

**BANCO INTERNACIONAL DE COSTA RICA, S.A.
AND SUBSIDIARY**

(Panama, Republic of Panama)

**Consolidated Financial Statements and
Consolidation Information**

December 31, 2007

(With Independent Auditors' Report Thereon)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

BANCO INTERNACIONAL DE COSTA RICA, S.A. AND SUBSIDIARY
(Panama, Republic of Panama)

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

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

INDEPENDENT AUDITORS' REPORT TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF BANCO DE INTERNACIONAL DE COSTA RICA, S. A.

We have audited the accompanying consolidated financial statements of Banco Internacional de Costa Rica, S.A. and subsidiary (the "Bank"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and explanatory notes. As of December 31, 2006, the financial statements of Banco Internacional de Costa Rica, S. A. and subsidiary were audited by other auditors who expressed an unqualified opinion on those financial statements, in their report dated February 8, 2007.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as modified by prudential regulations enacted by the Superintendence of Banks of Panama, for supervisory purposes. This responsibility includes: designing, implementing and maintaining internal control policies relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the entity, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco Internacional de Costa Rica, S.A. and subsidiary as of December 31, 2007, and of its financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards, as modified by prudential regulations enacted by the Superintendencia of Banks of Panama for supervisory purposes, as described in note (2) to the consolidated financial statements.

Consolidating Information

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information for the year 2007 included in Schedules 1 and 2 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, financial performance, cash flows and shareholders' equity of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Emphasis of Matter

As disclosed in Note (2) to the consolidated financial statements, the Superintendencia of Banks of Panama has mandated the Bank to present the corresponding figures to the year ended December 31, 2006, applying the prudential standards enacted by this regulator. These corresponding figures of the previous year that accompany the financial statements of the year 2007 have been presented by the bank in view of this requirement of the regulator. This matter does not constitute a qualification of the opinion we have expressed in the previous opinion paragraph.

KPMG (SIGNED)

February 28, 2008
Panama, Republic of Panama

BANCO INTERNACIONAL DE COSTA RICA, S.A. AND SUBSIDIARY

(Panama, Republic of Panama)

Consolidated Balance Sheet

December 31, 2007

(Stated in Dollars of the United States of America)

<u>Assets</u>	<u>Note</u>	<u>2007</u>	<u>2006</u>
Cash		739,321	652,042
Deposits with banks:			
Local demand deposits		4,501,569	6,956,962
Foreign demand deposits		12,096,837	15,599,249
Local time deposits		13,438,565	29,550,433
Foreign time deposits		30,149,306	82,522,334
Total due from banks		60,186,277	134,628,978
Total cash and due from banks	8	60,925,598	135,281,020
Securities purchased under agreements to resell	9	13,997,890	14,879,690
Securities available for sale	10	64,362,437	10,945,980
Securities held to maturity	10	29,676,429	77,564,687
Loans	11	550,277,619	453,933,872
Less: allowance for loan losses	11	5,065,516	4,093,446
Unearned interest and commission		150,876	103,478
Loans, net	11	545,061,227	449,736,948
Property, equipment and improvements, net	12	1,813,858	1,943,766
Accrued interest receivable		5,301,714	5,301,041
Customers' liabilities under acceptances		18,281,655	14,662,486
Intangible assets	13	346,768	401,425
Deferred income tax	7	296,783	165,605
Other assets	14	6,667,236	2,085,973
Total assets		746,731,595	712,968,621

The consolidated balance sheet should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

<u>Liabilities and Stockholders' Equity</u>	<u>Note</u>	<u>2007</u>	<u>2006</u>
Deposits due to customers:			
Demand - local		16,868,008	11,944,264
Demand - foreign		76,459,540	94,538,397
Savings		891,394	813,906
Time - local		78,584,573	42,702,314
Time - foreign		139,641,395	122,325,011
Interbank time deposits:			
Local		74,326,387	50,373,928
Foreign		96,825,943	156,404,269
Total deposits		<u>483,597,240</u>	<u>479,102,089</u>
Securities sold under repurchase agreements	15	13,919,056	0
Borrowings payable	17	124,995,564	121,854,960
Drafts, cashier's and certified checks		983,762	1,492,233
Accrued interest payable		3,934,169	3,162,267
Acceptances outstanding		18,281,655	14,662,486
Deferred income tax	7	25,065	38,049
Other liabilities	16	6,214,756	6,171,142
Total liabilities		<u>651,951,267</u>	<u>626,483,226</u>
Stockholders' equity:			
Common shares	18	65,000,000	45,000,000
Capital reserve		150,000	150,000
Unrealized gains on securities available for sale	10	132,653	139,823
Retained earnings		29,497,675	41,195,572
Total stockholders' equity	3	<u>94,780,328</u>	<u>86,485,395</u>
Commitments and contingencies	19		
Total liabilities and stockholders' equity		<u><u>746,731,595</u></u>	<u><u>712,968,621</u></u>

BANCO INTERNACIONAL DE COSTA RICA, S.A. AND SUBSIDIARY

(Panama, Republic of Panama)

Consolidated Income Statement

For the year ended December 31, 2007

(Stated in Dollars of the United States of America)

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Interest and commission income:			
Interest on:			
Loans		37,373,103	33,751,526
Deposits with banks		4,228,918	4,452,764
Securities		5,794,978	4,231,770
Commission on loans		854,769	741,376
Total interest and commission income		<u>48,251,768</u>	<u>43,177,436</u>
Interest expense:			
Deposits		21,408,572	18,440,008
Borrowings received and repurchase agreements		6,834,639	5,262,886
Total interest expense		<u>28,243,211</u>	<u>23,702,894</u>
Net interest and commission income		<u>20,008,557</u>	<u>19,474,542</u>
Provision for losses on financial assets:			
Loans	11	<u>1,120,428</u>	<u>1,762,754</u>
Net interest and commission income after provisions		<u>18,888,129</u>	<u>17,711,788</u>
Income (expenses) from banking and other services:			
Other commissions	5	2,360,153	2,813,231
Net gain on securities	10	160,136	49,305
Fiduciary services		472,865	396,145
Reversal of reserve for contingencies		780,342	0
Commission expenses	6	(155,285)	(177,485)
Other income	5	2,571,120	1,010,083
Total income from banking and other services, net		<u>6,189,331</u>	<u>4,091,279</u>
General and administrative expenses:			
Salaries and other remunerations	6	9,505,750	8,618,799
Rents		902,975	883,096
Advertising and promotion		336,644	298,477
Fees and professional services		1,525,634	975,841
Depreciation	12	499,021	422,384
Amortization of intangible assets	13	195,837	125,894
Other	6	3,420,600	3,867,586
Total general and administrative expenses		<u>16,386,461</u>	<u>15,192,077</u>
Net income before income tax		<u>8,690,999</u>	<u>6,610,990</u>
Income tax	7	(388,896)	(417,451)
Net income		<u>8,302,103</u>	<u>6,193,539</u>

The consolidated income statement should be read along with the accompanying notes which are part of the consolidated financial statements.

BANCO INTERNACIONAL DE COSTA RICA, S.A. AND SUBSIDIARY
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Consolidated Statement of Changes in Stockholders' Equity

Year ended December 31, 2007

(Stated in Dollars of the United States of America)

	<u>Note</u>	<u>Common shares</u>	<u>Capital Reserves</u>	<u>Regulatory reserve</u>	<u>Unrealized gains on securities available for sale</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as of December 31, 2005		45,000,000	150,000	0	162,139	35,002,033	80,314,172
Net change in fair value of securities available for sale		0	0	0	26,989	0	26,989
Transfer to results of operations	10	0	0	0	(49,305)	0	(49,305)
Net income recognized directly in equity		0	0	0	(22,316)	0	(22,316)
Regulatory loan allowance		0	0	1,171,685	0	(1,171,685)	0
Net income - 2006		0	0	0	0	6,193,539	6,193,539
Total income (expense) recognized in the period		0	0	1,171,685	(22,316)	5,021,854	6,171,223
Balance as of December 31, 2006, as reported under IFRS		45,000,000	150,000	1,171,685	139,823	40,023,887	86,485,395
Transfer to assets due to regulatory requirements		0	0	(1,171,685)	0	1,171,685	0
Balance as of December 31, 2006, under IFRS modified by prudential standards enacted by the regulator		45,000,000	150,000	0	139,823	41,195,572	86,485,395
Net change in fair value of securities available for sale		0	0	0	152,966	0	152,966
Transfer to results of operations	10	0	0	0	(160,136)	0	(160,136)
Net income recognized directly in equity		0	0	0	(7,170)	0	(7,170)
Net income - 2007		0	0	0	0	8,302,103	8,302,103
Total income (expense) recognized in the period		0	0	0	(7,170)	8,302,103	8,294,933
Capitalization of earnings		20,000,000	0	0	0	(20,000,000)	0
Balance as of December 31, 2007		<u>65,000,000</u>	<u>150,000</u>	<u>0</u>	<u>132,653</u>	<u>29,497,675</u>	<u>94,780,328</u>

The consolidated statement of changes in stockholders' equity should be read along with the notes which are an integral part of the consolidated financial statements.

BANCO INTERNACIONAL DE COSTA RICA, S.A. AND SUBSIDIARY
(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

Year ended December 31, 2007

(Stated in Dollars of the United States of America)

	<u>2007</u>	<u>2006</u>
Operating activities:		
Net income	8,302,103	6,193,539
Adjustments to reconcile net income with cash from operation activities:		
Depreciation	499,021	422,384
Provision for loan losses	1,120,428	1,762,754
Reversal of provision for contingencies	(780,342)	
Amortization of intangible assets	195,837	125,894
Deferred income tax - asset	(131,179)	(20,310)
Deferred income tax - liability	(12,984)	(12,238)
Interest income	(48,251,768)	(43,177,436)
Interest expense	28,243,211	23,702,894
Changes in Operating assets and liabilities:		
Time deposits with banks with original maturities of more than 90 days	(580,600)	70,000
Securities purchased under resale agreements		
Loans	(96,444,706)	(47,369,456)
Deposits	4,495,151	72,583,854
Other assets	(4,722,443)	(429,500)
Other liabilities	863,462	1,866,620
Cash generated from operations		
Income tax paid	(547,977)	(693,338)
Interest received	48,251,095	41,539,238
Interest paid	(27,471,309)	(22,669,330)
Cash flows from operating activities	<u>(86,973,000)</u>	<u>33,895,569</u>
Investing activities:		
Securities purchased under resale agreements	881,800	(14,879,690)
Purchase of securities held to maturity	(600,000)	(59,896,752)
Purchase of investments available for sale	(17,851,553)	(136,679,240)
Proceeds from sale of securities available for sale	4,486,776	165,891,267
Dividends received	8,150	35,403
Redemption of securities held to maturity	8,421,258	17,545,435
Acquisition of properties and equipments	(369,113)	(780,223)
Sales and disposals of properties and equipments	0	39,636
Cash flows from investing activities	<u>(5,022,682)</u>	<u>(28,724,164)</u>
Financing activities:		
Securities sold under repurchase agreements	13,919,056	0
Repayments to loans received	(40,638,396)	(13,980,248)
Borrowings received	43,779,000	38,366,000
Cash flows from financing activities	<u>17,059,660</u>	<u>24,385,752</u>
Net (decrease) increase in cash and cash equivalents	(74,936,022)	29,557,157
Cash and cash equivalents at beginning of year	135,281,020	105,723,863
Cash and cash equivalents at end of year	<u>60,344,998</u>	<u>135,281,020</u>

The consolidated income statement should be read along with the accompanying notes which are part of the consolidated financial statements.

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

December 31, 2007

(Stated in Dollars of the United States of America)

(1) General Information

Banco Internacional de Costa Rica, S. A. is a Bank incorporated under the laws of the Republic of Panama since 1976, which operates under a general license granted by the Superintendence of Banks, to carry out banking business indistinctly in Panama or overseas. In addition, the Bank possesses an International License, granted by the Superintendence of Banks of Panama, through Resolution No.25-88, issued on April 14, 1988. Banco Internacional de Costa Rica, S. A. and its wholly-owned subsidiary, hereinafter referred to as "the Bank", is owned by Banco de Costa Rica and Banco Nacional de Costa Rica, two state banks domiciled in the Republic of Costa Rica, and is located in Panama City, Manuel María Icaza Street, No. 25.

In the Republic of Panama, banks are regulated by the Superintendence of Banks, through Law Decree No. 9 of February 26, 1998, as well as by Resolutions, Agreements and circulars enacted by this entity. Among the main aspects of this law the following are included: authorization of banking licenses, minimum capital and liquidity requirements, consolidation supervision, procedures for management of credit and market risks, prevention of money laundering, and procedures for banking intervention and liquidation. Also, banks are subject, at least, to an inspection every two (2) years carried out by the auditors of the Superintendence of Banks, to determine the compliance of the provisions of Law Decree No. 9 and Law No. 42 about Prevention of Money Laundering.

The Bank holds a license to carry out trust activities in or from the Republic of Panama. The commission income, related to trust management, is recorded under the accrual method. It is the Bank's obligation to manage trust resources in conformity with the contracts and independently of its properties.

The subsidiary of the Bank included in the consolidated financial statements is Arrendadora Internacional, S. A., which grants financing by way of financial leasing.

The Bank has an Agency in Miami, Florida, United States of America, which started operations on September 1, 1983, under an International Banking Agency license granted by the office of the Banking Comptroller and Commissioner of the State of Florida, United States of America.

Notes to the Consolidated Financial Statements

(1) General Information, continued

As a result of routine inspections carried out to the Agency of the Bank by the Federal Reserve in Atlanta (FRB), it was determined that the existing policies and procedures related to the compliance of certain rules and regulations by the Agency needed to be improved. Therefore, in July 2000, through a memorandum of understanding, the Agency, the FRB and the Office of Financial Regulation of the State of Florida (OFR) agreed upon certain actions that the Agency should take to ensure compliance with these rules and regulations.

During the most recent review carried out by the OFR in conjunction with the FRB, on September 2007, the Agency was declared to be in total compliance with all the provisions of the memorandum of understanding. On February 7, 2008, the Agency received confirmation in writing, from the FRB and the OFR, that the memorandum of understanding had been officially terminated.

