

**FREE ENGLISH LANGUAGE TRANSLATION  
FROM SPANISH VERSION**

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

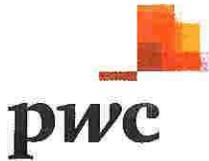
**Report and Consolidated Financial Statements  
December 31, 2018**

**Banco Internacional de Costa Rica, S. A. y Subsidiarias  
(Panama, Republica of Panama)**

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December 31, 2018**

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**FREE ENGLISH LANGUAGE TRANSLATION  
OF SPANISH VERSION**

**Independent Auditors' 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, 2018, 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, 2018;
- 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 Ethics 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.

**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, 2018. 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.



Provision for impairment loans	Form in which our audit addressed the matter
<p>As of January 1, 2018, the Bank adopted a new methodology for estimating the provision for loans impairment, based on the concept of expected credit loss, as required by IFRS 9 - Financial instruments - recognition and measurement. This estimate requires complex analyzes and the use of subjective judgments by the Bank's management, such as: the identification of the significant increase in credit risk (ISRC); estimation of the parameters of loss given default "LGD", exposure at default "EAD", the probability of default "PD" and the inclusion of prospective information.</p> <p>The Bank uses the following methodologies to determine the provision for loans impairment:</p> <ul style="list-style-type: none"> <li>Individually Evaluated Loans           <ul style="list-style-type: none"> <li>• As of December 31, 2018, the Bank holds B/.34 million of loans evaluated individually and a provision for impairment of B/.9.3 million. The Bank evaluates impaired loans using the projection of future cash flows, the guarantees granted and the client's credit behavior. The amount of the loss is determined based on the balance owed minus the weighted net present value of the expected future cash flows.</li> </ul> </li> <li>Collectively Evaluated Loans           <ul style="list-style-type: none"> <li>• As of December 31, 2018, the Bank maintains B/.1,553 million of loans collectively evaluated and an impairment provision of B/.11.4 million. The Bank evaluates collectively by grouping portfolios of financial assets with similar characteristics. This expected loss model incorporates estimates based on internal information from the Bank that allows identifying the significant increase in risk (ISRC). The expected credit loss is determined under the following formula: Expected credit loss = probability of default * exposure to default * loss given default (ECL = PD * EAD * LGD).</li> </ul> </li> </ul> <p>See Note 5 to the consolidated financial statements (page 35).</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• We evaluated the design and tested the operational effectiveness of the controls on the determination of the provision for loans impairment.</li> <li>• We evaluate the Bank's methodology used to determine the impairment provision under the concept of expected losses.</li> </ul> <p>For individually evaluated loans, we perform the following:</p> <ul style="list-style-type: none"> <li>• We select a sample of loans and review the future cash flows estimated by the Bank, considering the guarantees, if any, and compare the results with our accumulated knowledge and the Bank's historical experience.</li> <li>• For a sample of impaired loans, we compare the valuation of the guarantees determined by the Bank with the evaluation of an independent third party.</li> </ul> <p>For the provision of impairment evaluated collectively, we perform the following:</p> <ul style="list-style-type: none"> <li>• We evaluate the assumptions applied, such as the probability of default (PD) and loss given the default (LGD). We compare the percentages of calculation of these variables the data used (recoveries, punishments, and "defaults") vs. the historical information of the Bank.</li> <li>• We evaluate the prospective macroeconomic scenarios included in the calculation of the expected loss and compare them with market information.</li> </ul> <p>Based on the above information, we recalculate the collective provision of Bank loans.</p>



To the Shareholders and Board of Directors of  
Banco Internacional de Costa Rica, S. A.  
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#### **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 governance 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 is 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 skepticism 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 override of internal control.



