

# Banco Popular y de Desarrollo Comunal

## Annual Report

# 2010



Male and female workers at workday end. Province of San Jose, Costa Rica.

Banco Popular y de Desarrollo Comunal has its headquarters in Costa Rica, Province of San José, Central Canton, Catedral District, 2nd and 4th Avenues, 1st Street, P.O. Box 10190-1000. Currently, it operates just within Costa Rica.



**Contacts for inquiries and comments:**

**Marisol Delgado Rojas**

*mdelgado@bp.fi.cr*

**Alonso Jiménez Zúñiga**

*Aljimenez@bp.fi.cr*

**Credits:**

**Editorial Council:**

Gerardo Porras Sanabria, Corporate General Manager  
Maurilio Aguilar Rojas, Corporate Management Director

Cynthia Vargas Cerdas, Head of Corporate Communication

Celso Porras Fallas, Head of Strategic Marketing

Fabián Chaves Mora, Head of Strategic Management

Maritza Fuentes Salas, Director a.i.,  
Human Development

**Specialized assistants:**

Juan Carlos Li Guzmán

Sergio Calderón Rivas

Geovanny Méndez Carmona

Armando Rojas Chinchilla

Alonso Jiménez Zúñiga

Mileny Santillán Núñez

Giovanny Jiménez Solís

Marjorie Alvarado Arancibia

Luis Diego Zamora Castro

Álvaro González Ramírez

Fabio Umaña Rojas

Priscilla Ramírez Mora

Silvia Flores Montiel

**Journalist, editor and philologist:**

Marisol Delgado Rojas

**Design:**

Luis Diego D'Ambrosio Fonseca

Agencia McCann Erickson Centroamericana  
(Costa Rica) S.A.



# Table of Contents

Submission Our First Sustainability Annual Report	3
Chapter I Company profile The bank for working people	7
Chapter II Healthy finance Our financial value generated and distributed	22
Chapter III Clients The trust of our customers is vital	26
Chapter IV Sustainability at Banco Popular We create sustainability and social equity	32
Chapter V Male and female cooperators Our talent	35
Chapter VI Environment Environmental commitment	40
Chapter VII Awards and honors 2010 Milestones	45
Consolidated financial statements and Auditors' Opinion December 31st, 2010	50
Index Global Reporting Initiative (GRI)	58



## Our first Sustainability Annual Report

Young people in front of Banco Popular y de Desarrollo Comunal. World Environmental Day, June 5th, 2010. Banco Popular's internal social organizations participated in this march as part of their support to the environmental conservation.



## Contributing to sustainability

In order to reaffirm the commitment to impel the social and economic development Banco Popular y de Desarrollo Comunal keeps with the population, we decided to publish our first Sustainability Annual Report, which discloses our achievements and commitments during 2010 within the framework of good social, environmental and economic practices for real contribution to the sustainability of Costa Rica.

## Scope of this Annual Report

We submit the results achieved between January 1st and December 31st, 2010 in the country, focusing on the Institution as a suitable and agile solution for the population, with a major effort of attention to vulnerable populations<sup>1</sup>. In our first Annual Report, we will report Bank indicators, excluding Corporations that together with the Bank constitute the Banco Popular y de Desarrollo Comunal Conglomerate<sup>2</sup>. We expect to include them in coming years.

## Participation features this report

Banco Popular y de Desarrollo Comunal formed a multidisciplinary team that lead the process based on the principles of materiality, stakeholders' participation, sustainability and comprehensiveness.

This effort is intended to be accountable for the economic, social and environmental management, as deserved by the people of different regions who prefer us. We follow the parameters of the "Guide for the preparation of sustainability reports", 2006, version of the Global Reporting Initiative (GRI) ([www.globalreporting.org](http://www.globalreporting.org)), as well as the principles of the United Nations Global Agreement.



**Winners of the design of autonomous robots contest for teenagers, supported by Banco Popular. This group got the second place in its category in the Latin American Robotics Competition (LARC) an international contest held in Chile.**

<sup>1</sup>**Vulnerable populations:** groups of people who, by their characteristics of educational disadvantage, origin, physical, sexual or civil conditions have difficult access to traditional banking services.

<sup>2</sup>**Conglomerate:** constituted by a financial intermediary of public right, with domicile in Costa Rica, or by an audited entity created by a special law and its companies coming from the accounting consolidation of the financial statements of all subsidiaries of such entity supervised by the Superintendence. Conglomerado Banco Popular y de Desarrollo Comunal is constituted by the Bank, Popular Pensiones, Popular Valores, Popular Fondos de Inversión and Popular Seguros.

## Message from the President of National Board of Directors

A social vision that comes true everyday

As a key element of a responsible management, it is essential to disclose the real situation of the Bank and its achievements. The imperative action of accountability in our case, acquires particular relevance because every male and female Costa Rican worker owns the bank. Therefore, we submit to the public interested, particularly those who integrate the labor force of the country, our first Sustainability Annual Report, developed under the methodology of the Global Reporting Initiative (GRI) with the goal of including the population in our most significant progress and achievements. This methodology has been created precisely as a guarantee of efficiency, accuracy and clarity in the presentation of the results.

Whoever analyzes balance sheets of the Banco Popular, will find indisputable strengths. Sustained growth of the loan portfolio, excellent indicators of profitability and the most solid capital sufficiency constitute indisputable reasons for satisfaction. Risk ratings received from the Sociedad Calificadora de Riesgo Centroamericana (Central American Risk Rating Company) and the FITCH Costa Rica, constitute merits of great relevance in banking. However, our financial successes make sense only as part of our social goals.

Banco Popular was created to meet the needs of the population to capitalize their savings and strengthen their personal and family growth. Fundamentally, this is a bank made of people, although not exclusively. Now, with 100 branches and many services and products, it has positioned itself as the work Bank, precisely because of the continuity, throughout its 41 years, towards the purpose of its founders. The mission gotten from them has required adjustments to new realities, changes in mindset and changes occurred along almost half of a century. Fortunately, these changes have been successful. Recent policies approved by the Assembly of Male and Female Workers reinforce this vision embodied in the guidelines issued by each Directing Department of the Entity.

Banco Popular has worked to be modern. That is why it has focused on regional development and innovation without neglecting human and social purpose.

We act under the premise that everyone deserves special treatment, a differentiated service and a customized product. This has enabled us to contribute to the creation of more companies, especially, socially relevant, because of their moderate or small size, to increase employment and solve specific problems such as housing. Within this framework, we have been supporting Costa Rican economy and quality of life for large sectors of the society, which has gained particular relevance in the global financial crisis that just begins to cease.

Four aspects of the orientation of the Bank deserve to be highlighted: our social policies, as mentioned before; our vocation to educate population in the correct direction of each customer's finance; our commitment to the environment and the great progress achieved in our goal is to be carbon neutral in the short term; and our policy of gender equality that has earned us public recognition.

We must not conclude this message without referring to the coordinated mission Banco Popular is called to comply within the social financial sector. The numerous cooperatives, solidarity associations and others, which mission is alike to ours, should strengthen relations with our Bank, in an effort to magnify the country, not just economically, but in terms of general welfare. The divergent interests of different groups must be respected, but there are many points of convergence that require us to rethink our relationships and enrich them even more, as a way to increase the value of our national life.

We are pleased with our accomplishments, but we will like to increase them every day. This is essential in our duties on behalf of Costa Ricans, especially of those who exalt our country with their work. Readers can confirm this by analyzing this Annual Report that we now bring up for the country's consideration, and which constitutes a new starting point in our march forward.

Francisco Antonio Pacheco, Dr.  
President of the National Board of Directors



## Message from the General Manager

Banco Popular y de Desarrollo Comunal has contributed to a more inclusive and caring society since its foundation in 1969, when it became the only bank owned by Costa Rican working population, who did not have such an entity to capitalize on their savings and to request loans to allow them full development according to their needs. For this reason, we embraced the latest motto: *work unites us*, which redeems our deep historical roots highlighting a shared sentiment among those who visualize it as a solidary Bank and of great strength.

Financial results attest our management. We closed 2010 with ¢25.781 million profit, which meant 50.91% growth over previous year's profits. We owe these achievements to the trust of our customers, the mystique of our male and female cooperating people and to the administrative cost containment. Also, there was wisdom to acquire IBP Pension Operator (the largest private Operator owned by two Financial Groups), and to buy the loan portfolio of the Cooperative COOPEMEX, increasing by 15.86% our portfolio (9.5% in real terms), controlling and reducing payment dilatoriness. By 2010, our Bank covers 13.43% of national bank credit.

We are the third largest Bank in assets, with an amount representing \$ USD 2.000 million, and the second in equity by \$USD 570 millions. The profit over such equity was 9.64% and we achieved a level of capital adequacy of 20.5%, which allows adequate risk coverage. Our dedication is revealed in the fact that, in relative numbers, we were the Bank that increased the most in profits, obtaining the first place regarding growth in 2010.

We are proud that we increased our coverage significantly, because in three years we went from having 85 to 100 business centers, and our customers represent a quarter of economically active population.

The Bank recognizes that only solidarity builds the foundation for coordinated efforts. That is why it was the first to integrate the

network of companies and organizations in the region having signed the United Nations World Agreement which promotes the respect for Human Rights, the Environment, Labor Standards as well as the Anti-Corruption principles. Another achievement was signed the Environmental Declaration with the goal of achieving carbon neutrality in institutional operations. In addition, we were the only Bank invited to represent the country in the Climate Change Summit (Copenhagen).

Also, since 2008 our institution has made efforts to implement the Sistema de Gestión de Equidad e Igualdad de Género (SIGEG) [Gender Equity and Equality Management System] aiming to achieve certification in this matter which turned out into recognition by the Instituto Nacional de la Mujer (INAMU) [Women National Institute] for the achievements earned in the field.

Also, aware of the relevance of technology and constant innovation on a sustainable basis, we encourage the initiative of young talent. That is why we sponsor the Ad Astra Rocket project, a subsidiary of the company led by the Costa Rican astronaut Franklin Chang Díaz which combines efforts to empower aerospace capabilities development in Costa Rica.

Due to the importance of counting with a technology platform suited to the needs of the environment, the institution gives continuity to the efforts for implementing a new Solución Integrada Bancaria (Banking Integrated Solution) that will generate banking products and services at lower cost, customer-oriented, according to the best market practices and facilitating decision-making.

We invite our readers to get involved with our institution, learning about our products and services offerings in a way that could become participants of the efforts made by the Conglomerado Banco Popular y de Desarrollo Comunal and responding to its ideal of creation.



Gerardo Porras S.  
Corporate General Manager



## The Bank for working people

Cabécar Tayní community benefited with housing bonus managed by the Banco Popular y de Desarrollo Comunal.





At Banco Popular y de Desarrollo Comunal, we promote population access to financial products and services, through specific policies and ethical values. The reason of being of our institution is serving the working population. We have assumed this objective with responsibility in our 41 years of existence, identifying ourselves with each population served.

## Mission:

We are a Financial Conglomerate which aim is the social welfare of the country's inhabitants.

## Vision:

Being the number one conglomerate in supporting the economic and social development of country's inhabitants.



## Our nature

Banco Popular y de Desarrollo Comunal was created through Act #4351 in 1969 during the administration of former President José Joaquín Trejos Fernández who envisioned the need of a different bank. The project was approved in the Congress in 1969 addressed to people and their organizations, under the priority to give general population economic protection and welfare by promoting savings and assuring satisfaction of their credit needs.

We have legal representation and own equity, always in adherence to Public Right which makes us unique and owners of a great sense of responsibility upon our management.

## Population is represented

In 1986, the Asamblea Nacional de Trabajadores y Trabajadoras (Male and Female Workers National Assembly) started. It is the most democratic organization of the Banco Popular y de Desarrollo Comunal, and the instance in which social sectors of the country coincide. The ten social sectors represented are as follows: craftsmen, community, traditional cooperative, self-managed cooperative, independent, educational, professional, confederated labor union, non-confederated labor union and solidary associations.

The Assembly is chaired by the Directorio Nacional (National Board) in which the Norms and General Guidelines are analyzed, discussed and approved<sup>3</sup>.



Aviation technicians, Province of Alajuela, Costa Rica. Cooperative facilities of COPESA. The cooperative sector and its associative aims are promoted by the Banco Popular.

## The orientation of our Assembly:

### Norm I

Promotion of Social Economy

### Norm II

Quality in our offer

### Norm III

Competitive Management

### Norm IV

National and local development

### Norm V

The role of the Banco Popular as an entity for development



Ruth Araya, Arte Camijó, craftswoman whose work is financed by Banco Popular.