These consolidated financial statements were authorized for issuance by the Audit Committee, on February 28, 2008.

(2) Summary of Significant Accounting Policies

The most significant accounting policies adopted by the Bank in the preparation of these consolidated financial statements are summarized as follows:

(a) Basis of Preparation

These consolidated financial statements of the Bank have been prepared in conformity with International Financial Reporting Standards (IFRS) as they have been modified by prudential regulations enacted by the Superintendence of Banks of Panama, for supervisory purposes. The Superintendence of Banks has ruled that the financial statements presented to this regulatory entity, for annual periods ending on December 31, 2007 and thereafter, should include all the reserves for losses on financial assets, as established by the prudential standards enacted by the Superintendence of Banks. The accounting treatment for recognition of losses on loans, investment securities and properties foreclosed from borrowers in conformity with the prudential standards enacted by the Superintendence, differs in some respects from the accounting treatment in conformity with International Financial Reporting Standards, specifically IAS 39 and IFRS 5. (See Note 2e – Investment Securities, Note 2g – Allowance for Loan Losses and Note 2j – Properties Foreclosed from Borrowers).

The accounting policies have been consistently applied for all periods presented in these consolidated financial statements. For purposes of uniformity, certain figures corresponding to the year 2006 have been presented as if the consolidated financial statements of the year 2006 had been prepared under IFRS modified by prudential standards enacted by the Superintendence of Banks for supervisory purposes. In addition, the Bank adopted IFRS 7 – “Financial Instruments: Disclosures” and a complementary amendment to IAS 1 – “Presentation of Financial Statements: Capital Disclosures” (effective since January 1, 2007).

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

These consolidated financial statements have been prepared under the historic cost basis, except for those financial assets at fair value through results of operations and securities available for sale reported at fair value. Other financial assets and liabilities and non-financial assets and liabilities are presented at amortized cost or historic cost.

Management of the Bank, in the preparation of the consolidated financial statements, has made certain accounting estimates and critical assumptions, and has exercised its criterion in the process of application of the accounting policies of the Bank, which affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts in the income statement during the period. The related estimates and assumptions consider historic experience and other various factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The estimates and assumptions made by management that are particularly susceptible to changes in the future, are related with the allowance for loan losses, the reserve for valuation of securities and the estimate of income tax, for which more ample disclosures can be found in Note 4.

The consolidated financial statements are stated in Dollars (US\$) of the United States of America. The Republic of Panama does not issue paper currency in balboa and, in lieu the Dollar (US\$) of the United States of America is used as legal tender.

(b) Principle of Consolidation

The consolidated financial statements comprise the assets, liabilities and profit and loss accounts of Banco Internacional de Costa Rica, S. A. (BICSA), with its Agency in Miami, Florida – United States of America, and its wholly-owned subsidiary Arrendadora Internacional, S. A. All significant balances and transactions between companies have been eliminated in the consolidation.

(c) Foreign Currency Transactions

Assets and liabilities held in foreign currency are converted into dollars (US\$) at the exchange rate in effect at the balance sheet date, with the exception of those transactions with fixed exchange rates contractually agreed upon. Transactions in foreign currency are recorded at the exchange rates in effect at the transaction date. Gains and losses from foreign currency conversion are reflected in other income or other expenses in the income statement.

(d) Securities Purchased under Resale Agreements

Securities purchased under resale agreements are financing transactions, generally of a short-term nature, backed by securities, in which the Bank takes possession of the securities at a discounted market value and agrees to resell them to the debtor at a future date and a determined price. The difference between this purchase value and the future sale value is recognized as income under the effective interest rate method.

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

The market value of the underlying securities is monitored and if a specific security presents a permanent and material reduction in value, the Bank recognizes an adjustment to the amortized cost against the results of the period.

In general, the policy of the Bank is to take possession of securities purchased under resale agreements and hold them until maturity. The market value of these investments is monitored, and an additional guarantee is obtained whenever it is appropriate for protection against the credit exposure.

(e) *Investment Securities*

The investment securities are classified at their initial date based on the ability and intention of management to sell or to hold them until their maturity date. The classification used by the Bank is detailed as follows:

- *Securities Available for Sale*

This category includes the securities acquired with the intention of holding them for an undetermined period of time, with the hope of selling them as response to the need of liquidity or changes in interest rates, exchange rates or share prices. These securities are measured at their fair value and changes in valuation are recognized in a valuation account within equity until they are sold or redeemed or a determination is made that they have suffered deterioration in value; in these cases, accrued gains and losses previously recognized in equity are included in the income statement. Changes in fluctuation of foreign currency of securities available for sale are recognized in the income statement.

- *Securities Held to Maturity*

Securities held to maturity are non derivative financial assets with fixed or determinable payments and fixed maturities that management of the Bank has the positive intent and ability to hold them until their maturity. Securities held to maturity that are owned by the Bank consist on debt instruments, which are carried at amortized cost under the effective interest method.

The Bank determines the impairment of securities held to maturity based on Agreement 7-2000, enacted by the Superintendence of Banks of Panama. Under certain criteria and elements defined in such Agreement 7-2000, a reserve for temporary losses in securities held to maturity should be created. In addition, Agreement 7-2000 requires to establish special reserves whenever:

- The issuer of the securities undergoes a notorious and recurrent deterioration in its economic solvency or there is a high probability of bankruptcy.
- More than 90 days had passed since the total or partial maturity of the principal, interest, or both, taking into account the amount that may be reasonably deemed of difficult recovery, net of guarantees or considering the time elapsed since maturity, as follows: more than 90 days and less than 180 days, 25%; more than 180 days and less than 270 days, 50%; more than 270 days and less than 360 days, 75%; and more than 360 days, 100%.

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

- Investment securities with no reliable prices and that are not quoted within an organized active market.
- An important impairment occurs in the exchange risk, or a significant impairment in the country risk, or investments in the banking sector that lack prudential regulations in accordance with international standards and that had not been properly covered.

The estimated impairment losses are recognized by charges to results of operations in the income statement, and the accrued reserve is presented in the balance sheet reduced from investments in securities held to maturity. Whenever an investment is written off, the amount is charged to a reserve account.

In the event of investments in equity instruments classified as available for sale, a significant and prolonged decline in the fair value below its cost is considered as an indicator that the assets are impaired. In the cases of investments on equity instruments in which the estimate of a fair value is not reliable, the same are recorded at cost less a reserve for impairment loss.

The determination of the fair value of an investment in securities is generally based on the quoted market price at the balance sheet date. If the quoted market price is not available, the fair value of the instrument is estimated using price calculation models or discounted cash flow techniques.

Purchases of financial assets available for sale and held until maturity are recognized at the trade date – the date in which the entity comes to an agreement on the transaction.

(f) Loans

Loans receivable are non derivative financial assets with fixed or determinable payments which are not quoted in an active market and are generally originated by providing funds to a debtor as a loan. Loans are reported at their principal amount outstanding, less unearned interest and commission and the allowance for loan losses. Unearned interest and commission are recognized as income during the life of the loan under the effective interest method.

Finance leases consist mainly on lease contracts for equipment and vehicles, which are reported as part of the loan portfolio at the present value of the lease. The difference between the gross amount receivable and the present value of the amount receivable is recorded as unearned interest income, which is amortized to operation income using a method that reflected a periodic rate of return.

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(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

The Bank has the policy of non accruing interests on those loans in which the principal or interest is in arrears for more than ninety days, unless in management's opinion, based on the assessment of the debtor's financial condition, collaterals or other factors, the total collection of the principal and interest is likely. When a loan is transferred to a non-accrual status, the interest receivable accrued to that date is reversed from the interest income from loans. This policy follows Agreement 6-2000 "Classification of Portfolio and Constitution of Reserve" enacted by the Superintendence of Banks of the Republic of Panama.

(g) *Allowance for Loan Losses*

The Bank uses the allowance method to provide for loan losses. The amount of loan losses determined during the period is recognized as a provision expense in the results of operations and is credited to an account of allowance for loan losses.

The allowance is reported deducted from loans receivable in the balance sheet. Whenever it is determined that a loan is uncollectible, the unrecoverable amount is charged to the allowance account referred to above. Subsequent recoveries of loans previously charged off as uncollectible are credited to the allowance account.

The Superintendence of Banks of Panama mandates that the financial information presented by banks in Panama, including annual and intermediate financial statements, include the accounting recognition and presentation of allowances for loan losses, based on prudential standards for the constitution of such reserves, enacted by this regulatory entity. Based on the regulator's provisions, Agreement 6-2000 enacted by the Superintendence of Banks of Panama, the Bank classifies loans in five risk categories and determines the minimum amounts of allowances of loan losses on the principal's balance, as follows: Standard 0%; Special mention 2%; Substandard 15%; Doubtful 50%; Non-recoverable 100%. For that matter, criteria such as the quality of the loan and parameters of noncompliance with the repayment of the debt, among others, are used for the classification. The criterion on periods of non-compliance is used mostly to classify consumer and housing loans, but it is also considered in the classification of corporate loans.

In addition, in a term not greater than 90 days, the Bank must adjust the previous classification of loans and constitute new specific provisions, if applicable, based on the estimated losses, as follows: Special mention 2% to 14.9%, Subnormal 15% to 49.9%; Doubtful 50% to 99.9%, Non-recoverable 100%.

Upon calculating the estimated losses, the Bank considers, among others, the financial statements of the debtor, the operative cash flow, the realization value of the collaterals, and any other flow that it may obtain from co-debtors or guarantors. For the consumer portfolio, consideration is given to the debtor's delinquency, the losses that the Bank has historically experienced in the past in comparable or similar groups, the portfolio's maturity profile, and any other information that may affect the collection of the consumer portfolio.

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

In addition, Agreement 6-2000 allows banks to create generic reserves for loan losses, on a provisional basis, whenever it is learned about the impairment in the value of a group of loans with commonly defined characteristics and that could not be attributed to individual loans.

Banks are obliged to maintain, at all times, a global allowance for loan losses not lesser than 1% of the total loan portfolio, less total deposits in the bank itself, that are securing loans. This global allowance should not be lesser than the sum of the specific and generic reserves.

The Superintendence of Banks may assess the sufficiency of the allowances and order the Bank to constitute allowances at any time.

The allowances for loan losses that are determined based on the prudential standard enacted by the regulator (Agreement 6-2000), may differ from the amount of reserves determined under International Accounting Standard No. 39, Financial Instruments: Recognition and Measurement. The reserve estimate under IAS 39 is based on the concept of incurred impairment losses on loans receivable and uses two methodologies to assess if there is objective evidence of the impairment: individually for the loans that are individually significant and individually or collectively for loans that are not individually significant.

According to IAS 39, impairment losses on corporate loans individually assessed are determined based on an assessment of the exposures on a case-by-case basis. If it is determined that there is no objective evidence of impairment for an individually significant loan, this is included in a group of loans with similar characteristics and is assessed collectively for impairment. The impairment loss is calculated comparing the current value of the expected future cash flows, discounted at the original effective rate of the loan, against its current carrying value.

Under IAS 39, for the purposes of a collective evaluation of impairment, consumer loans are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimate of future cash flows for groups of such assets. Future cash flows in a group of loans that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the group, historical loss experience for assets with credit risk characteristics similar to those in the group and Management's experienced judgment as to whether the current economy and credit conditions are such that the actual level of inherent losses is likely to be greater or less than the suggested historical experience.

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

The amount of any estimated loss for loan impairment is charged as a provision for losses in the income statement and is credited to an allowance account. Loans charged off are recorded in the account of allowance for loan losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by reducing the loan impairment allowance account. The amount of any reversal is recognized in the income statement.

(h) Premises, Equipment and Improvements

Premises and equipment comprise land, buildings, furniture and improvements used by branches and offices. All premises and equipment are stated at historic cost less accumulated depreciation and amortization. The historic cost includes the expense that is directly attributable to the acquisition of the properties.

Subsequent costs are included in the carrying value of the asset or recognized as a separate asset, as applicable, only when it is likely that the Bank obtain the future economic benefits associated with the property and the cost can be reliably measured. Costs considered as repair and maintenance are charged to the income statement during the financial period they are incurred on.

Depreciation and amortization expenses of premises and equipment are charged to current operations under the straight-line method considering the useful life of the assets, except land, which is not depreciated. The estimated useful life and residual value of assets is summarized as follows:

Properties	40 years
Improvements	5 years
Furniture and equipment	5 years
Computer equipment	3 years
Vehicles	3 years

The useful life and residual value of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount. The recoverable amount is whichever is higher between the fair value of the asset less the costs to sell and value in use.

(i) Intangible Assets

Intangible assets with a defined useful life are still amortized. The amortization amount for the current period is charged to results of operations.

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

(j) Properties Foreclosed from Borrowers

Properties foreclosed held for sale, for up to a period of 18 months, are recognized at the lower between the carrying value of the non-cancelled loans and the estimated realization value of the properties. Properties foreclosed that remain unsold for an 18-month period, according to a prudential standard of the regulator, are fully provided, for their carrying value.

Changes in the valuation reserve of properties foreclosed are recognized in results of operations and the accumulated reserve is presented as deducted from the properties foreclosed from borrowers, included in other assets in the balance sheet.

(k) Impairment of Assets

The carrying amounts of assets of the Bank are reviewed at the balance sheet date to determine if there is impairment in their value. If such impairment exists, the recoverable value of the asset is estimated and an impairment loss is recognized equal to the difference between the carrying amount of the assets and its estimated recovery value. The impairment loss in the asset value is recognized as an expense in the income statement.

(l) Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements are financing transactions, generally of a short-term nature, backed by investment securities, in which the Bank has the obligation to repurchase the securities sold at a future date and at a determined price. The difference between the sales price and the purchase price is recognized as an expense under the effective interest rate method.

(m) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specifies payments on behalf of its clients, to reimburse the beneficiary of a guarantee, in the event the client fails to comply with payment at the agreed upon date, in accordance with the terms and conditions of the contract.

Financial guarantee liabilities are initially recognized at their fair value; this initial fair value is amortized over the duration of the financial guarantee. Subsequently, the guarantee is carried at the greater between the amortized amount and the present value of the expected future payments. The financial guarantees are included in the balance sheet within other liabilities.

(n) Interest Income and Expenses

Interest income and expense are generally recognized in the income statement for all financial instruments measured at amortized cost using the effective interest rate method.

