FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

Banco Internacional de Costa Rica, S. A. and Subsidiaries

(Panama, Republic of Panama)

Report and Consolidated Financial Statements December 31, 2017

Banco Internacional de Costa Rica, S. A. and Subsidiaries
(Panama, Republic of Panama)

Index to the Consolidated Financial Statements
December 31, 2017

**FREE ENGLISH LANGUAGE TRANSLATION
OF SPANISH VERSION**

Independent Auditors's Report

To the Shareholders and Board of Directors of
Banco Internacional de Costa Rica, S. A.

Our opinion

In our opinion, the accompanying consolidated financial statements of Banco Internacional de Costa Rica, S. A. and Subsidiaries (the "Bank") present fairly, in all material respects the financial position of the Bank as of December 31, 2017, as well as its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

What we have audited

The Bank's consolidated financial statements comprise:

- the consolidated statement of financial position as of December 31, 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We have conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in *the auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountant's Code of Ehtics for Professional Accountants (IESBA Code) together with the ethics requirements in Panama that are applicable to our audit of the consolidated financial statements. We have fulfilled all other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of Panama.

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Key audit matters

These are key audit matters, which in our professional judgment were the most significant in our audit of the consolidated financial statements as of December 31, 2017. These issues were addressed in the context of our audit of the consolidated financial statements taken as a whole and to form our audit opinion thereon, and we do not issue a separate opinion thereon.

<table>
<tr><th>Provision for impairment loans</th><th>Form in which our audit addressed the matter</th></tr>
<tr><td>
The estimation of the provision for impairment is consider an area of emphasis in our audit because requires complex analysis and the use of subjective judgments by the Bank's Management.
As of December 31, 2017, the loan portfolio amounted to US$1,511 million and the provision for impairment loans amounted US$20.7 million. The Bank apply two methodologies for determine the provision for impairment loan:
(a) Individually Assesed Loans
Assessment based in case-by-case exposure, where the impaired loans are identified and loans and the projection of future cash flows is used, including the guarantees. As of December 31, 2017, the amount of this portfolio was US$52 million and the provision for impairment loan reserve for loan losses was US$16.9 million.
(b) Collectively Assesed Loans
The Bank uses statistical models of historical trends based on probabilities of default. As of December 31, 2017, this portfolio amounted to US$1,452 million and the corresponding provision for impairment loan amounted US$3.8 million.
See Note 4 to the consolidated financial statements (page 28).
</td><td>
We evaluate and validate the design and operational effectiveness of the controls on the determination of the loan provision for impairment losses. These controls include: identification of impaired loans; calculation of the loan provision for impairment loan and the approval of individual and collective provisions.
For individually assessed loans, we perform the following:

We select a sample of loans and review the future cash flows estimated by the Bank, considering the guarantees, if any, and we compare the results of the Bank with our knowledge of the industry and the historical information of the Bank.
We select a sample of loans and compare the related valuation of the guarantees determined by the Bank with external market sources and with the independent expert assessment.

For the provision of loans collectively evaluated, we perform the following:

We compare the data used in the model such as: balances, write-offs, delinquency and credit risk ratings with the internal information of the Bank.
We verify the assumptions applied in the calculation of the collective provision, such as probability of default, recoveries, amount of loss incurred and we compare the percentages used with historical information.
Based on the above information, we recalculated the impairment provisions.

</td></tr>
</table>

Valuation of investments available-for-sale	Form in which our audit addressed the matter
For the investments without a quotes prices, the Bank's management applied judgments and the use of assumptions to determine the valuation of these investments. As of December 31, 2017, investments available-for-sale include US$26.2 million classified under the "Level 2" fair value hierarchy, which the fair value is determined by management based in quoted prices for identical or similar instruments in markets that are not active or other valuation techniques. See Note 25 to the consolidated financial statements (page 70).	We evaluate and validate the design and operational effectiveness of controls on the valuation of investments that are not listed in an active market. In addition, we perform the following: • We compare the quoted prices of identical or similar instruments used by the Bank with independent sources. • For the valuation technique used by the Bank, we evaluated the judgments and assumptions applied • We selected a sample of investments as of December 31, 2017 and we performed an independent calculation.

Other information

Management is responsible for other information. The other information comprises to the "Annual Update Report" (but does not include the consolidated financial statements or our corresponding audit report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of conclusion that provides a degree of assurance in this respect. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in so doing, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report on this.

Responsibilities of management and those charged with goverance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and internal control that management determines is to enable the preparation of consolidated financial statements that free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for evaluating the Bank's ability to continue as a going concern, disclosing, as applicable, matters-related to going concern and using the going concern basis of accounting unless management intends to liquidate the Bank or cease its operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material error when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we apply our professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and evaluate the risks of material misstatements of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than that resulting from an error, as fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous representations or the overside of internal control.

- Obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not for the purpose of expressing an opinion of the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the management's appropriate use of going concern basis and, based on the audit evidence obtained, whether or not there is a material uncertainty related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate to modify our opinion. Our findings are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit that has prepared this report of the independent auditors is Victor Delgado.

PricewaterhouseCoopers (Signed)

March 6, 2018
Panama, Republic of Panama

Banco Internacional de Costa Rica, S. A. and Subsidiaries
(Panama, Republic of Panama)

Consolidated Statement of Financial Position
December 31, 2017
(Figures in Dollars of United States of America)

	Note	2017	2016
Assets			
Cash		1,156,281	1,048,367
Deposits in banks:			
Demand deposits in local banks		9,098,954	22,663,744
Demand deposits in foreign banks		108,136,870	122,786,429
Time deposits in local banks		85,021,588	57,515,642
Time deposits in foreign banks		8,285,918	322,373
Total deposits in banks	23	210,543,330	203,288,188
Total cash and deposits in banks	6	211,699,611	204,336,555
Other comprehensive income, net			
Investments available-for-sale	7	31,901,597	51,688,792
Investments held to maturity	7	12,602,010	12,613,783
Loans	8, 23	1,511,213,931	1,411,887,580
Less: Provision for loan losses	8	20,721,758	15,400,000
Unearned interest and commissions		475,132	660,461
Loans, net		1,490,017,041	1,395,827,119
Properties, equipment and improvements, net	9	16,344,710	17,513,290
Customers liabilities on acceptances		7,230,904	15,449,979
Intangible assets, net	10	6,616,521	6,173,620
Deferred income tax	11	1,703,265	2,604,108
Other assets	12	19,835,237	16,102,656
Total assets		1,797,950,896	1,722,309,902

	Note	2017	2016
Liabilites and Equity			
Client deposits:			
Demand - local		22,917,415	19,149,794
Demand - foreign		123,180,219	74,000,492
Savings		162,932	324,020
Time - local		300,494,216	322,557,462
Time - foreign		269,637,342	313,779,485
Interbank time deposits:			
Locals		101,506,258	92,573,620
Foreign		46,742,236	37,215,081
Total deposits	23	864,640,618	859,599,954
Securities under resale agreement	13	-	10,492,420
Borrowings	14	533,105,218	439,403,176
Debt issuance	15	157,888,129	173,264,549
Money orders, cashier checks and certificates	23	1,113,433	725,079
Obligations for clients acceptances		7,230,904	15,449,979
Other liabilities	16	11,551,375	10,646,397
Total liabilities		1,575,529,677	1,509,581,554
Equity:			
Common shares	18	132,787,000	132,787,000
Capital reserve		150,000	150,000
Regulatory reserve of foreclosed assets	27	556,822	531,635
Regulatory credit reserve	27	25,140,779	22,340,029
Dynamic credit reserve	27	29,442,426	29,442,426
Reserve for revaluation of investments	7	(194,621)	(768,800)
Retained earnings		34,538,813	28,246,058
Total equity		222,421,219	212,728,348
Commintments and contingencies	20, 23		
Total liabilities and equity		1,797,950,896	1,722,309,902

The accompanying notes are an integral part of these consolidated financial statements.

Banco Internacional de Costa Rica, S. A. and Subsidiaries

(Panama, Republic of Panama)

Consolidated Statement of Income
For the year ended December 31, 2017
(Figures in Dollars of United States of America)

	Note	2017	2016
Income on Interest and Commissions			
Interest on:			
Loans		86,502,301	87,894,650
Deposits in banks	23	1,341,932	618,117
Investments		1,525,911	3,090,737
Commissions on loans		5,265,136	5,425,369
Total income in interest and commissions		94,635,280	97,028,873
Interest Expenses			
Deposits	23	26,335,015	28,157,548
Borrowings		18,012,421	13,893,637
Debt issuance		8,149,664	8,995,782
Other compresensive income, net		52,497,100	51,046,967
Net income on interests and commissions, before provision		42,138,180	45,981,906
Provision for impairment loans	8	(5,318,700)	(9,830,385)
Net income on interests and commissions, after provision		36,819,480	36,151,521
Income (Expenses) for Bank Services and Others:			
Other commissions	21	3,918,063	3,685,901
Net gain realized on investmens	7	53,531	30,872
Fiduciary services		1,361,762	1,170,009
Commission expenses	22	(2,342,624)	(2,262,601)
Other income	21	2,799,563	840,717
Impairment in assets available for sale		(2,135,000)	(680,395)
Total income for bank services and others, net		3,655,295	2,784,503
Other comprehensive income, net			
Salaries and other personnel expenses	17, 22, 23	15,447,668	15,831,841
Rent		1,193,188	1,143,802
Advertising and promotion		123,152	151,172
Fees and professional services		1,989,591	2,250,332
Depreciation	9	1,424,670	1,646,771
Amortization of intangible assets	10	1,797,528	1,371,030
Others	22	7,233,598	7,388,185
Total general and administrative expenses		29,209,395	29,783,133
Income before income tax		11,265,380	9,152,891
Income tax	11	(880,263)	(1,198,559)
Deferred income tax	11	(900,843)	(1,542,916)
Net income		9,484,274	6,411,416
Net income per share	19	0.71	0.48

The accompanying notes are an integral part of these consolidated financial statements.

Banco Internacional de Costa Rica, S. A. and Subsidiaries

(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2017

(Figures in Dollars of United States of America)

	Note	2017	2016
Net income		9,484,274	6,411,416
Other Comprehensive (Loss) Income			
Items that are or may be reclassified to results of operations:			
Reserve for valuation of investments:			
Transfer to statement of income for sales of investments	7	(53,531)	(30,872)
Net changes in fair value of available-for-sale		627,710	1,483,983
Other compresensive income, net		574,179	1,453,111
Total comprehensive income		10,058,453	7,864,527

The accompanying notes are an integral part of these consolidated financial statements.

Banco Internacional de Costa Rica, S. A. and Subsidiaries

(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity
For the year ended December 31, 2017

(Figures in Dollars of United States of America)

	Common Shares	Capital Reserve	Regulatory Reserve of foreclosed Assets	Regulatory Credit Reserve	Dinamic Credit Reserve	Reserve for Revaluation of Investments	Retained Earnings	Total
Balance as of December 31, 2015	132,787,000	150,000	425,534	16,636,961	22,684,819	(2,221,911)	34,825,653	205,288,056
Net income	-	-	-	-	-	-	6,411,416	6,411,416
Oher Comprehensive Income								
Other compresensive income, net	-	-	-	-	-	1,453,111	-	1,453,111
Other Movements in Equity								
Regulatory reserve of foreclosed assets	-	-	106,101	-	-	-	(106,101)	-
Dinamic credit reserve	-	-	-	-	6,757,607	-	(6,757,607)	-
Regulatory contingency reserve	-	-	-	(38,966)	-	-	38,966	-
Regulatory credit reserve	-	-	-	5,742,034	-	-	(5,742,034)	-
Total other movements in equity	-	-	106,101	5,703,068	6,757,607	-	(12,566,776)	-
Transactions with the Shareholders								
Complementary tax	-	-	-	-	-	-	(424,235)	(424,235)
Balance as of December 31, 2016	132,787,000	150,000	531,635	22,340,029	29,442,426	(768,800)	28,246,058	212,728,348
Net income	-	-	-	-	-	-	9,484,274	9,484,274
Oher Comprehensive Income								
Other comprehensive income, net	-	-	-	-	-	574,179	-	574,179
Other Movements in Equity								
Regulatory reserve of foreclosed assets	-	-	25,187	-	-	-	(25,187)	-
Dinamic credit reserve	-	-	-	-		-	-	-
Regulatory contingency reserve	-	-	-	(79,634)	-	-	79,634	-
Regulatory credit reserve	-	-	-	2,880,384	-	-	(2,880,384)	-
Total other movements in equity	-	-	25,187	2,800,750	-	-	(2,825,937)	-
Transactions with the Shareholders								
Complementary tax	-	-	-	-	-	-	(365,582)	(365,582)
Balance as of December 31, 2017	132,787,000	150,000	556,822	25,140,779	29,442,426	(194,621)	34,538,813	222,421,219

The accompanying notes are an integral part of these consolidated financial statements.

Banco Internacional de Costa Rica, S. A. and Subsidiaries

(Panama, Republic of Panama)

Consolidated Statement of Cash Flows
For the year ended December 31, 2017
(Figures in Dollars of United States of America)

	Note	2017	2016
Cash flows from operating activities			
Net income		9,484,274	6,411,416
Adjustments to reconcile net income to net cash			
(used in) provided by operating activities:			
Provision for impairment loans		5,318,700	9,830,385
Depreciation		1,424,670	1,646,771
Net gain on investments		(53,531)	(30,872)
Net gain in fixed assets		(204,536)	(63,910)
Amortization of intangible assets		1,797,528	1,371,030
Deferred income tax		900,843	1,542,916
Income on interests and commissions		(94,635,280)	(97,028,873)
Interest expenses		52,497,100	51,046,967
Net changes in operating assets and liabilities:			
Time bank deposits with original maturities more than 90 days		(27,429)	244,731
Loans		(97,898,626)	104,284,940
Deposits		5,664,515	(75,154,333)
Other assets		4,492,256	1,610,381
Other liabilities		(6,908,964)	2,364,864
Cash generated from operations:			
Income tax paid		(628,048)	(406,365)
Interests received		93,741,564	98,462,875
Interests paid		(52,366,675)	(49,335,866)
Net cash (used in) provided by operating activities		(77,401,639)	56,797,057
Cash flows from investing activities			
Purchase of available-for-sale investments		(14,750,443)	(35,451,160)
Sales of available-for-sale investments		17,268,202	70,422,146
Redemptions and maturity of investments available-for-sale		17,789,473	13,113,421
Acquisition of properties and equipment		(575,911)	(455,322)
Other comprehensive income, net		(2,246,191)	(1,517,947)
Sale of properties and equipment		524,357	111,942
Net cash provided by investing activities		18,009,487	46,223,080
Cash flows from financing activities			
Payments of borrowings and debt issuance		(692,275,312)	(606,550,815)
Borrowings and debt issuance		759,354,238	540,551,545
Complementary tax paid		(365,582)	(441,968)
Net cash provided by (used in) financing activities		66,713,344	(66,441,238)
Net increase in cash and cash equivalents		7,321,192	36,578,899
Cash and cash equivalents at beginning of the year		204,070,913	167,492,014
Cash and cash equivalents at end of the year	6	211,392,105	204,070,913

The accompanying notes are an integral part of these consolidated financial statements.