<sup>3</sup>**Norm:** General guideline issued by the Asamblea de Trabajadores y Trabajadoras (Male and Female Workers Assembly), which is the framework of action to guide the management of the Conglomerado Banco Popular y de Desarrollo Comunal, thus meeting the objectives and social nature initiatives of the institution.

## Our Values

Banco Popular y de Desarrollo Comunal embraces these values, brought deep inside everyone and addressed towards their customers. They gathered the highest aspirations of our conduct as a bank.

- Leadership
- Excellence
- Customer Service
- Integrity
- Innovation



Banco Popular's employee, Alicia Sancho, serving a customer at the Main Office.



A couple from the indigenous community Cabécar Taynı benefited with a housing bonus managed by the Banco Popular y de Desarrollo Comunal.



## Dimensions of our business

### Conglomerate

Our Institution is made up of the Bank, as a financial entity, and its four Corporations, owned by it and supervised by the respective governing boards.



Number of male and female employees  
in the country: **2990**

Net profit: **¢25.855 million**

Total branches: **100**



It has extensive experience in the administration of pension plans and it is authorized and supervised by the Retirement Pension Superintendence.

We are the Pension Operator with the largest number of affiliates to the Régimen Obligatorio de Pensiones Complementarias (Supplementary Pensions Obligatory Regime) with a total of 1.096.082 people. This represents 57% of total market, according to data published by SUPEN (Superintendencia de Pensiones – Retirement Pension Superintendence) as of December 2010.

### Other advantages:

- Leader in equity with ¢13.374 million as of December 2010.
- We report the highest net profit of the market with an amount of ¢1.187 million, according to data published by the SUPEN as of December 2010.
- We are the Operator with the largest distribution of profits, having shared an accumulated amount over ¢2.048 million among our affiliates to the Régimen Obligatorio de Pensiones Complementarias (Supplementary Obligatory Pension Regime). This is the only Operator that has distributed profits for six consecutive years.
- During 2010, Popular Pensiones charged a commission on contributions of 25 per cent lower than the one set by regulation.
- We are the Pension Operator with greater number of customers who moved a sum of 137.871 funds to its favor according to the option users have to choose the Pension Operator to manage their money in the Régimen Obligatorio de Pensiones Complementarias (Supplementary Obligatory Pension Regime) and the Fondo de Capitalización Laboral (Labor Capitalization Fund). These data were released by the SUPEN for the period from January to December 2010.



It is a company of Banco Popular y de Desarrollo Comunal. In 2010, it managed to position itself as the number one brokerage firm in trading volume, with a level of ¢11.145.884 billion. It also remained in the first place of Equity with ¢14.400 million.

Its total revenues reached ¢10.722 million to position itself in a second place in the sector of brokerage firms and achieve a net cumulative profit of ¢1.407 million, achieving the third place position within the group in this entry.



It is a trader accredited by the Instituto Nacional de Seguros (INS) (National Insurance Institute) and it is fully authorized for selling all types of insurance provided by the Institute.



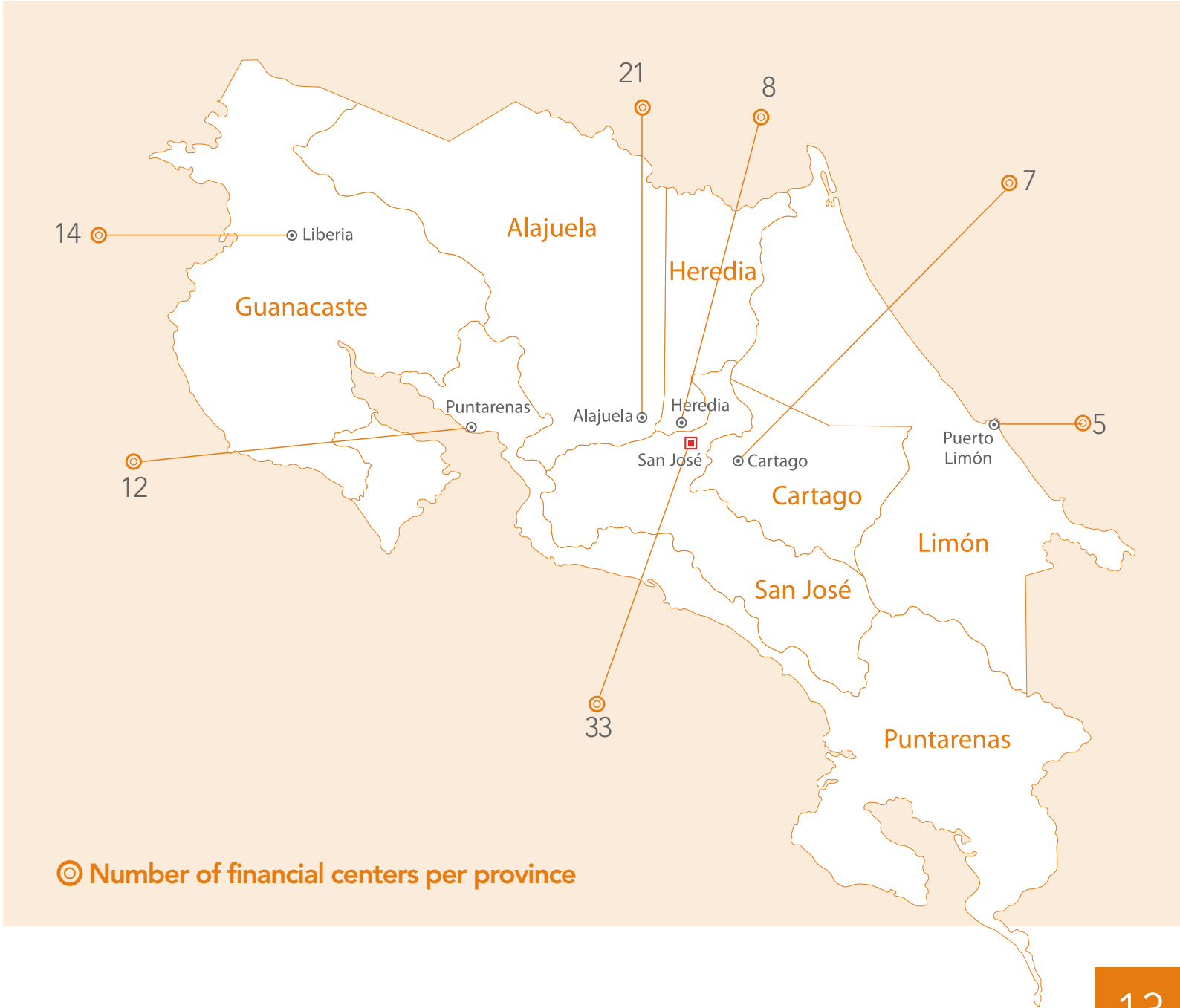
It was founded based on the Ley Reguladora del Mercado de Valores (Stock Market Regulating Law) to manage Investment Funds registered at the Registro Nacional de Valores e Intermediarios Financieros (National Registry of Stock and Financial Intermediaries).



Male and female employees of Banco Popular - One strategic Policy of the Bank is ongoing training.

# Branches throughout the country

Our channels to serve different people consider location and convenience. We can quantify a major national coverage and evolution.





In the last three years, we grew from 85 to 100 business centers. For 2010, we have 661 Automatic Teller Machine (ATM). We grew by 46% on users of web banking compared to 2007.

## Alliances that enhance our coverage

Apart from our 100 branches, we facilitate procedures for processes at convenience depending on location through partnerships with renowned companies.

1- GESSA Group made of Super Compro, Jumbo and Perimercados. It has more than 400 cashiers for payment or cash advances through credit cards of Banco Popular.

2- Fischel Drugstores, Catedral and Farmatica. There are more than 400 cashiers for payment or cash advances from credit cards of Banco Popular.

3- Installation of a Service Stand in Coopebanpo (Cooperative of Banco Popular) to manage the sale, placement and execution of procedures for products and services.

## Our products and services

**We are leaders in providing personal credit with more than 300.000 active operations and annual growth that exceeded 25%. Our main advantage is the response time to thousands of hardworking people who trusts us. Our market covers people, companies and vulnerable populations. This makes us different due our level of coverage and access.**

## Personal credits

Our personal credits are mainly of two natures, personal trust and mortgage, in both, Banco Popular seeks most possible accessibility with easy ways to meet the requirements, extensive payment terms and market interest rates. We offer a variety of credits with no guarantors, which is significant to cover different needs for different working sectors of the country.



Fair of handicapped artisans organized by Banco Popular y de Desarrollo Comunal - Headquarters in San Jose, Second Avenue.

## Savings in your Bank

Our products for savings collection have the advantage that the interests generated are exempted from income tax by law. Besides, interests rates are attractive and competitive<sup>5</sup>. We offer savings at sight, term, for Christmas, multi-savings, for private schools and with the distinct advantage that we do not ask for an initial deposit to open it.

## We provide financial solutions to boys and girls

Popular Kids Card is a debit card aimed to people under 12 years old. It requires opening an account of voluntary savings at sight in colones and to be issued at his/her name.

## An expected young product

The Juvenile O2 Card targets young people between 12 to 20 years old. In order to get it, voluntary savings account is required at sight, in colones and to be issued at his/her name. It has a juvenile radio program and a magazine exclusively for young people. Also, they take part in draws, promotions, concerts and tournaments. It also has a Virtual Mall exclusive for youngsters.

More than 6.500 youngsters enjoy this product.

Card website: [www.tarjetao2.com](http://www.tarjetao2.com)



Today more than 35.500 boys and girls begin to be responsible for a better future. They have access to telephone banking and the Bank website to check balances and to make transfers.

We gathered almost 600.000 customers between people and companies. In consultation with stakeholders, our clients highlighted the efficiency and speed of procedures which does not require too much paperwork.

## Popular Credit and Debit Cards

Our Credit Cards are classified as national and international, Gold, Platinum and Virtual Card for inline shopping. They have the following benefits: preferential interest rates, financing term of 60 months, accumulation of points which can be redeemed in three different options: virtual Mall, vacation packages and airline tickets. They are accepted in more than 70.000 shops and can be used inside and outside the country.

Popular Debit Card allows you to manage your funds deposited in one or more savings accounts and is associated to a voluntary savings account, at sight, in colones. It allows you to use your money when shopping at authorized points of sale or to make cash withdrawals from Automatic Teller Machine (ATM). Also, with the VISA Electrón Debit Cards, you can make purchases or withdraw money from ATM's around the world. It is accepted in more than 25 million selling points.



Our cards.

## Development Banking<sup>6</sup>

Our Development Banking came out from the need to serve entrepreneurs without access to traditional banking, micro, small and medium enterprises. That is why it finances projects that support accessibility, entrepreneurs, microfinance, the MSMEs (micro, small and medium enterprises) and chains. It is in this way how big dreams of people are built and formalization of their economies is carried out.



Aidy Sotomayor. Her company: Herencias de Antaño (Former Heritage) was financed by Banco Popular.

## We finance vulnerable sectors

Banco Popular, COOPECIVEL and the Municipalidad de San José created an alliance to provide kiosks tailored to the needs of visually impaired people who sell lottery. The alliance brought better working conditions and accessibility to the beneficiaries that now work in safer conditions, have shelters to sell lottery and potential product diversification.

*"The difference is substantial, before I used to get wet by rain; I was exposed to assaults by showing money and had nowhere to protect the lottery when I needed to make other activities. Now I close my stand with no worry when I need to do it. The design of the kiosk is attractive and I can provide a better service to my customers with better security".*  
(Rolando Salazar, kiosk owner)



Opening of the first kiosk adapted for lottery retailers with visual impairment. From left to right: Mayor of San José, Johnny Araya; President of Coopceivel, Ricardo Murillo; and Development Banking Director, Fernando Rojas. Location: Across Correos de Costa Rica.

<sup>6</sup>**Development Banking:** refers to all the activities undertaken by the institution to address financial and non-financial products and services for development segments, following appropriate risk criteria, with broad coverage and deeply seeking to generate employment and increase productivity to improve people's quality of life.



## We bring in companies from accessibility to competitiveness

We finance the following sectors: dairy, oil palm, pineapple, poultry, sugarcane, organic coffee, rural water supply, micro, small and medium enterprises. We solve financial needs of many people and provide business development services through university students who perform their community work as well as specific talks.

*"I started 10 years ago making wooden horses but I did not have the funding ... until I found Banco Popular, which lent me the seed money, for which I will never finish to say thank you. Now I export Jugueticos (little toys) Melba to Central America and I was invited to export to Mexico and to the United States. My business is going great and the staff who helped me at the Bank advised me wonderfully." (Melba Arce González, owner of Jugueticos Melba in San Ramón, export product.)*



Traditional Toy Factory Melba, financed by the Banco Popular. Location: San Ramón canton in the province of Alajuela.