This includes all commission and quotas paid or received between the parties of the contract that are integral parts of the effective interest rate, the transaction costs and any other premiums or discounts. Transaction costs are the origination costs directly attributable to the acquisition, issuance or disposal of an asset or liability.

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

(o) Commission Income

Generally, commission on short-term loans, letters of credit and other banking services is recognized as income on a cash basis due to its short-term maturity. The income recognized on a cash basis is not significantly different from the income that would be recognized under the accrual method. Commission on medium and long term transactions are deferred and amortized to income using the effective interest rate method over the life of the loan.

Commission on loans is included as loan commission income in the statement of income.

(p) Dividend Income

Dividends are recognized in the income statement when the entity has the rights to receive the approved payment.

(q) Income Tax

The estimated income tax is the tax payable on the taxable income for the year, using tax rates in effect at the balance sheet date, and any other adjustments to the income tax of previous years.

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the tax rates at the balance sheet date. These temporary differences are expected to be reversed in future years. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax impact will be realized.

The Miami Agency is subject to taxes on federal and state income in the United States of America. The income tax expense is determined using the method of "separate current value" as described in Section 1.882-5 of Regulations of the Treasury Department of the United States of America

(r) Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and demand and time deposits with banks with original maturities of ninety days or less are considered by the Bank to be cash and cash equivalents.

(s) Uniformity in the presentation of Financial Statements

Some figures of the consolidated financial statements of the year 2006 have been reclassified to adjust their presentation to the year 2007. (See notes 12 and 13).

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(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(2) Summary of Significant Accounting Policies, continued

(t) New International Financial Standards (IFRS) and Interpretations Not Adopted

As of the balance date there are new standards, amendments and interpretations to standards, which are not effective for the year ended December 31, 2007, and therefore, have not been applied in the preparation of these financial statements.

- IFRS 8 – “Operating Segments” (Effective January 1, 2009)
- IFRIC 11 – “IFRS 2, Group and Treasury Shares Transactions” (Effective March 1, 2007)
- IAS 23 (Revised) – “Borrowing Costs” (Effective January 1, 2009)
- IFRIC 12 – “Service Concession Arrangements” (Effective January 1, 2008)
- IFRIC 13 – “Customer Loyalty Programmes” (Effective July 1, 2008)
- IFRIC 14 – “IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (Effective January 1, 2008)

(3) Financial Instruments Risk Management

A financial instrument is any contract that simultaneously originates a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. The activities of the Bank are mainly related to the use of financial instruments including derivatives and, as such, the balance sheet is primarily composed of financial instruments.

The Board of Directors of the Bank has the responsibility of establishing and overseeing the policies of risk management of the financial instruments. To this end, Management of the Bank has established certain committees for the management and periodic overseeing of the risks the Bank is exposed to; the following are some of these committees:

- Credit Committee
- Assets and Liabilities Committee
- Risk Committee
- Compliance Committee

In addition, the Bank is subject to the regulations of the Superintendence of Banks of the Republic of Panama, concerning risk concentrations, liquidity and capitalization, among others.

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY
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Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

Geographic concentration of assets, liabilities and off balance sheet items

The geographic concentration of assets, liabilities and off balance sheet items is presented as follows:

	<u>2007</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Off Balance Sheet</u>
Geographic Region			
Costa Rica	355,334,580	302,524,886	24,881,707
Panama	200,969,586	199,555,684	16,250,127
United States of America	51,694,189	52,449,477	107,666
Central America	124,730,187	23,046,426	16,467,333
Europe	6,879,810	34,456,602	760,685
South America	5,798,031	17,260,269	2,639,582
The Caribbean	444,502	6,304,265	60,000
Asia	0	14,175,505	0
Other	880,710	2,178,153	70,632
	<u>746,731,595</u>	<u>651,951,267</u>	<u>61,237,732</u>

	<u>2006</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Off Balance Sheet</u>
Geographic Region			
Costa Rica	268,233,394	339,246,477	31,647,147
Panama	191,696,850	134,972,199	12,501,135
United States of America	62,505,656	50,610,874	96,701
Central America	120,695,381	50,233,677	14,010,242
Europe	63,581,766	24,911,413	755,685
South America	5,013,458	14,849,687	1,913,510
The Caribbean	507,380	2,436,662	636,224
Asia	545,375	8,261,926	0
Other	189,361	960,311	20,700
	<u>712,968,621</u>	<u>626,483,226</u>	<u>61,581,344</u>

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

The significant risks identified by the Bank are credit, liquidity, market and operational risks, which are described as follows:

(a) *Credit Risk*

Risk that the debtor or issuer of a financial asset owned by the Bank does not fully and timely comply with any payment, in conformity with terms and conditions agreed upon when the respective financial asset was acquired or originated by the Bank.

The Bank structures the acceptable levels of credit risk by establishing limits about the quantity of risk accepted in relation with a sole borrower, or group of borrowers, and geographic segment. These credits are constantly controlled and subject to a periodic review.

The exposure to the credit risk is managed through a periodic analysis of the ability of borrowers or potential borrowers, to determine their capacity to pay principal and interest and the restructuring of such limits whenever appropriate. The exposure to credit risk is also mitigated, in part, through the obtaining of collaterals, corporate and personal guarantees.

The credit management is carried out under policies clearly defined by the Board of Directors and reviewed and modified periodically depending on changes and expectancies of the markets at which credit activities are performed, regulations and other factors to be considered in formulating these policies.

There is a series of credit reports in operation at the Bank to assess its portfolio performance, provision requirements, and especially to anticipate events that may affect in the future the condition of its borrowers.

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY
(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

The following table analyses the financial instruments of the Bank that are exposed to credit risk and their corresponding assessment:

	<u>2007</u>	<u>2006</u>
Loan portfolio, net of allowance	<u>545,212,103</u>	<u>449,840,426</u>
Individual Impairment:		
B: Special Mention	8,157,430	24,163,247
C: Sub-Standard	5,199,897	4,932,124
D: Doubtful	956,726	447,723
E: Non-recoverable	<u>60,796</u>	<u>378,362</u>
	14,374,849	29,921,456
Allowance for specific loans	<u>(371,359)</u>	<u>(470,797)</u>
Carrying Value	<u>14,003,490</u>	<u>29,450,659</u>
Past due with no impairment:		
A: Standard	<u>59,700</u>	<u>85,000</u>
Carrying value	<u>59,700</u>	<u>85,000</u>
Delinquency:		
30-60 days	8,400	85,000
60-90 days	<u>51,300</u>	<u>0</u>
Carrying value	<u>59,700</u>	<u>85,000</u>
Global allowance	<u>(4,694,157)</u>	<u>(3,622,649)</u>
Non past due without impairment:		
A: Standard	<u>535,843,070</u>	<u>423,927,416</u>
Carrying value	<u>535,843,070</u>	<u>423,927,416</u>

Investments:

The investment portfolio is reported at fair value and the assessment of the issuers is satisfactory by the risk assessment firms, therefore Management does not contemplate as necessary the establishment of reserves for possible credit risk losses.

Deposits due from Banks:

Inter-banking deposits are placed in first-class banks and at short-term, therefore the establishing of reserves for possible credit risk losses is not foreseen.

As detailed in the previous table, the factors of major risk exposure and information of the impaired assets, and the basis used for these disclosures are the following:

- Impairment of loans, investments and deposits due form banks:
Impairment of loans, investments and deposits due form banks is determined by comparing the carrying value of the asset with the estimated recoverable value of these assets. As of December 31, 2007 and 2006, the Bank has no impairment on investments of deposits due from banks.

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Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

- Delinquent with no impairment of loans and investments
Loans and investments that hold enough level of guarantees and/or sources of payment to cover the carrying value of such loans and investments are considered delinquent with no impairment; that is, with no losses incurred.
- Renegotiated loans:
Renegotiated loans are those for which a significant variation in the original credit terms (balance, term, payment plan, rate or guarantees) has been formally documented, due to material difficulties in the payment capacity of the debtor, and the result of the current assessment does not permit their reclassifications as standard.
- Impairment reserves:
The Bank has established reserves to cover losses incurred in the loan portfolio. These reserves are calculated individually for loans that are individually significant and the loans that are not individually significant and the loans that, when assessed individually, present no impairment.
- Charge-off policy:
The Bank determines the charge-off of a group of loans that demonstrate non-recoverability; this determination is taken after carrying out an analysis of the financial conditions made from the point that the payment of the obligation was not made and when it is determined that the guarantee is not enough for the complete payment of the credit granted. For loans of lesser amounts, charge-offs are generally based on the expired term of the credit granted.

The following table presents an analysis of the gross amount and net amount of reserves for the impairment of assets individually impaired by risk classification:

	<u>Loans</u>	
	<u>Gross</u>	<u>Net</u>
	<u>Amount</u>	<u>Amount</u>
December 31, 2007		
B: Special Mention	8,157,430	8,067,437
C: Sub-Standard	5,199,897	5,098,687
D: Doubtful	956,726	802,570
E: Non-recoverable	<u>60,796</u>	<u>34,796</u>
	<u>14,374,849</u>	<u>14,003,490</u>
December 31, 2006		
B: Special Mention	24,163,247	24,008,541
C: Sub-Standard	4,932,124	4,879,325
D: Doubtful	447,723	300,936
E: Non-recoverable	<u>378,362</u>	<u>261,857</u>
Total	<u>29,921,456</u>	<u>29,450,659</u>

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Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

The estimates of the fair value of guarantees and other guarantees on these financial statements are detailed as follows:

	<u>2007</u>	<u>2006</u>
On those individually impaired:		
Real estate properties	5,535,850	35,077,083
Deposits in the bank itself	1,659,074	2,144,968
Other	5,760,716	5,368,579
On those past due with no impairment:		
Deposits in the bank itself	375,000	0
Other	561,800	347,300
On those non past due with no impairment:		
Real estate properties	123,318,369	53,515,521
Debt instruments	9,334,457	21,478,165
Deposits in the bank itself	34,916,042	26,310,670
Other	<u>116,045,587</u>	<u>86,515,883</u>
Total	<u>297,506,895</u>	<u>230,758,169</u>

The Bank follows up the credit risk concentration by sector and geographic location. The analysis of the credit risk concentration at the date of the consolidated financial statements is the following:

	<u>Loans</u>		<u>Investments</u>		<u>Deposits Due from Banks</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Carrying value	<u>550,277,619</u>	<u>453,933,872</u>	<u>108,036,756</u>	<u>103,390,357</u>	<u>60,186,277</u>	<u>134,628,978</u>
Concentration by Sector:						
Personal	4,294,838	4,217,620	0	0	0	0
Banks and Financial Entities	81,850,461	116,294,948	41,078,299	42,686,195	60,186,277	134,628,978
Corporations	464,114,578	329,906,210	0	0	0	0
Public Entities and Governments	<u>17,742</u>	<u>3,515,094</u>	<u>66,958,457</u>	<u>60,704,162</u>	<u>0</u>	<u>0</u>
	<u>550,277,619</u>	<u>453,933,872</u>	<u>108,036,756</u>	<u>103,390,357</u>	<u>60,186,277</u>	<u>134,628,978</u>
Geographic Concentration:						
Costa Rica	280,865,229	219,145,576	43,166,781	37,371,340	22,893,721	3,745,548
Panama	155,248,663	132,769,659	12,029,875	16,877,622	17,940,134	36,507,395
Central America	96,177,625	88,867,172	25,647,500	25,698,037	5,806	24,836
United States of America	11,068,979	7,805,638	21,281,250	20,500,000	18,469,404	33,234,173
South America	5,670,277	4,803,387	0	0	0	0
Caribbean	446,973	507,440	0	0	0	0
Europe	0	0	5,911,350	2,943,358	796,377	60,484,913
Asia	0	0	0	0	0	545,375
Other	<u>799,873</u>	<u>35,000</u>	<u>0</u>	<u>0</u>	<u>80,835</u>	<u>86,738</u>
	<u>550,277,619</u>	<u>453,933,872</u>	<u>108,036,756</u>	<u>103,390,357</u>	<u>60,186,277</u>	<u>134,628,978</u>

The geographic concentrations of loans, investments and deposits due from banks is based on the location of the debtor. As for the geographic concentration of investments, it is based on the location of the investment issuer.

Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

(b) Liquidity Risk

The liquidity risk is defined as the Bank's inability to fulfill all of its obligations due to, among other reasons, an unexpected withdrawal of funds by creditors or clients, the deterioration of the quality of the loan portfolio, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or the mismatch of long-term assets financing with short-term liabilities. The Bank manages its liquid resources to honor its liabilities upon the maturity of the same in normal conditions.

Liquidity risk management:

The bank controls this risk with appropriate reserves of liquidity and easily realizable assets, usually above the regulatory requirements, with an adequate match of terms between assets and liabilities and with contingency plans that are periodically reviewed and updated.

It is a responsibility of the Assets and Liabilities Committee to manage and follow up the liquidity risk, to ensure the Bank's ability to respond, without major difficulty, to unexpected withdrawals of deposits or non-scheduled needs in the placement of credits.

Management and the Assets and Liabilities Committee carry out a periodic follow-up of the liquidity position through an analysis of the maturity profile, stability of deposits by type of client, sensibility studies and compliance with minimum standards established in regulations and corporate policies.

There are contingency plans defined to react to changes in the levels of market liquidity and to unforeseen situations that may affect the liquidity position of the Bank.