1. General Information

Banco Internacional de Costa Rica, S. A. is constituted under the laws of the Republic of Panama since 1976, and operates under a general license granted by the Superintendency of Banks to carry out banking business in either Panama or abroad. Banco Internacional de Costa Rica, S. A. and Subsidiaries (hereinafter the "Bank") is owned by Banco de Costa Rica (51%) and Banco Nacional de Costa Rica (49%), two state banks domiciled in the Republic of Costa Rica.

A description of the consolidated subsidiaries of Banco Internacional de Costa Rica, S. A. is presented as follows:

Companies	Activity	Country of Constitution	Non-Controlling Interests	
			2017	2016
Arrendadora Internacional, S. A.	Financial Leasing, Commercial Loans and Factoring	Panama	100%	100%
BICSA Capital, S. A.	Broker-Dealer	Panama	100%	100%

- Arrendadora Internacional, S. A. is dedicated to provide funding through financial leases, commercial loans and purchase invoices. Leasing operations in Panama are regulated by the Directorate of Financial Enterprises ("Dirección de Empresas Financieras*" for its name in Spanish*) of the Ministry of Trade and Industry ("Ministerio de Comercio e Industrias*" for its name in Spanish*) according to the law established in the Act No.7 of June 10, 1990.

- BICSA Capital, S. A. is dedicated to exercise its own brokerage activities as broker-dealer. On October 29, 2012, the Superintendency of Securities Market by Resolution No.SMV-363-2012 granted the license of broker-dealer to BICSA Capital, S. A. Broker-dealers are regulated by the Superintendency of Securities Market, according to the laws established in Decree Law No.1 of July 8, 1999 as amended by Law No.67 of September 1, 2011; as well as Resolutions and Agreements. As of July 2, 2014, the Company received approval from the Stock Exchange to operate as a Broker-Dealer Associate.

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

The Bank has a network of representation offices in the following countries: Costa Rica, Guatemala, Nicaragua and El Salvador.

1. General Information (Continued)

The Bank's main office is located in the BICSA Financial Center Building, Floor No.50, Aquilino de la Guardia Street and Avenida Balboa, Panama City, Republic of Panama. As of December 31, 2017, the Bank maintained a total of 236 (2016: 267) permanent employees.

These consolidated financial statements were approved for issuance by the Board of Directors on February 27, 2018.

2. Basis of Preparation

Compliance Declaration

These consolidated financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS).

Measurement Basis

These consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale securities, which are presented at fair value.

New Standards and Amendments Adopted by the Bank

The following amendment has been adopted by the Bank for the first time for the fiscal year that began on January 1, 2017.

Amendments to IAS 7. Entities are required to explain changes in their liabilities arising from financing activities. This includes the resulting changes in cash flows (for example, charges and loan payments) and changes that did not require cash such as acquisitions, withdrawals, accrued of interest and exchange differences not made. The Administration has adopted this amendment and the indicated disclosures have been made. The amendment to the standard is effective for periods beginning on or after January 1, 2017.

There are no other standards and amendments adopted for the first time for the year that began on January 1, 2017 that have had a material impact on the Bank's consolidated financial statements.

New Standards and Amendments not Yet Adopted by the Bank

New standards, and amendments to accounting standards have been published, but are not mandatory for the year ended on December 31, 2017, and have not been early adopted by the Bank. The assessment of the impact of these new standards is presented as follows:

- IFRS 9 - Financial Instruments. IFRS 9 refers to the classification, recognition and measurement of financial assets and financial liabilities and introduces new rules for hedge accounting. This rule is effective for annual periods beginning after January 1, 2018.

2. Basis of Preparation (Continued)

New Standards and Amendments not Yet Adopted by the Bank (continued)

- The Bank initiated the process of implementing IFRS 9 at the beginning of 2016, forming a work team whose members included representatives from the areas of risk, credit, finance, treasury and technology. This team held regular work sessions to challenge key assumptions, make decisions and monitor the progress of implementation at all levels of the Bank, including the evaluation of the adequacy of resources.

- The Bank completed a preliminary assessment of the impact and accounting analysis for which calculations have been made in parallel on the possible effect that the implementation of this standard will entail. At the end of 2017, the design and development of the models, systems, processes and controls necessary for this implementation have been completed.

  Within the evaluation carried out, the financial assets and liabilities have been reviewed and the following impact is expected due to the adoption of the new standard:

  - Debt instruments that are currently classified available for sale and held to maturity meet the classification conditions of (i) fair value through other comprehensive income (FVTOCI) and (ii) amortized cost, respectively, therefore, there will be no changes in the accounting of these assets.

  - The portfolio of loans classified at amortized cost complies with the business model to maintain that category, therefore no changes are foreseen.

  Therefore, it is not expected that the new standard will have an impact on the classification and measurement of these financial assets.

  The Bank classifies all financial liabilities as subsequently measured at amortized cost.

  The new impairment model requires impairment estimates based on expected credit losses, instead of credit losses incurred under IAS 39 that have been applied until fiscal year 2017. Applies to financial assets at amortized cost and debt instruments measured at fair value through other comprehensive income (FVTOCI).

  According to the evaluations carried out as of date, the Bank estimates an increase in the provision of impairment losses for financial assets between 20% to 30% in comparison with the impairment losses according to IAS. These figures may be modified due to revisions and calibrations of some of the data contained in the Bank's provisions model.

  IFRS 9 also introduces broader disclosure requirements and changes in the presentation of financial statements. Therefore, the nature and extent of disclosures of financial instruments are expected to change, particularly in the year of adoption of the standard.

  Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, with the exception of the following:

  The Bank will take the exemption allowed by the standard of not re-expressing the comparative information of the previous periods in regard to changes in rating and measurement (including impairment). Differences in the carrying amounts of the financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings.

2. Basis of Preparation (Continued)

New Standards and Amendments not Yet Adopted by the Bank (continued)

- IFRS 15 - Revenue from Contracts with Customers - The IASB issued a new standard for the recognition of income. This standard will replace IAS 18, which covers contracts for goods and services and IAS 11 that covers construction contracts. The new standard is based on the principle that revenues are recognized when control of the good or service is transferred to a customer, so the concept of control replaces the current concept of risks and benefits. The Standard allows a modified retrospective approach to adoption. Under this approach, the entities will recognize transitory adjustments in the retained earnings on the date of the initial application without restructuring the comparative period. The Bank will only need to apply the new rules to contracts that have not been completed on the date of the initial application.

  Management has evaluated the impact of this new standard as of the date, and due to the nature of the Bank's business management, it is not estimated that the adoption will have a material impact on the consolidated financial statements. This standard is effective for annual periods beginning on or after January 1, 2018.

- IFRS 16 - Leasing. This standard provides an updated guide on the definition of leases and guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires the lessee to recognize the lease liability that reflects future lease payments and an asset use right, for almost all lease contracts, except for certain short-term lease agreements and lease agreements for lease assets of low value assets. The accounting of the lessors are maintained as indicated in IAS 17; however, it is expected that the new accounting model for lessees impacts the negotiations between landlords and tenants. This standard is effective for annual periods beginning on or after January 1, 2019.

  Due to the nature of the financial operations maintained by the Bank, the adoption of this standard will not have a significant impact on the consolidated financial statements.

  There are no other standards and amendments issued and that are not yet effective that could have a material impact on the Bank.

Functional and Presentation Currency
The consolidated financial statements are expressed in dollars (US$) of the United States of America. The Republic of Panama does not issue paper currency itself and, instead, the dollar (US$) of the United States of America is used as a legal tender, which is considered the functional currency of the Bank.

3. Summary of Significant Accounting Policies

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

Basis for Consolidation

Subsidiaries
The Bank controls a subsidiary as it is exposed, or has rights, to variable returns from its involvement in the subsidiary and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries described in Note 1, are included in the consolidated financial statements from the date in which control commenced until the date when it ceases.

Investment Companies and Separated Vehicles
The Bank manages and administers assets held in trusts and other investment vehicles backed by investors. The consolidated financial statements of these entities are not part of these consolidated financial statements.

Structured Entities
A structured entity is an entity that has been designed so that the voting rights or similar are not the determining factor in deciding who controls the entity, such as when voting rights relate only to administrative tasks and relevant activities are directed through contractual agreements. To determine if the Bank has control and therefore determine whether the structured entity is consolidated, investee factors are evaluated; such as, its purpose and design; its current ability to direct the relevant activities; the nature of its relationship with other parties; and exposure to variable returns from its involvement with the investee.

Balances and Transactions Eliminated in Consolidation
The consolidated financial statements include the assets, liabilities and income statements of Banco Internacional de Costa Rica, S. A. (BICSA), with its agency in Miami, Florida - United States of America and its wholly-owned subsidiaries Arrendadora Internacional, S. A. y BICSA Capital, S. A. All significant intercompany balances and transactions have been eliminated in consolidation.

3. Summary of Significant Accounting Policies (Continued)

Foreign Currency Transactions
Assets and liabilities held in foreign currencies are translated into dollars of the United States of America, at the rate prevailing at the date of the consolidated statement of financial position, except for those transactions with contractually agreed exchange fixed rates. Foreign currency transactions are recorded at the exchange rates prevailing at the dates of the transactions. Gains or losses from foreign currency translation are reflected in the accounts of other income or other expenses in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate at the date when the fair value was determined. The translation differences are recognized in statement of income, except in the case of translation on capital instruments available-for-sale, a financial liability designated as a hedge of the net investment in an operation in the abroad or qualified cash flow hedges, which are recognized directly in the consolidated statement of comprehensive income.

Fair Value Measurement
Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date or, in its absence, the most advantageous market to which the Bank has access at the time. The fair value of a liability reflects the effect of the non-compliance risk.

When applicable, the Bank measures the fair value of an instrument using a price found in the active market for that instrument. An active market is regarded if asset or liability transactions take place with sufficient frequency and volume that provides pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account when setting the price of a transaction.

The fair value of a demand deposit is not less than the amount payable when it becomes payable, discounted from the first date on which payment may be required.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the period during which the change occurred.

3. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For consolidated statement cash flows purposes, cash equivalents include demand deposits and term deposits in banks with original maturities of three months or less.

Investments in Securities

The investments are classified on their trade date, and are initially measured at their fair value, plus the transaction costs and are subsequently recognized based on the current classification of the instruments by taking the characteristics of the instrument and the intention for which they were acquired. The classifications used by the Bank are the following:

Available-for-Sale

This category includes securities acquired with the intention of holding them for an undetermined period, which may be sold in response to needs for liquidity, changes in interest rates, currency exchange rates or market prices of shares. These securities are measured at their fair value and the changes in value are recognized directly in the consolidated statement of comprehensive income using a reserve for revaluation account until the securities are sold or redeemed (discarded) or it has been determined that a security has been impaired; in these cases, the cumulative gains or losses previously recognized in other comprehensive income is recognized in the consolidated statement of income.

Impairment of Available-for-Sale

The Bank assesses at each consolidated statement of financial position date whether there is objective evidence that investment securities are impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the consolidated statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit and loss, the impairment loss is reversed through the consolidated statement of income. When the fair value of investments in equity instruments cannot be reliably measured, the investments remain at cost.

3. Summary of Significant Accounting Policies (Continued)

Investments in Securities (continued)

Held-to-Maturity Securities
This category includes those values that the Bank intends and the ability to hold to maturity. These securities consist mainly of debt instruments, which are presented on an amortized cost basis. Any value that is subject to a valuation reduction that is not temporary is reduced to its fair value through the establishment of a specific investment reserve charged to the results of the year.

Loans
Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are originated generally by providing funds to a debtor as loans. Loans are reported at the principal amount, less unearned interest and commissions, and reserve for loan losses. Unearned interest and commissions are recognized as income using the effective interest method.

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

Factoring is the purchase of invoices, which are presented at their outstanding principal value of collection. These accounts receivable reflect the present value of the contract. The Bank is dedicated to financing invoices, whose repayment source comes from credit assignment thereof, whose financing ranging from 30 to 180 days.

Provision for Impairment Loan
The Bank assesses at each date of the consolidated statement of financial position, if there is any objective evidence of impairment of a loan or loan portfolio. The amount of losses on loans determined during the period is recognized as provision expense in the statement of income and increases a provision for impairment loan. The provision is presented deducted from loans receivable in the consolidated statement of financial position. When a loan is determined to be uncollectible, the unrecoverable amount is decreased from the provision account.

3. Summary of Significant Accounting Policies (Continued)

Provision for Impairment Loan (continued)
If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income.

Impairment losses are determined using two methods which are indicated below:

(a) Individually Assessed Loans
Impairment losses on individually assessed loans are determined based on an exposure assessment case by case. If it is determined that no objective evidence of impairment for individually significant loan, it is included in a group of loans with similar characteristics and are collectively assessed for impairment. The impairment loss is calculated by comparing the present value of cash flows expected future cash discounted at the current rate of the loan or the fair value of the loan collateral less costs for sale, against its current carrying value and the amount of any loss is recognized as a provision for losses in the consolidated statement of income. The carrying value of impaired loans is reduced through the use of a reserve account for loan losses.

(b) Collectively Assessed Loans
For purposes of a collective evaluation of impairment, the Bank mainly uses statistical modeling of historical trends of probability of default, timing of recoveries and the amount of the loss incurred, and performs an adjustment if current economic and credit conditions are such it is likely that the actual losses are higher or lower than those suggested by historical trends. Default rates, loss rates and the expected term of future recoveries are regularly compared against actual results to ensure they remain appropriate.

Restructured Loans
Restructured loans are those that have been restructured due to any impairment in the financial condition of the debtor, and for which the Bank considers to grant any changes in the credit parameters. These loans, once restructured, are held in the category assigned, regardless of whether the debtor presents any improvement in its condition after restructuring.

3. Summary of Significant Accounting Policies (Continued)

Offset of Financial Assets and Liabilities

Financial assets and liabilities are offset and presented on a net basis in the consolidated statement of financial situation only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Properties, Equipment and Improvements

Properties, equipment and improvements comprise land, buildings, furniture, vehicles and improvements used by branches and offices. All properties and equipment are stated at historical cost less accumulated depreciation and amortization. Historical cost includes expenditure directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the Bank obtains future economic benefits associated with the item and the cost of the item can be measured reliably. Costs considered as repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Depreciation and amortization expenses of properties and equipment are charged to the current operations using the straight-line method over the estimated useful life of the assets, except for land, which is not depreciated. The estimated useful lives of the assets are summarized as follows:

Properties	40 years
Improvements	5-35 years
Furniture and equipment	3-5 years
Computer equipment	3-5 years
Vehicles	3-5 years

Useful life is reviewed, and is adjusted as appropriate, on each consolidated statement of financial position date.