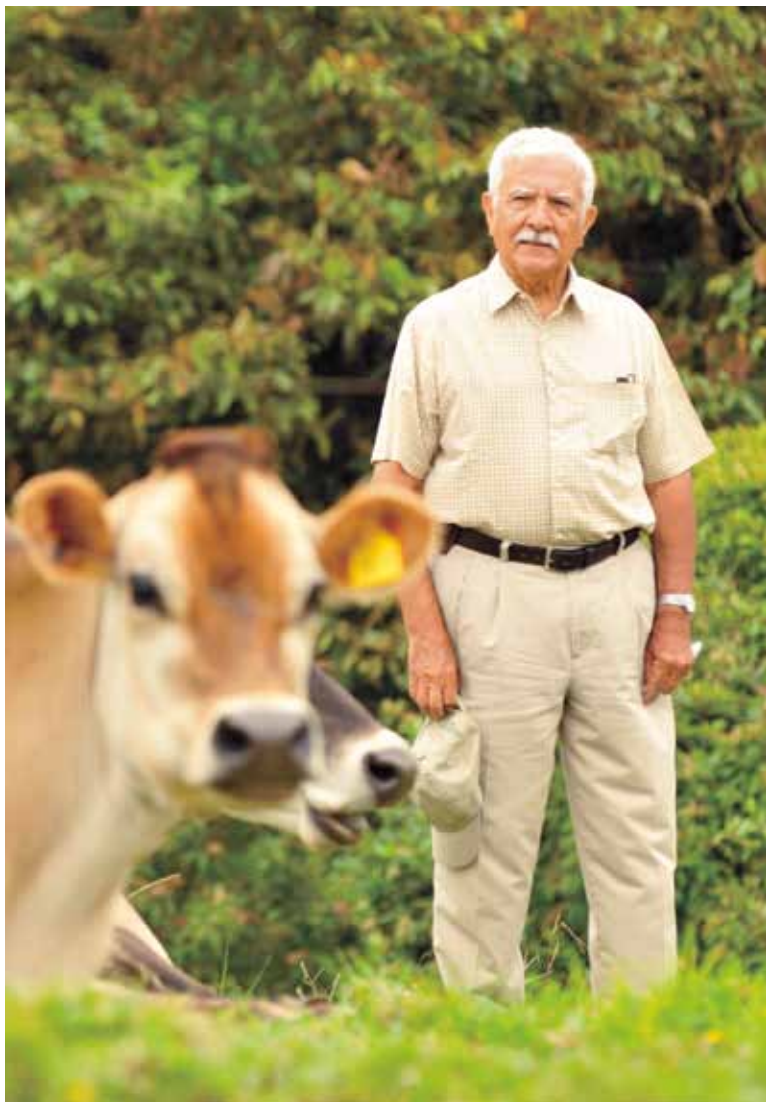
*"The Banco Popular financed the Asociación La Flor de Boruca<sup>7</sup> and helped with a computer center in 2010. The Association gathers mostly women who make Boruca masks with balsa wood painted with extracts from leaves, roots and mollusks. These art works attract many tourists who take each mask as cherished memory of the indigenous community, thus improving the quality of life of the Association's affiliates and their families considering that they have plans to expand their business from Dominical Beach to Monteverde."*



Artisan woman from Asociación La Flor de Boruca financed by the Banco Popular - Location: Indian Reserve at La Flor de Boruca.

<sup>7</sup> **La Flor de Boruca:** Brunca Indian Reserve, established in 1956 in the province of Puntarenas, southeast part of Costa Rica.

*"The credit I received was fast and timely, it served to improve the conditions of my estate, such as soils, roads and pasture for a better livestock performance and better milk production. It not only brought benefits to me, but due to this, I increased the salaries of my four employees as well as my family's welfare."* (Rodolfo Coto Pacheco, Cascajal de Coronado).



Mr. Rodolfo Coto was financed by the Banco Popular. Here, he is in his farm which he visits everyday, Coronado canton, Province of San José.

## We provide credit on jewelry

Promptly and without guarantors, we provide this loan to meet immediate needs, with various forms of payment. This makes the product affordable and competitive.

The credit of Jewelry was born with the creation of the Monte Nacional de Piedad, founded in 1901, which was a pawnbroker position and whose mission was to help the most needed people with credits through pledges. In 1966, a congress bill was published to make it a labor bank for savings and capitalization. This led to the Banco Popular y de Desarrollo Comunal three years later.

## We manage credit for social housing with care

We administer the Fondo Especial de Vivienda - FEVI (Special Housing Fund), with a percentage of the profits of Banco Popular, and handle the Bono Familiar de Vivienda (Family Housing Bonus) with nation resources through the Banco Nacional Hipotecario de la Vivienda – BANHVI (Housing Mortgage National Bank). Both are addressed to meet housing needs for vulnerable sectors.



Marriage benefited with a housing bonus managed by Banco Popular y de Desarrollo Comunal. El Encanto Project, Pococí canton, Province of Limón.

# Corporate Government<sup>8</sup>

We assume the importance of a governance system to manage the structure of a Bank that provides economic welfare to interest groups throughout the country, so that they can observe transparent performance and allocation of resources. This is guided by the right financial administration, adequate risk management, and compliance with legal and contractual obligations. Therefore, we have a Código de Gobierno Corporativo (Code of Corporate Governance) and an Informe Anual de Gestión de Gobernabilidad (Annual Report of Governance Management).

The management and administration of the Bank are regulated by its Ley Orgánica (Organizational Law). The Executive Power appoints three members to the Junta Directiva Nacional

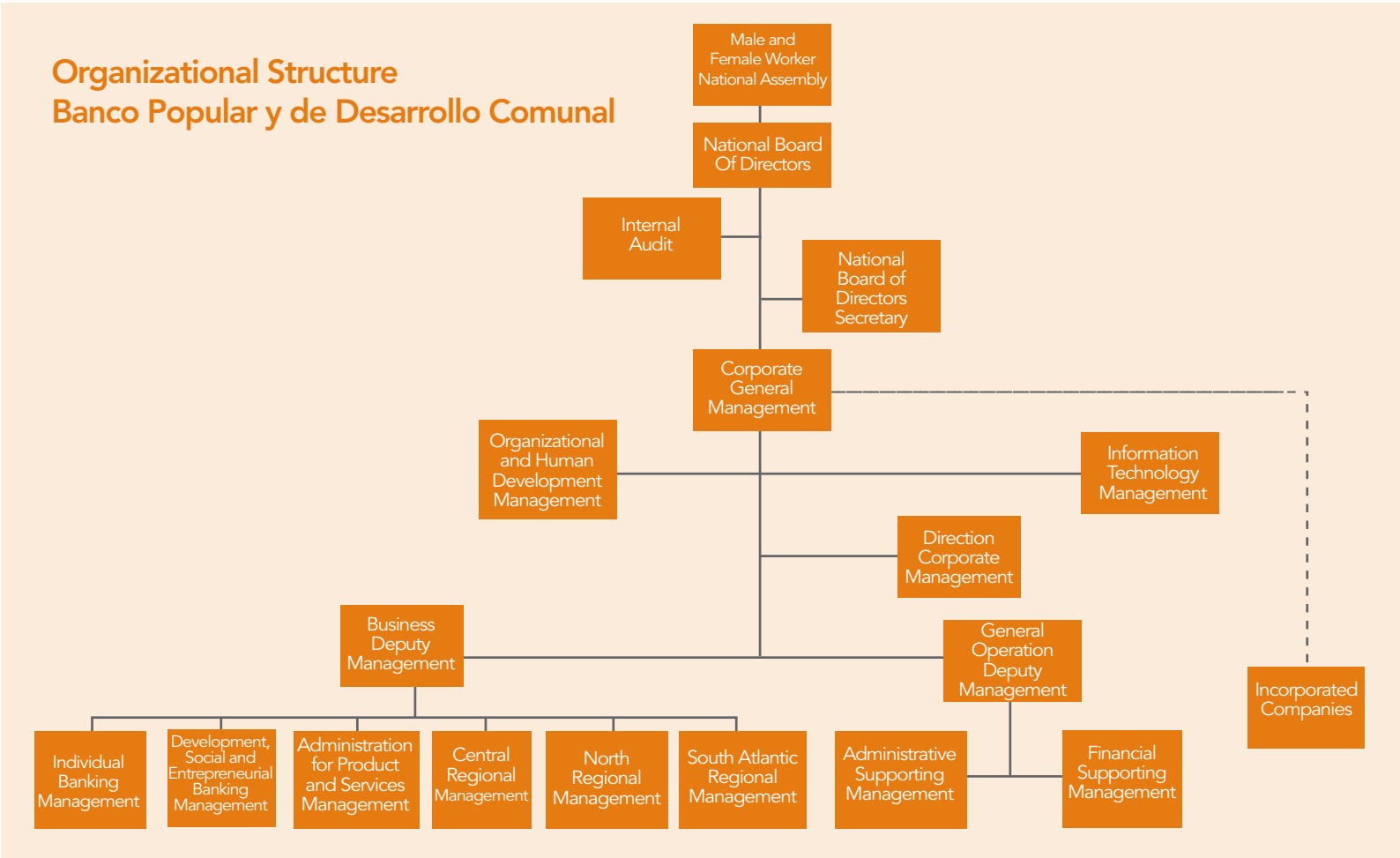
(National Board of Directors), while the Male and Female Workers Assembly appoints four people from the social sectors to be represented.

## Male and Female Workers Assembly

The Assembly is the highest organizational entity of Banco Popular, which represents male and female workers of the country through the ten social sectors that form it.

## National Board of Directors

The appointments made are ratified by the Executive Power of the Republic of Costa Rica and published in La Gazette Official Journal. The instance is integrated with the criterion of parity of gender, at least fifty per cent (50%) of women meeting the respective institutional policy.



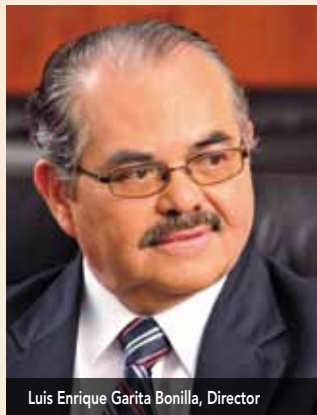
<sup>8</sup>**Corporate Government:** It comes from the set of relationships between company management, its council, its shareholders and third parties interested. It provides the structure through which the objectives are set forth, as well as the monitoring of performance and compliance.



# National Board of Directors<sup>9</sup>



Francisco Antonio Pacheco Fernández, President



Luis Enrique Garita Bonilla, Director



María Lidya Sánchez Valverde, Vice-President



Marvin Arias Aguilar, Director



José Eduardo Alvarado Campos, Director



Silvia Gabriela Morales Jiménez, Director



Victoria Hernández Mora, Director

## Regulations and Powers

The National Board of Directors sets Bank policies according to the law and its regulations, approves rules and annual budget, makes up commissions, rates and grants credits to individuals or legal entities determined by law, accepts court/judicial or extrajudicial settlements, sets standards to the Local Boards of Credit, and appoints Corporate General Management and Assistant Management. For a better task, it gets supported on commissions which analyze the projects and the transformation of the institution in better details. The Bank's Organizational Law

sets out the requirements to make such instance; incompatibilities due to possible interest conflicts are ruled by the Code of Corporate Governance.

## Management Team and Internal Audit



Gerardo Porras Sanabria, Corporate General Manager



Manuel González Cabezas, General Auditor



Geovanni Garro Mora, General Business Manager



Magdalena Rojas Figueredo, General Operation Deputy Manager

### Behavior based on ethics

Based on the Organizational Law, we issued a set of guidelines to be followed by our Boards of Directors, prosecutors, attorneys, legal consultants and temporary or permanent staff. These are rules to prevent the misuse of financial operations and they must be complied. The Code of Corporate Governance sets forth policies applicable to management positions, administration,

assistance administration, auditors, members of supporting committees, officers, male and female workers, as well as the policies that rule the relationship with customers, suppliers, shareholders; the access and disclosure of information; rotation and monitoring of corporate governance.

Up to December 2010, there were no fines or penalties (monetary and non-monetary) for breaching of laws, or regulations, related to environment, Bank's performance, supply or use of products and services that may be significant in relation to the assets and to the financial situation of the institution.

## Our financial value generated and distributed

Aqua Healthy Company, financed by  
Banco Popular y de Desarrollo Comunal.