The following is a breakdown of the corresponding indexes to the index of net liquid assets on the Bank's deposits due to customers as of the date of the consolidated financial statements, as follows:

	<u>2007</u>	<u>2006</u>
As of December 31	12.48%	28.24%
Average of the period	21.37%	27.66%
Maximum of the period	27.18%	30.59%
Minimum of the period	12.40%	22.16%

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Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

The following table presents the undiscounted cash flows of the financial liabilities of the Bank, and the unrecognized loan commitments on the basis of its closest possible maturity. The expected flows of these instruments may significantly vary as a consequence of these analyses:

		Gross Nominal	Up to 1	From 1 to 3	From 3 to 5	More than 5
	Carrying	Amount	Year	Years	Years	Years
2007	Value	Inflows/(Outflows)				
Deposits	483,597,240	(509,749,743)	(410,898,514)	(61,936,238)	(31,952,451)	(4,962,540)
Securities sold under repurchase agreements	13,919,056	(13,985,527)	(13,985,527)	0	0	0
Borrowings received	<u>124,995,564</u>	<u>(134,532,061)</u>	<u>(101,890,966)</u>	<u>(15,297,377)</u>	<u>(9,150,345)</u>	<u>(8,193,373)</u>
Total liabilities	<u>622,511,860</u>	<u>(658,267,331)</u>	<u>(526,775,007)</u>	<u>(77,233,615)</u>	<u>(41,102,796)</u>	<u>(13,155,913)</u>
Contingencies	<u>61,237,732</u>	<u>(61,237,732)</u>	<u>(61,237,732)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>683,749,592</u>	<u>(719,505,063)</u>	<u>(588,012,739)</u>	<u>(77,233,615)</u>	<u>(41,102,796)</u>	<u>(13,155,913)</u>
		Gross Nominal	Up to 1	From 1 to 3	From 3 to 5	More than 5
	Carrying	Amount	Year	Years	Years	Years
2006	Value	Inflows/(Outflows)				
Deposits	479,102,089	(502,391,165)	(425,563,488)	(64,660,831)	(6,996,926)	(5,169,920)
Borrowings received	<u>121,854,960</u>	<u>(126,556,885)</u>	<u>(116,326,008)</u>	<u>(9,380,385)</u>	<u>(450,255)</u>	<u>(400,237)</u>
Total liabilities	<u>600,957,049</u>	<u>(628,948,050)</u>	<u>(541,889,496)</u>	<u>(74,041,216)</u>	<u>(7,447,181)</u>	<u>(5,570,157)</u>
Contingencies	<u>61,581,344</u>	<u>(61,581,344)</u>	<u>(61,581,344)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>662,538,393</u>	<u>(690,529,394)</u>	<u>(603,470,840)</u>	<u>(74,041,216)</u>	<u>(7,447,181)</u>	<u>(5,570,157)</u>

The nominal amount of inflows and outflows disclosed in the preceding table corresponds to the undiscounted flows in the financial liabilities and unrecognized loan commitments in accordance to their maturities.

(c) Market Risk

It is the risk that the value of a financial asset of the Bank is reduced as a result of changes in interest rates, foreign currency exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events, to both latent losses and potential gains. The objective of market risk management is to manage and oversee the risk exposures, and maintain the same within the acceptable parameters thus optimizing the return on risk.

Risk management policies provide for compliance limits by financial instrument, limits with respect to maximum loss amounts that trigger the settlement of positions that caused such loss; and the requirement that, except with approval by the Board of Directors, substantially all assets and liabilities are denominated in Dollars of the United States of America.

The Board of Directors of the Bank has determined that all issues pertaining market risk be directly managed and monitored by the Risk Committee.

Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

Market Risk Exposure:

The main tool used by the Bank to measure and control the market risk exposure is the measuring tool of the Value at Risk (VaR); such application employs the RiskMetrics (JPMorgan) methodology; the function of the same is to determine the estimated loss that may surge within a determined period called temporary horizon, which can be influenced by adverse movements by the market, hence the determination of a specific probability which would be the confident level used within VaR calculation.

The VaR model used by the Bank is based on a *confident level of 95% to 99%*. The input data to use comes from 500 observations of the yielding curves at different terms. In addition, Stress Testing tests are carried out in order to assess the potential losses in the event of extreme conditions. Standardized scenarios have been developed, which will repeat themselves in a periodic fashion (one month or less) in such manner that a comparison or how the portfolios are performing will always be possible.

Although the VaR model is an important tool in measuring the market risks, the premises utilized by this model bear some limitations, which are indicated as follows:

- The waiting period assumes that it is possible to cover or dispose some positions within that period, which is considered to be a real estimate in the most cases, but it may not consider cases in which a severe illiquidity in the market may occur for a prolonged period.
- The confident level range indicated may not reflect the losses that maybe will occur around that level. Generally, this model uses a percentage in such manner that the probability of losses may not exceed the VaR value.
- The VaR can only be calculated on the results at the end of the day, since the risks of positions may not be reflected during the trade day.
- The use of historic information is the basis to determine the range of future results, since perhaps it will not be possible to cover possible scenarios, especially those of a special nature.
- VaR measurement depends on the results maintained by the Bank and the volatility of market prices; in addition, the VaR for unchanged positions is reduced if the volatility of market prices drops, and vice versa.

Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

- The use of the Value at Risk (VaR) metric represents in just one figure the highest loss expected with a given confidence level (99%) and an interval defined that a portfolio can register (21 days). It is important to point out that this methodology is valid only in normal market conditions, since at the moment the financial markets are experimenting moments of crisis and/or turbulence, the expected loss would be defined through simulations of stress testing. In order to better measure the risk of the total portfolio, the VaR analysis is made for instruments of Costa Rican issuers and for the rest of issuers.

2007

VaR Costa Rican Issuers	US\$41,772.68
VaR Non Costa Rican Issuers	US\$27,148.93

2006

VaR Costa Rican Issuers	US\$58,865.28
VaR Non Costa Rican Issuers	US\$48,700.14

Analysis of Stress Testing:

The stress analysis of the investment portfolio is carried out by taking scenarios in which the yielding curve undergoes movements, which in turn affects the portfolio value. The first movement is that of Parallel Movements of the Yielding Curve, increasing it in 90pb, 125pb and 300pb; the second movement is the so-called Inclination of the Curve, which causes short-term profits to decrease while long-term ones increase, and the third movement is the Flattening, in which short-term profits increase and long-term ones decrease.

The details are as follows:

As of December 31, 2007 the yield of the investment portfolio would be reduced as follows:

<u>2007</u>	<u>90 pb increase</u>	<u>125 pb increase</u>	<u>300 pb increase</u>
December 31	-0.80%	-1.11%	-2.58%
<u>2006</u>	<u>90 pb increase</u>	<u>125 pb increase</u>	<u>300 pb increase</u>
December 31	-0.91%	-1.25%	-2.91%
<u>2007</u>	<u>Inclination</u>		
December 31	0.15%		
<u>2006</u>	<u>Inclination</u>		
December 31	0.18%		

Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

<u>2007</u>	<u>Flattening</u>
December 31	-0.14%
<u>2006</u>	<u>Flattening</u>
December 31	-0.18%

Foreign Exchange Rate Risk

It may affect only the loan portfolio. The portfolio of placements in countries with currencies other than the US\$ is concentrated in clients that generate currency of with an evident ability for the type of its activity and financial solvency to absorb relevant fluctuations of the exchange rate.

Interest Rate Risk

It is the risk of a reduction in the value of the financial assets due to changes in the interest rates, quoted prices and other variables that affect the value of those assets in the market.

The Bank has a limited exposure to losses as a result of a financial structure that is not very sensible to variations in interest rates and a conservative investment policy.

In order to assess and control each unit, the Bank has an Assets and Liabilities Committee, which under policies defined by the Board of Directors, has the responsibility of analyzing every month the sensibility of the interest rates to variations, determining the balance structure, the term of the different items and the investment strategies.

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Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

The following table summarizes the Bank's exposure to interest rate risk. The assets and liabilities of the Bank are included in the table below at their carrying value, classified by categories based on whichever occurs first between the determination of the new contractual rate and the maturity dates.

<u>2007</u>	<u>Up to 1 year</u>	<u>From 1 to 3 years</u>	<u>From 3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Assets:					
Demand deposits with banks	16,598,406	0	0	0	16,598,406
Time deposits with banks	43,587,871	0	0	0	43,587,871
Securities purchased under agreements to resell	13,997,890	0	0	0	13,997,890
Securities at fair value					
Securities available for sale	41,915,983	20,285,026	1,998,228	163,200	64,362,437
Securities held to maturity	17,676,429	8,000,000	4,000,000	0	29,676,429
Loans	<u>490,744,939</u>	<u>33,883,944</u>	<u>17,046,143</u>	<u>8,602,593</u>	<u>550,277,619</u>
Total	<u>624,521,518</u>	<u>62,168,970</u>	<u>23,044,371</u>	<u>8,765,793</u>	<u>718,500,652</u>
Liabilities:					
Demand deposits	93,327,548	0	0	0	93,327,548
Savings deposits	891,394	0	0	0	891,394
Time deposits	340,839,224	31,891,379	13,447,695	3,200,000	389,378,298
Securities sold under agreements to repurchase	13,919,056	0	0	0	13,919,056
Borrowings payable	<u>124,926,199</u>	<u>69,365</u>	<u>0</u>	<u>0</u>	<u>124,995,564</u>
Total	<u>573,903,421</u>	<u>31,960,744</u>	<u>13,447,695</u>	<u>3,200,000</u>	<u>622,511,860</u>
<u>2006</u>	<u>Up to 1 year</u>	<u>From 1 to 3 years</u>	<u>From 3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Assets:					
Demand deposits with banks	22,556,211	0	0	0	22,556,211
Time deposits with banks	112,072,767	0	0	0	112,072,767
Securities purchased under agreements to resell	14,879,690	0	0	0	14,879,690
Securities available for sale	7,992,030	2,784,150	0	169,800	10,945,980
Securities held to maturity	13,500,000	50,265,276	12,056,357	1,743,054	77,564,687
Loans	<u>427,203,642</u>	<u>10,819,506</u>	<u>7,045,010</u>	<u>8,865,714</u>	<u>453,933,872</u>
Total	<u>598,204,340</u>	<u>63,868,932</u>	<u>19,101,367</u>	<u>10,778,568</u>	<u>691,953,207</u>
Liabilities:					
Demand deposits	106,482,661	0	0	0	106,482,661
Savings deposits	813,906	0	0	0	813,906
Time deposits	337,599,170	26,890,393	4,115,959	3,200,000	371,805,522
Borrowings payable	<u>120,854,960</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>	<u>121,854,960</u>
Total	<u>565,750,697</u>	<u>26,890,393</u>	<u>4,115,959</u>	<u>4,200,000</u>	<u>600,957,049</u>

As of December 31, 2007, deposits from customers earned annual interest rates in a range from 3% to 6.625% (2006: 2.25% to 6.8768%). With respect to the interest rates related to assets and other more important obligations of the Bank.

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(3) Financial Instruments Risk Management, continued

Price Risk:

It is the risk that the value of a financial instrument fluctuates as a consequence of changes in market prices, independently of whether or not they are caused by specific factors related to the particular instrument or its issuer, or by factors that affect all the instruments negotiated in the market.

The Bank is exposed to the price risk of equity instruments classified as available for sale or as securities at fair value with changes in results of operations. In order to manage the price risk derived from investments in equity instruments, the Bank diversifies its portfolio, depending on the established limits.

(d) Operational Risk

The operational risk is the risk of potential losses, direct or indirect, related to processes of the Bank, personnel, technology and infrastructure, and of external factors that are not related to the credit, market and liquidity risks, such as those that originate in legal and regulatory requirements and the behavior of the generally accepted corporative standards.

The Bank gives special attention to the risks associated with failures in the operative processes due to errors, or deviation of the procedures or inadequate behavior of the personnel; improper malfunction of the technological systems or to external factors that may compromise the continuous and good performance of the operations of the Bank.

Periodic reviews and audits to the operative procedures are regularly carried out to strengthen the efficiency and control, and to neutralize identified weaknesses. The corresponding manuals are updated at least once a year.

Adequate maintenance programs and contingency plans are maintained for business continuity, including the different technological applications.

Besides officers engaged in technological security, this area comprises advisory from foreign sources and the main shareholder to limit the possibility that the technological facilities may be improperly used by unauthorized personnel or third-parties.

The Bank has a complete and adequate internal control system in which the good performance is closely overseen by Internal Audit Personnel of the Bank and from our own main shareholder. The Audit Committee and the Board of Directors closely oversees the timely implementation of recommendations made by those instances and by regulatory authorities.

(e) Capital Management

The Superintendence of Banks, regulator of the Bank, requires the Bank to maintain an index of total capital based on its and weighted by risk.

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Notes to the Consolidated Financial Statements

(3) Financial Instruments Risk Management, continued

The Bank analyses its regulatory capital considering the following two capital pillars, in conformity with Management's interpretation of the Basel Accord, which is applied in the standards of the Superintendence of Banks, based on Agreements 5-98 of October 14, 1998, which was modified by Agreement 5-99 of July 14, 1999, for General License Banks.

The market risk strategy utilized by the Bank to calculate its capital requirements covers the general market risks of the operations of the Bank, as well as the specific risks of open positions in currencies, debts and investments in shares included in the risk portfolio. Assets are measured in accordance with specific categories of credit risk, with a measured risk percentage being assigned in accordance with the amount of capital that is necessary to cover the risks mentioned. Five categories to measure the risks are applied (0%, 10%, 20%, 50% and 100%). For example, cash and cash-backed loans have a zero risk, which means that capital is not required to cover the registered assets. Improvements and equipment have a 100%, which means that they must be covered by capital equal to 8% of the registered value.

Primary Capital (Pillar 1): it comprises the paid capital in shares, the declared reserves and the retained earnings, where paid capital in shares is understood to be that represented by common shares and perpetual non-accumulative preferred shares issued and fully paid. The declared reserves are those identified as such by the Bank from retained earnings in books to reinforce its financial situation.

Retained earnings are the non-distributed net income of the period and the non-distributed net income that corresponds to previous periods.

Secondary Capital (Pillar 2): it comprises hybrid instruments of capital and debt, the subordinated term debt, the general reserves for losses, the undeclared reserves and the reserves for asset reevaluation.

The calculation of the amount of Capital Funds of a General License Bank should take into account the quarterly deductions, which are listed as follows:

- The non-consolidated capital assigned to the overseas agency.
- The paid, non-consolidated capital of Subsidiaries of the Bank.
- The paid capital of non-banking Subsidiaries. The deduction will include the balances recorded in the asset for the higher paid value – with respect to the carrying value – in the permanent investments in local and foreign entities.
- Items of assets corresponding to expenses or other items, that due to the generally accepted accounting principles and International Accounting Standards correspond to the over-valorizations or diverse forms of unrecognized losses, and also the losses faced at any moment during the period.