Intangible Assets

Licenses and Software

Licenses and software purchased separately are presented at historical cost. The software and licenses have a defined useful life, which is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the software and licenses on their estimated useful lives between 3 to 15 years. The software licenses acquired are capitalized on the basis of costs incurred to acquire and use the specific software.

3. Summary of Significant Accounting Policies (Continued)

Available-for-Sale Properties

The available-for-sale properties are recognized at the lower of the carrying amount of non-cancelled loans or the estimated realizable market value of the properties, net of selling costs. Bank management deems it necessary to maintain a reserve for losses against any significant impairment affecting unsold properties. The impairment loss is recognized in the consolidated statement of income.

Non-Financial Assets Impairment

The book values of non-financial assets of the Bank are reviewed at the date of the consolidated statement of financial position to determine if there is impairment in its value. If such impairment exists, the recoverable amount of the asset is estimated and an impairment loss is recognized equal to the difference between the book value amount of the asset and its estimated recovery value. An impairment loss in the value of an asset is recognized as an expense in the consolidated statement of income.

Securities Sold under Repurchase Agreements

The securities under repurchase agreements are short-term financing transactions guaranteed by securities in which the Bank is required to repurchase the securities sold at a future date and at a specified price. The difference between the selling price and the future purchase price is recognized as interest expense under the effective interest rate method.

Income Tax

Estimated income tax is the expected tax payable on the taxable income for the year, using tax rates in effect at the consolidated statement of financial position date, and any other adjustment to tax payable in respect of previous years.

Deferred income taxes are recognized on temporary differences arising between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred taxes are valued at the tax rates expected to be applied to the temporary differences when reversed, based on the laws that have been enacted or substantially enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is plausible that a future taxable gain will be available so that the temporary differences can be applied. Deferred tax assets are reviewed at each date of the consolidated statement of financial position and are reduced to the extent that it is unlikely that the related tax benefit will be realized.

3. Summary of Significant Accounting Policies (Continued)

Client Deposits, Obligations and Placements

Deposits, obligations and placements are initially measured at fair value. Subsequently are measured at amortized cost.

Financial Guarantees

Financial guarantees issued are contracts that require the Bank to make specific payments on behalf of its clients, to reimburse the beneficiary of the guarantee if the customer fails to pay on the agreed date, according to the terms and conditions of the contract. Financial guarantee liabilities are initially recognized at fair value; this initial value is amortized over the life of the financial guarantee. Financial guarantees are included in the consolidated statement of financial position under other liabilities.

Retirement Savings Plan

The Bank's contributions to retirement savings plan are recognized in salaries and other personnel expenses in the consolidated statement of income in the annual period in which the Bank is making the contributions. This plan is considered a defined contribution where the Bank's liability applies only to the contribution made and no actuarial calculation is required.

Interest Income and Expenses

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

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

Commission Income

The commissions and fees on loans, letters of credit and other banking services are recognized as income on a cash basis during the life of the loan.

The commission income related to trust management is recorded under the accrual method. It is the obligation of the Bank to manage the resources of the trusts in conformity with the contracts and independently of their heritage. Loan commissions are included as loan commissions' income in the consolidated statement of income.

Dividends Income

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

3. Summary of Significant Accounting Policies (Continued)

Earnings per Share
Basic earnings per share measures the Bank's performance over the reporting period and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period.

Segments Information
A business segment is a component of the Bank, whose operating results are regularly reviewed by the General Management for decision making about resources to be allocated to the segment and assess its performance, and for which it has available financial information for this purpose.

Trust Operations
Assets held in trust or fiduciary function are not considered part of the Bank, and therefore such assets and related income are not included in these consolidated financial statements. It is the obligation of the Bank to manage the resources of the trusts under contracts and independently from its equity.

The Bank charges a fee for the trusteeship of funds in trust, which is paid by the trustees on the basis of the amount to keep the trust or as agreements between the parties. These fees are recognized as income in accordance with the terms of the trust agreements either monthly, quarterly or annually on an accrual basis.

Reclassifications
For comparison purposes, the consolidated statement of financial position for 2016 includes a reclassification of US$611,269 from other liabilities to the category of loans (interest and commissions not earned). This reclassification does not have a material effect on the information of the consolidated statement of financial position at the beginning of the immediate previous period.

4. Financial Risk Management

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities are principally related to the use of financial instruments, and as such, the consolidated statement of financial position is mainly composed of financial instruments.

The Board of Directors of the Bank has the responsibility to establish and overseeing risk management policies of financial instruments. To this end, the Bank's Management has established certain committees for monitoring and periodic vigilance of risks to which the Bank is exposed. Some of these committees are the following:

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

4. Financial Risk Management (Continued)

In addition the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Market, with regard to risk concentrations, liquidity and capitalization, among others.

The Internal Audit Department reviews and validates compliance with policies and other methodologies defined by the Bank's Management from an independent perspective, reasonably ensuring that they go in line with existing regulations, adding value and improving the operations of the organization, from a risk management perspective, control and corporate governance, presenting the results of their work to the Audit Committee of the Board of Directors, who monitors compliance with the General Management of the guidelines established by the Board of Directors of the Bank and its Shareholders' Board.

Geographic concentrations of assets, liabilities and amounts not set off consolidated statement of financial position

The geographic concentration of assets, liabilities and amounts not set off consolidated statement of financial position are presented as follows:

	2017		
	Assets	**Liabilites**	**Off Balance of Consolidated Statement of Financial Position**
Country or Geographic Region:			
Costa Rica	642,828,119	335,188,647	27,672,233
Panama	542,898,603	618,903,358	100,989,188
United States of America	152,886,584	309,349,523	22,781,645
Central America and Mexico	241,836,141	63,365,881	4,359,559
Europe	2,293,862	78,089,389	215,704
South America	160,597,039	116,263,459	9,904,881
Caribbean	18,728,351	3,958,877	-
Asia	344,493	4,980,731	-
Others	35,537,704	45,429,812	-
	1,797,950,896	1,575,529,677	165,923,210

4. Financial Instruments Risk Management (Continued)

Geographic concentrations of assets, liabilities and amounts not set off consolidated statement of financial position (continued)

	2016		
	Assets	**Liabilites**	**Off Balance of Consolidated Statement of Financial Position**
Country or Geographic Region:			
Costa Rica	655,862,957	338,234,105	31,084,661
Panama	496,196,781	689,564,848	84,990,406
United States of America	172,448,668	252,683,046	933,925
Central America and Mexico	224,551,657	44,566,470	9,442,027
Europe	25,688,745	45,452,801	215,704
South America	93,559,154	84,417,210	7,378,113
Caribbean	12,665,620	14,472,364	-
Asia	1,729,128	4,981,731	-
Others	39,607,192	35,208,979	-
	1,722,309,902	1,509,581,554	134,044,836

The main risks identified by the Bank are credit, liquidity, market and operational risks, which are described below:

Credit Risk

It is the risk that the debtor, issuer or counterparty to a financial asset owned by the Bank does not fully comply on time with any payment owed to the Bank in accordance with the terms and conditions agreed to when the Bank acquired or originated the respective financial asset.

The Bank structures the levels of acceptable credit risk by setting limits on the amount of risk accepted in relation to one borrower or group of borrowers, and geographical segment. These credits are constantly controlled and are subject to periodic revision.

4. Financial Instruments Risk Management (Continued)

Credit Risk (continued)

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to determine their ability to pay principal and interest and the restructuring of those limits where appropriate. Exposure to credit risk is also mitigated in part through the obtaining collateral, corporate and personal guarantees.

Credit management is carried out under clearly defined policies by the Board of Directors and reviewed and modified periodically according to changes and expectations of the markets in which it acts, regulations and other factors to be considered in the formulation of these policies.

The Bank has in place a number of credit reports to evaluate the performance of its portfolio, provisioning requirements and to anticipate events that may affect future status of their debtors.

Credit Quality Analysis
The Bank uses for assess loans, the same classification system of credit risk that the Superintendency of Banks has established for determining regulatory reserves.

The following table analyzes the credit quality of financial assets and provisions for impairment / losses held by the Bank for these assets.

4. Financial Instruments Risk Management (Continued)

Credit Risk

Credit Quality Analysis (continued)

	Loans Receivable		Investments	
	2017	2016	2017	2016
Maximum exposure				
Book value	1,511,213,931	1,411,887,580	44,503,607	64,302,575
At amortized cost				
Grade 1: Normal or low risk	1,378,247,647	1,302,907,470	-	-
Grade 2: Special Mention	74,173,070	45,083,651	-	-
Grade 3: Substandard	26,323,512	31,911,826	-	-
Grade 4: Doubtful	2,392,047	19,845,207	-	-
Grade 5: Unrecoverable	23,097,552	6,158,050	-	-
Plus: Interest receivable	6,980,103	5,981,376	-	-
Gross amount	1,511,213,931	1,411,887,580	-	-
Impairment loss provision	(20,721,758)	(15,400,000)	-	-
Unrearned interests and commissions	(475,132)	(660,461)	-	-
Book value, net	1,490,017,041	1,395,827,119	-	-
Available-for-sale securities				
Grade 1: Normal or low risk	-	-	31,770,358	51,435,495
Plus: Interest receivable	-	-	131,239	253,297
Book value, net	-	-	31,901,597	51,688,792
Held to maturity securities				
Grade 1: Normal or low risk	-	-	12,543,399	12,557,784
Plus: Interests receivable	-	-	58,611	55,999
Book value, net	-	-	12,602,010	12,613,783
Renegotiated impaired loans				
Gross amount	35,733,558	33,712,374	-	-
Impaired amount	35,733,558	33,712,374	-	-
Impairment loss provision	(10,705,598)	(13,956,656)	-	-
Total, net	25,027,960	19,755,718	-	-
Not past due nor impaired				
Grade 1: Normal or low risk	1,378,247,647	1,302,907,470	-	-
Grade 2: Special mention	74,173,070	45,083,651	-	-
Sub-total	1,452,420,717	1,347,991,121	-	-
Individually impaired				
Grade 3: Substandard	26,323,512	31,911,826	-	-
Grade 4: Doubtful	2,392,047	19,845,207	-	-
Grade 5: Unrecoverable	23,097,552	6,158,050	-	-
Sub-total	51,813,111	57,915,083	-	-
Plus: Interests receivable	6,980,103	5,981,376	-	-
Impairment loss provision				
Specific	16,941,452	12,676,787	-	-
Collective	3,780,306	2,723,213	-	-
Total impairment loss provision	20,721,758	15,400,000	-	-
Off balance operations				
Grade 1: Low risk				
Letters of credit stand by	110,588,458	106,631,508	-	-
Confirmed commercial letters of credit	14,295,559	14,676,923	-	-
Issued guarantees	40,515,342	12,367,976	-	-
	165,399,359	133,676,407	-	-
Grade 2: Special mention				
Confirmed commercial letters of credit	29,844	368,429	-	-
Guaranttes	338,585	-	-	-
Grade 3 - Subnormal				
Guarantee issued	155,422	-	-	-
	523,851	368,429	-	-

4. Financial Risk Management (Continued)

Credit Risk (continued)

Credit Quality Analysis (continued)
The factors of greater risk exposure and information about impaired assets and the assumptions used for these disclosures are the following:

- Impairment on loans and debt security investments:

  Management determines if there is objective evidence of impairment on the loans, based on the following criteria established by the Bank:

  - Contractual non-compliance in the payment of principal or interests;
  - Cash flows with difficulties experimented by the borrower;
  - Non-compliance with the terms and conditions agreed upon;
  - Initiation of bankruptcy proceedings;
  - Impairment of the borrower's competitive position; and
  - Impairment in the collateral value.

- Past due but not impaired:
  They are considered past due without deterioration, or not incurred losses, the loans and investments that have a level of guarantees and / or sources of payment sufficient to cover the carrying value of the loan or investment.

- Renegotiated loans:
  Renegotiated loans are those that have been restructured due to impairment in the debtor's financial ability to pay, a significant change in the original terms of the loan have been formally documented (balance, term, payment plan, rate and guarantees).

  - Impairment provision:
    The Bank has established impairment provision that represent an estimate of the incurred losses in the loan portfolio. These provisions are calculated individually for loans that are individually significant and collectively for loans that are not individually significant. Loans that when evaluated individually have no impairment, are evaluated collectively.

  - Charge-offs:
    The Bank determines the charge-off of the groups presenting uncollectible loans. This determination is made after an analysis of financial conditions made the last payment of the obligation, and when it is determined that the guarantee is not sufficient for full payment of the facility granted. For smaller loans, write-offs are generally based on the time expired of the credit granted.

4. Financial Risk Management (Continued)

Credit Risk (continued)

Deposits in Banks:
The Bank maintains deposits in banks for US$210,543,330 as of December 31, 2017 (2016: US$203,288,188). Deposits are placed in financial institutions applying the limits established by counterparty risk policy according to credit risk rating.

	2017	**2016**
Investment grade (BBB a AAA)	210,543,330	203,288,188

Guarantees and their Financial Effect:
The Bank holds guarantess to reduce credit risk, to ensure the payment of their financial assets exposed to credit risk. The table below presents the main types of collateral taken with respect to different types of financial assets.

	% of Exposure Subject to Guarantee Requirements		
	2017	**2016**	**Guarantee Type**
Loans	43.76%	43.68%	Cash, mortgage and others

Residential Mortgage Loans
The following table presents the credit exposures of consumer mortgage loans by percentage of the loan – value relationship (LTV). The loan value (LTV) is a mathematical equation that measures the relation between the loaned amount and the value of the property that will be the subject (or secure) of loan. The gross amounts do not include any impairment provisions. The assessment of the pledged assets does not include all the adjustments for obtaining and selling the guarantee. The pledge value of the consumer mortgage loans is based on the value of the pledge as of the date of the reimbursement and generally it is not updated, except if the credit is updated based on changes in price indexes of the guarantee.