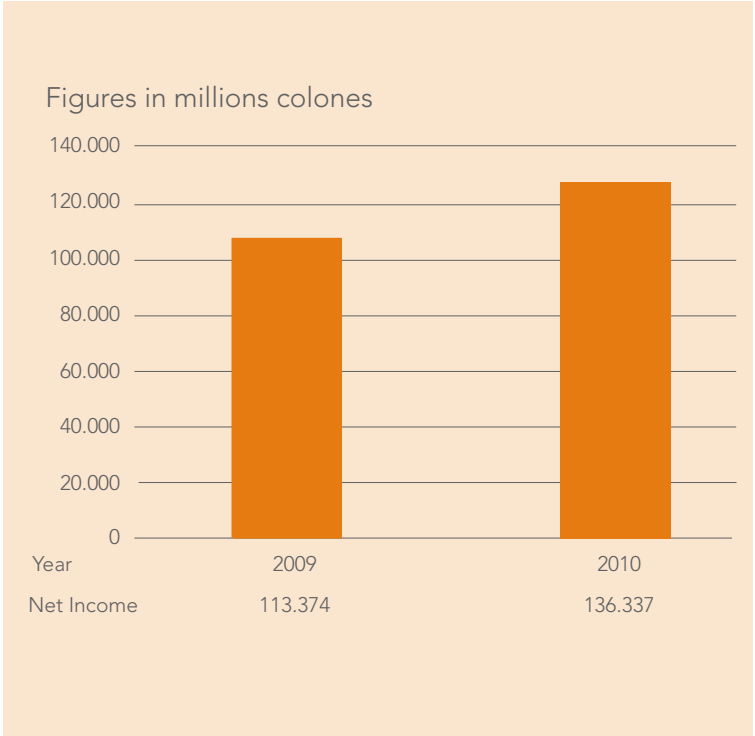




The participation of the financial system in the country's economy is highly important since it directs resources of money savers to those who require them, either through business investment projects, of consumption, housing and financial services that together generate profits. That is why we seek a balance between economic profitability and social benefit.

Our Bank achieved a sustainable growth in the loan portfolio which allowed an increase of 15.52% and a positive result on the main management indicators.

Our sustainable growth



Despite the economy contraction experienced during 2010 we demonstrated income levels sustainability with an adequate cost control which resulted in profitability according to the forecast. Thus, the net income grew by 20.25% for the accumulated period between December 2009 and December 2010.

The sustained growth of the accumulated productive assets of ¢ 17.084 million as of December 2009 to ¢25.781 million for the same month of 2010 generated a higher net income by 50.91% for December 2010, allowing to allocate resources for the institution's growth.

An optimal risk management

In order to develop our intermediation activities, we use human operational and financial resources to properly assume risks. That is why we practice an integral management to identify, measure and to design control strategies as well as risk evaluation in order to guard customers and the Bank.

Through the years, we have optimized results, lining up the objectives and with an appropriate balance between generated profitability and the risks assumed In fact, we obtained a normal risk rating complying with the norms of Financial Entities General Superintendence (Superintendencia General de Entidades Financieras – SUGEF).

Risk management is carried out through the so-called Risk Management Section that facilitates the use of methodologies, models and technological systems to manage natural threats of banking business, such as credit, market, liquidity and operational aspects with the purpose of applying the best international practice standards issued by BASILEA I Standards in 1988 and its Agreement's amendment from 1996 (Market Risk), as well as BASILEA II in 2004, and further 2010's revisions.



Customer Service Counter at Banco Popular y de Desarrollo Comunal Headquarters, Second Avenue, San Jose Province.

Timely identification, measurement and risk control has enabled us to consolidate our position as one of the largest Central American banks, presently holding an AA (cri), according to Fitch Costa Rica which indicates very low noncompliance risk expectancy compared to other issuers or obligations in Costa Rica.

Risk rating, in local and foreign currency granted by FITCH Costa Rica Calificadora de Riesgo S.A. up to October, 2010.

For issues of	Currency	Qualifier
Short term	local	F1(cri)+
Short term	Foreign	F1(cri)+
Rating scale	It indicates the soundest capacity of timely payments on financial obligations in relation to other issuers or obligations in Costa Rica according to the rating scale of the national agency. Such rating is assigned to the issuer or obligation with the lower non compliance probability with respect to others in Costa Rica. It adds a "+" sign to the rating to denote the relative status within a rating category.	

For issues of	Currency	Qualifier
Long term	local	AA(cri)
Long term	Foreign	AA(cri)
Rating scales	It indicates the lowest risk expectation of very low non-fulfillment regarding other issuers or obligations in Costa Rica. The inherent breaching risk differs only slightly from the one presented by the issuers or obligations of the country with the highest rating. The perspective indicates the direction in which the rating moves for a horizon of one to two years.	

## Credit Rating

Banco Popular y de Desarrollo Comunal performs public offer of short and long term values since 2007 in Costa Rican market. This is done, so much in national currency as in foreign currency. Such issuances have gotten the best risk rating granted by the Sociedad Calificadora de Riesgos Centroamericana S. A. and FITCH Costa Rica Calificadora de Riesgo S. A.

These ratings include solvency and payment capacity of Banco Popular y de Desarrollo Comunal as issuing bank, its economic and financial performance, policies as corporate government, risk management, as well as aspects related to the behavior of the industry and economic context.



Cooperators of Banco Popular y de Desarrollo Comunal receive a lecture: Benjamín García, Randall Hernández and Lenín Díaz. It is important to have the staff informed and trained for the adequate risk management.

## Relevant Data

Balance and Results (million colones)	2010	2009
Total Asset	1.419.365	1.287.900
Credit to Clients (net)	1.032.251	893.543
Equity	286.760	245.466
Profit – Financial Intermediation	122.509	101.506
Main Management Indicators		
Equity Sufficiency	20.50%	19.37%
Yield on equity	9.64%	7.43%
Dilatoriness longer than 90 days	2.39%	2.72%
Administrative expenses on gross operational profit	55.17%	65.77%
Other Data		
Quantity of employees	2.992	3.072
Quantity of offices	100	101



## Chapter III

### Clients

# The trust of our customers is vital

They painted their house and their neighborhoods' that were built through the use of the bonus Banco Popular y de Desarrollo Comunal and they were paid for their service.



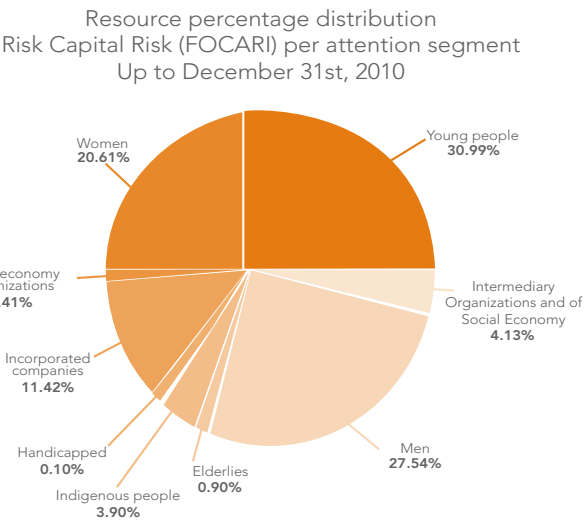
At the Banco Popular we commit ourselves to the economical and social development of the country inhabitants, offering financial solutions to Costa Rican population, achieving leadership in personal banking, product and services addressed to segments of people with no access to traditional banking.

### We watch for financial inclusion

The Bank is the only entity in the national financial system that is entitled to transfer funds from its profits to care for vulnerable population without access to traditional banking. These funds come from Fondos de Capital de Riesgo – FOCARI (Risk Capital Funds) and Fondos Especiales de Vivienda – FEVI (Housing Special Funds).



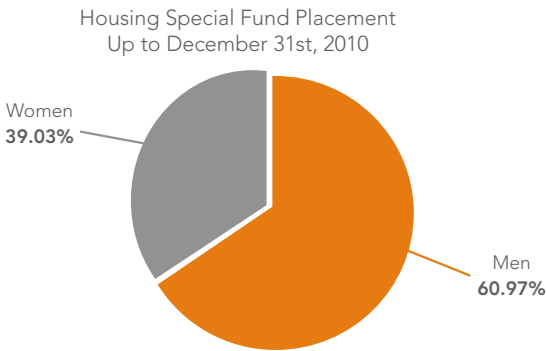
An elderly is being attended by our cooperador, Alexander Ruiz, at Banco Popular y de Desarrollo Comunal’s headquarters in San Jose Province - Second Avenue. Elderly population is one of the most vulnerable sectors that Banco Popular y de Desarrollo Comunal strongly supports.



### With Our Risk Capital Fund (FOCARI) multiple segments got benefits

Risk Capital Fund has an accumulated placement amount of ¢5.201 million up to December 31st.

We have given benefits to those companies that mostly are part of the informal sector and have been successful in addressing market demands and the recent financial crisis.



### Housing Special Funds (FEVI): a need solved

Up to December 31st, this fund showed an accumulative total placement balance of ¢4.153 million.

It is important to mention that the main objective of this fund is providing houses to those people who cannot afford 20% appraisal cost not included in the tradition housing credit.



Financial Education lecture provided by Banco Popular to clients and journalists from different media - Personal Banking Manager, Victor Rodríguez conducts the lecture.

## Exclusive credit on jewelry

We are the only financial institution that offers this type of credit which is fast and easy and of immediate approval to support urgent needs. It does not require a guarantor. Up to December 31st, we provided 10.229 credit solutions with an average of €358 thousand each.

## We open saving accounts without initial deposit

Since 2009, we eliminated the initial deposit requirement in order to provide better access to our saving products. In fact, we also offer a wide range of ways to save money without

Up to December 31st, we generated 14,920 payment arrangements for the amount of over € 7,000 million. 1,837 credit operations have been refinanced for a total amount of €10,000 million. Such actions show our high management capacity and expertise in high volume of portfolios.

conditioning individual possibilities of each person. This brings joy to thousands of people who put their savings in our hands for managing their future.

## We support population to face crisis

Year 2010 financial crisis represented a major challenge. People became more cautious at the time of investing or assuming big responsibilities. Therefore, we made some decisions in order to give them confidence back and overcome difficult situations. In this regard, the Bank made multiple payment arrangements.

Another important action was offering amnesty to debtors with delayed loan payments. We achieved a promotion of healthy finances for our clients, contributing with families suffering from the crisis effects who had failed to meet their obligations and informing the public on the importance of keeping a clean credit record. We designed a plan that included talks to our clients nationwide and to micro-entrepreneurs as well as activities for young people and children.



## Outstanding Integrated Safety

Every banking institution has the obligation to protect its customer information and money, as well as respond to their confidence with transparency and safety. Banco Popular is not the exception. It works to protect clients' assets of those who are our reason of being. In technology, we implemented the best practices of the industry and have one of the most powerful and safe technological platforms of the national banking system. Since October 2007, we laid a "fence that has not been violated by the cyber pirates so far"<sup>10</sup>.

Our daily operation at all levels makes us managing 219 private security positions and 34 with our own staff, also numerous fire devices, electronic and mechanical locks, access controls, cameras and alarms.

## Coordinate with governing bodies

Permanently we exchange information with the Organismo de Investigación Judicial - O.I.J. (Judicial Investigation Department), the Ministerio de Seguridad Pública - M.S.P. (Ministry of Public Security) M.S.P. and recently with the Municipality of San Jose. The Bank has permanent presence in the Comisión Bancaria de Seguridad (Security Bank Commission) which resulted in a successful management of criminal activities.

## Digital signature card: modern and safe

This card is a technological tool that ensures integrity of digital documents, making them to have features that so far were just paper documents. Up to the present, we have delivered 3,802 of these cards.

Our customers can use the card to make transactions on other institutions' websites using the necessary technological infrastructure and upon obtaining permission from the Ministry of Science and Technology (MICIT – acronym in Spanish).



Banco Popular was the first to offer digital signature. Labor Vice-Minister, Álvaro González is taken a picture to get his digital card. Cooperator Tatiana Roda sets the frame of the camera.

<sup>10</sup> Use of the e-token. (Source: La Nación newspaper, 9/2/2010).

## Our clients' smile

The Program Smile was born in 2007 through the Banco Popular Corporate General Management's initiative to create a customer service culture where each internal and external customer leaves the place with a smile on the face. We create a sense of awareness on each male and female cooperator of the Banco

Popular y Desarrollo Comunal on the relevance of good service in order to reproduce this good culture. In March 2010, a re-launching of the program was made in order to continue motivating our staff.



Acknowledgement to an outstanding cooperator of the Smile Program member, Dora Loría from the Cooperativa del Banco Popular, hands the award to the employee María Arias.

Customer Service Assessed

As a way for service control, we carried out an Assessment of the Internal Customer Service and Attention in 61 Administrative Supporting branches determining recommendations and weaknesses. However, every branch obtained scores above 90.