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

*PricewaterhouseCoopers (Signed)*

March 29, 2019  
Panama, Republic of Panama

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

(Panama, Republic of Panama)

**Consolidated Statement of Financial Position  
December 31, 2018**

(Figures in Dollars of United States of America)

Assets	Note	2018	2017	Liabilities and Equity	Note	2018	2017
Cash		944,524	1,156,281	Client deposits:			
Deposits in bank:				Demand - local		28,377,157	22,917,415
Demand deposits in local banks		12,553,068	9,098,954	Demand - foreign		87,750,535	123,180,219
Demand deposits in foreign banks		116,772,159	108,136,870	Savings		75,341	162,932
Time deposits in local banks		87,905,041	85,021,588	Time - local		309,005,644	300,494,216
Time deposits in foreign banks		-	8,285,918	Time - foreign		292,065,971	269,637,342
Total deposits in banks	22	<u>217,230,268</u>	<u>210,543,330</u>	Interbank time deposits:			
Total cash and deposits in banks	6	<u>218,174,792</u>	<u>211,699,611</u>	Locals		110,161,537	101,506,258
Investments securities	7	42,437,093	44,503,607	Foreign		32,834,789	46,742,236
Loans	8,22	1,587,152,824	1,511,213,931	Total deposits	22	<u>860,270,974</u>	<u>864,640,618</u>
Less: Provisión for impairment in loans	8	20,785,837	20,721,758	Borrowings	13	692,840,004	533,105,218
Unearned interest and commissions		486,269	475,132	Debt	14	107,342,492	157,888,129
Loans, net		<u>1,565,880,718</u>	<u>1,490,017,041</u>	Money orders, cashier checks and certificates		2,719,803	1,113,433
Properties, equipment and improvements, net	9	15,802,670	16,344,710	Obligations for clients acceptances		22,878,933	7,230,904
Customers liabilities on acceptances		22,878,933	7,230,904	Other liabilities	15	<u>14,093,480</u>	<u>11,551,375</u>
Intangible assets, net	10	5,409,947	6,616,521	Total liabilities		<u>1,700,145,686</u>	<u>1,575,529,677</u>
Deferred income tax	11	1,855,528	1,703,265	Equity:			
Others assets	12	51,465,309	19,835,237	Common shares	17	132,787,000	132,787,000
				Capital reserve		150,000	150,000
				Regulatory reserve	26	50,705,782	55,140,027
				Impairment reserve for securities with changes in OCI		80,532	-
				Valuation reserve of securities	7	(1,575,152)	(194,621)
				Retained earnings		<u>41,611,142</u>	<u>34,538,813</u>
				Total equity		223,759,304	222,421,219
				Commitments and contingencies	19		
Total assets		<u><u>1,923,904,990</u></u>	<u><u>1,797,950,896</u></u>	Total liabilities and equity		<u><u>1,923,904,990</u></u>	<u><u>1,797,950,896</u></u>

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, 2018***(Figures in Dollars of United States of America)*

	Note	2018	2017
<b>Income on Interest and Commissions</b>			
Interest on:			
Loans	22	98,256,356	86,502,301
Deposits in banks		2,387,019	1,341,932
Investments		1,710,802	1,525,911
Commissions on loans		6,051,540	5,265,136
Total income in interest and commissions		<u>108,405,717</u>	<u>94,635,280</u>
<b>Interest Expenses</b>			
Deposits	22	27,815,054	26,335,015
Borrowings		29,127,137	19,564,944
Debt		6,844,355	8,149,664
Total interest expenses		<u>63,786,546</u>	<u>54,049,623</u>
<b>Net income on interests and commissions, before provision</b>		44,619,171	40,585,657
Provision for loan losses	8	(4,957,571)	(5,318,700)
Net income on interests and commissions, after provision		<u>39,661,600</u>	<u>35,266,957</u>
<b>Income (Expenses) for Bank Services and Others</b>			
Other commissions	20	2,523,623	3,918,063
Net gain realized on investments	7	-	53,531
Fiduciary services		1,107,797	1,361,762
Commission expenses	21	(695,798)	(790,101)
Other income	20	728,610	2,799,563
Impairment in assets available-for-sale		(2,463,020)	(2,135,000)
Total income for bank services and others, net		<u>1,201,212</u>	<u>5,207,818</u>
<b>General and Administrative Expenses</b>			
Salaries and other personnel expenses	16, 21, 22	15,488,489	15,447,668
Rent		1,221,826	1,193,188
Advertising and promotion		130,485	123,152
Fees and professional services		1,907,143	1,989,591
Depreciation	9	940,678	1,424,670
Amortization of intangible assets	10	1,550,069	1,797,528
Others	21	7,302,038	7,233,598
Total general and administrative expenses		<u>28,540,728</u>	<u>29,209,395</u>
Income before income tax		12,322,084	11,265,380
Income tax	11	(1,233,909)	(880,263)
Deferred income tax	11	152,264	(900,843)
Net income		<u>11,240,439</u>	<u>9,484,274</u>
<b>Net income per share</b>	18	<u>0.85</u>	<u>0.71</u>