	2017	**2016**
Mortgage residential loans:		
Less than 50%	295,544	203,265
51–70%	-	-
71–90%	2,316,188	1,628,818
91–100%	2,370,260	3,136,967
	4,981,992	4,969,050

4. Financial Risk Management (Continued)

Credit Risk (continued)

Credit Risk Concentration

The Bank monitors the concentration of credit risk by sector and geographical location. The analysis of the concentration of credit risk at the date of the consolidated statement of financial position is as follows:

	Loans		Bank Deposits	
	2017	2016	2017	2016
Book value	1,511,213,931	1,411,887,580	210,543,330	203,288,188
Concentration by sector:				
Corporations	1,095,399,999	1,165,898,979	-	-
Private	10,294,770	11,227,919	-	-
Banks and financial entities	379,278,125	207,123,717	210,521,742	203,281,035
Public and governmental entities	19,260,934	21,655,589	-	-
Plus: Interest receivable	6,980,103	5,981,376	21,588	7,153
	1,511,213,931	1,411,887,580	210,543,330	203,288,188
Geographical concentration:				
Costa Rica	622,022,118	610,033,595	3,383,486	4,534,445
Panama	396,144,961	381,110,851	94,082,181	79,835,149
Central America and Mexico	267,060,823	239,803,698	2,253,985	5,427,333
Caribbean	8,759,589	12,612,367		-
United States of America	58,836,777	41,650,239	110,479,883	112,987,538
South America	113,651,643	97,355,571		-
Europe	28,648,371	22,951,542	278,944	462,400
Asia	9,109,546	388,341	43,263	34,170
Plus: Interest receivable	6,980,103	5,981,376	21,588	7,153
	1,511,213,931	1,411,887,580	210,543,330	203,288,188

4. Financial Risk Management (Continued)

Credit Risk (continued)

Credit Risk Concentration (continued)

	Investments in Securities	
	2017	**2016**
Book value	44,503,607	64,302,575
Concentration by sector:		
Banks and financial entities	1,302,364	11,610,885
Corporations	34,024,380	2,085,381
Public and governmental entities	8,987,013	50,297,013
Plus: Interests receivable	189,850	309,296
	44,503,607	64,302,575
Geographical concentration:		
Costa Rica	19,216,418	35,285,193
Panama	8,253,033	7,137,724
Central America and Mexico	-	-
United States of America	13,543,295	14,560,206
South America	-	1,821,517
Europe	2,001,286	1,988,951
Asia	299,905	1,297,869
Others	999,820	1,901,819
Plus: Interest receivable	189,850	309,296
	44,503,607	64,302,575

Geographical concentrations of loans are based on the location of the debtor. In terms of geographical concentration for investments, it is based on the location of the issuer of the investment.

4. Financial Risk Management (Continued)

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

Liquidity Risk Management
Liquidity is monitored daily by Bank's the treasury and periodically by the risk unit.

The Assets and Liabilities Committee is responsible for the Management and monitoring of liquidity registration, to ensure the Bank's ability to respond, without much difficulty, no prior withdrawals of deposits or unscheduled needs in loans placement.

The General Management and the Committee of Assets and Liabilities conduct regular monitoring of the liquidity position by analyzing the maturity structure, stability of deposits by customer type, exercises awareness and compliance with minimum standards established in the regulations and corporate policies.

There are performance of simulations that consist of stress tests are executed that take place in different scenarios contemplating normal or more severe conditions to determine the Bank's ability to address these crisis scenarios with available liquidity levels.

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

All policies and liquidity management procedures are subject to review of the Asset and Liability Committee (ALCO) and approval of the Board of Directors.

The indices corresponding to the index of net liquid assets on deposits received from customers of the Bank on the date of the consolidated statement of financial position and during the year are detailed as follows:

	2017	**2016**
As of December 31	20.36%	22.65%
Average of the year	20.96%	21.81%
Maximum of the year	26.10%	22.65%
Minimun of the year	16.70%	20.69%

4. Financial Risk Management (Continued)

Liquidity Risk (continued)

Liquidity Risk Management (continued)

The table below shows the undiscounted cash flows of financial assets and liabilities of the Bank, and contingencies for credit risk outside the consolidated statement of financial position on the basis of its closest possible maturity. The expected flows of these instruments may vary significantly, as a consequence of these analyses.

2017	Book Value	Gross Nominal Amount Inflows/(Outflows)	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Liabilities						
Deposits	864,640,618	(905,418,839)	(582,301,536)	(189,778,307)	(132,459,315)	(879,681)
Financing received	533,105,218	(560,671,460)	(396,299,036)	(96,203,604)	(37,330,798)	(30,838,022)
Obligations for debt issuance	157,888,129	(176,435,330)	(82,901,639)	(8,210,570)	(81,441,454)	(3,881,667)
Total Liabilities	1,555,633,965	(1,642,525,629)	(1,061,502,211)	(294,192,481)	(251,231,567)	(35,599,370)
Contingencies	-	(165,923,210)	(165,923,210)	-	-	-
Total	1,555,633,965	(1,808,448,839)	(1,227,425,421)	(294,192,481)	(251,231,567)	(35,599,370)

Assets	Book Value	Gross Nominal Amount Inflows/(Outflows)	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Cash	1,156,281	1,156,281	1,156,281	-	-	-
Demand deposits in banks	117,235,824	117,235,824	117,235,824	-	-	-
Time deposits in banks	93,307,506	93,316,888	93,316,888	-	-	-
Investments in securities	44,503,607	46,591,922	20,966,630	25,625,292		
Loans, net	1,490,017,041	1,817,298,436	719,111,805	261,469,393	163,003,686	673,713,552
Total	1,746,220,259	2,075,599,351	951,787,428	287,094,685	163,003,686	673,713,552

4. Financial Risk Management (Continued)

Liquidity Risk (continued)

Liquidity Risk Management (continued)

2016	Book Value	Gross Nominal Amount Inflows/(Outflows)	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Liabilities						
Deposits	859,599,954	(911,140,437)	(569,857,652)	(118,109,195)	(168,685,493)	(54,488,097)
Securities sold under repurchase agreements	10,492,420	(10,492,420)	(10,492,420)	-	-	-
Financing received	439,403,176	(463,520,453)	(313,550,947)	(110,084,444)	(7,968,262)	(31,916,800)
Obligations for debt inssuance	173,264,549	(197,002,598)	(78,628,640)	(30,121,902)	(60,675,334)	(27,576,722)
Total Liabilities	1,482,760,099	(1,582,155,908)	(972,529,659)	(258,315,541)	(237,329,089)	(113,981,619)
Contingencies	-	(134,044,836)	(134,044,836)	-	-	-
	1,482,760,099	(1,716,200,744)	(1,106,574,495)	(258,315,541)	(237,329,089)	(113,981,619)

Assets	Book Value	Gross Nominal Amount Inflows/(Outflows)	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Cash	1,048,367	1,048,367	1,048,367	-	-	-
Demand deposits in banks	145,450,173	145,450,173	145,450,173	-	-	-
Time deposits in banks	57,838,015	57,849,916	57,849,916	-	-	-
Investments in securities	64,302,575	70,317,151	15,580,660	21,364,851	22,101,877	11,269,763
Loans, net	1,395,827,119	1,754,076,750	579,489,775	265,597,964	157,188,942	751,800,069
Total	1,664,466,249	2,028,742,357	799,418,891	286,962,815	179,290,819	763,069,832

For non-derivative assets and liabilities, the gross nominal amount is measured based on undiscounted cash flows and include estimated interest payable and receivable, reason for which they differ from the amounts presented in the consolidated statement of financial position.

4. Financial Risk Management (Continued)

Liquidity Risk (continued)

<u>*Liquidity Risk Management (continued)*</u>

Financial assets and liabilities, in maturity groupings based on the remaining period from the date of the consolidated statement of financial position to the contractual maturity date are presented below:

2017	Up to 1	1 to 3	3 to 5	Over 5 years	Total
Financial assets					
Demand deposits in banks	117,235,824	-	-	-	117,235,824
Time deposits in banks	93,285,918	-	-	-	93,285,918
Investments in securities	20,831,490	23,482,267	-	-	44,313,757
Loans	725,829,834	231,904,318	127,108,035	419,391,641	1,504,233,828
Plus: Interests receivable	3,223,845	1,287,932	605,072	2,074,692	7,191,541
Total assets	960,406,911	256,674,517	127,713,107	421,466,333	1,766,260,868
Financial liabilities					
Demand deposits	146,097,634	-	-	-	146,097,634
Savings deposits	162,932	-	-	-	162,932
Term deposits	431,154,010	172,152,666	108,977,648	645,000	712,929,324
Borrowings and debt	471,228,895	94,518,200	96,575,638	23,000,000	685,322,733
Plus: Interest payable	7,221,108	2,593,532	807,228	499,474	11,121,342
Total liabilities	1,055,864,579	269,264,398	206,360,514	24,144,474	1,555,633,965
Net position	(95,457,668)	(12,589,881)	(78,647,407)	397,321,859	210,626,903

4. Financial Risk Management (Continued)

Liquidity Risk (continued)

Liquidity Risk Management (continued)

2016	Up to 1	1 to 3	3 to 5	Over 5 years	Total
Financial assets					
Demand deposits in banks	145,450,173	-	-	-	145,450,173
Time deposits in banks	57,830,862	-	-	-	57,830,862
Investments in securities	14,353,713	23,001,777	19,008,343	7,629,446	63,993,279
Loans	567,906,800	236,725,939	125,703,418	475,570,047	1,405,906,204
Plus: Interests receivable	2,582,691	664,829	943,145	2,107,160	6,297,825
Total assets	788,124,239	260,392,545	145,654,906	485,306,653	1,679,478,343
Financial liabilities					
Demand deposits	93,150,286	-	-	-	93,150,286
Savings deposits	324,020	-	-	-	324,020
Term deposits	470,635,201	60,409,305	47,692,756	181,313,808	760,051,070
Securities under resale agreement	10,465,030	-	-	-	10,465,030
Borrowings and debt	426,525,927	86,143,492	54,273,240	40,836,118	607,778,777
Plus: Interest payable	8,157,751	1,593,605	624,299	615,261	10,990,916
Total liabilities	1,009,258,215	148,146,402	102,590,295	222,765,187	1,482,760,099
Net position	(221,133,976)	112,246,143	43,064,611	262,541,466	196,718,244

Market Risk

It is the risk that the value of a financial asset of the Bank is reduced because of changes in interest rates, in the currency exchange rates, in stock prices and other financial variables, as well as the reaction of the market participants of political and economic events, both unrealized losses and gains potential. The objectives of market risk management are to identify, measure, manage and monitor risk exposures, and that they remain within acceptable parameters optimizing the return on risk.

The risk management policies provide monitoring controls of exposures taken which have compliance with a set of limits, such as by financial instrument, limits on the maximum amount of loss from which the closure of the positions that caused the loss is required, and the requirement that, except for Board approval, substantially all assets and liabilities are denominated in Dollars of the United States of America.

The Board of Directors of the Bank, through the Risk Committee, assesses and monitors market risk, which is executed by conducting meetings and receiving periodic reports from the Corporate Risk Management, a unit that reports directly to such Committee.

4. Financial Risk Management (Continued)

Market Risk (continued)

Market Risk Measurement:
The Bank's investment policies have limits compliance with the total amount of the investment portfolio, individual limits by asset type, by institution, issuer and / or emission and maximum term.

In addition, the Bank has established maximum limits for market risk losses in its investment portfolio that can result from movements in interest rates, credit risk and fluctuations in market values of investments. Policies and structure of investment exposure limits included in the Investment Manual are established and approved by the Board of the Bank based on the recommendation of the Asset and Liability Committee (ALCO) and Risk Committee; the same take into account the portfolio and assets that comprise it.

The main tool used by the Bank to measure and control de market risk exposure, is the measurement tool of “Value at Risk” (VaR); its function is to determine the estimated loss of a determined period of time, which is denominated temporal horizon, which can be influenced by the adverse market movements, hence the determination of a specific probability called confident level, to be used for the VaR calculation.

The VaR model used by the Bank is based on a confident level of 99%. The VaR evaluation model is executed by making at least 10,000 iterations in the method of simulation Montecarlo. In addition, Stress Testing tests are carried out in order to assess the potential losses in the event of extreme conditions. Standardized scenarios have been developed, which will repeat themselves in a periodic fashion in such manner as to always enable a comparation of how the portfolio are performing.

Even though the VaR model is an important tool in the market risk measurement, the promises used for this model have some limitations indicated below:

- The waiting period assumes that it is possible to cover or dispose some positions during that period, which is considered to be a real estimate in a lot of cases, but maybe it does not consider cases in which a severe illiquidity may occur in the market for a prolonged time.

- The confident level range indicated may not reflect the losses that may occur around that level. Generally, this model uses a percentage in such manner that the loss probability may not exceed the VaR value.

- The use of historic information is the basis to determine the range of future results, because maybe some possible scenarios could not be covered, especially those of special nature.

4. Financial Risk Management (Continued)

Market Risk (continued)

Market Risk Measurement continued)

- The VaR measurement comprises the results maintained by the Bank and the market price volatility; additionally, VaR for unchanged positions is reduced if the market price volatility falls and vice versa.

- The real Bank exposure would be the VaR for available-for-sale deeds, because those held to maturity have their maturity value established and are not subject to market price variations if the non-liquidation policy before their maturity is complied.

- The use of the Value at Risk (VaR) metric represents in only one figure the maximum expected loss with a given confident level (99%) and a defined time interval that a portfolio can register (at 21 days). It is important to point out that this methodology is valid only in normal market conditions, because in the cases in which financial market experience crisis and/or turbulences, the expected loss will be defined using stress tests simulations. In order to do a better measurement of the total portfolio risk, the VaR analysis is done for available-for-sale instruments and at maturity.

	2017	**2016**
VarR available-for-sale	142,958	444,817

The internal methodology includes the historical record of the prices of securities that are in the portfolio. The correlations among the various parts are determined and 10,000 iterations are performed of the different values of the portfolio at either 1 day or 21 days. Determined the 5th percentile of those values as VaR of the portfolio.

The composition and analysis of each one of the market risk types is detailed as follows:

- *Interest rate risk of cash flow and fair value*:
  The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument fluctuate as a consequence of the market risk rates variations.

4. Financial Risk Management (Continued)

Market Risk (continued)

- *Interest rate risk of cash flow and fair value (continued)*

  In order to mitigate this risk, the Bank constantly monitors its assets and liabilities using the following tools:

  - Measurement of sensibility breaches
    Assets and liabilities sensible to interest rates are distributed in predefined time bands, and expected sensibility breaches is calculated.

  - Sensibility of the financial margin
    The variation in the financial margin sensibility is estimated based on the difference of duration of the asset and liability considering only those operations that are sensitive to a rate that mature or are depreciated within one year and the change in the financial margin is measured in a parallel variation of + 0 - 1%. This indicator is expressed in absolute values.

  - Equity margin sensibility
    Measures the impact of a parallel change on interest rate of + 0 - 1% of the present value of equity. The report is based in the difference of modified durations of the asset and liability sensible to rates, weighted for the respective present values. This indicator is expressed in absolute values and as percentage of the capital or technical equity adequacy.