We are committed to equality of opportunities

Customers with disabilities require the services of our institution. Due to their physical, mental or sensorial conditions, they have particular needs of access to surroundings, to the documentation and communication. We take in mind this special condition to offer equity in the treatment and equality of opportunities in the services.

For this reason, we have coordinated in order to label and post the different Bank branches, respecting and understanding the importance of the Law on Equal Opportunities for Persons with Disabilities (Law 7600). Currently, we offer 90 branches suitably adapted for these needs. In fact, we have developed a management and monitoring chart to verify that the 94 buildings comply with such Law. We offer 125 cubicles for accessible Automatic Teller Machines (ATM) and 34 with national audio systems, allowing visually disable people to access the services. Our elevators also have a voice system and Braille buttons that alert the customer when they reach the required floor.

We modified procedures for credit and collection applied in the contracts, promissory notes or other documents, including the clause indicated by the Bank Legal Counsel, through which two original documents must be signed so much in Braille writing as in ordinary Spanish writing as long as the disabled person so consents.

Location of our Automatic Teller Machines (ATM) equipped for disabled people

Cash Machines		
Financial Services Centers:	Branches	Peripheral:
Headquarters	San Ramón	Desamparados
East (San Pedro de Montes de Oca)	Cartago	Mall Liberia
Pavas	Guápiles	Quepos
Heredia	Limón	Joissar
Alajuela	Cañas	San Francisco de Dos Ríos
Of the Valley (Pérez Zeledón)	Turrialba	Tres Ríos
Of the South (Ciudad Neily)	Grecia	Coronado
Santa Cruz	Puriscal	Tilarán
	Nicoya	El Roble
	San Carlos	Cariari
	Puntarenas	Palmar Norte
		Santa Rosa de Pocosol
		Plaza González Víquez
		Depósito Libre [Duty Free] Golfito



## Chapter IV Sustainability at Banco Popular

# We create sustainability and social equity

The handcraft sector is one of those represented in the Banco Popular's Male and Female Worker Assembly.



We are very clear on our responsibility with our country. That is why we merged the management for the creation of sustainable economic value, the good environmental performance and the positive impact in the community where we are present. Also, we work in order to develop enduring relationships with our groups of interest.

### We subscribed the United Nations Agreement

In 2010, we turned into the first Bank in the country and Central America that joined the corporation and organization network which signed the Worldwide Agreement promoted by the United Nations for the promotion of respect to Human Rights, environment, labor standards, and work against corruption. Such Agreement serves as the framework of action to support the development of strategies and actions according to such principles.

### 'Banking' Population

We provided access to financial services and solutions for population excluded by the conventional banking. Thus, we addressed 20% of our annual profits to special funds<sup>11</sup> every year to offer them financial solutions. These resources are for finance of productive entrepreneurial projects, purchase of family housing without enough resources to contribute with the first payment and grant guaranties or sureties to micro, small and medium business that may have enough requirements to access loans. We are also part of the Asociación Internacional de Inversores de la Economía Social (International Association of Social Economy Investors) which goal is financing social and environmental projects.

### United for the environment

We joined the Latin American Association of Financial Institutions for Development (ALIDE – acronym in Spanish) which function is to contribute to the economic and social development in the region. In November this year, development banks joined efforts to promote financing committed with the environment, since various reports indicated that the region needs to strengthen financial sector participation to restrain the effects of the climate change effects and promote environmental sustainability.



Handcraft Fair of disabled people organized by Banco Popular. We are concerned for bringing banking to the diverse populations and occupations. San Pedro branch - San José



International Climate Change Forum, organized by Banco Popular y de Desarrollo Comunal commitment to environment allows us enjoying our resources and maximizing sustainable strategies.

<sup>11</sup>**Special funds:** created by National Board of Directors of Banco Popular y de Desarrollo Comunal for specific funding purposes financed with Bank profits, as per the article 40 of the Organizational Law No. 4351.



## The Bank and its focus groups

We work to make the difference in the way banking is made gaining confidence of our interest groups. We added their criteria getting closer to clients, staff, suppliers, social sector and government to listen to their interests, set out commitments and to render accounts of our management.

### Your opinion strengthens us

We identify our interest groups in order to build long lasting relations. Thus, in preparing our first Annual Report of sustainability, we get close to the public using different consultation strategies through image studies, surveys, meetings and focal groups. Opinions are a very valuable input to evaluate our products and services according to the needs and characteristics of customers. The public expressed itself in diverse areas such as:

### Healthy finance

They said they felt confident and secure with the Institution emphasizing the Bank soundness. They also pointed out deep knowledge of our products such as term deposits, housing loans, cash salary advance, also they recognized a strong attention from the Bank to vulnerable sectors.

### Human talent

Participants recognized the importance of including equal gender opportunities in topics of gender and disabled people in Banco Popular y de Desarrollo Comunal's payroll.

Besides, they took for granted that the Banco Popular complies with present labor regulation and law in this regard.

They considered of great importance the existence of brigades to protect the premises, and also believed that the Bank cares for its human resources offering them labor stability.

### Timely solutions

They considered that the Bank lends money to clients when experiencing major financial difficulties and enhanced the good service and adequate solutions to requirements through telephone calls.

### Environmental commitment

Our clients would like to know more about actions taken by the Bank in regards to environment.



Housing delivery through housing bonus program managed by the Banco Popular y de Desarrollo Comunal, in Pococí community, Limón Province.



Chapter V  
Male and female cooperators

## Our Talent

Banco Popular y de Desarrollo Comunal male and female staff - From left to right: Gerson Villalobos, Giniva Barquero and Floribeth López.



For Banco Popular y de Desarrollo Comunal challenge begins at home. Our staff/human resource enjoys safety, stability, recognition to individual performance and expertise. We offer safe and organized working conditions which promote staff participation and freedom to suggest improvements and submit inquiring.

Respect for legislation, for our staff Collective Labor Agreement and for human rights of our staff are the stones for daily management of talent. Our Talent Staff Management Policy takes in mind the promotion for development of people and organizations forging a culture addressed to management accountability and spirit of service with people satisfied for the job done and committed to the Conglomerate's value, as well as a leadership addressed to people and results.

Staff profile

Up to December 2010, the Bank has 2.991 male and female employees with high percentage of professionals (57, 51%), is by average 38 years old and 11 years of service and almost equal distribution between male and female because the institution does not have salary difference regarding gender or position.

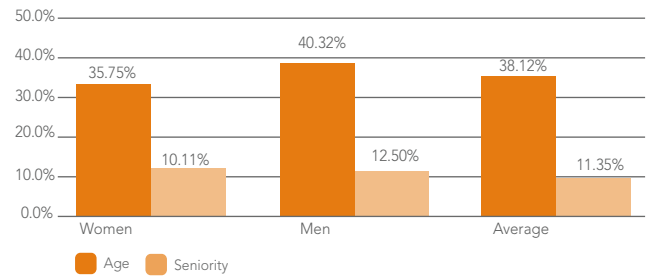
Talent Management

Recruitment and staff selection is based on valuation of technical criteria that excludes discriminatory practices of any kind. In fact, our staff promotion is a priority and the Bank promotes internal contests to apply for a position under equal opportunities.

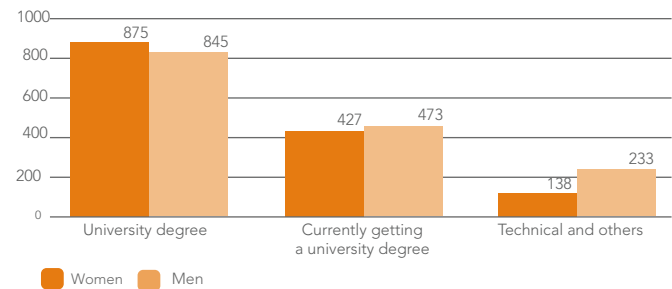
Payroll distribution per occupational level and gender

Level	Women	Men	Total
Chief	79	171	250
Professional	307	379	686
Technician	747	703	1450
Operative Staff	307	298	605
Total	1440	1551	2991

Average age and seniority service per gender



Pay roll composition per gender and educational background



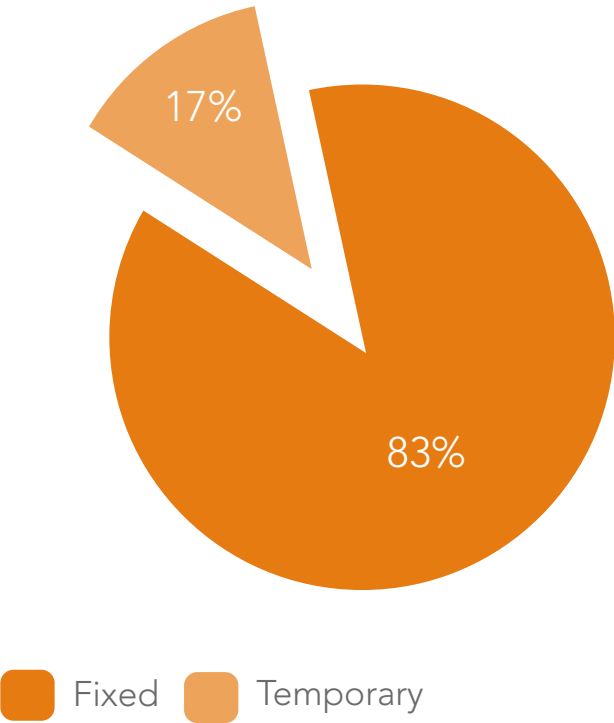
Cooperators of Banco Popular y de Desarrollo Comunal. Cooperator Viviana Calvo and cooperator Kennett Jiménez, both enjoy the same equal treatment with no gender difference.

Another of our business pillars is applying different tools to strengthen and monitor the high quality performance culture addressed to the quality customer service that promotes creativity and innovation, as well as the interest to contribute with initiatives of change in the processes and continuous follow up of performance by the improvement crews.

**The following programs outstand:**

- Improvement Team Institutional Program (Equipos de Mejora Institucional - EMI) recognizes individual and group efforts for the continuous improvement materializing public recognition of the staff involved in the program.
- The Management Evaluation System (Balanced Scorecard) for directing positions, Balance and Personal Development for the staff that does not perform leading positions, aligns institutional, group and individual objectives in order to recognize achievements through a system of financial compensation. The assessment is applied every year to 100% percent of the staff and is quarterly monitored.

Total payroll by type of contract.



**We believe that improving performance increases motivation**

Annually we invested more than de ¢500 million in training plans tending to strengthen the behavior and knowledge of our staff not only contributing to their performance but also to their development. Therefore, we deal with basic management issues, such as normative, customer service, ethics, gender, among others, using virtual and presence learning methodologies. The training program is organized by thematic topics, paying special attention to transversal axels of organizational culture and management that we impel, i.e., equity, gender equality, environmental management, Law 8204 and its revisions related to money laundry and ethics.



Group of cooperators winning of an Institutional Improvement Prize - From left to right: Randall Serrano, Geovanny Vargas and José Rivera.



Average number of hours by occupational level

Level	Hours
Chief	15.89
Professional	17.18
Technician	29.19
Operative Staff	15.40
Total	19.41

Main Benefits

- Nuevo Amanecer (New Dawn) Program, for staff members close to retirement
- Breast feeding time more than the one legally established
- Annual Health Fairs
- Additional vacation period longer than those set by law
- Company Physician
- Salary full payment during illness leaving periods
- Uniforms for the customer service staff
- Marriage License
- Paternity leave
- Leave in case of a family member death
- Sick leave in case of a family member
- Cash machine protection fund
- Differentiated baking products and services
- Labor cessation guarantee
- Freedom of association (to cooperatives, solidarity associations and labor unions)
- Life insurance

On the other hand, the Bank has always been concerned to maintain a competitive salary structure that allows capturing and retaining talent.

In this sense, the Bank manages a salary scale above the minimum salary established by law and percentile 50 of the market is kept as reference of salary allowance market as a competitive strategy; all the above with no discrimination of gender, age, race, or other.

It is a fact, that salaries are defined taking into account the position’s responsibility as well as the requested profile, not the individual.

Our programs

As a complement to the talent management that favors people staff and the fulfillment of institutional objectives, the Bank promotes programs that bring benefits to its staff and it has signed a collective labor agreement that includes benefits and the scope for the entire population regardless their employment contract. Our solidarity and sense of our principle of common wellbeing extend to promote voluntary actions by our personnel for community help; for example, campaigns to address natural disaster emergencies, cooperation to vulnerable groups and partnerships to protect the environment.

Also, we care about maintaining a healthy and safe working environment by monitoring working conditions, and promoting activities that are part of the Labor Life Quality Program on issues such as: office infrastructure, labor equipment and tools, prevention plans, emergency attention and vaccination campaigns, among others.