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, 2018**  
*(Figures in Dollars of United States of America)*

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	<b>2018</b>	<b>2017</b>
Net income of the period	<u>11,240,439</u>	<u>9,484,274</u>
<b>Others (losses) comprehensive income:</b>		
<b>Items that are or may be reclassified to results of operations:</b>		
Reclassification to income for sales of securities	-	(53,531)
Net changes in the fair value of securities	<u>(1,380,531)</u>	<u>627,710</u>
Other comprehensive income, net	<u>(1,380,531)</u>	<u>574,179</u>
Total comprehensive income of the year	<u><u>9,859,908</u></u>	<u><u>10,058,453</u></u>

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, 2018**

(Figures in Dollars of United States of America)

	<u>Common Shares</u>	<u>Capital Reserve</u>	<u>Regulatory Reserves</u>	<u>Impairment Reserve of Securities with Changes in OCI</u>	<u>Valuation Reserve of Securities</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance as of December 31, 2016	132,787,000	150,000	52,314,090	-	(768,800)	28,246,058	212,728,348
Net income	-	-	-	-	-	9,484,274	9,484,274
Other comprehensive income, net	-	-	-	-	574,179	-	574,179
<b>Other Movements in Equity</b>							
Regulatory reserves	-	-	2,825,937	-	-	(2,825,937)	-
Total other movements in equity	-	-	2,825,937	-	-	(2,825,937)	-
<b>Transactions with the Shareholders</b>							
Complementary tax	-	-	-	-	-	(365,582)	(365,582)
Balance as of December 31, 2017	<u>132,787,000</u>	<u>150,000</u>	<u>55,140,027</u>	<u>-</u>	<u>(194,621)</u>	<u>34,538,813</u>	<u>222,421,219</u>
Balance as of December 31, 2017	132,787,000	150,000	55,140,027	-	(194,621)	34,538,813	222,421,219
Impact of adoption of IFRS 9	-	-	-	61,300	-	(8,194,944)	(8,133,644)
Balance as of January 1, 2018, adjusted	132,787,000	150,000	55,140,027	61,300	(194,621)	26,343,869	214,287,575
Net income	-	-	-	-	-	11,240,439	11,240,439
<b>Other Comprehensive Income</b>							
Other comprehensive income, net	-	-	-	19,232	(1,380,531)	(19,232)	(1,380,531)
<b>Other movements in Equity</b>							
Specific regulatory reserve of loans	-	-	(4,434,245)	-	-	4,434,245	-
Other adjustments	-	-	-	-	-	7,815	7,815
Impairment of foreclosed assets	-	-	-	-	-	(14,394)	(14,394)
Total other movements in equity	-	-	(4,434,245)	-	-	4,427,666	(6,579)
<b>Transactions with the Shareholders</b>							
Complementary tax	-	-	-	-	-	(381,600)	(381,600)
Balance as of December 31, 2018	<u>132,787,000</u>	<u>150,000</u>	<u>50,705,782</u>	<u>80,532</u>	<u>(1,575,152)</u>	<u>41,611,142</u>	<u>223,759,304</u>

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, 2018***(Figures in Dollars of United States of America)*

