are related by common ownership, control, or affiliation. Related parties include the Head Office and its stockholder banks, affiliates and employees. Related-party balances included in the accompanying financial statements as of and for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Assets:		
Cash and due from banks	\$ 834,470	630,891
Loans	20,738	25,701
Accrued interest receivable	65	94
Total assets	<u>855,273</u>	<u>656,686</u>
Liabilities:		
Deposits:		
Noninterest-bearing – demand	3,987,442	3,822,880
Interest-bearing – demand	73	4,997
Interest-bearing – overnight	11,080,000	6,380,000
Interest-bearing – time	18,455	535,066
Accrued interest payable	16,143	15,078
Customers' liability under acceptances outstanding and deferred payment letters of credit and unearned income	855	855
Total liabilities	<u>15,102,968</u>	<u>10,758,876</u>
Head Office accounts:		
Contribution from Head Office	79,986	79,986
Due to Head Office – noninterest-bearing	272,341	287,899
Due to Head Office – interest-bearing	110,850,000	77,239,421
Retained earnings	24,018,538	17,730,741
Total Head Office accounts	<u>135,220,865</u>	<u>95,338,047</u>
Total liabilities and Head Office accounts	<u>150,323,833</u>	<u>106,096,923</u>
Net related-party liability position	<u>\$ (134,365,592)</u>	<u>(94,681,361)</u>
Interest income	\$ 18,661	12,767
Interest expense	703,894	614,272
Noninterest income	14,030	11,222

At both December 31, 2010 and 2009, Head Office had \$1,500,000 and \$1,000,000, respectively, in allowance for loan loss reserves recorded on its books for the benefit of the Agency.

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(10) Retirement Savings Plan

The Agency has adopted a contributory 401(k) retirement savings plan. All employees of the Agency are eligible to participate in the plan after one full month of employment. The Agency contributes up to 6% of each employee's salary, excluding bonuses, to the plan on a yearly basis. The Agency's contribution expense to this plan during 2010 and 2009 amounted to \$86,688 and \$85,618, respectively.

(11) Financial Instruments with Off-Balance-Sheet Credit Risk

The Agency is a party to financial instruments with off-balance-sheet credit risk that arise in the normal course of business and that involve elements of credit and liquidity risk. Among such financial instruments are commercial letters of credit and standby letters of credit. A summary of the Agency's outstanding letters of credit at December 31, 2010 and 2009 is as follows:

	2010	2009
Commercial letters of credit	\$ 29,606,378	8,894,106
Standby letters of credit	4,761,571	5,601,305

Commercial letters of credit and standby letters of credit include exposure to some credit loss in the event of nonperformance by the customer. The Agency's credit policies and procedures to approve letters of credit are the same as those for extensions of credit that are recorded on the balance sheet. While a significant portion of outstanding commercial letters of credit is utilized, the major portion of such utilizations is on an immediate payment basis. The remainder is secured by collateral or the goods acquired by the customer with the letter of credit. There are no loan commitments to extend credit.

Standby letters of credit represent irrevocable guarantees by the Agency for the performance of specified financial obligations and arise in the normal course of business. These financial instruments have fixed maturity dates and, since many of them expire without being drawn, they do not generally present a significant liquidity risk to the Agency. Fees collected on standby letters of credit represent the fair value of those commitments and are deferred and amortized over their term, which is typically one year or less.

(12) Commitments and Contingencies

The Agency leases its current office space under a two-year operating lease agreement expiring in 2012. In May 2010, the Agency amended its lease, reduced the amount of square footage occupied, and paid a lease modification fee of \$250,000 which is included in occupancy expense.

Future minimum lease payments at December 31, 2010 are as follows:

Year ending:		
2011	\$	348,775
2012		146,978
	\$	495,753

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The Agency is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Agency's financial position, results of operations, or liquidity.

(13) Fair Value of Measurements

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values of the Agency's financial instruments as of December 31, 2010 and 2009. The fair value of a financial instrument is the amount 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.

- The book value was used as a reasonable estimate of fair value for the following financial instruments: cash and cash equivalents, variable rate loans and fixed rate loans with maturities less than one year, letters of credit, customers' liability under acceptances outstanding, demand deposits, fixed rate time deposits with maturities less than one year, acceptances outstanding, and borrowed funds.
- Fair values of securities held to maturity are based on quoted market prices (note 2).
- At December 31, 2010 and 2009, the Agency had fixed rate loans with maturities greater than one year. Fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar term to borrowers of similar quality. The carrying value and fair value of these loans was \$22,606,581 and \$22,666,210, respectively, at December 31, 2010 and \$2,052,581 and \$2,058,741, respectively, at December 31, 2009. This estimated fair value is not an exit price fair value under ASC 820 when this valuation technique is used.
- Time deposits with maturities in excess of one year amounted to approximately \$14,072,045 and \$2,350,746 at December 31, 2010 and 2009, with estimated fair values of \$14,101,648 and \$2,319,324, respectively. Fair values for fixed rate certificates of deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

The fair values of the financial statements discussed above as of December 31, 2010 and 2009 represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Agency's own judgment about the assumptions that market participants would use in pricing the asset or liability.

(b) Fair Value Hierarchy

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to

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measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Agency has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The following tables present the Agency's activity for assets that are measured at fair value at December 31, 2010 and 2009:

		2010		
		Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Fair value measurements		
Assets:				
	Loans	\$ 73,138	—	73,138
	Total	<u>\$ 73,138</u>	<u>—</u>	<u>73,138</u>

		2009		
		Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Fair value measurements		
Assets:				
	Loans	\$ 278,249	—	278,249
	Total	<u>\$ 278,249</u>	<u>—</u>	<u>278,249</u>

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Nonrecurring fair value adjustments to loans identified as impaired reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the collateral in accordance with ASC Topic 820. Fair value for other assets owned is measured on a nonrecurring basis in accordance with ASC Topic 820. These fair value measurements are based using a market approach valuation technique.

(14) Disclosure of Significant Concentration of Credit Risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or have similar features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The majority of the Agency's loans are with foreign borrowers within the private, public, and financial sectors. Generally, deposits from Costa Rica provide the majority of the Agency's liquidity. Accordingly, the Agency's funding sources and the ultimate collectibility of a substantial portion of the Agency's loan portfolio are susceptible to changes in the Costa Rican economy, foreign trade, balance of payment status, and other fiscal factors.

(15) Regulatory Matters

Federal and state banking authorities require that the assets of the Agency be of sufficient quality to support its third-party liabilities and that banking liquidity be maintained. The Agency operates under the supervision of the Office of the Federal Register (OFR).

The OFR requires international bank agencies to maintain dollar deposits or investment securities with the state of Florida bank equal to the greater of \$4,000,000 or seven percent of total liabilities, excluding accrued expenses and liabilities to affiliated branches, offices, agencies, or entities. As of December 31, 2010 and 2009, the Agency's quarterly capital equivalency/asset maintenance ratio was 1.74% and 1.85%, respectively, which is above the required ratio of 1.07%.

(16) Severance Expenses

During 2008, the Agency under the direction of its Head Office underwent a workforce reduction plan that involved the transfer of some back-office and managerial functions and duties in order to streamline and centralize operational costs. In addition, the change was implemented in order for the Agency to be more in line with Head Office's corporate objectives for 2009 and beyond. During the years ended December 31, 2010 and 2009, the Agency incurred \$0 and \$31,014, respectively, in severance expenses.

(17) Subsequent Events

The Company has evaluated subsequent events from the date of the statements of assets, liabilities, and Head Office accounts through March 29, 2011, the date at which the financial statements were available to be issued, and determined that there are no other items disclosed.