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(3) Financial Instruments Risk Management, continued

As for the reserves that should exist based on the provisions of the Secondary Capital, the same are comprised of the following:

- *General reserves for losses:*

These are provisions that have not been required to General License Banks by legislation, regulation, the Superintendence or that exceed those that have indeed been required to these Banks by the Superintendence, the regulation of the legislation. The general reserves are not destined to cover risks that may be present in assets, nor do they correspond to obligations of real or contingent payments. They have no specific purpose. The general reserves can only be computed as part of the secondary capital up to an amount equivalent of 1.25% of the risk-based weighted assets.

Once the general reserves are computed as part of the secondary capital, Banks are not permitted to decrease them if by doing so they infringe upon the adequacy index contemplated in Article 45 of Law Decree 9 of 1998 or the other legal or regulatory margins and limits established on the base of the Capital Funds.

- *Undeclared reserves:*

It is the part of the retained earnings after taxes, provided that it has the same quality as the declared reserves. As such, they find themselves completely and immediately available to absorb future unforeseen losses and they are not taxable by any obligation. However, unlike the declared reserves, these ones are not given a specific purpose and remain recorded in a special reserve item.

- *Reevaluation reserves:*

These are those that originate in the reevaluation of securities traded at a stock exchange, available for sale, to be recorded at their market values. Such reevaluation should be made considering the market values in effect for assets with similar characteristics, which should be certified by the external auditors in their notes to the consolidated financial statements. The inclusion of those securities received as payment by the Bank in the course of its operation is not permitted. The total of the elements computed as secondary capital is limited to a maximum of 100% of the sum of the elements that comprise the primary capital.

The Capital Funds of a General License Bank may not be lesser than 8% of its risk-based weighted assets. For this purpose, the assets should be considered net of their respective provisions or reserves and with the weights indicated in the Superintendence Agreement. There have not been material changes in the management of the Bank's capital during the period of the consolidated financial statements issued as of December 31, 2007.

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(3) Financial Instruments Risk Management, continued

The Bank maintains a position of regulatory capital that is comprised in the following manner for years ended on December 31, 2007 and 2006, which is detailed as follows:

	<u>2007</u>	<u>2006</u>
Primary Capital (Pillar 1)		
Common shares	65,000,000	45,000,000
Capital reserve	150,000	150,000
Retained earnings	<u>29,497,675</u>	<u>41,195,572</u>
Total	<u>94,647,675</u>	<u>86,345,572</u>
Secondary Capital (Pillar 2)		
Reserve at fair value for investments available for sale	132,653	139,823
Collective reserve for impairment	<u>5,065,516</u>	<u>4,093,446</u>
Total	<u>5,198,169</u>	<u>4,233,269</u>
Total regulatory capital	<u>99,845,844</u>	<u>90,578,841</u>
Risk-based weighted assets	653,881,164	574,962,445
Capital Indexes		
Total regulatory capital stated as a percentage of the risk-based weighted assets	15.3%	15.8%
Total of Pillar 1 stated as a percentage of risk-based weighted assets	14.5%	15.0%

(4) Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank's management has made estimates and assumptions that affect the amounts reported of assets and liabilities within the next fiscal year. Estimates and decisions are continuously assessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses of loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis based on the criteria established in Agreement No. 6-2000. In order to determine if an impairment loss should be recorded in the income statement, the Bank makes decisions about whether there is observable information indicating that there is a decrease in the value of the loan that may be measured in the future forecasted cash flows of the loans.

This evidence includes observable information that indicates that there has been an adverse change in the payment condition of the loans or economic conditions that correlate with loan non-compliance in the Bank. The methodology and assumptions used to estimate the loss and time of future effective cash flows are reviewed periodically to reduce any difference between the loss estimates and the actual loss experience.

Notes to the Consolidated Financial Statements

(4) Critical Accounting Estimates and Judgments in Applying Accounting Policies, continued

Whenever a loan is deemed non-collectable, it is charged against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the loss amount has been determined. Subsequently, the recoveries of amounts previously written off are credited to the reserve.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurred after the impairment was recognized, the impairment amount previously recognized is reversed by adjusting the allowance account. The reversal amount is recognized in the income statement.

Management considers that the accrued provision for non-collectable loans is adequate. The regulatory entity revises periodically the accrued provision for loan losses, as an integral part of its examinations. The regulatory entity may require that additional allowances are recognized based on its assessment on the information available at the examination date.

(b) Impairment of securities available for sale

The Bank determines that securities available for sale have impairment when there has been a significant or prolonged decrease in the fair value below its cost. This determination whether it is significant or prolonged requires judgment. In addition, the impairment may be appropriate when there is evidence of impairment in the financial condition of the issuer, performance of the industry and sector, changes in technology and the operative and financial cash flows.

(c) Securities held to maturity

The Bank follows the guidance on IAS 39 to classify non derivative financial assets with fixed or determinable payments and fixed maturities held until maturity. This classification requires a significant decision. Upon taking this decision, the Bank assesses its intent and ability to hold such investments until the maturity. If the Bank ceases to hold these investments until maturity for reasons other than the specific circumstances permitted by the standard, the full portfolio will be required to be reclassified as available for sale.

(d) Income tax

The Bank is subject to income tax regulations in several jurisdictions. Significant estimates are required to determine the income tax provision. There are many transactions and calculations for which the determination of the final tax is uncertain during the ordinary course of business. The Bank recognizes obligations due to anticipated tax audits based on estimates of taxes that will be payable. Whenever the final tax liability of these matters is different than the amounts that were initially recognized, such differences will impact the provisions for income tax and deferred income in the period in which such determination was made.

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Notes to the Consolidated Financial Statements

(4) Critical Accounting Estimates and Judgments in Applying Accounting Policies, continued

(e) Fair value

For securities available for sale that are quoted in active markets, the fair value is determined by the published reference price of the instrument in a stock market and electronic systems of stock market information. Whenever the independent prices are not available, the fair values are determined by using valuation techniques with reference to observable market data. These include the analysis of discounted cash flows and other valuation techniques commonly used by market participants. Changes in assumptions about these factors may affect the reported fair value of the financial instruments.

(5) Other Commissions and Other Income

The breakdown of income by other commissions and other income is presented as follows:

	<u>2007</u>	<u>2006</u>
Other commissions on:		
Letters of credit and documentary collections	1,120,716	1,352,713
Transfers	474,702	557,232
Current account services	233,281	301,827
Endorsements and guarantees	93,881	123,200
Purchase and sale of foreign currency	68,777	71,738
Other	<u>368,796</u>	<u>406,521</u>
	<u>2,360,153</u>	<u>2,813,231</u>
Other income:		
Recovery of Telesis provision (see note 19)	2,096,804	0
Income for recovery of reserves	208,443	786,471
Other income	<u>265,873</u>	<u>223,612</u>
	<u>2,571,120</u>	<u>1,010,083</u>

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(6) Commission Expenses, Salaries and Other Expenses

The breakdown of commission expenses, salaries and other expenses is detailed as follows:

	<u>2007</u>	<u>2006</u>
Commission expenses:		
Correspondent banking activities	136,616	127,471
Purchase of securities	7,638	37,587
Other commission	<u>11,031</u>	<u>12,427</u>
	<u>155,285</u>	<u>177,485</u>
Salaries and personnel expenses:		
Salaries	6,958,660	6,337,920
Labor contributions	1,071,983	945,357
Employee benefits	605,668	560,828
Retirement savings plan	448,277	400,096
Training	138,508	105,529
Other	<u>282,654</u>	<u>269,069</u>
	<u>9,505,750</u>	<u>8,618,799</u>
Other expenses:		
Administrative expenses of representation offices	430,418	345,082
Travel and transportation	389,454	444,096
Electricity and telephone	301,184	284,190
Software technical services	292,282	213,492
Repairs and maintenance	263,535	237,285
Taxes	596,411	833,185
Stationery and office supplies	154,366	114,407
Communications and mail	131,604	135,949
Insurance	131,239	117,648
Other	<u>730,107</u>	<u>1,142,252</u>
	<u>3,420,600</u>	<u>3,867,586</u>

(7) Income Tax

The Bank's income tax returns in the Republic of Panama are subject to review by fiscal authorities for up to the last three (3) years, including the period ended December 31, 2007, in accordance with fiscal regulations in effect.

Panama

In accordance with the fiscal legislation in effect in Panama, the Bank is exempt from payment of income tax for earnings originated in foreign sources. Also exempt from tax payment are the profits from interest earned on deposits with banks and interest earned on securities of the Panamanian State.

Miami

For purposes of determining the taxable income, the income not effectively related to transactions of business performed in the United States is not subject to income tax and the interest expense is calculated based on the cost of the obligations denominated in US Dollars.

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(7) Income Tax, continued

The net tax on the carryover tax loss is the following:

<u>Expiration Year</u>	<u>Amount</u>
2009 - 2011	4,000
2012	941,000
2018	114,000
2019 - 2020	6,000
2021	1,412,000
2022	2,426,000
2023	5,285,000
2024	6,459,000
2025	1,799,000
2026	5,539,000
2027	<u>3,919,000</u>
	<u>27,904,000</u>

Management has determined, based on an analysis, that it is not very likely that the deferred income tax asset, or a part of it, will be realizable; therefore, the deferred tax asset has not been recorded. In addition, the Miami Bank has performed the respective calculations and has estimated that it will not incur on federal or state income taxes in the United States of America.

In accordance with fiscal regulations in effect in each of the countries, the income tax returns of the Bank, its agency and its subsidiary are subject to review by the fiscal authorities of each of these countries, for the following years:

Panama	For the last three years
Miami (USA)	For the last five years

The breakdown of income tax expenses is the following:

	<u>2007</u>	<u>2006</u>
Estimated income tax	430,000	449,999
Prior year income tax adjustments	103,057	0
Deferred tax for temporary differences	<u>(144,161)</u>	<u>(32,548)</u>
Total income tax expense	<u>388,896</u>	<u>417,451</u>

The items of deferred tax for temporary differences originate mainly at the allowance for loan losses and the accounting method for financing leasing.

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Notes to the Consolidated Financial Statements

(7) Income Tax, continued

The reconciliation between the financial income before income tax and the income detailed as follows:

	<u>2007</u>	<u>2006</u>
Financial income before income tax	8,690,999	6,610,990
Foreign, exempt and non taxable income, net	(45,891,874)	(40,261,547)
Non deductible costs and expenses	<u>38,634,208</u>	<u>35,150,556</u>
Net taxable income	<u>1,433,333</u>	<u>1,499,999</u>
Estimated income tax	<u>430,000</u>	<u>449,999</u>

The deferred income tax, asset and liability, for the Bank is summarized as follows:

	<u>2007</u>	<u>2006</u>
Deferred income tax – asset:		
Allowance for loan losses	296,783	59,570
Deferred tax for carryover losses	<u>0</u>	<u>106,035</u>
Deferred income tax – asset	<u>296,783</u>	<u>165,605</u>
Deferred income tax – liability:		
Financing leasing	<u>25,065</u>	<u>38,049</u>

In accordance with the fiscal legislation in effect, the tax rate for 2007 is 30% (2006: 30%). Management made its estimates of deferred tax for assets and liabilities using this rate.

The reconciliation of the deferred income tax of the previous year with the current year is as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax – asset at beginning of year	165,605	153,367
Plus:		
Allowance for loan losses	<u>131,178</u>	<u>12,238</u>
Deferred tax – asset at end of year	<u>296,783</u>	<u>165,605</u>
Deferred tax – liability at beginning of year		
Less:		
Income for financing leasing	<u>38,048</u>	<u>58,359</u>
Deferred tax – liability at end of year	<u>(12,983)</u>	<u>(20,310)</u>
	<u>25,065</u>	<u>38,049</u>

Based on current and forecasted results, management of the Bank considers that there will be enough taxable income to absorb the deferred taxes.

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(7) Income Tax, continued

The effective tax rate as of December 31, 2007 was 4.47% (2006: 6.31%) and the income tax rate applicable to the net taxable income in accordance with legislation in effect was 30% on the total taxable income (2006: 30%).

(8) Cash and Cash Equivalents

Cash and cash equivalents are detailed as follows for purposes of reconciliation with the statement of cash flows.

	<u>2007</u>	<u>2006</u>
Cash	739,321	652,042
Demand deposits with banks	16,598,406	22,556,211
Time deposits with banks	<u>43,587,871</u>	<u>112,072,767</u>
Total cash and cash equivalents	60,925,598	135,281,020
Less: time deposits with maturities greater than 90 days	<u>580,600</u>	<u>0</u>
Cash and cash equivalents in the cash flow statements	<u>60,344,998</u>	<u>135,281,020</u>

As of December 31, 2007, the annual interest rates earned by time deposits ranged between 4% and 5.2425% (2006: 5.1675% y 5.87%).

(9) Securities Purchased Under Resale Agreements

As of December 31, 2007, securities purchased under resale agreements amounted to US\$13,997,890 (2006: US\$14,879,690), with an annual interest rate between 4.80% and 5.72% (2006: 5.40% and 5.72%), with various maturities in January 2008.

(10) Investment Securities
Securities available for sale

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>
Debt securities – private	36,340,099	36,334,393	2,943,359	2,940,959
Debt securities – government	27,859,138	27,822,515	7,839,421	7,792,322
Equity shares	<u>163,200</u>	<u>72,876</u>	<u>163,200</u>	<u>72,876</u>
Total	<u>64,362,437</u>	<u>64,229,784</u>	<u>10,945,980</u>	<u>10,806,157</u>

As of December 31, 2007, the Bank holds equity shares amounting to a fair value of US\$163,200 (2006: US\$163,200). The Bank recorded dividend income received for US\$8,150 (2006: US\$35,403).

As of December 31, 2007, the Bank holds investments available for sale that includes securities that back securities sold under repurchase agreements amounting to US\$8,007,266 (see Note 15).

Notes to the Consolidated Financial Statements

(10) Investment Securities, continued

During the year 2007, the Bank sold securities available for sale amounting to US\$4,326,640 (2006: US\$165,651,036), which resulted in a net realized gain of US\$160,136 (2006: US\$49,305), which is included in the income statement. In addition, the Bank presents unrealized gains or losses for securities available for sale, amounting to US\$132,653 (2006: US\$139,823), which are presented in an equity account.