**"Feliz de Ser Mujer" ("Happy of Being a Woman") Award granted to staff on the International Women Day - Laura Castro has worked for 16 years for Banco Popular.**

We define policies and adjust processes in terms of Gender Equity and Equality between men and women using inclusive and including language to prevent negligent isolation of individuals or groups.

## **We cover health and safety issues through formal agreements with labor unions**

The safety of the staff in performing its tasks in a continuous activity which objective is watching for the infrastructure maintenance and having the necessary tools to perform the work in adequate conditions. To this purpose, the organization has impelled and keeps active commissions of health and occupational safety throughout all branches of the bank which have the responsibility of early detection of risky conditions and their adequate attention, accident prevention, emergency and disasters response, among others. They are continuously trained and updated by the Labor Life Quality Area.

## **We train our staff on important topics for a better management**

- Core System (technological platform)
- Customer Service
- Social Economy
- Internal and external norms
- Ethics
- Environment
- Gender
- Law 8204<sup>12</sup>



**Cooperators of the Banco Popular y de Desarrollo Comunal. Continuous training is a cornerstone of our management. Grettel Alpizar and Ana Henry are trained in technology systems for service integration.**

<sup>12</sup>Law on narcotic drugs, psychoactive substances, unauthorized drugs, related activities, money laundering and terrorist financing.



## Chapter VI

### Environment

# Environmental commitment

Children activity for reflection - Banco Popular y de Desarrollo Comunal's Environmental Statement.





**At the Banco Popular y de Desarrollo Comunal the environment commitment is priority and we are aware that we can contribute to a sustainable world, struggling to improve our environmental performance.**

### **New habits**

For the period comprised between January and December 2010, we diminished the units of paper items by 16.4% (paper blocks, tax declaration forms, paper rolls, and napkins, among others). We changed the hands' drying paper rolls to one with better absorption and economy; besides, office paper acquired is ISO 14001 compliant which guarantees the non use of virgin forests; the paper used is made from sugar cane's pulp wasting material.

### **We arranged "green" contracts**

Towards this goal, we set forth guidelines in recent contracts to follow schemes of "green" procurement practices, committing ourselves to include ideas in future negotiations to use non-environment impact products.

### **Energy saving and substantial improvement**

One of our most important tools is the energy saving policy. For this, we adjusted thermostats of all air conditioning equipment. Besides, we used technologies with sensors of presence for control of lighting system. Indeed, we diminished 47% in warehouse assets which represents savings of 5.493 MJ (1 525.83 KWh) per month.

### **Total emissions and initiatives to reduce them**

In order to determine "carbon footprint" in all offices, we hired a company which used the international recognized methodology known to measure carbon (GHG Protocol) and identified direct emissions coming from the Bank and from the staff in service, electric plants and indirect emissions such as power consumption, airplane flights and individual home as well as workplace commuting.

It is important to point it out that the greatest CO2 emission source comes from workers while commuting home, 51% of

emissions are from public transportation and 49% from own vehicles.

Based upon these results, we organized a staff workshop to identify actions addressed to reduce green house effect gas emissions of the Bank.

### **We do measure our water consumption**

Through our Environment Management Policy, we promoted the installation of water saving mechanisms starting with the progressive substitution of floor sinks' water taps which first phase corresponded to the Headquarters. Automatic lock water taps with time closing and capacity for adjustable flow were acquired.



**Cooperators Marcial Láscarez and Silvia Escalante are recycling paper and paperboard. We make efforts to create sensitive awareness on commitment to responsible environmental management.**

## **We make efforts for recycling**

As part of the Recycling Project started in two buildings in 2010, approximately 18.000 kilograms of paper and 1.326 kilograms of paperboard were collected for recycling. This project has been successful for a decade of existence.

## **We believe on environment commitment supporting entrepreneurial development**

It is necessary to support national corporations for them to develop their projects in line with environmental sustainability. It is important to consider that Costa Rica has a “neutral carbon” goal for 2021 and it shall be attainable as long as it becomes an objective shared by all people and organizations. This is the reason why the Environment Management Program is part of Banco Popular’s strategy configured as a transversal practice in all its areas.

## **Adherence to protocols**

On December 2nd, 2010, the National Network for Global Agreement was formed in Costa Rica. We are one of the founders of it in a work together with the United Nations Development Program (UNDP) and other national companies that have signed such initiative.



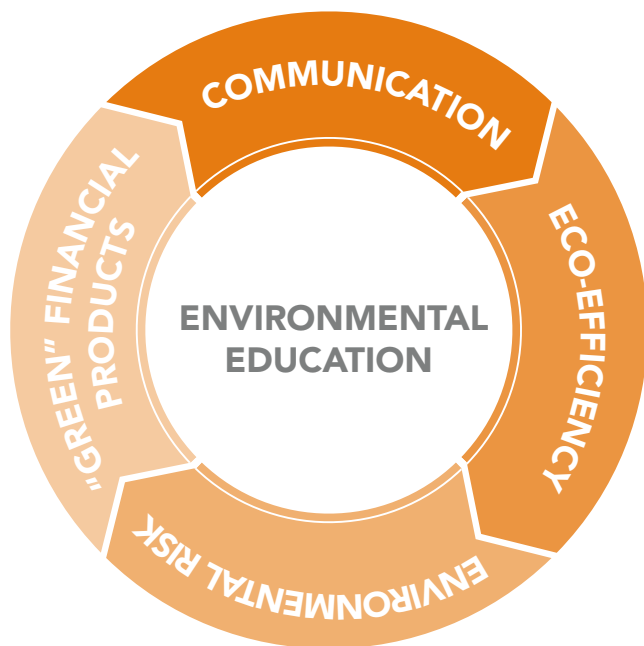
Banco Popular was one of the first banks in supporting young people working in the Ad Astra Rocket laboratory located in Guanacaste to develop the plasma motor by the Costa Rican astronaut Franklin Chang Díaz.

## **Agreement for Life of the International Union for Conservation of Nature – IUCN**

This is an agreement signed in the second semester of 2010, among Banco Popular, the Ministry of Environment, Energy and Telecommunications, The Ministry of Housing and Human Settlement and the International Union for Conservation of Nature which goal is to join efforts to propose actions to make neutral carbon true for Costa Rica. It proposes to coordinate “green” financial product development in four areas: sustainable housing, clean energy, technology investment for cleaner production and water management.



Neutral carbon agreement signature, Minister of Environment and Energy, Teófilo de la Torre; Housing Minister, Irene Campos; and Gerardo Porras, General Manager of Banco Popular y de Desarrollo Comunal.



## Environment Management Model

Our environmental commitment is made up of five ideas which start from environmental education for a sustainable future; out of there “green” financial products come out, then eco-efficiency, environment risk control and communication.

In 2010, we trained workers on becoming sensitive and for the construction of such a system. Besides, we certified 25 internal environment auditors, and for March 2010, we organized together with the UICN, the Forum: “Climate Change: Impacts and Challenges of Financial and Productive Sectors” with participation of experts from Europe, North America and Canada with an audience of 300 people.

Another of the relevant actions was to make a workshop on the concern about Climate Changes and its Effects specially addressed to national journalists in order to increase education on this topic.



Team of auditors of environmental management from Banco Popular y de Desarrollo Comunal.



RESOURCE	REDUCTION GOAL IN COMPARISON TO 2010
Electrical power	5% measured as Kilowatt percentage by worker
Water	10% of average cubic meters by worker
Paper	10% of average kilograms used by worker

### Environment, holding hands with innovation

In regards to environment, climate change is the greatest challenge we currently face. To fight against it, the Banco Popular has developed “Green Financial Products”, financing projects committed to the responsible usage of natural resources which contribute to improve people quality of life and respect to the environment. We offer credit lines designed for individuals and corporations with lower interest rates than those traditional credits with very competitive terms.

In addition, Banco Popular launched a “Green Savings Account” in US dollars and colones this year which interest rate is at intervals according to its balance. This account has the particularity that the Bank has the commitment to assign a similar amount to the saved balance for each customer which will be addressed to finance projects that are friendly to the environment. This will allow customers, at no charge, contribute to the planet sustainability and offer a better quality life to future generations.



Banco Popular assigns 100% of resources coming from green savings accounts to projects friendly to the environment.

## Chapter VII Awards and Honors

### 2010 MILESTONES

Recognition granted to the Banco Popular y de Desarrollo Comunal by the Instituto Nacional de las Mujeres – INAMU (National Women Institute) - From right to left: Francisco Antonio Pacheco, President of National Board of Directors; Maureen Clarke, INAMU's Executive President and Gerardo Porras, Corporate General Manager of Banco Popular.



## **We purchased Coopemex assets and liabilities**

Banco Popular y de Desarrollo Comunal motivated a big portion of Coopemex customers to keep their savings with us. Up to August 22nd, approximately 75% of resources credited as Term Certificates of Deposit (TCD) and savings at sight, stayed in this institution. We increased Bank portfolio by the amount of \$49.000 million welcoming 14.000 new customers. The Bank, once again, solved the situation that affected an important group of male and female workers in his goal to watch over social wellness.

## **We received recognition for our genre equal treatment model**

Last December, the National Women Institute (INAMU) acknowledged Banco Popular y de Desarrollo Comunal for its progress towards genre equal treatment model. Such award was granted before obtaining the Certificate of the System for Management of Equality and Equity of Gender [Sistema de Gestión de Igualdad y Equidad de Género [SIGEG]. This is a volunteer program to which private companies or public entities may have access and wish progressively to remove gaps between male and female genres. The commitment acquired has been reflected in genre proportion in our labor positions.

## **We acquired IBP Pension Operator**

Our Pension Operator finished the most relevant transaction in retirement pension industry in Costa Rica, last November, when

purchased, through “fusion by merging” mechanisms, the biggest private sector retirement pension operator. Popular Pensiones grew from 51% to 57% in quantity of enrolled participants of the Mandatory Pension Regime and when from 26,5% to 38% in total managed portfolio, strengthening leadership in pension industry.

## **We have an environmental management system**

In July, the Bank publicly stated the Environmental Management System towards the goal of reaching carbon neutral in its operations. As of that time, the institution offered a wide range of “green” financial products which contribute to preserve environment financing sustainable projects sponsored by public institutions, social organizations, private corporations, small, medium companies business, as well as by individuals. The entity offers terms up to 180 months and interest rates as of 14%, according to the project.

## **We joined the governmental neutral carbon initiative**

We subscribed an agreement to reach neutral carbon certificate for the country promoting sustainable housing, clean energy, investment in technology for cleaner production, and water management. The organizations who signed it were the Ministry of Housing and Human Settlements, Ministry of Environment, Energy and Telecommunications and International Union for Conservation of Nature (IUCN).



Press conference by Banco Popular when announcing IBP Pension absorption.



## **We actively support innovation and employment: Ad Astra Rocket Company sponsorship**

In his research and development of plasma propelling VASIMIR motor for space displacement, we have supported the visionary idea of Dr. Franklin Chang Díaz. That is why we sponsored this initiative with the goal of supporting space technology as well as the entrepreneurial young people from Guanacaste who are developing the project. The money will be used to maintain the respective equipment.



Visit organized by Banco Popular y de Desarrollo Comunal for the scientific high school to Ad Astra Rock Company facilities. Astronaut Franklin Chang Díaz answers students' questions.

## **We provide thousands of debtors' payment remissions**

During November, Banco Popular offered remission to debtors whose loan installment payments were due, postponed transferring to judicial collection of the obligations and generated payment settlements to honor their debts. The plan included chats with customers throughout the country, lectures to micro entrepreneurs, activities with young people and children with the goal of boosting up to date accounts and avoiding people to be affected on their credit background. In 2010, there were 11.665 total remission agreements.

## **We provided housing for native families**

More than 900 families of the Cabécar Tayní Native People Reserve of Valle de la Estrella got benefits with bonuses managed by Banco Popular as part of an initiative which shall provide housing for 300 families every year through the Family Bonus offered by Banco Hipotecario de la Vivienda - BANHVI. Although many factors restricted this goal such as bad weather, difficult access, transit through mountain's rivers and remoteness, it was possible to make the project true. Houses were built with local wood respecting indigenous designs for cultural with the goal of strengthen local people cultural identity. Many families got benefits especially local women that were paid for house painting.



Native house with construction managed by Banco Popular y de Desarrollo Comunal in Cabécar Tayní Community - One of the beneficiary families looks at their new house. The design was adapted respecting the culture of this population.

## **We sponsor a fighting woman: Hanna Gabriels**

We turned into sponsors of a boxing champion, Hanna Gabriels, since she is a role model for female development at all levels. Hanna represents autonomy, sense of struggling and national pride. This made us choosing her to give her the required financial sponsorship for her to continue achieving great victories. It is a symbolic proof that we believe in women and we are convinced that it is possible to improve people quality of life and society in general through sports.