4. Financial Risk Management (Continued)

Market Risk (continued)

Market Risk Measurement (continued):

The basis analysis done by Management consists in determining the impact of increases or decreases of 50 and 100 basis points (bp) on interest rates. A summary of the impact on interest net income is as follows:

Sensibility on projected net income interests:

2017	**50pb Increase**	**100bp Increase**	**50bp Decrease**	**100bp Decrease**
As of December 31	486,604	973,209	(486,604)	(973,209)
Average of the year	458,437	916,873	(458,437)	(916,873)
Maximum of the year	720,335	1,440,669	(720,335)	(1,440,669)
Minimum of the year	157,838	315,675	(157,838)	(315,675)

2016	**50bp Increase**	**100bp Increase**	**50bp Decrease**	**100bp Decrease**
As of December 31	278,194	556,388	(278,194)	(556,388)
Average of the year	340,568	681,135	(340,568)	(681,135)
Maximum of the year	639,534	1,279,069	(639,534)	(1,279,069)
Minimum of the year	76,174	152,348	(76,174)	(152,348)

Sensibility on net equity of related rate movements:

2017	**50bp Increase**	**100bp Increase**	**50bp Decrease**	**100bp Decrease**
As of December 31	396,723	914,265	(266,606)	(391,454)
Average of the year	254,949	614,760	(142,266)	(161,762)
Maximum of the year	1,401,958	2,859,701	1,921,839	4,054,103
Minimum of the year	(1,726,702)	(3,269,668)	(1,340,740)	(2,613,436)

2016	**50bp Increase**	**100bp Increase**	**50bp Decrease**	**100bp Decrease**
As of December 31	(324,506)	(536,564)	444,433	1,019,291
Average of the year	1,843,453	3,666,757	(1,864,038)	(3,685,988)
Maximum of the year	4,510,056	8,861,067	444,433	1,019,291
Minimum of the year	(324,506)	(536,564)	(4,677,859)	(9,531,517)

4. Financial Instruments Risk Management (Continued)

Exchange Rate Risk

Is the risk that the value of a financial instrument fluctuates as a consequence of the variations of the foreign currency exchange rates and other financial variables as well as the reaction of the market participants to political and economic events. For accounting standards effects, this risk does not proceeds from financial instruments that are not monetary items, neither for financial instruments denominated in functional currency. The Bank does not possess significant owned foreign currency positions, it only maintains operating accounts to attend the demands of its clients.

The following table details the exposure of the Bank to currencies:

	2017					
	Colons Expressed in US$	Euros Expressed en US$	Japanese Yen Expressed in US$	Sterling Pound Expressed in US$	Other Currencies Expressed in US$	Total
Exchange rate	566.42	1.19	113.21	1.34	-	-
Assets						
Cash and cash equivalents	48,911	424,721	43,263	321,920	16,631	855,446
Total assets	48,911	424,721	43,263	321,920	16,631	855,446
Liabilities						
Demand and time deposits	-	414,795	31,932	285,700	-	732,427
Total liabilities	-	414,795	31,932	285,700	-	732,427
Net position	48,911	9,926	11,331	36,220	16,631	123,019

	2016					
	Colons Expressed in US$	Euros Expressed en US$	Japanese Yen Expressed in US$	Sterling Pound Expressed in US$	Other Currencies Expressed in US$	Total
Exchange rate	548.18	1.05	117.69	1.23	-	-
Assets						
Cash and cash equivalents	30,750	407,455	34,170	66,839	31,759	570,973
Total assets	30,750	407,455	34,170	66,839	31,759	570,973
Liabilities						
Demand and time deposits	-	421,727	41,566	388,374	-	851,667
Total liabilities	-	421,727	41,566	388,374	-	851,667
Net position	30,750	(14,272)	(7,396)	(321,535)	31,759	(280,694)

Other currencies include Swiss Francs, Quetzal from Guatemala, Canadian Dollar and Nicaraguan Cordoba.

4. Financial Risk Management (Continued)

Interest Rate Risk

Is the risk of reduction of value on interest rate of financial assets, quoted prices and other variables that affect the value of those assets in the market.

The Bank has a limited exposure to losses as a result of an adequate financial structure related to the interest rates and a conservatory investment policy.

For the evaluation and control of each unit, the Banks has an Assets and Liabilities Committee that, under the defined policies by the Board of Directors, has the responsibility of analyzing the sensibility to variations of interest rates on a monthly basis, determine the balance structure, the term of the different items and the investment strategies.

The exposure of the Bank to interest rate risks is presented as follows. The assets and liabilities of the Bank are included in the table at their book value, classified by categories on what occurs first between the new contractual rate fixation and the maturity dates. The assets and liabilities presented do not include accrued interests receivables or payable, so the figures differ with the ones presented on the consolidated statement of financial position.

2017	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Assets					
Time deposits in banks	93,285,918	-	-	-	93,285,918
Available-for-sale-securities	8,200,540	23,482,268	-	87,550	31,770,358
Held-to-maturity securities	12,543,399	-	-	-	12,543,399
Loans	1,268,070,193	69,728,698	34,451,384	131,983,553	1,504,233,828
Total assets	1,382,100,050	93,210,966	34,451,384	132,071,103	1,641,833,503
Liabilities					
Savings deposits	162,932	-	-	-	162,932
Time deposits	431,184,010	170,796,657	108,553,657	2,395,000	712,929,324
Borrowings and debt issuance obligations	471,228,895	94,518,200	81,575,638	38,000,000	685,322,733
Total liabilities	902,575,837	265,314,857	190,129,295	40,395,000	1,398,414,989
Total interest rate sensibility	479,524,213	(172,103,891)	(155,677,911)	91,676,103	243,418,514

4. Financial Risk Management (Continued)

Interest Rate Risk (continued)

2016	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Assets					
Time deposits in banks	57,830,862	-	-	-	57,830,862
Available-for-sale-securities	14,353,713	23,001,777	19,008,343	7,629,446	63,993,279
Held-to-maturity securities	-	-	-	-	-
Loans	1,063,709,350	85,446,548	67,798,005	188,952,301	1,405,906,204
Total assets	1,135,893,925	108,448,325	86,806,348	196,581,747	1,527,730,345
Liabilities					
Savings deposits	324,020	-	-	-	324,020
Time deposits	470,635,201	60,409,305	47,692,756	181,313,808	760,051,070
Securities sold under repurchase agreements	10,465,030	-	-	-	10,465,030
Borrowings and debt issuance obligations	385,798,529	126,489,200	54,491,048	41,000,000	607,778,777
Total liabilities	867,222,780	186,898,505	102,183,804	222,313,808	1,378,618,897
Total interest rate sensibility	268,671,145	(78,450,180)	(15,377,456)	(25,732,061)	149,111,448

Price Risk

Is the risk that the value of a financial instrument fluctuates as a consequence of the changes in market prices, independently if they are caused by specific factors relative to the particular instrument or its issuer, or by factors that affect all negotiable instruments in the market.

The Bank is exposed to the price risk of the instruments classified as available-for-sale. To manage the price risk derived from these investments, the Bank diversifies its portfolio as per the established limits.

The Bank measures if impairment exists in available-for-sale capital investments when there is a significant decrease and /or for an extended period of time in fair value related to its cost. This evaluation is determined through the analysis of various factors such as: historic valuation of the investment, credit quality decrease of the issuer, economic environment perspective, of the industry and sector and financial market conditions. In the application of the sensibility analysis of prices, is not material.

Operational Risk

Operational risk is the risk of potential losses, direct or indirect, related with the Bank processes, of personnel, technology and infrastructures, and of external factors that are not related to credit, market or liquidity risk, such as the ones provided by legal requirements and regulatory and the behavior of generally accepted corporate standards.

4. Financial Risk Management (Continued)

Operational Risk (continued)

The Bank dedicates special attention to the risks associated with failures in operating processes by mistakes, or deviations of procedures or inadequate behavior of personnel; incorrect or malfunctioning of technological systems or to external factors that could compromise the continuous and well-functioning of the Bank operations. Periodic revisions and audits to the operating procedures are made regularly to strength the efficiency and control and to neutralize identified weaknesses. The corresponding manuals are updated at least once a year.

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

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

The Bank mantains an internal control system in which the good performance is closely overseen by Internal Audit Personnel of the Bank and from its overseas. The audit Committee and Board of Directors Monitors the timely implementation of the recommendations made by those instances and by regulatory authorities.

The Operational Risk Management model addresses such key points:

- Identification and assessment of risks
- Report of loss events and incidents
- Definition of mitigating actions
- Timely follow-up to the implementation of action plans defined areas
- Evaluation of the level of operational risk in new Bank initiatives, products and / or services and significant process improvements
- Periodic training with areas

The different areas involved together for optimal operational risk management are:

- Operational Risk Management Unit
- Information Technology Risk Management Unit
- Business Continuity
- Information Security Management Unit

4. Financial Risk Management (Continued)

Operational Risk (continued)
As part of the corporate governance model, strategy, methodology and follow-up actions defined plans for events and risks as critical and high valued are reported to the Risk Committee of the Board of Directors.

The Internal Audit Department reviews and validates compliance with policies and defined and that they go in line with the existing regulation methodologies, the results of this review are presented to the Audit Committee of the Board of Directors.

Capital Management
The Bank regulators are the Superintendency of Banks of Panama and the Superintendency of Securities Market of Panama, require the Bank to maintain an index of total capital ratio measured based on weighted average assets based on risk. In the context of the consolidated financial statements the Bank complies with regulatory capital requirements to which it is subject.

The Bank analyzes its regulatory capital considering the two pillars of capital, as interpreted by the Administration of the Basle Agreement 1 and which is applied to the regulations of the Superintendency of Banks based on Agreement No.5-2008 of October 1, 2008.

The strategy of market risk used by the Bank to calculate their capital requirements covers general market risk of the Bank's operations, as well as the specific risks of open positions in currencies and debt and equity investments included in the portfolio of risk. The assets are measured according to specific categories of credit risk, being assigned a risk percentage measured according to the amount of capital required to cover these risks. Ten categories to measure risks are applied (0%, 10%, 20%, 35%, 50%, 100%, 125%, 150%, 200% and 250%).

Primary Capital (Pillar 1): It comprises paid in share capital, disclosed reserves, retained earnings, where paid-in capital stock is understood as represented by common shares issued and fully paid. Declared reserves are those identified as such by the Bank from accumulated earnings in their books to strengthen its financial position.

Retained earnings are the earnings for the period and undistributed profits from previous periods.

4. Financial Instruments Risk Management (Continued)

Capital Management (continued)

Secondary Capital (Pillar 2): it comprises hybrid capital instruments and debt, subordinated term debt, general loss reserves and reserves undeclared. As of December 31, 2016, the Bank does not have secondary capital.

The calculation of the amount of the Capital Funds of a Bank of General License must take into account the deductions to be made quarterly, and those listed below:

- The non-consolidated capital assigned to the overseas agency.
- The non-consolidated paid capital subsidiaries of the Bank.
- The paid-in capital of non-banking subsidiaries. The deduction will include the balances recorded in the asset for the higher paid value – with respect to the carrying value – of permanent investments in local and foreign entities.
- Items of assets relating to costs or other items which under the International Financial Reporting Standards correspond to valuation of different forms of unrecognized losses and realized losses at any moment during the period.

Funds capital of a general license bank shall not be less than 8% of weighted risk to their assets. For these purposes, assets must be considered net of the respective provisions or reserves and the weightings shown in the Agreement of the Superintendency. There has been no material changes in the Bank's capital management during the period of the consolidated financial statements issued as of December 31, 2017.

The Bank maintains a regulatory capital position which is composed as follows for the periods ended December 31, 2017 and 2016, detailed as follows:

	2017	2016	
Primary Capital (Pillar 1)			
Common shares	132,787,000	132,787,000	
Capital reserve	150,000	150,000	
Dynamic reserve of credits	29,442,426	29,442,426	
Retained earnings	34,538,813	28,246,058	
Unrealized gain or loss on available-for-sale investments	(194,621)	(768,800)	
Deferred tax assets	(1,737,135)	(2,604,108)	
Total capital	194,986,483	187,252,576	
Total weighted based risk assets	1,518,922,062	1,439,174,719	
(Capital indexes)			**Minimum**
Total of Pillar 1 comprises a percentage or weighted based risk asset	12.84%	13.01%	8%
Leverage ratio	9.11%	9%	3%

5. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank makes estimates and uses assumptions that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and decisions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Losses on loans impairment*
The Bank reviews its loan portfolio to evaluate impairment at least on a monthly basis. To determine if a loss for impairment should be recognized in the consolidated statement of income, the Bank makes decisions based on the evidence that indicates that impairment exists that can be measured in the estimated future cash flows of loans. This evidence includes observable data indicating that if there was an adverse change in the payment status of borrowers or economic conditions that correlate with defaults on loans in the Bank. The methodology and assumptions used to estimate the amount and time of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Bank realized a sensibility analysis to measure the impact that could have the reserve for loan losses. As of December 31, 2017, the 1% change in the rate of credit loss results in an increase in reserve expenses of 7.36% (US$1,525,276) (2016: 8.99% US$1,384,623).

(b) *Impairment of available-for-sale investments*
The Bank determines that its available-for-sale investments are impaired when a significant or prolonged decline in fair value below their cost occurs. This determination of significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of impairment in the financial health of the issuer, industry and sector performance, changes in technology and in operational and financial cash flows.

(c) *Fair value*
For available-for-sale securities that are quoted in active markets, fair value is determined by the reference price of the instrument published in Stock Exchange and electronic systems of stock information. When there are no independent prices available, the fair value is determined by using valuation techniques with reference to observable market. These include the analysis of discounted cash flows and other valuation techniques commonly used by market participants. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

6. Cash and Cash Equivalents

Cash and cash equivalents are detailed below for purposes of reconciliation with the consolidated cash flow statement:

	2017	2016
Cash	1,156,281	1,048,367
Demand deposits in banks	117,235,824	145,772,546
Time deposits in banks (1)	93,285,918	57,508,489
Total cash and bank deposits	211,678,023	204,329,402
Less:		
Bank deposits with maturities of more than 90 days	(285,918)	(258,489)
	211,392,105	204,070,913

(1) Does not include inteest receivables.

7. Investments in Securities

Investments and other financial assets are detailed below.

Available-for-sale
The fair value of investment is detailed as follows:

	2017	2016
Debt - private	9,901,997	13,613,307
Debt - governmental	21,780,811	37,739,228
Shares capital	87,550	82,960
Plus: Interest receivables	131,239	253,297
	31,901,597	51,688,792

As of December 31, 2017, the Bank made sales of available-for-sale securities for US$17,268,202 (2016: US$70,422,146) resulting on a net realized income of US$53,531 (2016: US$30,872), that is included in the consolidated statement of income. Additionally, the Bank presents unrealized losses on available-for-sale for US$194,621 (2016: US$768,800), presented in equity.

As of December 31, 2017, private and governmental debt for US$17,789,473, (2016: US$10,668,421) were redeemed.