	Note	2018	2017
<b>Cash flows for operating activities</b>			
Net income		11,240,439	9,484,274
Adjustments to reconcile the net income with net cash used in operating activities:			
Provision for loan losses		4,957,571	5,318,700
Depreciation		940,678	1,424,670
Net gain on investments		-	(53,531)
Net gain in fixed assets		(42,958)	(204,536)
Amortization of intangible assets		1,550,069	1,797,528
Deferred income tax		(152,263)	900,843
Income on interests and commissions		(108,405,717)	(94,635,280)
Interest expenses		62,044,321	52,497,100
Net changes in operating assets and liabilities:			
Time bank deposits with original maturities more than 90 days		285,918	(27,429)
Loans		(87,853,088)	(97,898,626)
Deposits		(5,088,066)	5,664,515
Other assets		(47,197,569)	4,492,256
Other liabilities		19,571,434	(6,908,964)
Income tax paid		-	(628,048)
Interests received		107,274,005	93,741,564
Interests paid		(58,361,862)	(52,366,675)
Net cash used in operating activities		<u>(99,237,088)</u>	<u>(77,401,639)</u>
<b>Cash flows from investing activities</b>			
Purchase of investment securities		(34,418,258)	(20,720,443)
Proceed from the sales of securities		-	24,238,202
Redemptions and maturity of investments		35,258,513	16,789,473
Acquisition of properties and equipment		(977,886)	(575,911)
Acquisition of intangible assets		(343,495)	(2,246,191)
Sale of properties and equipment		622,206	524,357
Net cash provided by the investing activities		<u>141,080</u>	<u>18,009,487</u>
<b>Cash flows from financing activities</b>			
Payments of borrowings and debt issuance		(1,028,623,506)	(692,275,312)
Borrowings and debt issuance		1,134,848,618	759,354,238
Complementary tax paid		(381,600)	(365,582)
Net cash provided by financing activities		<u>105,843,512</u>	<u>66,713,344</u>
Net increase in cash and cash equivalents		6,747,504	7,321,192
Cash and cash equivalents at beginning of the year		<u>211,392,105</u>	<u>204,070,913</u>
Cash and cash equivalents at end of the year	6 4	<u><u>218,139,609</u></u>	<u><u>211,392,105</u></u>

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)

**Notes to the Consolidated Financial Statements**  
**December 31, 2018**  
(Figures in Dollars of the United States of America)

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**1. General Information**

Banco Internacional de Costa Rica, S. A. is incorporated under the laws of the Republic of Panama since 1976, and operates under a general license granted by the Superintendence of Banks, to carry out banking business either in 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 .

The following is a description of the consolidated subsidiaries of Banco Internacional de Costa Rica, S. A.:

<u>Entity</u>	<u>Nature</u>	<u>Country of Incorporation</u>	<u>Controlling Interest</u>	
			2018	2017
Arrendadora Internacional, S. A.	Financing leasing, loans and factoring	Panamá	100%	100%
BICSA Capital, S. A.	Security House and Stock Exchange	Panamá	100%	100%

- Arrendadora Internacional, S. A. and Subsidiary is dedicated to grant financing through financial leases and purchase invoices. The financial leasing operations in Panama are regulated by the Financial Companies Directorate of the Ministry of Commerce and Industries according to the legislation established in Law No.7 of June 10, 1990. This Company has a 100% owner subsidiary, Bicsa Leasing, S. A., a company incorporated under the laws of Costa Rica dedicated to grant financial leases in Costa Rica.
- BICSA Capital, S. A. is dedicated to carrying out activities related to the securities house and as a Stock Exchange. On October 29, 2012, the Superintendence of the Market Securities through Resolution No. SMV-363-2012 granted the securities house license to BICSA Capital, S. A. The securities houses are regulated by the Superintendence of Securities Market, according to the legislation established in Decree Law No.1 of July 8, 1999, reformed 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 an Associated Stock Exchange and, as of May 9, 2017, the latter obtains the right to operate the Stock Exchange as a Full Member.