Press conference explaining the support to boxer Hanna Gabriels for being a model to be emulated for her consistent struggle turned up into sport excellence.

## **We executed an agreement to promote daycare network**

We advised our teachers, psychologists and cooks so they can start the businesses that will be in charge of managing those daycare centers. We signed an agreement with Instituto Mixto de Ayuda Social - IMAS (Mixed Institute for Social Assistant) at the Presidential House with the purpose of getting mutual cooperation. In order to do this, micro business people shall be offered a management model that will grant essential tools for accounting controls so they may keep service quality sets forth by the program. Also, in case of need, the Bank shall provide credit for the arrangement of the physical structure and equipment procurement.



Sample of shared responsibility, both parents share their children care on the parade organized by occasion of the Male and Female Worker Day on May 1st, 2010, on Second Avenue, Province of San José, Costa Rica.





Community served by Banco Popular y de Desarrollo Comunal.

### **We placed 100% of the portion assigned by the Development Banking System (Law 8634)**

During 2008, we were credited by the Development Banking System, Law 8634 as a Financial Operator. The Funds to which Banco Popular accessed came from the Fund of Credit and from the Fund of Collaterals and Guaranties of National Trusteeships for Development (Fondo Nacional para el Desarrollo – FINADE). For closing on May 2010, the amount placed with resources of FINADE's Credit Fund reached over ¢3.180 millions. Due to this,

the Institution requested to extend these resources for an amount of ¢1.800 million to continue transferring them to the beneficiaries. At the closing of July 2010, we placed 100% of the resources for credit finance. In regards to FINADE's Fund of Collaterals and Guaranties, also 100% of the resources assigned were managed to be placed for the fourth quarter of 2010.



**CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITORS' OPINION**

December 31st, 2010

## Independent Auditor's Report

To the National Board of Directors of  
Banco Popular y de Desarrollo Comunal and the  
General Superintendence of Financial Entities

We have audited the accompanying consolidated financial statements of Banco Popular y de Desarrollo Comunal and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2010 and 2009 and the consolidated income statement, the statement of changes in equity and the statement of cash flows for the one year periods then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

The Bank and subsidiaries' management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with directives issued by the National Financial System Oversight Board and the General Superintendence of Financial Entities. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, 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 audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and to plan and perform the audits to obtain reasonable assurance on 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers the 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank and subsidiaries' management, 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.

The accompanying consolidated financial statements have been prepared by the management of Banco Popular y de Desarrollo Comunal and subsidiaries in conformity with the directives issued by the National Financial System Oversight Board and the General Superintendence of Financial Entities.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco Popular y de Desarrollo Comunal and subsidiaries as of December 31, 2010 and 2009 and of its consolidated financial position and its cash flows for the one year periods then ended, in accordance with directives issued by the National Financial System Oversight Board and the General Superintendence of Financial Entities, as discussed in note 1.

The accompanying consolidated financial statements expressed in U.S. dollars give effect to the conversion of the Costa Rican colones financial statements not submitted herewith, on the basis described in note 1. This conversion should not be construed as representing that the Costa Rican colones amounts actually represent or have been, or could be, converted into U.S. dollars.

*Juan Carlos Lara*

San José, Costa Rica  
March 15, 2011

Report Signed By:  
Juan Carlos Lara P. 072052  
Pub. R-1153 Matamoros 9-20-2011  
Exempt from legal stamp as  
per Art. 8, Law No. 4463.

*Lara Eduarte*





Banco Popular y de Desarrollo Comunal  
and subsidiaries  
**Consolidated balance sheet**  
December 31  
(In US dollars)

	Notes	2010	2009
<b>Assets</b>			
<b>Cash and due from banks</b>	4	US\$ 133,580,091	87,759,674
Cash		92,656,386	53,790,286
Banco Central		32,840,223	26,215,602
Local financial entities		4,612,857	3,510,414
Foreign financial entities		19,072	423,874
Other availabilities		3,451,553	3,819,498
<b>Investment in securities and deposits</b>	5	560,593,526	564,902,764
Marketable		96,875,866	177,971,779
Available-for-sale		456,745,366	376,925,014
Accrued interest receivable		6,972,294	10,005,971
<b>Loan portfolio</b>	6 and 24	2,031,989,282	1,589,934,520
Current loans		1,743,986,685	1,326,392,754
Non-performing loans		293,004,936	263,476,089
Loans under legal collection		36,165,152	27,615,861
Accrued interest receivable		33,411,599	28,429,083
Allowance for loan losses		(74,579,090)	(55,979,267)
<b>Accounts and fees receivable</b>	7	9,170,231	4,022,650
Fees receivable		1,373,049	1,180,878
Accounts receivable, brokerage service		70,389	335,527
Accounts receivable from transactions with related parties		260,633	135,214
Deferred income tax and income tax receivable	15	2,338,093	1,956,689
Other accounts receivable		7,309,544	1,490,156
Allowance for doubtful accounts		(2,181,477)	(1,075,814)
<b>Foreclosed assets</b>	8	9,281,779	2,677,885
Goods and securities on loan recovery		11,765,131	3,846,268
Impairment allowance and legal disposition		(2,483,352)	(1,168,383)
<b>Investments in subsidiaries</b>		113,251	102,369
<b>Premises and equipment, net</b>	9	72,296,418	56,595,095
<b>Other assets</b>		49,379,462	36,834,223
Deferred charges		1,462,703	644,964
Intangible assets, net	10	14,914,709	8,587,153
Other		33,002,050	27,602,106
<b>Total assets</b>	US\$	<b>2,866,404,040</b>	<b>2,342,829,180</b>

Continues...

... continued

Banco Popular y de Desarrollo Comunal  
and subsidiaries  
**Consolidated balance sheet**  
December 31  
(In US dollars)

	Notes	2010	2009
<b>Liabilities and stockholders' equity</b>			
<b>Liabilities</b>			
<b>Obligations with the public</b>	US\$	1,855,895,642	1,619,207,600
Demand deposits	11	413,171,675	338,315,382
Time deposits	11	1,364,482,907	1,197,918,511
Other obligations with the public		51,491,698	43,796,568
Financial charges		26,749,362	39,177,139
<b>Obligations with entities</b>	12	264,369,560	135,596,466
Demand deposits		35,506,530	20,140,021
Time deposits		216,838,037	112,716,404
Other obligations with entities		8,988,781	1,213,262
Financial charges		3,036,212	1,526,779
<b>Other accounts payable and provisions</b>		129,861,360	107,924,974
Accounts payable, brokerage services		5,638,243	5,798,485
Deferred tax	15	5,920,372	9,933,842
Provisions	14	47,421,697	39,663,901
Sundry accounts payable	13	70,881,048	52,528,746
<b>Other liabilities</b>		6,762,836	7,724,696
Deferred income		3,810,566	3,665,863
Allowance for stand-by credit losses		16,712	181,578
Other		2,935,558	3,877,255
<b>Total liabilities</b>		2,256,889,398	1,870,453,736
<b>Stockholders' equity</b>			
<b>Capital stock</b>	29	259,850,942	259,850,942
Capital stock		259,850,942	259,850,942
<b>Additional paid-in capital</b>		88,490,234	62,763,768
<b>Conversion adjustment</b>		27,456,245	(30,870,739)
<b>Equity adjustments</b>		33,303,901	27,222,292
Revaluation surplus	9	38,291,310	29,635,446
Unrealized gain (loss) on valuation of financial instruments		(4,987,409)	(2,413,154)
<b>Capital reserves</b>		6,520,087	6,120,063
<b>Retained earnings</b>		138,696,463	112,456,526
<b>Result for the period</b>		48,232,016	30,654,143
<b>Finade stockholder's equity</b>		6,964,754	4,178,449
<b>Total stockholders' equity</b>		609,514,642	472,375,444
<b>Total liabilities and stockholders' equity</b>	US\$	2,866,404,040	2,342,829,180
<b>Contingent liabilities</b>	18	120,160,255	107,904,571
Trusts assets	16	21,127,384	11,696,450
Trusts liabilities	16	7,889,809	6,049,159
Trusts equity	16	13,237,575	5,647,291
Other memoranda accounts	17	4,600,989,645	3,899,804,575
Memo accounts of third parties	17	2,071,650,559	1,583,191,240
Memoranda accounts on custody activity	17	434,030,643	145,052,872
Memoranda accounts of third parties on custody activity	17	US\$ 1,720,035,377	1,438,244,991

See accompanying notes to the consolidated financial statements.

## Schedule B

Banco Popular y de Desarrollo Comunal  
and subsidiaries  
**Consolidated statement of income**  
Years ended December 31  
(In US dollars)

	Notes	2010	2009
<b>Financial income</b>			
On cash and due from banks	US\$	2,996	734
On investment securities and deposits	19	38,828,262	46,999,255
On loan portfolio	20	310,579,543	279,071,324
Foreign exchange	24	0	614,827
Gain on securities available-for-sale		9,951,487	3,823,408
Other		11,388,544	8,258,936
<b>Total financial income</b>		<b>370,750,832</b>	<b>338,768,484</b>
<b>Financial expenses</b>			
Obligations with the public	21	(109,133,537)	(136,557,015)
Financial obligations		(18,297,088)	(13,483,070)
Other sundry accounts payable		(2,718,025)	(7,790)
Foreign exchange	24	(1,697,723)	0
Other		(956,881)	(409,594)
<b>Total financial expenses</b>		<b>(132,803,254)</b>	<b>(150,457,469)</b>
Impairment allowance of assets		(61,838,306)	(34,491,040)
Income from recovery of financial assets and allowances		10,376,352	5,053,565
<b>Financial income</b>		<b>186,485,624</b>	<b>158,873,540</b>
<b>Other operating income</b>			
Service fees and commissions		48,282,975	37,847,345
On foreclosed assets		2,420,540	987,502
Exchange and arbitrage, foreign currency		3,678,662	1,772,793
Other		21,138,395	12,972,617
<b>Total other operating income</b>		<b>75,520,572</b>	<b>53,580,257</b>
<b>Other operating expenses</b>			
Service fees and commissions		(5,650,381)	(5,160,136)
On foreclosed assets		(4,554,016)	(1,033,427)
Sundry goods		(127,704)	(59,515)
On provisions		(14,221,752)	(7,243,045)
Exchange and arbitrage, foreign currency		(429,747)	(650,670)
Other		(14,876,514)	(8,789,016)
<b>Total other operating expenses</b>		<b>(39,860,114)</b>	<b>(22,935,809)</b>
<b>Gross operating income</b>		<b>222,146,082</b>	<b>189,517,988</b>
<b>Administrative expenses</b>			
Personnel		(103,107,586)	(97,811,247)
Other		(54,853,579)	(49,761,375)
<b>Total administrative expenses</b>	22	<b>(157,961,165)</b>	<b>(147,572,622)</b>
<b>Net operating income before taxes and statutory allocations of earnings</b>		<b>64,184,917</b>	<b>41,945,366</b>
Statutory allocations of earnings	13	(7,582,492)	(4,867,799)
Income tax	15	(8,370,409)	(6,423,424)
<b>Result for the period</b>	US\$	<b>48,232,016</b>	<b>30,654,143</b>



Servicio Público y de Comercio General y subsidiarias  
Consolidated statement of shareholders' equity  
Years ended December 31  
(in US dollars)