7. Investments in Securities (Continued)

Investments Held to Maturity
As of December 31, 2016, the Bank maintained issued bonds by the United States of America for US$12,543,399 (2016: US$12,557,784), from which US$4,218,587 (2016: US$8,728,071) guarantee certain received short-term deposits.

8. Loans

The detail of loan portfolio by economic activity is presented below:

	2017	2016
Industrial	366,822,301	337,926,782
Commercial	258,087,284	270,997,797
Banks and financial institutions	379,278,125	207,123,717
Services	287,667,997	374,145,884
Infrastructure and construction	110,769,244	106,853,735
Agriculture	83,891,629	85,178,902
Livestock	7,422,478	12,451,468
Consumer	10,294,770	11,227,919
Plus: Interest receivables	6,980,103	5,981,376
	1,511,213,931	1,411,887,580

As of December 31, 2017, the cash guaranteed loan portfolio amounted US$43,117,067 (2016: US$32,953,713).

The movement of the provision for impairment loans is detailed as follows:

	2017	2016
Balance at the beginning of the year	15,400,000	19,521,514
Provision charged to expenses	5,318,700	9,830,385
Loans-charge off	(12,923)	(14,834,125)
Recoveries	15,981	882,226
Balance at the end of the year	20,721,758	15,400,000

8. Loans (Continued)

The loan portfolio includes finance leases whose maturity profile is as follows:

	2017	2016
Less than a year	986,420	855,322
From 1 to 5 years	6,452,520	6,130,191
More than 5 years	292,174	130,712
	7,731,114	7,116,225

9. Properties, Equipment and Improvements, Net

The properties, equipment and improvements are summarized as follows:

	2017							
	Land	Building	Vehicles	Furniture and Equipment	Computer Equipment	Improvements to Premises	Work to Progress	Total
Cost								
At the beginning of the year	782,900	12,461,515	96,000	1,628,649	4,583,577	5,142,751	76,866	24,772,258
Additions	-	-	-	25,604	303,122	43,880	203,305	575,911
Sales and discards	-	-	-	(36,180)	(136,627)	(58,311)	(240,735)	(471,853)
At the end of the year	782,900	12,461,515	96,000	1,618,073	4,750,072	5,128,320	39,436	24,876,316
Accumulated depreciation and amortization								
At the beginning of the year	-	1,016,171	75,480	1,142,180	3,784,273	1,240,864	-	7,258,968
Expenses of the year	-	235,742	10,697	322,253	540,075	315,903	-	1,424,670
Sales and discards	-	-	-	(18,686)	(131,578)	(1,768)	-	(152,032)
At the end of the year	-	1,251,913	86,177	1,445,747	4,192,770	1,554,999	-	8,531,606
Net balance	782,900	11,209,602	9,823	172,326	557,302	3,573,321	39,436	16,344,710

9. Properties, Equipment and Improvements (Continued)

2016	Land	Building	Vehicles	Furniture and Equipment	Computer Equipment	Improvements to Premises	Work to Progress	Total
Cost								
At the beginning of the year	782,900	12,461,515	96,000	1,617,127	4,257,979	5,142,751	43,768	24,402,040
Additions	-	-	-	11,522	366,934	-	76,866	455,322
Sales and discards	-	-	-	-	(41,336)	-	(43,768)	(85,104)
At the end of the year	782,900	12,461,515	96,000	1,628,649	4,583,577	5,142,751	76,866	24,772,258
Accumulated depreciation and amortization								
At the beginning of the year	-	780,429	63,444	772,664	3,111,077	921,655	-	5,649,269
Expenses of the year	-	235,742	12,036	369,516	710,268	319,209	-	1,646,771
Sales and discards	-	-	-	-	(37,072)	-	-	(37,072)
At the end of the year	-	1,016,171	75,480	1,142,180	3,784,273	1,240,864	-	7,258,968
Net balance	782,900	11,445,344	20,520	486,469	799,304	3,901,887	76,866	17,513,290

10. Intangible Assets

The movement of software and licenses are presented below:

	2017	2016
Balance at the beginning of the year	6,173,620	6,036,809
Additions	2,246,191	1,517,947
Retreats	(5,762)	(10,106)
Amortization of the year	(1,797,528)	(1,371,030)
Balance at the end of the year	6,616,521	6,173,620

10. Intangible Assets (Continued)

The useful life of these assets has been estimated by the Administration in 3 years and for the new SAP modules from 5 to 15 years.

2017

Description	Useful Life	Gross Amount	Accumulated Amortization	Book Value
Licenses and software	5 - 15 años	7,870,792	(2,292,342)	5,578,450
Licenses and software	3 años	5,831,029	(4,792,958)	1,038,071
		13,701,821	(7,085,300)	6,616,521

2016

Description	Useful Life	Gross Amount	Accumulated Amortization	Book Value
Licenses and software	5 - 15 años	5,691,414	(1,225,645)	4,465,769
Licenses and software	3 años	5,784,446	(4,076,595)	1,707,851
		11,475,860	(5,302,240)	6,173,620

11. Taxes

Miami Agency

For purposes of determining taxable income, income not effectively connected with transactions or business conducted in the United States of America are not subject to income tax and interest expense is calculated based on the cost of obligations denominated in United State dollars.

According to current tax legislation, the tax rate for 2017 in Miami is 21%; however, other factors that affect the calculation of the tax rate exist.

The tax losses carried forward are the following:

Expiration date	Amount
2027	3,088,00

11. Taxes (Continued)

Miami Agency (continued)

As of December 31, 2017, the Bank records a deferred tax asset income of US$1,067,533 (2016: US$2,009,017) as a result of analysis in its Miami Agency. When analyzing the realization of deferred tax assets, Management of the Agency considers whether is likely that some or the entire portion of the deferred tax asset will not be realized. The recognition or not of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences become deductible. The Management of the Agency considers the detail of reversals of deferred tax assets and liabilities, projected future taxable income, tax planning strategies in making this assessment. Based on levels of historical taxable income and projections for future taxable income for the periods in which the deferred tax asset is deductible, administration of the Agency considers that you may realize the benefits of these deductible temporary differences. The Agency has made such calculations and estimated to incur federal and state income tax of the United States of America.

As of December 31, 2017, for purposes of the Miami Agency an update of the tax benefit was determined in the order of (US$941,484) (2016: US$1,865,729) resulting in a net balance of US$1,067,533 (2016: US$2,009,017) of deferred tax temporary differences at the end of that period.

The reconciliation of income tax of the Miami Agency is detailed below:

	2017	**2016**
Taxable income	1,277,772	3,972,905
Less: Loss carry forwards	(1,149,995)	(3,575,615)
Net taxable income	127,777	397,291
Income taxes	6,263	81,731

Panama

According to current tax regulations, companies incorporated in Panama are exempt from income tax on profits from foreign operations, interest earned on deposits in local banks, debt of the Government of Panama and investments in securities listed in the Superintendency of Securities Market and negotiated in the Bolsa de Valores de Panama, S. A.

11. Taxes (Continued)

Panama (continued)

In Panama, according to the established in Article 699 of the Tax Code, as amended by Article 9 of Law No. 8 of March 15, 2010 effective from January 1, 2010, the income tax rate for legal persons engaged in the business of banking in the Republic of Panama is 25%.

The Law No.8 of March 15, 2010 introduces the form of taxation alleged income tax, forcing any legal person who earns income in excess of one million five hundred thousand dollars (US$1,500,000) to determine the taxable amount of such tax, the sum greater of: (a) the net taxable income calculated by the ordinary method set out in the Tax Code and (b) the net taxable income resulting from applying to total taxable income, four point sixty-seven percent (4.67%).

Legal entities that incur losses because of the tax calculated under the presumptive method or by reason of the application of the alleged method, the effective rate exceeds the tax rates applicable to the net income under the ordinary method for the period tax concerned, may be requested to the General Income Directorate - "DGI" (*for its Spanish acronym)* to authorize tax calculation under the ordinary method of calculation.

Consolidated

According to current tax regulations, the statements of income tax of the Bank, its agency and its subsidiaries are subject to review by the tax authorities of each of these jurisdictions, for the following years:

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

The provision for income tax is as follows:

	2017	**2016**
Income tax	880,263	1,198,559
Deferred income tax	900,843	1,542,916
Income taxes	1,781,106	2,741,475

The effective tax rate of the Bank for the year ended December 31, 2017 was of 15.81% (2016: 29.95%).

11. Taxes (Continued)

Consolidated (continued)

The reconciliation of financial income before income tax and taxable net income is as follows:

	2017	**2016**
Financial income before tax	11,265,380	9,152,891
Foreign income, exempt and non-taxable, net	(88,114,514)	(89,436,997)
Non-deducible costs and expenses	80,370,186	84,751,419
Net taxable income	3,521,052	4,467,313
Income tax of Panama	874,000	1,116,828
Income tax of Miami (USA)	6,263	81,731
Total income tax	880,263	1,198,559

Deferred Tax

The deferred income tax asset is detailed below:

	2017	**2016**
Deferred income tax - asset:		
Losses on provision loans	644,239	595,121
Losses carried forward	738,087	1,586,781
Others	320,939	422,206
	1,703,265	2,604,108

	2017	**2016**
Current portion	960,731	2,181,902
Non-current portion	742,534	422,206
	1,703,265	2,604,108

11. Taxes (Continued)

Deferred Tax (continued)

Management made its estimates of deferred tax using tax rates expected to be applied to temporary differences when these are reversed.

The reconciliation of deferred tax asset income is presented below:

	2017	2016
Deferred tax at the beginning of the year	2,604,108	4,147,024
Less:		
Provision for impairment in loans	49,118	322,793
Losses carried forward	(848,694)	(1,479,682)
Others	(101,267)	(386,027)
Deferred tax at the end of the year	1,703,265	2,604,108

Based on actual and projected results, the Bank's Management believes that there will be sufficient taxable income to absorb the deferred taxes.

12. Other Assets

The other assets are presented as follows:

	2017	2016
Advance for letter of credit borrowing	300,178	570,415
Severance fund	977,299	862,424
Other accounts receivable to clients	1,665,556	1,264,305
Prepaid expenses	979,847	1,940,100
Project development in process	1,207,740	2,058,525
Assets received in payment of obligations	10,144,082	3,370,637
Available-for-sale properties	1,787,160	4,402,152
Others	2,773,375	1,634,098
	19,835,237	16,102,656

13. Securities Sold Under Repurchase Agreements

As of December 31, 2016, the Bank maintains obligations resulting from sale of securities under repurchase agreements for US$10,492,420 maturing in January and February 2017 and average interest rates of 3.06%. These obligations are duly guaranteed by available-for-sale investments.

14. Borrowings

A detail of borrowings is presented as follows:

Creditor	Maturity	Book Value 2017	Book Value 2016
Bac Florida Bank	Various until August 2018	17,409,524	17,602,908
Banco Centroamericano de Integracion Economica (BCIE)	Various until December 2018	44,811,166	4,971,627
Banco de Credito e Inversiones	Deember 2018	4,898,524	8,727,865
Banco Itau (Uruguay)	March 2018	4,979,018	-
Eco Business Fund	December 2022	14,937,055	-
Banco Latinoamericano de Comercio Exterior, S. A. (BLADEX)	Various until December 2018	24,795,512	53,693,572
Bank Negara, N.Y.	December 2018	4,979,018	4,971,627
Atlantic Forfaiting	December 2019	1,991,607	2,982,976
Bank of America	Various until March 2018	15,932,859	21,323,152
Bank of Montreal	March 2018	9,958,037	9,943,254
Bank of Nova Scotia	Various until April 2018	9,958,037	9,943,254
Banque National Du Canada	April 2017	-	7,712,538
Barclays Bank	April 2017	-	9,943,254
London Forfaiting	November 2020	9,958,037	-
Citibank, N. Y.	March 2018	6,970,626	4,971,627
Cobank	Various until August 2018	33,099,988	29,324,808
Credit Commodity Corp.	Various until October 2019	44,475,535	34,136,794
Deutsche Bank A.G. NY	Various until June 2018	77,672,687	59,062,928
Cargill Financial Services	Various until March 2020	69,684,550	49,694,594
Proparco	Various unitl January 2028	29,874,111	19,886,508
Regions Bank	January 2018	6,548,838	9,614,556
Sumitomo Mitsui Banking	Various until June 2018	29,376,209	29,332,599
Unicredit Group	March 2021	5,598,049	6,987,172
Wells Fargo Bank, N.A.	Various until June 2018	50,288,086	31,569,831
Zurcher Kantonalbank	Various until June 2018	9,460,136	8,352,333
Más: Intereses por pagar		5,448,009	4,653,399
		533,105,218	439,403,176

14. Borrowings (Continued)

As of December 31, 2017, the Bank does not maintains guaranteed obligations with available-for-sale. The annual interest rates for borrowings as of December 31, 2016 ranged between 1.60% and 5.74% (2016: 1.23% and 5.32%).

In the context of the consolidated financial satements, the Bank is in compliance with the conditions agreed in credit facilities under contract, which include financial liquidity conditions (ratio of liquid assets to deposits, percentage of regulatory liquidity), asset quality (percentage of gross delinquency, coverage of reserves, percentage of special mention portfolio), and capitalization (equity vulnerability, open risk, percentage of large exposures, capital adequacy).

15. Debt Obligations Issued

Through the Resolution of the Superintendency of Securities Market CNV No.246-08 of August 5, 2008 a Public Offering is made of Corporate Bonds with a nominal value of up to one hundred million dollars (US$100,000,000), issued in global form, rotative, nominative, registered and without coupons, in denominations of one thousand dollars (US$1,000). The bonds will be backed by the general credit of Banco Internacional de Costa Rica, S. A. and may be redeemed early at the option of the Issuer, when the two (2) years from the date of issue are met.

Also through the resolution of the National Securities Commission of Panama CNV No.68-09 of March 3, 2009 a public offering is made of VCNs with a nominal value of up to one hundred million dollars (US$100,000,000), issued in the form global, rotative, nominative, registered and without coupons, in denominations of one thousand dollars (US$1,000). VCNs will be backed by the general credit of the Banco Internacional de Costa Rica, S. A. and may not be redeemed early by the Issuer.

In 2014, by Resolution of the Superintendency of Securities Market SMV No.372-14 of August 14, 2014 a public offer of Corporate Bonds with a nominal value of up to two hundred million dollars (US$200,000,000) issued global, rotative, nominative, registered and without coupons, in denominations of one thousand dollars (US$1,000). The bonds will be backed by the general credit of Banco Internacional de Costa Rica, S. A. and may be redeemed early at the option of the Issuer, when the two (2) years from the date of issue are met.