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

**Notes to the Consolidated Financial Statements**  
**December 31, 2018**  
*(Figures in Dollars of the United States of America)*

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

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

The main office of the Bank is located in the BICSA Financial Center Building, No.50 Floor, Aquilino de la Guardia Street and Balboa Avenue, Panama City, Republic of Panama. As of December 31, 2018, the Bank maintained a total of 237 (2017: 236) permanent employees.

## **2. Basis of Preparation**

### **Declaration of Compliance**

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

### **Basis of Measurement**

These consolidated financial statements have been prepared based on historical cost or amortized cost, except for investments in securities at fair value with changes in other comprehensive income and assets foreclosed for sale, which are measured at the lower of the carrying amount and the estimated realizable value.

### **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 its own paper currency and, instead, the US dollar (US\$) is used as legal tender, which is considered the functional currency of the Bank.

### **New Rules and Amendments Adopted by the Bank**

The following rules have been adopted by the Bank for the first time for the fiscal year that began on January 1, 2018.

### **IFRS 9 - Financial Instruments**

In July 2014, the IASB published the final version of this standard that completed the project to replace IAS 39 -Financial instruments: Recognition and measurement, introducing, mainly, new criteria for the classification and subsequent measurement of financial assets and liabilities, requirements of impairment of value related to the accounting of expected losses and hedge accounting.

**Notes to the Consolidated Financial Statements**  
**December 31, 2018**  
*(Figures in Dollars of the United States of America)*

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**Classification and Measurement:** IFRS 9 establishes the categories amortized cost, fair value with changes in results and fair value with changes in other comprehensive income to classify financial assets, based on the entity's business model to manage such assets and the characteristic of the flows that these grant. The last category has been introduced for specific simple debt instruments and equity instruments for which the entity irrevocably designates its variations in other comprehensive income from the initial recognition.

**Impairment**

IFRS 9 proposes significant changes in the assessment of the impairment of the value of financial instruments and therefore their associated risk, going from a loss model incurred to one of expected impairment loss. This new norm also proposes the definition of a model that identifies a significant increase in credit risk (SICR) in an instrument prior to the identification of objective evidence of impairment (OED) and for which a loss should be measured at time life of the asset.

The requirements related to the impairment apply to financial assets measured at amortized cost and fair value with changes in OCI (FVOCI) whose business model has the objective of receiving contractual flows and / or sales (as well as accounts receivable from leases), loan commitments and financial guarantees).

See impact of the adoption of IFRS 9 in Note 27 to the consolidated financial statements.

**IFRS 15 Ordinary Revenue from Contracts with Customers**

On May 28, 2014, the IASB published IFRS 15, which establishes the principles of presentation of useful financial information about the nature, amount, timing and uncertainty of income and cash flows generated from the contracts of an entity with its customers. IFRS 15 establishes that an entity recognizes income from ordinary activities in a way that represents the transfer of goods or services committed to customers in exchange for an amount that reflects the consideration to which the entity expects to be entitled to exchange said assets or services. IFRS 15 replaces IAS 11 - Construction Contracts, IAS 18 - Revenue from ordinary activities, as well as related interpretations. This regulation is effective for the period beginning on January 1, 2018, allowing its early application. A significant proportion of the Bank's income is outside the scope of IFRS 15, since most of the income comes from the operation of financial instruments.

The transition method used by the Bank in the implementation of IFRS 15 was the modified retrospective approach, because it was decided to apply the Standard retroactively only to current contracts that were not completed on the initial application date, adopting the standard as of January 1, 2018.

In the evaluation of the criteria of the standard, it was concluded after the analysis that there are no modifications to the recognition of the income for the Bank.