		Less costs	Employee contributions	Retained earnings	Subtotal	Contributions Extra-Basic Government	Capital contributions 5.25% Less 1980	Employee contributions	Subtotal	Revaluation surplus	Adjustment on assets fair value	Total equity adjustments	Capital reserves	Price period earnings	Overseas adjustments	Stocks retained earnings	Total shareholders' equity
Balance at December 31, 2009	1,025	195,271	66,462,472	115,734,653	119,268,316	3,869	47,649,680	5,885,819	55,204,400	28,657,963	(26,495,995)	25,764,191	27,228,210	146,476,472	(19,816,840)	0	471,037,279
Funds result 2010		0	0	0	0	0	0	0	0	0	0	0	0	(2,413,222)	0	2,413,222	0
Funds result 2010		0	0	0	0	0	0	0	0	0	0	0	0	(1,764,125)	0	1,764,125	0
Earnings distribution (CPC)	20	0	0	0	0	0	0	0	0	0	0	0	0	(481,760)	0	(481,760)	0
Overseas adjustment		0	0	0	0	0	0	0	0	0	0	0	0	0	(19,816,840)	0	(19,816,840)
Net income for the year		0	0	0	0	0	0	0	0	0	0	0	0	30,834,142	0	0	30,834,142
Funds transfer (FONCAE, FEVI and FONEDIC)	20	0	0	0	0	0	0	0	0	0	0	0	0	(4,371,494)	0	(4,371,494)	0
Unrealized contributions		0	0	0	0	0	0	12,081,808	12,081,808	0	0	0	(21,413,222)	9,973,227	0	0	0
Employee contributions received during the year	20	0	0	0	0	0	23,841,133	5,761	23,846,894	0	0	0	0	0	0	0	23,846,894
Contributions capitalization		0	61,524,346	0	61,524,346	0	(26,495,926)	0	(26,495,926)	0	0	0	0	(14,821,122)	0	0	0
Revaluation surplus on premises and equipment	10	0	0	0	0	0	0	0	0	(5,822,138)	0	(1,851,316)	0	0	0	0	(1,851,316)
Revaluation surplus on buildings revaluation		0	0	0	0	0	0	0	0	(947,099)	0	(947,099)	0	0	0	0	(947,099)
Change in fair value of investments in subsidiaries		0	0	0	0	0	0	0	0	0	8,688,148	8,688,148	0	0	0	0	8,688,148
Revaluation surplus on revaluation		0	0	0	0	0	0	0	0	0	(400,798)	(400,798)	0	0	0	0	(400,798)
Revenues transfer to subsidiaries		0	0	0	0	0	0	0	0	0	0	0	345,817	(261,822)	0	0	0
Balance at December 31, 2010	1,025	195,271	127,887,268	115,734,653	219,891,542	3,869	44,991,699	17,749,249	62,761,568	28,657,963	(2,413,196)	27,228,210	6,028,063	143,116,468	(19,816,729)	4,219,649	472,275,844
Funds result 2011		0	0	0	0	0	0	0	0	0	0	0	0	(2,764,261)	0	2,764,261	0
Earnings distribution (CPC)		0	0	0	0	0	0	0	0	0	0	0	0	(1,227,877)	0	(1,227,877)	0
Overseas adjustment		0	0	0	0	0	0	0	0	0	0	0	0	0	18,720,864	0	18,720,864
Net income for the year		0	0	0	0	0	0	0	0	0	0	0	0	48,202,116	0	0	48,202,116
Employee contributions received during the year		0	0	0	0	0	21,719,233	7,223	21,726,456	0	0	0	0	0	0	0	21,726,456
Revaluation surplus on premises and equipment		0	0	0	0	0	0	0	0	6,125,425	0	6,125,425	0	0	0	0	6,125,425
Revaluation surplus on buildings revaluation		0	0	0	0	0	0	0	0	524,439	0	524,439	0	0	0	0	524,439
Change in fair value of investments in subsidiaries		0	0	0	0	0	0	0	0	0	(2,761,518)	(2,761,518)	0	0	0	0	(2,761,518)
Revaluation surplus on revaluation		0	0	0	0	0	0	0	0	0	186,763	186,763	0	0	0	0	186,763
Revenues transfer to subsidiaries		0	0	0	0	0	0	0	0	0	0	0	(608,824)	(188,524)	0	0	0
Balance at December 31, 2011	1,025	195,271	147,057,618	115,734,653	269,891,212	3,869	70,710,932	17,776,138	88,495,634	28,657,915	(1,887,446)	23,051,691	6,028,067	156,208,478	(17,486,218)	6,844,782	499,034,612

See accompanying notes to the consolidated financial statements.

Banco Popular y de Desarrollo Comunal  
and subsidiaries  
**Consolidated statement of cash flows**  
Years ended December 31  
(In US dollars)

	Notes	2010	2009
<b>Operating activities:</b>			
Net income	US\$	48,232,016	30,654,143
Items not requiring cash outlays:			
Losses on allowance for bad debts		55,519,922	29,632,445
Losses on other allowances		6,318,384	4,858,595
Losses on foreclosed assets	8	3,204,311	373,381
Depreciation and amortization	9 and 10	11,704,940	8,825,984
IBP Pensiones surplus amortization	10	159,907	0
Gain on doubtful loan allowance reversion		(8,644,065)	(3,062,816)
Gain on doubtful other allowance reversion		(787,722)	(1,990,748)
Gain on foreclosed assets allowance reversion		(2,009,942)	(334,216)
Expense on income tax of the year	15	8,370,409	6,423,424
Income tax payment		(5,241,042)	(11,497,954)
Unrealized foreign exchange gain (losses)		11,342,342	(1,753,853)
Expense on social benefits provision, net of payments	14	1,746,993	3,115,357
Contributions received during the year		25,726,466	23,846,533
Earnings distribution OPC		(1,227,877)	(491,709)
Expense on Conape contributions	1.x	1,255,820	808,105
Expense on Finade contributions	1.x	1,883,731	1,212,158
Expense on Fodemipyme contributions	1.x	2,543,583	1,617,043
Expense on National Emergencies Commission contributions	1.x	1,714,870	1,230,493
Funds to Focari, Housing 100% and Debtors reinstatement		0	(4,351,688)
Cash provided by (used in) changes in assets:			
Accounts and accrued interest receivable		(9,782,060)	1,949,866
Loan portfolio		(314,736,592)	(112,533,860)
Foreclosed assets		(7,194,692)	(1,719,342)
Other assets		(2,991,633)	(11,775,945)
Cash provided by (used in) changes in liabilities:			
Demand obligations		41,672,824	(41,572,319)
Term obligations		22,060,762	77,265,980
Other obligations with the public		2,948,162	(2,016,164)
Accounts payable for brokerage transactions		(751,256)	5,202,287
Other accounts payable and provisions		2,165,890	18,330,246
Other liabilities		(1,960,632)	(9,057,326)
<b>Net cash (used) provided by operating activities</b>		<b>(106,756,181)</b>	<b>13,188,100</b>
<b>Investing activities</b>			
Net purchases of investment securities and deposits		51,567,912	5,244,338
Acquisition of premises and equipment	9 and 10	(12,414,358)	(10,683,419)
Sale of premises and equipment	9 and 10	795,870	1,861,033
Revaluation of assets sold		0	(197,773)
Funds from IBP Pensiones purchase		635,634	0
IBP Pensiones net assets purchase		(3,664,811)	0
Surplus purchase from IBP Pensiones merger	10	(9,594,393)	0
<b>Net cash provided (used) in investing activities</b>		<b>27,325,854</b>	<b>(3,775,821)</b>
<b>Financial activities</b>			
Other financial obligations		110,996,773	(38,045,344)
<b>Net cash provided by financial activities</b>		<b>110,996,773</b>	<b>(38,045,344)</b>
Net (increase) decrease on cash and cash equivalents		31,566,446	(28,633,065)
Effect of conversion to US dollars		32,515,508	(6,596,648)
Cash and cash equivalents at the beginning of the year	4	290,103,406	325,333,119
<b>Cash and cash equivalents at end of year</b>	4	<b>354,185,360</b>	<b>290,103,406</b>

See accompanying notes to the consolidated financial statements.

# Index for correspondence to Global Reporting Initiative (GRI)

GRI Index	Description	Chapter	Page
1	Strategy and analysis		
1.1	Statement of the main responsible of sustainability for the organization and its strategy.	Presentation	5
2	Profile of the Organization		
2.1	Name of the organization	Presentation	1
2.2	Main brands, products and services	I	11-18
2.3	Operational structure of the organization	I	11-12, 19-21
2.4	Localization of the main organization office	Back cover	1
2.5	Number of countries where the organization operates	Presentation	4
2.6	Nature of ownership and legal form	I	9
2.7	Markets served	I	4,13
2.8	Dimensions of the reporting organization	I	11
2.9	Significant changes during the period covered by Annual Report on the size, structure and ownership of the organization.	I, Milestones	14, 46
2.10	Awards and acknowledgements during the information period	Milestones	45-49
3	Parameters of Annual Report		
	Profile of the Report		
3.1	Period covered by the information contained in the Annual Report	Presentation	4
3.2	Date of most recent previous Annual Report (if any)	Presentation	4



GRI Index	Description	Chapter	Page
3.3	Cycle of presentation of the Annual Report (annual, biennial, etc.)	Presentation	4
3.4	Point of contact for issues regarding the Annual Report or its contents	Back cover	1
	<b>Scope and coverage of the Annual Report</b>		
3.5	Process of definition for the Annual Report's content	Presentation	4
3.6	Coverage of the Annual Report	Presentation	4
3.7	State any limitations on the scope or coverage of the Annual Report		4
3.8	The basis to include the information in the case of joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect the comparability between periods and/or organizations.		4
3.10	Description of the effect that may have the re-statement of the information (re-expression of the information) belonged to previous Annual Reports that have motivated such expression.		4
	<b>Index of GRI's content</b>		
3.12	Chart that indicates the location of basic contents on the Annual Report.	Index	58
	<b>Verification</b>		
	<b>Government, compromise and participation of stakeholders</b>		
4.1	The governing structure of the organization, including committees under the high governing entity responsible for the tasks, such as setting strategy or the organizational supervision.	I	19-21
4.2	It has to be Indicates whether the president of the high governing entity also holds an executive position (if so, his role within the leadership of the organization and the reasons justifying it)	I	20

<b>GRI Index</b>	<b>Description</b>	<b>Chapter</b>	<b>Page</b>
4.3	For organizations that have unitary directing structure, the number of members of the high governing body that are independent or non-executive, has to be indicated.	I	19
4.4	Mechanisms of shareholders and employees to communicate recommendations or suggestions to high governing body.		19
	<b>Stakeholders' participation</b>		
4.14	Relation of stakeholders the organization had included.	IV	34
4.15	Basis for identification and selection of stakeholders with whom the organization is committed to.	IV	34
<b>EC</b>	<b>Indicators for financial performance</b>		
EC 1	Direct economic value generated and distributed, including revenues, exploitation costs, employees' compensation, donations and other community investments, not distributed benefits and payments to suppliers of capital and governments.	II	23,25
EC 5	Rank of relations between initial standard salary and local minimum salary in places where significant operations are developed.	V	38
<b>EN</b>	<b>Environmental performance indicators</b>		
	<b>Materials</b>		
EN 1	Materials used by weight and volume	VI	41-44
EN 2	Percentages of materials used which are appraised materials.	VI	41-44

<b>GRI Index</b>	<b>Description</b>	<b>Chapter</b>	<b>Page</b>
EN 4	Breakdown of energy indirect consumption made by primary sources.	VI	41,44
	<b>Energy</b>		
EN 5	Energy savings due to preservation and improvement in efficiency.	VI	41,44
	<b>Water</b>		
	<b>Emissions, poured water and wastes</b>		
EN 22	Total weight of waste generated by type and treatment method.	VI	42
<b>LA</b>	<b>Indicators of social performance</b>		
	<b>Work practices and ethics at work</b>		
	<b><i>Employment</i></b>		
LA 1	Workers' collective breakdown by type of employment, by contract and by region	V	36-37
LA 3	Social benefits for employees with full-time shift that are not offered to temporary or half time employees.	V	38
	<b>Relations employer – employee</b>		
LA 4	Percentage of employees covered by a collective labor union agreement	V	38
	<b>Health and labor safety</b>		
LA 8	Educational programs, training, counseling, prevention and risks control that apply to workers, their families, or community members regarding serious diseases	V	38-39
LA 9	Matters of health and safety covered in formal agreements with trade unions	V	38-39



GRI Index	Description	Chapter	Page
	<b>Training and evaluation</b>		
LA 10	Average training hours at year per employee breakdown by category of employee.	V	38
LA 11	Management programs of skills and continuous learning that strengthens workers' employment and provision of support for the ending of their professional careers	V	39
LA 12	Percentage of employees receiving regular evaluations on performance and professional development	V	37
	<b>Diversity and equal opportunities</b>		
LA 13	Composition of corporate governance bodies and payroll by sex, age, minority belonging and other indicators of diversity	I,V	19,36
LA 14	Relation between men salary base in relation to that of women by professional category	V	38
	<b>Indicators for human rights performance</b>		
	<b>No discrimination</b>		
HR 4	Total number of incidents for discrimination and actions taken	V	36
<b>SO</b>	<b>Society</b>		
	<i>Corruption</i>		
SO 3	Percentage of employees trained in the anti-corruption policies and procedures at the organization.	V	39
	<b>Public Policy</b>		
SO 5	Position in public policies and participation in the development of them. Lobbying activities.	Milestones	46-49

GRI Index	Description	Chapter	Page
	<b>Fulfillment of norms</b>		
SO 8	Monetary value of significant fines and penalties and total number of non-monetary sanctions for noncompliance with laws and regulations	I	21
PR	<b>Responsibility on product</b>		
PR 6	Programs for law observance or adherence to standards and voluntary codes mentioned in marketing communications, including advertising, other promotion activities and sponsorship.	V	39