As of December 31, 2007, the Bank held in its portfolio of securities available for sale Structured Notes for a carrying value balance of \$36,340,100. These instruments are Credit Linked Notes that possess implicit associated derivatives:

1. To the sovereign risk of the Republic of Costa Rica subordinated to the following credit events:
 - a. Default
 - b. Non-compliance with the obligation
 - c. Restructuring
 - d. Repudiation/Moratorium

2. To the sovereign risk of the Republic of Panama subordinated to the following credit events:
 - a. Default
 - b. Non-compliance with the obligation
 - c. Restructuring
 - d. Repudiation/Moratorium

3. An option of anticipated redemption at 100% of its nominal value under the following events:
 - a. If there is non-compliance in accordance with the Note
 - b. The issuer exercises its option to redeem the Notes for fiscal reasons
 - c. Redemption for illegality

As of December 31, 2007, neither of these credit events, nor conditions for anticipated redemption have been executed; therefore, the fair value of this implicit derivative is zero.

As of December 31, 2007, the counterpart has not exercised its option of anticipated redemption.

As of December 31, 2007, the change in fair value of investments available for sale was US\$152,966 (2006: US\$26,989), which was recorded in the account of unrealized gain within equity accounts.

The Annual interest Rates earned by securities available for sale ranged between 5.75% and 9.11% (2006: 5.40% and 7.13%).

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(10) Investment Securities, continued

Securities held to maturity

Securities held to maturity are detailed as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Debt securities – private	4,575,000	4,547,500	39,573,036	39,640,000
Debt securities – government	<u>25,101,429</u>	<u>25,107,481</u>	<u>37,991,651</u>	<u>38,119,838</u>
Total	<u>29,676,429</u>	<u>29,654,981</u>	<u>77,564,687</u>	<u>77,759,838</u>

As of December 31, 2007, the Bank held securities held to maturity backing securities sold under repurchase agreements for US\$6,813,802 (see note 15).

The annual interest rates earned by securities held to maturity ranged between 3.45% and 7.65% (2006: 3.05% and 7.58%).

Private debt securities held to maturity for US\$4,575,000 (2006: US\$5,875,000) possess an option of anticipated redemption by the issuer.

As of December 31, 2007, the Bank held bonds issued by the Government of the United States of America for US\$16,500,000 (2006: US\$15,500,000), of which US\$13,561,000 (2006: US\$10,546,902) back certain short-term deposits received.

(11) Loans

The loan portfolio presents the following distribution:

	<u>2007</u>			<u>2006</u>		
	<u>Gross Amount</u>	<u>Allowance</u>	<u>Carrying Value</u>	<u>Gross Amount</u>	<u>Allowance</u>	<u>Carrying Value</u>
Local Sector:						
Corporate	150,217,033	61,937	150,155,096	119,546,498	157,668	119,388,830
Consumer	2,417,838	1,099	2,416,739	1,270,563	2,678	1,267,885
Other Loans	<u>2,613,792</u>	<u>9,027</u>	<u>2,604,765</u>	<u>11,952,596</u>	<u>5,764</u>	<u>11,946,832</u>
Total local sector	<u>155,248,663</u>	<u>72,063</u>	<u>155,176,600</u>	<u>132,769,657</u>	<u>166,110</u>	<u>132,603,547</u>
Foreign Sector:						
Corporate	313,897,545	299,296	313,598,249	210,359,712	304,687	210,055,025
Consumer	1,877,000	0	1,877,000	2,947,057	0	2,947,057
Other Loans	<u>79,254,411</u>	<u>0</u>	<u>79,254,411</u>	<u>107,857,446</u>	<u>0</u>	<u>107,857,446</u>
Total foreign sector	<u>395,028,956</u>	<u>299,296</u>	<u>394,729,660</u>	<u>321,164,215</u>	<u>304,687</u>	<u>320,859,528</u>
Total loans	<u>550,277,619</u>	<u>371,359</u>	<u>549,906,260</u>	<u>453,933,872</u>	<u>470,797</u>	<u>453,463,075</u>

As of December 31, 2007, the annual interest rates on loans ranged between 13.5% and 4.5% (2006: 13.5% and 4.55%).

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Notes to the Consolidated Financial Statements

(11) Loans, continued

The following is the breakdown of loans classified by type of interest rate:

	<u>2007</u>	<u>2006</u>
Fixed rate	153,514,321	138,535,046
Variable rate	<u>396,763,298</u>	<u>315,398,826</u>
Total	<u>550,277,619</u>	<u>453,933,872</u>

As of December 31, 2007, the cash-backed loan portfolio amounted to US\$36,950,116 (2006: US\$28,455,639).

As of December 31, 2007, the total portfolio includes restructured loans amounting to US\$5,707,627 (2006: US\$6,381,981).

As of December 31, 2007, past due and matured loans amounted to US\$567,000 (2006: US\$676,200), for which there is an allowance of US\$195,198 (2006: US\$:248,088).

As of December 31, 2007, the Bank holds US\$732,340 of loans on non-accrual status (2006: US\$874,042) and unearned interest on these loans for US\$43,200 (2006:US\$51,311). These loans in non-accrual status include loans for US\$587,252 (2006:US\$220,167) which are neither past due nor matured, but management of the Bank decided to award them non-accrual status due to their financial situation.

The breakdown of the loan portfolio by economic activity is presented as follows:

	<u>2007</u>	<u>2006</u>
Industrial	134,914,165	96,148,138
Commercial	112,541,010	85,439,419
Banks and financial institutions	81,850,461	116,294,948
Services and overdrafts	78,385,549	67,800,760
Infrastructure and construction	63,533,518	39,450,569
Agriculture	32,840,174	19,030,749
Livestock	21,345,285	16,332,608
Hotel industry and tourism	19,168,605	5,198,373
Consumer	4,294,838	4,217,620
Transportation	1,386,272	505,594
Public institutions	<u>17,742</u>	<u>3,515,094</u>
	<u>550,277,619</u>	<u>453,933,872</u>

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(11) Loans, continued

The breakdown of loans by geographic area is presented as follows:

	<u>2007</u>	<u>2006</u>
Costa Rica	280,865,229	219,145,578
Panama	155,248,663	132,769,657
Guatemala	43,828,907	51,516,696
Nicaragua	37,991,026	23,321,156
El Salvador	12,256,351	13,572,648
United States of America	11,068,979	7,805,638
Ecuador	5,666,160	4,603,387
Honduras	2,101,341	456,672
Dominican Republic	446,973	507,440
Mexico	314,448	0
Colombia	0	200,000
Other	<u>489,542</u>	<u>35,000</u>
	<u>550,277,619</u>	<u>453,933,872</u>

The movement of allowance for loan losses is detailed as follows:

	<u>2007</u>			
<u>Details</u>		<u>Consolidated Reserve</u>	<u>Global Reserve</u>	<u>Specific Reserve</u>
Balance at beginning of year		4,093,446	3,622,649	470,797
Provision charged to operation expenses		1,120,428	1,120,428	0
Loans charged off		(148,358)	0	(148,358)
Transfer of reserve (generic/specific assignments)		<u>0</u>	<u>(48,920)</u>	<u>48,920</u>
Balance at end of year		<u>5,065,516</u>	<u>4,694,157</u>	<u>371,359</u>

	<u>2006</u>			
<u>Details</u>		<u>Consolidated Reserve</u>	<u>Global Reserve</u>	<u>Specific Reserve</u>
Balance at beginning of year		6,654,372	1,583,170	5,071,202
Provision charged to operation expenses		1,762,753	1,691,974	70,779
Loans charged off		(4,413,119)	0	(4,413,119)
Recoveries		137,288	137,288	0
Transfer of reserve (generic/specific assignments)		0	258,065	(258,065)
Other		<u>(47,848)</u>	<u>(47,848)</u>	<u>0</u>
Balance at end of year		<u>4,093,446</u>	<u>3,622,649</u>	<u>470,797</u>

Management of the Bank has estimated the required allowances, based on Agreement 6-2000 of the Superintendence of Banks of Panama, presented as follows:

<u>Type of Allowance</u>	<u>Standard</u>	<u>Special Mention</u>	<u>2007 Sub-Standard</u>	<u>Doubtful</u>	<u>Non-recoverable</u>	<u>Total</u>
Specific	<u>0</u>	<u>89,993</u>	<u>101,210</u>	<u>154,156</u>	<u>26,000</u>	371,359
Global						<u>4,694,157</u>
Total						<u>5,065,516</u>

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(11) Loans, continued

<u>Type of Allowance</u>	<u>Standard</u>	<u>Special Mention</u>	<u>2006 Sub- Standard</u>	<u>Doubtful</u>	<u>Non- recoverable</u>	<u>Total</u>
Specific	<u>0</u>	<u>154,706</u>	<u>52,799</u>	<u>146,787</u>	<u>116,505</u>	470,797
Global						<u>3,622,649</u>
Total						<u>4,093,446</u>

The loan portfolio includes finance leases, the maturity profile of which is presented as follows:

	<u>2007</u>	<u>2006</u>
Total minimum payments	24,093,857	17,316,492
Unearned interest	<u>(96,103)</u>	<u>(313,067)</u>
Total finance leases receivable	<u>23,997,754</u>	<u>17,003,425</u>

The maturities of finance leases are the following:

	<u>2007</u>	<u>2006</u>
Less than one year	1,302,843	293,677
From 1 to 5 years	18,936,493	13,881,443
More than 5 years	<u>3,758,418</u>	<u>2,828,305</u>
	<u>23,997,754</u>	<u>17,003,425</u>

(12) Property, Equipments and Improvements

Property, equipments and improvements are summarized as follows:

	<u>Land</u>	<u>Building</u>	<u>Vehicles</u>	<u>2007 Furniture and Equipment</u>	<u>Computer Equipment</u>	<u>Property Improvements</u>	<u>Total</u>
Cost:							
At beginning of year	410,000	971,655	169,017	1,128,865	1,191,908	767,971	4,639,416
Additions	0	0	3,290	97,224	121,793	146,807	369,114
Sales and disposals	0	0	0	(17,779)	(124,176)	(103,480)	(245,435)
Reclassifications	0	0	(4,412)	4,412	0	0	0
At end of year	<u>410,000</u>	<u>971,655</u>	<u>167,895</u>	<u>1,212,722</u>	<u>1,189,525</u>	<u>811,298</u>	<u>4,763,095</u>
Accumulated depreciation and amortization:							
At beginning of year	0	424,079	74,724	868,519	913,274	415,054	2,695,650
Expenses of the year	0	25,466	57,082	102,259	171,186	143,028	499,021
Sales and disposals	0	0	0	(17,780)	(124,175)	(103,479)	(245,434)
At end of year	<u>0</u>	<u>449,545</u>	<u>131,806</u>	<u>952,998</u>	<u>960,285</u>	<u>454,603</u>	<u>2,949,237</u>
Net balance	<u>410,000</u>	<u>522,110</u>	<u>36,089</u>	<u>259,724</u>	<u>229,240</u>	<u>356,695</u>	<u>1,813,858</u>

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(12) Property, Equipments and Improvements, continued

	<u>Land</u>	<u>Building</u>	<u>Vehicles</u>	<u>2006 Furniture and Equipment</u>	<u>Computer Equipment</u>	<u>Property Improvements</u>	<u>Total</u>
Cost:							
At beginning of year	410,000	971,655	146,717	1,178,581	1,068,918	762,446	4,538,317
Additions	0	0	30,000	78,279	254,236	9,967	372,482
Sales and disposals	0	0	(7,700)	(127,995)	(131,246)	(4,442)	(271,383)
At end of year	<u>410,000</u>	<u>971,655</u>	<u>169,017</u>	<u>1,128,865</u>	<u>1,191,908</u>	<u>767,971</u>	<u>4,639,416</u>
Accumulated depreciation and amortization:							
At beginning of year	0	398,611	29,112	872,312	908,972	318,436	2,527,443
Expenses of the year	0	25,468	53,852	112,096	129,699	101,269	422,384
Sales and disposals	0	0	(8,240)	(115,889)	(125,397)	(4,651)	(254,177)
At end of year	0	424,079	74,724	868,519	913,274	415,054	2,695,650
Net balance	<u>410,000</u>	<u>547,576</u>	<u>94,293</u>	<u>260,346</u>	<u>278,634</u>	<u>352,917</u>	<u>1,943,766</u>

In the figures corresponding to the year 2006, an amount of US\$401,425 has been reclassified to intangible assets in accordance with changes in the current period (see note 13).

(13) Intangible Assets

Licenses and Software

The movement of licenses and software is presented as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	401,425	142,008
Additions	141,180	406,885
Amortization of the year	(195,837)	(125,894)
Disposals and adjustments	0	(21,574)
Balance at end of year	<u>346,768</u>	<u>401,425</u>

The useful life of this asset has been estimated by management to be 3 years.

(14) Other Assets

As of December 31, 2007, other assets are presented as follows:

	<u>2007</u>	<u>2006</u>
Accounts receivable from customers for currency purchase of currencies	2,006,127	0
Advance for financing of letters of credit	1,901,927	425,809
Prepaid expenses	628,408	504,008
Foreclosure goods from borrowers, net of regulatory reserve US\$89,880 (2006:US\$89,880)	658,556	74,711
Fixed assets	511,513	527,495
Severance fund	416,463	366,371
Other accounts receivable from customers	301,638	77,621
Other	242,604	109,958
Total	<u>6,667,236</u>	<u>2,085,973</u>

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(14) Other Assets, continued

The movement of the reserve for foreclosed goods from borrowers is summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	89,880	250,819
Charges to reserve	<u>0</u>	<u>(160,939)</u>
Balance at end of year	<u>89,880</u>	<u>89,880</u>

(15) Securities Sold Under Repurchase Agreements

As of December 31, 2007, the Bank had obligations originated in transactions of sales of securities under repurchase agreements for US\$13,919,056 (2006: US\$0), with maturities until January 2008 and annual interest rates of 6.10%. These obligations are backed by government debt securities included in the portfolio of securities available for sale and securities held to maturity for US\$8,007,266 and US\$6,813,802, respectively. (See note 10).