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**Accounting Pronouncements Issued Recently and Applicable in Future Periods**

**IFRS 16 Leases**

On January 13, 2016, the IASB issued the final version of IFRS 16 Leases that replaces IAS 17 leases, IFRIC 4 Determination of whether a lease contains a lease, IAS 15 Incentives in lease agreements and IAS 27 Evaluation of the substance of the transaction. This standard is effective as of January 1, 2019, establishes the principles of recognition, measurement, presentation and disclosure of leases, and requires lessees to account for all their leases under the same balance sheet model similar to the accounting under IAS 17 of the Finance leases. The standard includes two recognition exemptions for tenants: leasing of low-value assets (for example, personal computers) and short-term leases (that is, leases with a term of less than 12 months). At the beginning of the lease, the lessee will recognize a liability for the payment of royalties (liability for lease) and an asset that would represent the right to use the underlying asset during the term of the lease (right to use the asset). Tenants must separately recognize the interest expense of the lease liability and the depreciation expense of the right to use.

Tenants must also remediate the lease liability upon the occurrence of certain events (for example, a change in the term of the lease, a change in future fees as a result of a change in the rate or rate used to determine such fees ). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment in the right-of-use asset.

The accounting of the lessor under IFRS 16 does not have substantial modifications with respect to that made under the requirements of IAS 17. The lessors will continue to classify all their leases using the same classification principles of IAS 17, between financial and operating leases.

The Bank does not foresee a material impact on the consolidated financial statements resulting from the adoption of this standard.

**Modification to the Conceptual Framework**

The conceptual framework issued in 2018 establishes financial information concepts that guide the International Accounting Standards Board in the development of IFRS, such as concepts of presentation and disclosure of information in financial statements, contributing to the Transparency and improving comparability, among others. The effective date for this modification is January 1, 2020, with prospective application, although its early adoption is allowed.

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**3. Summary of Significant Accounting Policies**

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

**Consolidation Basis**

*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. and BICSA Capital, S. A. All balances and significant transactions between companies have been eliminated in consolidation.

*Subsidiaries*

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

*Investment Companies and Separate Vehicles*

The Bank manages and administers assets held in trusts and other investment vehicles in support of 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 voting or similar rights 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 conducted through contractual agreements. In order to determine if the Bank has control and therefore determine if the structured entity is consolidated, factors of the investee are evaluated; such as, its purpose and design; his present ability to direct the relevant activities; the nature of your relationship with other parties; and exposure to variable returns from their involvement in the investee.

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**Transactions in Foreign Currency**

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

Non-monetary assets and liabilities denominated in foreign currencies that are valued at fair value are reconverted to the functional currency at the exchange rate on the date on which the fair value was determined. Differences in foreign currency that arise during the conversion are recognized in profit or loss, except in the case of differences that arise in the conversion of equity instruments at fair value to other comprehensive income, a financial liability designated as a hedge of the net investment in a operation abroad, or qualified cash flow hedges, which are recognized directly in the consolidated statement of comprehensive income.

**Cash and Cash Equivalents**

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

**Financial instruments**

***Accounting policies used as of January 1, 2018***

The Bank classifies financial assets at amortized cost (AC) at fair value with changes in other comprehensive income (FVOCI) based on the entity's business model to manage the assets financial statements and the characteristics of the contractual cash flows of the financial asset.

Financial assets at amortized cost (AC): Financial assets are measured at amortized cost if they meet the following conditions:

- The asset is maintained within a business model whose objective is to maintain assets to obtain contractual cash flows; and
- The contractual terms of the financial asset establish specific dates for the cash flows derived only from payments of principal and interest on the current balance.

Interest income from these financial assets is included in "interest income" using the effective interest rate method.

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**Financial Assets at Fair Value with Changes in Other Comprehensive Income (FVOCI)**

Financial assets are measured at fair value with changes in other comprehensive income only if they meet the following conditions:

- The asset is maintained within a business model whose objective is achieved by collecting contractual cash flows and selling these financial assets; and
- The contractual terms of the financial asset establish specific dates for the cash flows derived only from payments of principal and interest on the current balance.

Interest income from these financial assets is included in "interest income" using the effective interest rate method.