15. Debt Obligations Issued (Continued)

The Bank maintained bonds and VCNs, as follows:

Corporate Bonds

Resolution	Date	Serie	Qualifies of the Emission	Rating	Maturity	Rate	2017	2016
SMV No.372-14	14-Aug-14	A	Fitch Ratings	F1+ (pan)	29-Sep-17	4.00%	-	15,000,000
CNV No.246-08	05-Aug-08	AA	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	20-Nov-18	4.00%	19,983,589	20,000,000
SMV No.372-14	14-Aug-14	B	Fitch Ratings	F1+ (pan)	29-Sep-19	4.50%	4,995,897	5,000,000
SMV No.372-14	14-Aug-14	C	Fitch Ratings	F1+ (pan)	19-Nov-21	5.75%	39,967,179	40,000,000
SMV No.372-14	14-Aug-14	D	Fitch Ratings	F1+ (pan)	12-Dec-21	5.75%	4,949,935	4,954,000
SMV No.372-14	14-Aug-14	E	Fitch Ratings	F1+ (pan)	22-Jan-22	5.75%	4,995,897	5,000,000
SMV No.372-14	14-Aug-14	F	Fitch Ratings	F1+ (pan)	24-Feb-22	5.75%	4,995,897	5,000,000
SMV No.372-14	14-Aug-14	G	Fitch Ratings	F1+ (pan)	06-May-22	5.75%	4,995,897	5,000,000
SMV No.372-14	14-Aug-14	H	Fitch Ratings	F1+ (pan)	06-May-18	4.00%	1,974,379	1,976,000
SMV No.372-14	14-Aug-14	I	Fitch Ratings	F1+ (pan)	06-May-20	4.50%	1,149,056	1,150,000
SMV No.372-14	14-Aug-14	J	Fitch Ratings	F1+ (pan)	08-May-18	4.00%	834,315	835,000
SMV No.372-14	14-Aug-14	K	Fitch Ratings	F1+ (pan)	08-May-20	4.50%	1,388,859	1,360,000
SMV No.372-14	14-Aug-14	L	Fitch Ratings	F1+ (pan)	14-Aug-22	5.75%	2,997,538	3,000,000
SMV No.372-14	14-Aug-14	M	Fitch Ratings	F1+ (pan)	14-Jan-23	5.75%	2,997,538	3,000,000
SMV No.372-14	14-Aug-14	N	Fitch Ratings	A+(pan)	13-Dec-22	5.38%	2,997,538	-
CNV No.246-08	05-Aug-08	X	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	27-Sep-17	4.50%		4,500,000
CNV No.246-08	05-Aug-08	Y	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	30-Oct-17	4.50%		6,000,000
CNV No.246-08	05-Aug-08	Z	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	21-Nov-17	4.50%		4,000,000
							99,223,514	125,775,000

Commercial Marketable Securities

Resolution	Date	Serie	Qualifies of the Emission	Rating	Maturity	Rate	2017	2016
CNV No. 68-09	03-Mar-09	DY	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	06-Feb-17	3.13%	-	10,000,000
CNV No. 68-09	03-Mar-09	DZ	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	23-Feb-17	3.13%	-	2,075,000
CNV No. 68-09	03-Mar-09	ED	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	25-Aug-17	3.75%	-	1,375,000
CNV No. 68-09	03-Mar-09	EE	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	09-Sep-17	3.75%	-	1,550,000
CNV No. 68-09	03-Mar-09	EF	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	16-Sep-17	3.75%	-	2,750,000
CNV No. 68-09	03-Mar-09	EG	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	24-Sep-17	3.75%	-	7,398,000
CNV No. 68-09	03-Mar-09	EH	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	29-Apr-17	3.38%	-	7,000,000
CNV No. 68-09	03-Mar-09	EI	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	02-Nov-17	3.75%	-	2,000,000
CNV No. 68-09	03-Mar-09	EJ	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	24-Nov-17	3.75%	-	7,620,000
CNV No. 68-09	03-Mar-09	EK	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	29-May-17	3.38%	-	3,000,000
CNV No. 68-09	03-Mar-09	EL	Equilibrium Calificadora de Riesgo, S. A.	AA-pan	17-Jun-17	3.38%	-	2,486,000
CNV No. 68-09	03-Mar-09	EO	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	01-Feb-18	3.75%	7,993,436	-
CNV No. 68-09	03-Mar-09	ER	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	25-May-18	3.38%	3,996,718	-
CNV No. 68-09	03-Mar-09	EV	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	01-Jan-18	3.38%	2,997,539	-
CNV No. 68-09	03-Mar-09	EW	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	08-Jan-18	3.38%	3,197,374	-
CNV No. 68-09	03-Mar-09	EX	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	24-Jan-18	3.38%	4,995,898	-
CNV No. 68-09	03-Mar-09	EY	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	06-Sep-18	3.75%	1,049,139	-
CNV No. 68-09	03-Mar-09	EZ	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	13-Sep-18	3.75%	1,112,087	-
CNV No. 68-09	03-Mar-09	FA	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	15-Sep-18	3.75%	1,998,359	-
CNV No. 68-09	03-Mar-09	FB	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	20-Sep-18	3.75%	1,443,814	-
CNV No. 68-09	03-Mar-09	FC	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	24-Sep-18	3.75%	3,966,742	-
CNV No. 68-09	03-Mar-09	FD	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	29-Sep-18	3.75%	1,049,138	-
CNV No. 68-09	03-Mar-09	FE	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	08-Oct-18	3.75%	1,998,359	-
CNV No. 68-09	03-Mar-09	FF	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	01-May-18	3.50%	6,494,667	-
CNV No. 68-09	03-Mar-09	FG	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	28-Oct-18	3.88%	4,213,540	-
CNV No. 68-09	03-Mar-09	FH	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	19-Nov-18	3.88%	3,542,091	-
CNV No. 68-09	03-Mar-09	FI	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	22-Nov-18	3.88%	2,398,031	-
CNV No. 68-09	03-Mar-09	FJ	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	16-Jun-18	3.50%	2,997,539	-
CNV No. 68-09	03-Mar-09	FK	Equilibrium Calificadora de Riesgo, S. A.	EQL 1.pa	25-Jun-18	3.50%	2,997,539	-
							58,442,010	47,254,000
Total debt issued							157,665,524	173,029,000
Plus: Interest payable							222,605	235,549
Total debt plus interest							157,888,129	173,264,549

16. Other Liabilities

The detail of other liabilities is the following:

	2017	**2016**
Accrued expenses payable	8,710	89,822
Obligations for third parties relationships	227,350	252,983
Guarantee deposits - financial lease	164,840	323,446
Pending operations of deposits and other accounts to be applied	545,997	649,923
Provisions for off-balance credit risk and legal litigations	284,413	746,528
Pending obligations with suppliers	528,750	963,735
Contributions to retirement fund	1,184,183	1,255,662
Accounts payable - various	1,112,015	1,489,040
Provisions for labor benefits	1,989,449	1,427,625
Income tax payable	874,000	1,198,559
Deferred credits	1,136,575	1,108,978
Others	3,495,093	1,140,096
	11,551,375	10,646,397

17. Savings Plan for Retirement

The Bank adopted a voluntary savings plan for defined contribution retirement in which the Bank contributes twice the amount contributed by employees up to 10% employer contribution of monthly salaries, except for the Agency of Miami which is up to 6% of employer contribution of monthly salaries. In the plan all employees who work in the bank and decide to join can participate. To make withdrawals of the contributions of the plan, the employee must meet at least one of the following conditions, to withdraw the contribution made by the Bank in its favor:

(a) Have opted for retirement;
(b) Have retired from the Bank;
(c) Have suffered total and permanent disability duly notified by the Caja de Seguro Social or
(d) Have deceased, in which case it will be delivered by the portion to be entitled to the beneficiaries.

The contribution of the Bank and its Subsidiaries to this plan during the year ended December 31, 2017 amounted to US$752,805 (2016: US$775,912). This plan is administered by an independent third party of the Bank. This expense is included in the consolidated statement of income under salaries and other personnel expenses.

18. Common Shares

The common shares composition is detailed as follows:

	2017		2016	
	Quantity of Shares	Amount	Quantity of Shares	Amount
Authorized and issued shares				
Balance at the beginning of the year	13,278,700	132,787,000	13,278,700	132,787,000
Issued shares	-	-	-	-
Balance at the end of the year	13,278,700	132,787,000	13,278,700	132,787,000

The Bank maintains authorized capital of 13,278,700 shares with a nominal value of US$10 each.

As of December 31, 2017, the Bank's capital funds represented for 12.84% (2016: 13.01%), of weighted assets based on calculated risks as interpreted by the Administration according to Basel I Agreement and the Agreement No.1-2015 that requires maintaining capital funds not less than 8% of their risk-weighted asset base.

19. Earnings per Share

The calculation of earnings per share is based on net income attributable to common shareholders and the weighted average number of common shares outstanding during the period. The calculation of earnings per share is presented as follows:

Calculation of basic earnings per share:	**2017**	**2016**
Net income	9,484,274	6,411,416
Average weighted quantity of common shares	13,278,700	13,278,700
Net income per basic share	0.71	0.48

20. Contingencies

Income tax, BICSA Costa Rica

BICSA SERVICIOS, S. A., as the surviving entity in the group of companies that formed BICSA Corporación Financiera, S. A., was sentenced by the Administrative Tax Court to tax on income for the fiscal years 1999 to 2004. In strict compliance with the deadline for making the cancellation, the sum of US$1,243,985 adduced in the conviction was paid by BICSA on November 29, 2013, under the provision maintained for the case.

Notwithstanding that the payment was made to avoid further sanctions, given the dissatisfaction that the institution had with such scope, and had previously filed an administrative contentious judicial process, so that the absolute nullity and ineffectiveness was declared of Determinative Resolution No.DT10R-11-08 of the Large Taxpayers Directorate, the Resolution No.AU-10-4-135-08, the judgment of the Administrative Tribunal No.035-2012 and Resolution No.SFGCN-AL-075-12, all arising from Transfer of Charges number 2752000016446 of income tax for the fiscal years 1999-2004. Along with the return of the impugned sums, with interests, further damages by a currently undetermined number are claimed, but that would be determined in execution of any favorable judgment.

In response to this action, the Costa Rican State began on January 28, 2014 an administrative litigation against the Bank (Harmfulness Process), referring to the part won by BICSA in administrative proceedings. In order to better manage the two actions, the accumulation of the processes was proposed, and in March 2015, the Contentious Administrative Tribunal was decreed to accumulate them. On June 19, 2015 a preliminary hearing was convened, in which the controversial facts of the complaint were indicated and, in turn, the application of the expert opinions requested by BICSA was approved. On December 23, 2016, the memorial presented by one of the experts was notified, granting a period of 3 working days to the parties to refer to it. BICSA referred to said expert opinion on January 9, 2017.

Subsequently, by Resolution of February 17, 2017 of the Administrative Contentious Court, a period of 30 working days was granted to another of the experts, so that they could submit their report, which was provided to the Court on February 19, 2017. On April 21, 2017, BICSA referred to this expert opinion, within the period granted by the Resolution of April 17, 2017. At the references and consultations made by BICSA, the expert answered incompletely the objections of BICSA, that on September 12, 2017, assessments were presented again regarding this expert opinion. The next step will be the setting of a date for an oral hearing and later, the issuance of the sentence. In the opinion of the Bank's Management, the result of this process will not have a material effect on the consolidated financial statements.

20. Contingencies (Continued)

Commitments

The financial instruments with credit risk off the consolidated statement of financial position are detailed as follows:

	2017	2016
Letters of credit - "stand by"	110,588,458	106,631,508
Confirmed commercial letters of credit	14,325,403	15,045,352
Issued guarantees	41,009,349	12,367,976
	165,923,210	134,044,836

The Bank maintains with third parties, contracts commitments under operating leases, which expire at various dates over the next few years. The value of the annual fees of lease contracts of employment for the coming years is as follows:

Year	Amount
2018	831,590
2019	806,276
2020	761,523
2021 until 2025	2,204,706
	4,604,095

During the year ended December 31, 2017, the rent expense amounted US$863,892 (2016: US$856,406).

21. Other Commissions and Other Income

The detail of income from other commissions and other income are presented below:

	2017	**2016**
Other commissions on:		
Letters of credit and document collection	1,884,323	1,784,455
Transfers	560,610	544,922
Current account services	105,295	111,236
Purchase and sale of foreign currency	289,471	269,524
Commissions on loan structuration	779,078	763,575
Commission of administrative agent	176,852	69,685
Others	122,434	142,504
	3,918,063	3,685,901
Other income:		
For fixed assets sale	204,536	63,950
For factoring operations	34,343	58,109
Other income - various	2,560,684	718,658
	2,799,563	840,717

22. Commissions Expenses and General and Administrative Expenses

The breakdown of commission expenses and general and administrative expenses is presented below:

	2017	**2016**
Commissions expenses:		
Banking correspondent	292,198	316,721
Received credits	1,552,523	1,722,679
Other commissions	497,903	223,201
	2,342,624	2,262,601
Salaries and personnel expenses:	11,406,226	11,702,543
Salaries	2,068,590	1,743,170
Labor expenses	1,041,197	1,220,826
Employee benefits	752,805	775,912
Savings plan for retirement (Note 17)	154,790	234,524
Training	24,060	154,866
Others		
	15,447,668	15,831,841

22. Commissions Expenses and General and Administrative Expenses (Continued)

	2017	2016
Other general and administrative expenses:		
Administrative expenses of representation offices	294,036	227,971
Travel and transportation	185,647	270,786
Electricity and telephone	885,263	953,344
Technical sofware services	1,314,959	1,701,118
Repairs and maintenance	1,116,973	726,428
Taxes	2,097,229	1,934,128
Stationary and office supplies	74,360	96,081
Communications and mail	130,029	150,074
Insurances	104,798	119,120
Others	1,030,304	1,209,135
	7,233,598	7,388,185

23. Balances and Transactions with Related Parties

The Bank conducts transactions in the ordinary course of business with related parties such as shareholders, directors and key management personnel parties. The following are the aggregated balances regarding significant transactions with related parties:

	Directors and Key Management Personnel		Related Companies	
	2017	2016	2017	2016
Assets:				
Bank deposits:				
Demand	-	-	84,441	232,538
Time	-	-	-	-
Loans	921,896	1,040,349	2,207,076	-
Accrued interest receivables	13,032	5,339	12,765	53,750

23. Balances and Transactions with Related Parties (Continued)

	Directors and Key Management Personnel		Related Companies	
	2017	**2016**	**2017**	**2016**
Deposits:				
Demand deposits	161,569	89,149	3,665,695	5,611,975
Savings	-	106,371	-	-
Time deposits	374,601	540,653	32,470,000	43,680,000
Accrued interest payable	5,831	10,021	13,736	42,135
Commitments and Contingencies:				
Commercial letters of credit	-	-	2,000,000	13,570

The following items of income and expense are included in the aggregate amounts of product related transactions:

	Directors and Key Management Personnel		Related Companies	
	2017	**2016**	**2017**	**2016**
Interest income on:				
Loans	42,288	35,829	12,765	-
Deposits	-	-	6,549	17,021
Interest income on:				
Deposits	14,076	17,767	210,169	815,146
General and administrative expenses:				
Salaries - short-term	2,597,359	2,536,527		
Directors' Diets short-term	24,061	142,294		
Other staff costs long-term	220,684	207,661		

24. Trust Contracts Administration

As of December 31, 2016, the Bank held in trust management contracts at the risk of customers for US$198,556,142 (2016: US$180,246,173). Considering the nature of these services, management estimates no significant risks to the Bank.