(16) Other Liabilities

As of December 31, 2007, the breakdown of Other Liabilities is as follows:

	<u>2007</u>	<u>2006</u>
Obligations for purchases and sales of foreign currency	2,004,353	545,775
Provisions for labor benefits	1,458,973	1,377,894
Guarantee deposits – finance leases	800,809	487,001
Operations pending application	736,678	1,671,804
Deferred credits	235,320	293,290
Contributions to the retirement fund – employer	218,487	149,386
Obligations for relations with third parties	208,905	145,012
Contributions to the Personal Retirement Fund	137,147	74,693
Accounts payable – various	107,220	122,921
Provisions for off balance sheet credit risk and legal litigations	95,530	877,873
Accrued expenses payable	93,402	290,026
Other	<u>117,932</u>	<u>135,467</u>
Total	<u>6,214,756</u>	<u>6,171,142</u>

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(17) Borrowings Payable

Borrowings payable is detailed as follows:

<u>Creditor</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>2007</u>	<u>2006</u>
Kreditanstalt Furk Weid	from 6.05% to 6.1750%	Various until November 2014	23,000,000	5,000,000
Wachovia National Bank, N.A.	from 5.29% to 5.88%	Various until May 2008	22,654,000	24,000,000
Banco Latinoamericano de Exportaciones, S.A. (BLADEX)	from 5.39 to 6.08%	Various until May 2008	18,995,000	9,500,000
Dresdner Bank AG Frankfurt	from 5.55% to 5.9987%	Various until September 2008	12,950,000	12,050,000
Cooperative Bank (CoBank)	from 5.15% to 6.27%	Various until July 2009	9,248,199	18,676,237
Natixis Banques Populaires	from 5.85% to 5.89%	February 2008	9,200,000	3,875,000
Banco Centroamericano de Integración Económica (BCIE)	from 6.29% to 7.08%	Various until August 2013	5,750,000	20,000,000
American Express Bank	from 5.64% to 6.095%	Various until March 2008	3,700,000	1,000,000
Israel Discount Bank of New York	5.6000%	June 2008	3,000,000	2,000,000
BNP Paribas (Panama)	5.76%	March 2008	3,000,000	2,000,000
Banco de Comercio Exterior (BANCOLDEX)	5.9100%	February 2008	2,000,000	5,500,000
The Export Import Bank of Korea	6.51%	December 2009	69,365	183,723
Mercantil Commerce Bank	from 5.31% to 5.33375%	Various until February 2008	9,429,000	6,070,000
Toronto Dominion Bank	5.4500%	January 2008	2,000,000	0
Societe Generale	5.8900%	August 2007	0	6,000,000
Banco Continental de Panamá	6.0300%	March 2007	0	4,000,000
HSBC Plc.	6.2256%	February 2007	0	2,000,000
TOTAL			<u>124,995,564</u>	<u>121,854,960</u>

These borrowings have interest rate ranging from 5.15% to 7.08% (2006: 3.56% to 6.95%)

(18) Equity Common Shares

The composition of the equity common shares is summarized as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>
Issued shares				
Balance at beginning of year	3,600	45,000,000	3,600	45,000,000
Issued shares	<u>1,600</u>	<u>20,000,000</u>	<u>0</u>	<u>0</u>
Balance at end of year	<u>5,200</u>	<u>65,000,000</u>	<u>3,600</u>	<u>45,000,000</u>

The Bank's capital funds represented 14.5% (2006: 15%) of the assets weighted on a risk basis, calculated in conformity with management's interpretation of the Basel Accord, which requires maintaining capital funds for an amount no lesser than 8% of its risk-based weighted assets.

The Stockholders Meeting No. 65 held on March 13, 2007, approved on article four (4) the capitalization of retained earnings for an amount of US\$20 million.

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Notes to the Consolidated Financial Statements

(19) Commitments and Contingencies

Banco Internacional de Costa Rica, S.A. – Costa Rica (BICR), an entity that until 2004 operated as a subsidiary of BICSA Corporación Financiera, S.A., an ultimate entity that was absorbed by Banco Internacional de Costa Rica, S.A. in September 2005, was in a process of execution of a sentence filed by the TELESIS, S.A. firm, about a software contract that was subscribed by both parties. In 1989, the judicial case was estimated by the plaintiff in an amount equivalent to US\$192,000, and later in September 2002 it sought the payment of US\$12,595,684, plus interest to the payment date and costs.

In the judicial process that followed, BICR filed a motion to dismiss based on the statute of limitations, which was granted by the Second Civil Tribunal of San Jose, First Section, through resolution No. 408 of November 16, 2004, which established that BICR was not obligated to make any payments.

TELESIS, S.A. made a formal appeal to a superior court against the ruling of the Second Civil Tribunal.

The First Bench of the Supreme Court of Justice, through resolution of December 21, 2006, ruled that the appeal filed by TELESIS, S.A. was inadmissible; and therefore confirmed that all claims by TELESIS, S.A. were prescribed and BICR was not obligated to make any payments.

Pursuant to this, the Bank recovered US\$2,096,804 in the year 2007 from Banco Nacional de Costa Rica, an entity that absorbed in 2004 the operations of BICR – Costa Rica, and of other institutions; BICR had transferred the reserves for this contingency to Banco Nacional de Costa Rica.

The amount of the aforementioned provision recovery is presented in the income statement within the item of other income.

In order to provide professional attention to this case, BICR had made an Agreement with three distinguished Costa Rican professionals, which provided in a precise manner the fees that BICR was to recognize to them. BICR made the payments of the amounts prescribed in a total and timely manner. Notwithstanding the above mentioned, the professionals in charge of the case have file a motion for fee collection for an amount of 501,134,949 Colones (approximately US\$967,704) plus 2% monthly interest (they liquidated 70,845,379 Colones until July 23, 2007) (approximately US\$136,804), which is in process at the First Civil Court of mayor amount of San Jose, which has been responded by BICR. The legal advisor hired by BICR to attend this incident considers that the motion's probabilities of success are low.

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(19) Commitments and Contingencies, continued

Income Tax, BICSA Costa Rica

On November 9, 2006, the Bank received a notification of the conclusion Memo on Fiscal Actions No. 2752000016446 from the Tax Administration on Large Contributors of Costa Rica, which indicates, to the criteria of that administration, the tax quotas not auto liquidated for the periods from 1999 to 2004 by Banco Internacional de Costa Rica, S. A. (Costa Rica), an entity which until 2004 operated as a subsidiary of Bicsa Corporación Financiera, S.A., an entity that was merged by Banco Internacional de Costa Rica, S.A., Panamá, in September 2005. The amount of 707,639,319 Colones (approximately US\$1,366,468) plus surcharges and fines originates in a treatment by the current tax administration of certain expenses and income items in a manner different than those previously authorized and communicated in writing by the Tax Administration to BICR and other banks of the Costa Rican banking system.

BICR has contested the transfer of charges with the tax administration and the legal advisors expect that it be ruled in favor of the Bank considering, among other things, that tax liquidations of those years were made in conformity with guidance originated in that Office.

The Bank and its Miami Agency have various claims and legal actions from the normal course of business. In Management's opinion, the final disposition of these issues will have no adverse effect on the financial position, result of operations or liquidity of the Bank and its agency.

In the normal course of its operations, the Banks holds financial instruments with off balance sheet risk to supply the financial needs of its clients. These financial instruments include letters of credit and guarantees that involve, in different grades, elements of credit risk.

The financial instruments with off balance sheet credit risk are detailed as follows:

	<u>2007</u>	<u>2006</u>
"Stand-by" letters of credit	11,940,785	19,311,221
Commercial letters of credit confirmed	38,103,873	30,725,375
Guarantees issued	<u>11,193,074</u>	<u>11,544,748</u>
Total	<u>61,237,732</u>	<u>61,581,344</u>

As of December 31, 2007, the bank has a contingency reserve amounting to US\$53,626 (2006:835,969).

As of December 31, 2007, the classification of the contingent portfolio is the following:

	<u>2007</u>	<u>2006</u>
Standard	60,764,867	57,702,106
Special Mention	470,249	3,293,873
Sub-Standard	2,616	47,407
Non-recoverable	<u>0</u>	<u>537,958</u>
Total	<u>61,237,732</u>	<u>61,581,344</u>

Notes to the Consolidated Financial Statements

(19) Commitments and Contingencies, continued

As of December 31, 2007, the Bank has with third parties, commitments originated in contracts of operative leases of real estate, which expire on several dates within the upcoming years. The value of the annual payments of the occupation contracts for the next five years is the following:

<u>Year</u>	<u>Amount</u>
2008	566,682
2009	583,556
2010	600,430
2011	617,304
2012	<u>260,139</u>
	<u>2,628,111</u>

As of December 31, 2007, there were judicial processes pending against the Bank in which Management of the Bank and its attorneys estimate that there is a high probability that the Bank will not be sentenced to pay the total amount claimed. As of December 31, 2007, the bank has a reserve of US\$41,904 (2006: 41,904) concerning these legal cases.

(20) Retirement Savings Plan

The Bank in Panama has adopted a voluntary savings plan for retirement of definite contributions, in which the Bank contributes twice the amount contributed by employees up to a maximum amount of 10% of employer contribution of the monthly salaries. The contribution of the Bank and its subsidiary to this plan during 2007 amounted to US\$448,277 (2006: US\$400,096). This plan is managed by a third party independently from the Bank.

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY
(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(21) Balances and Transactions with Related Parties

The Bank has incurred transactions in the ordinary course of business with related parties such as shareholders, non consolidated companies, directors and key management personnel. As of December 31, 2007, the following are the aggregated balances concerning significant transactions with related parties:

	<u>Directors and Key Management Personnel</u>		<u>Related Companies</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Deposits with Banks				
Demand	<u>0</u>	<u>0</u>	<u>5,891,697</u>	<u>3,693,523</u>
Time	<u>0</u>	<u>0</u>	<u>17,000,000</u>	<u>0</u>
Investments held to maturity	<u>0</u>	<u>0</u>	<u>8,601,429</u>	<u>0</u>
Investments				
Securities available for sale	<u>0</u>	<u>0</u>	<u>20,567,463</u>	<u>22,491,649</u>
Accrued interest receivable	<u>0</u>	<u>0</u>	<u>494,588</u>	<u>815,316</u>
Loans				
Balance at beginning of year	50,668	43,287	0	0
Loans granted during the year	70,700	23,000	0	0
Loans cancelled during the year	<u>39,650</u>	<u>15,619</u>	<u>0</u>	<u>0</u>
Balance at end of year	<u>81,718</u>	<u>50,668</u>	<u>0</u>	<u>0</u>
Accrued interest receivable	<u>183</u>	<u>112</u>	<u>0</u>	<u>0</u>
Other assets	<u>0</u>	<u>0</u>	<u>35,161</u>	<u>0</u>

The credit portfolio secured with deposits (deposits with the right of compensation) amounted to US\$65,605 (2006: US\$27,269). In addition, loans for US\$16,113 (2006: US\$16,018) had tangible guarantees such as real estate and other assets.

	<u>Directors and Key Management Personnel</u>		<u>Related Companies</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Deposits:				
Demand deposits	<u>90,572</u>	<u>191,229</u>	<u>4,936,697</u>	<u>5,496,136</u>
Savings	<u>54,305</u>	<u>73,901</u>	<u>0</u>	<u>0</u>
Time deposits	<u>223,869</u>	<u>0</u>	<u>86,310,000</u>	<u>137,370,000</u>
Accrued interest payable	<u>4,156</u>	<u>0</u>	<u>828,588</u>	<u>823,973</u>
Commitments and contingencies:				
Letters of credit	<u>0</u>	<u>0</u>	<u>2,441,358</u>	<u>2,540,670</u>
Stand by	<u>0</u>	<u>0</u>	<u>215,000</u>	<u>129,318</u>
Guarantees	<u>0</u>	<u>0</u>	<u>80,023</u>	<u>190,000</u>

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY
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Notes to the Consolidated Financial Statements

(21) Balances and Transactions with Related Parties, continued

For the year ended December 31, 2007, the following items of income and expenses are included in aggregated amounts which originated from the following related transactions:

	<u>Directors and Key Management Personnel</u>		<u>Related Companies</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest income on:				
Loans	<u>7,060</u>	<u>6,081</u>	<u>0</u>	<u>0</u>
Securities	<u>0</u>	<u>0</u>	<u>1,870,054</u>	<u>1,686,740</u>
Interest expense on:				
Deposits	<u>25,245</u>	<u>0</u>	<u>4,694,450</u>	<u>5,829,747</u>
General and administrative expenses:				
Salaries	<u>1,794,704</u>	<u>1,533,255</u>	<u>0</u>	<u>0</u>
Directors' fees for attendance to meetings	<u>35,598</u>	<u>30,485</u>	<u>0</u>	<u>0</u>

(22) Administration of Fiduciary Contracts

As of December 31, 2007, the Bank held in administration fiduciary contracts on behalf of customers for US\$78,840,294 (2006: US\$65,438,143).

Considering the nature of these services, management considers that there are no significant risks for the Bank.

(23) Fair Value of the Financial Instruments

The following assumptions were made by Management to estimate the fair value for each financial instrument category in the balance sheet:

These estimates are subjective by nature, involve uncertainty and a large degree of judgment, therefore, they cannot be determined with accuracy. Any changes in the assumptions or criteria may significantly affect these estimates.

The following is a summary of the assumptions used in estimating the fair value of the most important financial instruments of the Bank:

(a) *Cash and Deposits with Banks*

The carrying value of cash and deposits with banks approximates its fair value due to their liquidity and short-term maturity.

(b) *Loans*

Loans are reported net of their generic and specific allowances for loan losses. The fair value of the loans corresponds to the present value of the future cash flows that are expected to be received. The loan portfolio is substantially of a short or medium-term nature, and the effective interest rates approximate those of the market ones, therefore their carrying value approximates its fair value.

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Notes to the Consolidated Financial Statements

(23) Fair Value of the Financial Instruments, continued

(c) *Investment Securities*

The fair value of negotiable investment securities is based on market quotes, as disclosed in note 10.

(d) *Deposits Due to Customers and Borrowings Received*

The estimated fair value of deposits from customers without a specific maturity, such as checking and savings accounts corresponds to the amount payable at demand, which is equal to the registration value.

The estimated fair value of time deposits and borrowings received approximates its registration value, since the same have short- and medium-term maturities.