As of December 31, 2017, the subsidiary BICSA Capital, S. A. held in management cash and investment portfolio at the risk of customers amounting to a total of US$72,746,018 (2016: US$69,654,789).

25. Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair value using other valuation techniques.

For financial instruments that are not frequently traded and have limited availability of pricing information, the fair value is less objective, and its determination requires the use of variable degrees of judgment that depends on liquidity, concentration, uncertainty of factors market assumptions in pricing and other risks affecting the specific instrument.

The Bank establishes a fair value hierarchy that classifies into three levels the input data of the valuation techniques used to measure the fair value:

- Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities identical to those the Bank may access at the measurement date.

- Level 2: Inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category include: instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not considered active: or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: This category includes all assets or liabilities for which the valuation technique includes not observable market data inputs and have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

25. Fair Value of Financial Instruments (Continued)

Other valuation techniques include net present value and discounted cash flow models, compared with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk and benchmark free interest rates, credit spreads and other premises used in estimating discount rated. The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place to sell the asset or transfer the liability between market participants at the measurement date in the present market conditions. A summary of the book value and the estimated fair value of financial assets and liabilities measured at fair value in the consolidated statement of financial position are presented below:

	2017			2016		
	Book Value	**Fair Value**	**Hierarchy Level**	**Book Value**	**Fair Value**	**Hierarchy Level**
Assets						
Demand deposits	117,235,824	117,235,824	-	145,450,173	145,450,173	-
Time deposits	93,307,506	93,285,918	-	57,838,015	57,838,015	-
Held-to-maturity securities	12,602,010	12,505,355	2	12,613,783	12,512,613	2
Loans, net	1,490,017,041	1,475,884,717	2	1,395,827,119	1,387,708,837	2
	1,713,162,381	1,698,911,814		1,611,729,090	1,603,509,638	
Liabilites						
Demand deposits	146,097,634	146,097,634	-	93,150,286	93,150,286	-
Savings deposits	162,932	162,932	-	324,020	324,020	-
Time deposits	718,380,052	716,082,302	2	766,125,648	766,913,287	2
Securities sold under repurchase agreements	-	-	2	10,492,420	10,492,420	2
Financing received	533,105,218	529,502,804	2	439,403,176	439,110,853	2
Debt issuance obligations	157,888,129	158,626,895	2	173,264,549	174,279,566	2
	1,555,633,965	1,550,472,567		1,482,760,099	1,484,270,432	

25. Fair Value of Financial Instruments (Continued)

The following financial instruments measured at fair value on a recurring basis are analyzed. These instruments are classified at different levels of hierarchy of fair value considering the input data and valuation techniques used.

		2017 Fair Value Measurement			
Description		**Level 1**	**Levell 2**	**Level 3**	**Total**
Debt - private		3,001,182	6,900,815	-	9,901,997
Debt - governmental		2,564,393	19,216,418	-	21,780,811
Share capital		-	87,550	-	87,550
	(1)	5,565,575	26,204,783	-	31,770,358

		2016 Fair Value Measurement			
Description		**Level 1**	**Levell 2**	**Level 3**	**Total**
Debt - private		6,723,098	6,890,208	-	13,613,306
Debt - governmental		2,454,036	35,285,193	-	37,739,229
Share capital		·	82,960	-	82,960
	(1)	9,177,134	42,258,361	-	51,435,495

(1) Does not include interest receivable.

For investments in securities that are traded in active markets, fair value is determined by the reference price of the instrument published in stock exchange, published in electronic systems share prices, or prices provided by providers. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

25. Fair Value of Financial Instruments (Continued)

The table below describes the valuation techniques and inputs used in fair value measurements recurring classified within Level 2:

Financial Instruments	Valuation Techniques and Input Data Used
Available-for-sale	The method of discounted future cash flows is used. The model used to value fixed income instruments is based on the flows of the instruments, the remaining term to the valuation date, and flows discounted by a compound rate of the sum of the following variables: - Reference market rate - Adjustment spread of market facators Observable market prices

The table below describes the valuation techniques and inputs data used on financial assets and liabilities not measured at fair value classified in fair value hierarchy within Level 2:

Financial Instruments	Valuation Techniques and Input Data Used
Demand and time deposits, demand an savings client deposits	Fair value represents the amount receivable / payable at the balance sheet date.
Loans	The fair value for loans represents the discounted amount of estimated future cash flows to be received. Provided cash flows are discounted at current market rates to determine fair value.
Time client deposits, borrowings and debt issuance obligations	Discounted cash flows using market interest rates for new deposits, financing and debt obligations issued with a similar remaining maturity.

26. Segment Information

Management uses the following segment information based on the Bank's business for financial analysis:

The Bank focuses its business management and Corporate Banking with emphasis on external trade finance, which makes both the local market and abroad; likewise maintains business invoice discounting (factoring) and leasing. The Assets and Liabilities Committee monitors management by segments for which it evaluates its performance periodically. In view of the above, the ALCO Committee manages its business management, in segments that are presented in the table below:

	2017					
	Local Commercial Banking	Foreign Commercial Banking	Leasing and Factoring Services	Bicsa Miami	Eliminations	Total Consolidated
Income on interest and commissions	24,655,565	56,894,319	6,745,896	14,520,155	(8,180,655)	94,635,280
Interest expenses	(14,550,701)	(33,576,690)	(3,981,165)	(8,569,199)	8,180,655	(52,497,100)
Provisions	(1,539,092)	(2,860,850)	(909,947)	(8,811)	-	(5,318,700)
Other income, net	1,869,797	1,369,970	407,558	884,718	(876,748)	3,655,295
General and administrative expenses	(9,910,235)	(12,707,397)	(1,304,625)	(5,287,138)	-	(29,209,395)
Net income before income tax	525,334	9,119,352	957,717	1,539,725	(876,748)	11,265,380
Total assets	721,217,477	888,188,683	94,514,589	367,649,382	(273,619,235)	1,797,950,896
Total liabilities	609,809,527	818,687,278	80,724,553	327,454,788	(261,146,469)	1,575,529,677

	2016					
	Local Commercial Banking	Foreign Commercial Banking	Leasing and Factoring Services	Bicsa Miami	Eliminations	Total Consolidated
Income on interest and commissions	23,764,440	58,631,552	6,622,037	15,980,632	(7,969,788)	97,028,873
Interest expenses	(13,308,086)	(33,051,174)	(3,708,341)	(8,949,154)	7,969,788	(51,046,967)
Provisions	(1,400,000)	(8,210,127)	72,639	(292,897)	-	(9,830,385)
Other income, net	2,240,572	(915,934)	257,167	1,560,806	(358,108)	2,784,503
General and administrative expenses	(11,674,443)	(10,989,487)	(1,453,480)	(5,665,723)	-	(29,783,133)
Net income before income tax	(377,517)	5,464,830	1,790,022	2,633,664	(358,108)	9,152,891
Total assets	811,128,169	752,825,685	93,589,590	338,639,011	(273,872,553)	1,722,309,902
Total liabilities	680,619,501	710,223,310	80,768,082	300,828,605	(262,857,944)	1,509,581,554

27. Main Applicable Laws and Regulations

The main applicable laws and regulations of the Republic of Panama are detailed as follows:

(a) *Banking Law*
Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, according to the law established by Executive Decree No.52 of April 30, 2008, adopting the only text of the Law Decree No.9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008, whereby the banking system in Panama is established and the Superintendency of Banks and the rules governing it created.

For purposes of compliance with prudential norms issued by the Superintendency of Banks of Panama, the Bank shall prepare an estimate of the credit reserve based on regulatory guidelines. If the regulatory calculation is greater than the respective calculation determined under IFRS, an excess reserve is recognized in reserves regulatory equity. (See specific provisions).

(b) *Financial Leasing Law*
Leasing operations in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry according to the law established in the Act No.7 of July 10, 1990.

(c) *Trusts Law*
Trust operations are regulated in Panama by the Superintendency of Banks of Panama according to the legislation established in the Law No.21 of May 10, 2017.

(d) *Securities Law*
The Issuer's operations and stock brokerage in Panama are regulated by the Superintendency of Securities Market in accordance to the legislation established by Decree Law No.1 of July 8, 1999, amended through Law No.67 of September 1, 2011.

The operations of brokerage houses are in the process of adaptation to the Agreement No.4-2011, amended in certain provisions by Agreement No.8-2013, established by the Superintendency of Securities Market, which indicate that they are obliged to comply with the capital adequacy rules and modalities.

27. Main Applicable Laws and Regulations (Continued)

(e) Foreclosed Assets

For regulatory purposes, the Superintendency sets at five (5) years, counted from the date of registration in the Public Register, the deadline to alienate property acquired in settlement of unpaid loans. If after this period, the Bank has not sold the property acquired must make an independent valuation of the property to establish if this has decreased in value, applying in this case the provisions of IFRS.

Likewise the Bank should create a reserve account in equity, through the appropriation in the following order: a) undistributed profits; and b) profits for the period, to which the following transfers of value of the foreclosed property will be held:

First year	10%
Second year	20%
Third year	35%
Fourth year	15%
Fifth year	10%

The provisions mentioned above will be held until the effective transfer of the acquired good and such provision shall not be considered as a regulatory reserve for purposes of calculating the equity index.

(f) Specific Provisions

Agreement No.4-2013 states that specific provisions are originated when an objective and concrete evidence of impairment is given. These provisions must be established for credit facilities classified into the following risk categories: special mention, substandard, doubtful, or unrecoverable, for individual credit facilities as well as to a group of such credit facilities.

The Bank shall at all times calculate and maintain the amount of the specific provisions determined by the methodology specified in this Agreement, which takes into account the outstanding balance of each credit facility classified in any of the categories subject to provision mentioned in paragraph previous; the present value of each collateral available as risk mitigation, as established by type of guarantee in this Agreement; And a table of weights that is applied to the net balance exposed to loss of such credit facilities.

27. Main Applicable Laws and Regulations (Continued)

(f) Specific Provisions (continued)

In the case that an excess on the specific provision computed under this Agreement vs. the provision calculated under the IFRS exists, this excess is accounted for in a regulatory reserve under equity as an increase or decrease allocated to or from retained earnings. The balance of regulatory reserve will not be considered as capital funds for purposes of computing certain index or prudential ratios mentioned in the Agreement.

The Bank determines its country risk reserve in accordance with the provisions of General Resolutions No.7-2000 and No.1-2001 issued by the Superintendency of Banks of Panama.

The table below summarizes the classification of the loan portfolio of the Bank based on the Agreement No.4-2013 issued by the Superintendency of Banks of Panama:

	2017		2016	
	Loans	**Reserves**	**Loans**	**Reserves**
Individual impairment analysis:				
Special mention	74,173,070	10,187,849	45,083,651	5,508,623
Substandard	26,323,512	9,043,258	31,911,826	7,274,377
Doubtful	2,392,047	1,913,637	19,845,207	16,806,184
Unrecoverable	23,097,552	17,828,701	6,158,050	1,411,041
	125,986,181	38,973,445	102,998,734	31,000,225
Country risk reserve	-	6,609,804	-	6,540,150
Contingency reserve	-	279,288	-	199,654
Collective impairment analysis:				
Normal	1,378,247,647	-	1,302,907,470	-
Total impairment analysis	1,504,233,828	45,862,537	1,405,906,204	37,740,029
Plus: Interest receivables	6,980,103	-	5,981,376	-
Total porfolio and reserves	1,511,213,931	45,862,537	1,411,887,580	37,740,029
Less: Total provision for loan impairment	-	20,721,758	-	15,400,000
Total credit regulatory reserve	1,511,213,931	25,140,779	1,411,887,580	22,340,029

As of December 31, 2017, loans in non-accrual interest status amounted to US$40,340,398 (2016: US$27,419,202).

27. Main Applicable Laws and Regulations (Continued)

(f) Specific Provisions (continued)

The Agreement No.4-2013 defines as past due any credit facility that submits any unpaid principal amount, interest or expenses contractually agreed, with a length of more than 30 days and up to 90 days from the date set for compliance the payments.

The Agreement No.4-2013 delinquent as past due any credit facility whose failure to pay the contractually agreed amounts is older than 90 days. This period shall be calculated from the date set for compliance with the payments. Operations with a single payment at maturity and overdrafts, shall be due when the age of nonpayment exceed 30 days from the date on which is established the obligation to pay.

Loans with past due and delinquent amounts based on the Agreement No.4-2013 are as follows:

2017			2016		
Defaulters	**Past Due**	**Total**	**Defaulters**	**Past Due**	**Total**
3,713,336	26,925,554	30,638,890	1,305,311	26,049,748	27,355,059

On the other hand, based on the Agreement No.8-2014, recognition of interest income based on past due days in paying principal and / or interest and the type of credit transaction are suspended according to the following:

a) For consumer and business loans, if overdue more than 90 days and
b) For mortgage residential loans, if overdue more than 120 days

(g) Dynamic Provision

Agreement No.4-2013 states that the dynamic provision is a reserve established to meet possible future needs for establishment of specific provisions, which is governed by its own criteria prudential banking regulation. The dynamic provision is constituted on a quarterly basis on credit facilities lacking specific provision assigned that is credit over facilities classified in the normal category. This Agreement regulates the methodology for calculating the amount of dynamic provisioning, which considers a maximum and minimum percentage restriction applicable to the amount of the specific provision for credit facilities classified in the normal category.

27. Main Applicable Laws and Regulations (Continued)

(g) Dynamic Provision (continued)

The dynamic provisioning is an equity account that increases or decreases with assignments or to undistributed profits. The creditor balance of this dynamic provision is part of regulatory capital, but does not replace nor compensates the capital adequacy requirements established by the Superintendency.

The following table summarizes the balance consisting of dynamic provisioning by the Bank and its subsidiaries:

	2017	**2016**
BICSA, S. A.	27,332,382	27,332,382
Arrendadora Internacional, S. A.	2,110,044	2,110,044
	29,442,426	29,442,426

28. Suplementary Information for the Consolidated Statements of Cash Flows

The changes in financing and debt issued are the following:

	2017	**2016**
Balance at the beginning of the year	623,160,145	687,627,686
Debt issued and financing	759,354,238	540,551,545
Debt and financing amortization	(692,275,312)	(606,550,815)
Interest	754,276	1,531,729
Balance at the end of the year	690,993,347	623,160,145