The following table summarizes the carrying value and the estimated fair value of significant assets and liabilities:

	<u>2007</u>		<u>2006</u>	
	<u>Carrying value</u>	<u>Fair Value</u>	<u>Carrying value</u>	<u>Fair Value</u>
<u>Assets</u>				
Demand deposits with banks	16,598,406	16,598,406	22,556,211	22,556,211
Time deposits with banks	43,587,871	43,587,871	112,072,767	112,072,767
Securities purchased under resale agreements	13,997,890	13,997,890	14,879,690	14,879,690
Investment securities	94,038,866	94,017,418	88,510,667	88,705,818
Loans	<u>550,277,619</u>	<u>545,212,103</u>	<u>453,933,872</u>	<u>449,840,426</u>
	<u>718,500,652</u>	<u>713,413,688</u>	<u>691,953,207</u>	<u>688,054,912</u>
<u>Liabilities</u>				
Demand deposits	93,327,548	93,327,548	106,482,661	106,482,661
Savings deposits	891,394	891,394	813,906	813,906
Time deposits	389,378,298	389,378,298	371,805,522	371,805,522
Securities sold under repurchase agreements	13,919,056	13,919,056	0	0
Borrowings payable	<u>124,495,564</u>	<u>124,495,564</u>	<u>121,854,960</u>	<u>121,854,960</u>
	<u>622,011,860</u>	<u>622,011,860</u>	<u>600,957,049</u>	<u>600,957,049</u>

Consolidating Schedule - Consolidated Balance Sheet Information

December 31, 2007

(Stated in Dollars of the United States of America)

	<u>Total Consolidated</u>	<u>Elimination</u>	<u>Subtotal Consolidated</u>	<u>Arrendadora Internacional</u>	<u>Bank Consolidated</u>	<u>Elimination</u>	<u>Subtotal Consolidated</u>	<u>Banco Internacional de Costa Rica, S.A.</u>	<u>Bicsa Miami Agency</u>
Assets									
Cash	739,321	0	739,321	0	739,321	0	739,321	655,777	83,544
Due from banks:									
Demand deposits in local banks	4,501,569	(134,918)	4,636,487	134,918	4,501,569	(92,619)	4,594,188	4,501,569	92,619
Demand deposits in foreign banks	12,096,837	0	12,096,837	113,703	11,983,134	(417,432)	12,400,566	5,503,573	6,896,993
Time deposits in local banks	13,438,565	0	13,438,565	0	13,438,565	(2,000,000)	15,438,565	13,438,565	2,000,000
Time deposits in foreign banks	30,149,306	0	30,149,306	0	30,149,306	(16,550,000)	46,699,306	38,199,306	8,500,000
Total due from banks	60,186,277	(134,918)	60,321,195	248,621	60,072,574	(19,060,051)	79,132,625	61,643,013	17,489,612
Total cash and due from banks	60,925,598	(134,918)	61,060,516	248,621	60,811,895	(19,060,051)	79,871,946	62,298,790	17,573,156
Securities purchased under agreements to resell	13,997,890	0	13,997,890	0	13,997,890	0	13,997,890	13,997,890	0
Securities available for sale	64,362,437	(7,203,000)	71,565,437	0	71,565,437	0	71,565,437	71,565,437	0
Securities held to maturity	29,676,429	0	29,676,429	0	29,676,429	0	29,676,429	13,176,429	16,500,000
	<u>108,036,756</u>	<u>(7,203,000)</u>	<u>115,239,756</u>	<u>0</u>	<u>115,239,756</u>	<u>0</u>	<u>115,239,756</u>	<u>98,739,756</u>	<u>16,500,000</u>
Loans	550,277,619	(9,464,439)	559,742,058	24,012,193	535,729,865	0	535,729,865	374,562,804	161,167,061
Less: allowance for loan losses	5,065,516	0	5,065,516	8,697	5,056,819	0	5,056,819	4,916,733	140,086
Unearned interest and commission	150,876	0	150,876	0	150,876	0	150,876	24,295	126,581
Loans, net	545,061,227	(9,464,439)	554,525,666	24,003,496	530,522,170	0	530,522,170	369,621,776	160,900,394
Investments in associates	0	(3,579,052)	3,579,052	0	3,579,052	0	3,579,052	3,579,052	0
Property, equipment and improvements, net	1,813,858	0	1,813,858	0	1,813,858	0	1,813,858	1,532,441	281,417
Accrued interest receivable	5,301,714	(202,004)	5,503,718	96,003	5,407,715	(12,429)	5,420,144	3,973,239	1,446,905
Customers' liabilities under acceptances	18,281,655	0	18,281,655	0	18,281,655	0	18,281,655	16,932,040	1,349,615
Intangible assets	346,768	0	346,768	0	346,768	0	346,768	190,129	156,639
Deferred income tax	296,783	0	296,783	0	296,783	0	296,783	296,783	0
Other assets	6,667,236	(3,416)	6,670,652	142,741	6,527,911	0	6,527,911	6,120,219	407,692
Total assets	746,731,595	(20,586,829)	767,318,424	24,490,861	742,827,563	(19,072,480)	761,900,043	563,284,225	198,615,818

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY
(Panama, Republic of Panama)

Consolidating Schedule - Consolidated Balance Sheet Information, continued

	<u>Total</u>	<u>Elimination</u>	<u>Subtotal</u>	<u>Arrendadora</u>	<u>Bank</u>	<u>Elimination</u>	<u>Subtotal</u>	<u>Banco</u>	<u>Bicsa</u>
	<u>Consolidated</u>		<u>Consolidated</u>	<u>Internacional</u>	<u>Consolidated</u>		<u>Consolidated</u>	<u>Internacional de</u>	<u>Miami Agency</u>
								<u>Costa Rica, S.A.</u>	
<u>Liabilities and Stockholders' Equity</u>									
Deposits due to customers:									
Demand - local	16,868,008	(134,918)	17,002,926	0	17,002,926	(417,432)	17,420,358	15,626,415	1,793,943
Demand - foreign	76,459,540	0	76,459,540	0	76,459,540	(92,619)	76,552,159	15,089,978	61,462,181
Savings	891,394	0	891,394	0	891,394	0	891,394	0	891,394
Time - local	78,584,573	0	78,584,573	0	78,584,573	0	78,584,573	78,364,573	220,000
Time - foreign	139,641,395	0	139,641,395	0	139,641,395	0	139,641,395	93,224,904	46,416,491
Interbank time deposits:									
Local	74,326,387	0	74,326,387	0	74,326,387	(16,550,000)	90,876,387	69,326,387	21,550,000
Foreign	96,825,943	0	96,825,943	0	96,825,943	(2,000,000)	98,825,943	62,301,450	36,524,493
Total deposits	<u>483,597,240</u>	<u>(134,918)</u>	<u>483,732,158</u>	<u>0</u>	<u>483,732,158</u>	<u>(19,060,051)</u>	<u>502,792,209</u>	<u>333,933,707</u>	<u>168,858,502</u>
Securities sold under repurchase agreements	13,919,056		13,919,056	0	13,919,056	0	13,919,056	13,919,056	0
Notes and bonds payable	0	(7,203,000)	7,203,000	7,203,000	0	0	0	0	0
Borrowings payable	124,995,564	(9,464,439)	134,460,003	12,450,000	122,010,003	0	122,010,003	107,581,003	14,429,000
Drafts, cashier's and certified checks	983,762	0	983,762	888	982,874	0	982,874	744,042	238,832
Accrued interest payable	3,934,169	(202,004)	4,136,173	254,492	3,881,681	(12,429)	3,894,110	3,165,864	728,246
Acceptances outstanding	18,281,655	0	18,281,655	0	18,281,655	0	18,281,655	16,932,040	1,349,615
Deferred income tax	25,065	0	25,065	25,065	0	0	0	0	0
Other liabilities	6,214,756	(3,416)	6,218,172	833,407	5,384,765	0	5,384,765	4,932,892	451,873
Total liabilities	<u>651,951,267</u>	<u>(17,007,777)</u>	<u>668,959,044</u>	<u>20,766,852</u>	<u>648,192,192</u>	<u>(19,072,480)</u>	<u>667,264,672</u>	<u>481,208,604</u>	<u>186,056,068</u>
Stockholders' equity:									
Common shares	65,000,000	(2,500,000)	67,500,000	2,500,000	65,000,000	0	65,000,000	65,000,000	0
Capital reserve	150,000	0	150,000	0	150,000	0	150,000	150,000	0
Unrealized gain on investments available for sale	132,653	0	132,653	0	132,653	0	132,653	132,653	0
Retained earnings	29,497,675	(1,079,052)	30,576,727	1,224,009	29,352,718	0	29,352,718	16,792,968	12,559,750
Total stockholders' equity	<u>94,780,328</u>	<u>(3,579,052)</u>	<u>98,359,380</u>	<u>3,724,009</u>	<u>94,635,371</u>	<u>0</u>	<u>94,635,371</u>	<u>82,075,621</u>	<u>12,559,750</u>
Commitments and contingencies									
Total liabilities and stockholders' equity	<u>746,731,595</u>	<u>(20,586,829)</u>	<u>767,318,424</u>	<u>24,490,861</u>	<u>742,827,563</u>	<u>(19,072,480)</u>	<u>761,900,043</u>	<u>563,284,225</u>	<u>198,615,818</u>

See the accompanying independent auditors' report

BANCO INTERNACIONAL DE COSTA RICA, S. A. AND SUBSIDIARY

(Panama, Republic of Panama)

Consolidating Schedule - Income Statement and Retained Earnings Information

For the year ended December 31, 2007

(Stated in Dollars of the United States of America)

	<u>Total Consolidated</u>	<u>Elimination</u>	<u>Subtotal Consolidated</u>	<u>Arrendadora Internacional</u>	<u>Bank Consolidated</u>	<u>Elimination</u>	<u>Subtotal Consolidated</u>	<u>Banco Internacional de Costa Rica, S.A.</u>	<u>Bicsa Miami Agency</u>
Interest and commission income:									
Interest on:									
Loans	37,373,103	(571,066)	37,944,169	1,684,434	36,259,735	0	36,259,735	26,833,416	9,426,319
Deposits with banks	4,228,918	(12,597)	4,241,515	12,597	4,228,918	(395,383)	4,624,301	2,615,515	2,008,786
Securities	5,794,978	(557,316)	6,352,294	0	6,352,294	0	6,352,294	5,686,224	666,070
Commission on loans	854,769	0	854,769	0	854,769	0	854,769	742,869	111,900
Total interest and commission income	48,251,768	(1,140,979)	49,392,747	1,697,031	47,695,716	(395,383)	48,091,099	35,878,024	12,213,075
Interest expense:									
Deposits	21,408,572	(12,597)	21,421,169	0	21,421,169	(395,383)	21,816,552	15,251,073	6,565,479
Borrowings payable and repurchase agreements	6,834,639	(571,066)	7,405,705	620,852	6,784,853	0	6,784,853	6,411,006	373,847
Notes and bonds	0	(557,316)	557,316	557,316	0	0	0	0	0
Total interest expense	28,243,211	(1,140,979)	29,384,190	1,178,168	28,206,022	(395,383)	28,601,405	21,662,079	6,939,326
Net interest and commission income	20,008,557	0	20,008,557	518,863	19,489,694	0	19,489,694	14,215,945	5,273,749
Provision for losses on financial assets:									
Loans	(1,120,428)	0	(1,120,428)	0	(1,120,428)	0	(1,120,428)	(980,342)	(140,086)
Net interest and commission income after provisions	18,888,129	0	18,888,129	518,863	18,369,266	0	18,369,266	13,235,603	5,133,663
Income (expenses) from banking and other services:									
Other commissions	2,360,153	0	2,360,153	104,472	2,255,681	0	2,255,681	1,071,801	1,183,880
Net gain on securities	160,136	0	160,136	0	160,136	0	160,136	160,136	0
Fiduciary services	472,865	0	472,865	0	472,865	0	472,865	472,865	0
Reversal of reserve for contingencies	780,342	0	780,342	0	780,342	0	780,342	780,342	0
Commission expenses	(155,285)	0	(155,285)	0	(155,285)	0	(155,285)	(147,225)	(8,060)
Other income	2,571,120	(261,316)	2,832,436	69,312	2,763,124	(79,985)	2,843,109	2,738,605	104,504
Total income from banking and other services, net	6,189,331	(261,316)	6,450,647	173,784	6,276,863	(79,985)	6,356,848	5,076,524	1,280,324
General and administrative expenses:									
Salaries and other remunerations	9,505,750	0	9,505,750	63,102	9,442,648	0	9,442,648	4,685,340	4,757,308
Rents	902,975	0	902,975	0	902,975	0	902,975	272,459	630,516
Advertising and promotion	336,644	0	336,644	0	336,644	0	336,644	321,959	14,685
Fees and professional services	1,525,634	0	1,525,634	9,178	1,516,456	(79,985)	1,596,441	657,763	938,678
Depreciation	499,021	0	499,021	0	499,021	0	499,021	373,322	125,699
Amortization of intangible assets	195,837	0	195,837	0	195,837	0	195,837	110,667	85,170
Other	3,420,600	0	3,420,600	171,780	3,248,820	0	3,248,820	2,009,258	1,239,562
Total general and administrative expenses	16,386,461	0	16,386,461	244,060	16,142,401	(79,985)	16,222,386	8,430,768	7,791,618
Net income before income tax	8,690,999	(261,316)	8,952,315	448,587	8,503,728	0	8,503,728	9,881,359	(1,377,631)
Income tax - estimated	(533,057)	0	(533,057)	(48,134)	(484,923)	0	(484,923)	(484,923)	0
Income tax - deferred	144,161	0	144,161	12,983	131,178	0	131,178	131,178	0
Net income	8,302,103	(261,316)	8,563,419	413,436	8,149,983	0	8,149,983	9,527,614	(1,377,631)
Retained earnings at beginning of year	41,195,572	(817,736)	42,013,308	810,573	41,202,735	0	41,202,735	27,509,212	13,693,523
Transfer of loan allowance	0	0	0	0	0	0	0	(243,858)	243,858
Earnings capitalization	(20,000,000)	0	(20,000,000)	0	(20,000,000)	0	(20,000,000)	(20,000,000)	0
Retained earnings at end of year	29,497,675	(1,079,052)	30,576,727	1,224,009	29,352,718	0	29,352,718	16,792,968	12,559,750

See the accompanying independent auditors' report