**Evaluation of the Business Model**

The Bank conducted an evaluation of the objectives of the business models in which the different financial assets are maintained at the portfolio level to reflect, in the best way, the way in which the business is managed and how the information is provided to the Management. The considered information includes:

- The policies and objectives indicated for each portfolio of financial assets and the operation of those policies in practice. These include whether Management's strategy focuses on collecting only capital and interest payments, maintaining a specific interest rate profile or coordinating the duration of financial assets with the liabilities that are financing them or the expected cash outflows, or realize cash flows through the sale of the assets;
- How the key personnel of the Bank's Management are evaluated and informed on the performance of the portfolios;
- The risks that affect the performance of the business models (and the financial assets held in the business model) and the way in which said risks are managed;
- How the business managers are remunerated (for example, if the compensation is based on the fair value of the assets under Management or on the contractual cash flows obtained);

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- The frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However, information about the sales activity is not considered in isolation but as part of an evaluation of how the Bank's objectives established to manage the financial assets are achieved and how the cash flows are made.
- Business model whose objective is to maintain the assets to obtain the contractual cash flows: A portfolio of financial assets is managed with the objective of obtaining cash flows through capital and interest payments throughout the life of the instrument, even when the Sales of financial assets take place or are expected to occur in the future.
- Business model whose objective is to achieve the obtaining of contractual cash flows and the sale of financial assets. In this type of business model there are different objectives that can be seen framed, for example, an objective to manage the daily liquidity needs, maintain a specific interest performance profile or coordinate the duration of financial assets along with liabilities with that these assets are being financed.

In comparison with the business model in which the goal is to maintain financial assets to collect cash flows through the payment of principal and interest, this business model usually involves higher frequency and sales value, without the need to have a frequency threshold or defined value, since sales and collection of contractual flows are combined in a way that allows achieving the objective of the business model.

- Change of business model business  
When this changed for the management of financial assets, all affected assets must be reclassified prospectively from the date of reclassification and the previously recognized gains, losses or interests, including profits or losses, will not be restated losses due to impairment of value.

The loans have a contractual interest rate based on a duration that does not exceed the remaining life of the instrument. The majority of the Bank's operations do not contemplate a periodic reestablishment of interest rates and, in the event of an operation of this type, it is based on the evaluation of credit risk, and in the currency in which it is denominated the asset, validating that the period in which the interest rate is established corresponds to its validity. In these cases, the Bank will evaluate if the discretionary characteristic is consistent with the criterion of only capital and interests considering a number of factors that include if:

- The debtors are able to pre-pay the loans without major penalties;
- Competitive market factors ensure that interest rates are consistent among banks;
- Any regulatory regulation of protection put in favor of the clients.

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All consumer and commercial loans at fixed rates contain conditions for prepayment.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated with a premium or discount of its nominal contractual amount and the prepaid amount substantially represents the contractual amount at the same time plus the interest accrued contractually, but not paid, which may include reasonable compensation for early termination, and the fair value of the prepaid feature is insignificant upon initial recognition.

*Impairment of financial assets*

Losses are determined using the methodology that applies the concept of expected credit losses (ECL). The expected losses are based on the possibility of potential future cash deficits, which are based on potential default events of the debtor.

The expected losses of a portfolio are calculated based on the risk parameters: Probability of Default (PD); Severity or Loss given default (LGD) and Exposure in the breach (EAD).

This expected loss is calculated using risk parameters estimated with internal models based on the Bank's historical information.

IFRS 9 determines the provisions in a staggered manner depending on the stage of the level of risk that the financial instrument experiences.

The requirements related to the impairment apply for financial assets measured at amortized cost, and fair value with changes in other comprehensive income (FVOCI) whose business model has as objective the reception of contractual flows and / or sale.

The Bank, in accordance with IFRS 9, estimates the Expected Credit Loss (ECL) based on the present value of the difference between contractual cash flows and expected cash flows from the instrument (in the special case of products such as loan commitments).

IFRS 9 establishes a detailed credit loss assessment in accordance with the inherent credit risk of the instruments. In this way, an evaluation of the credit risk profile of the instrument will determine its classification in a determined stage and consequently a specific ECL estimation model.

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The model based on expected loss calculated by the Bank classifies financial assets in a pattern of impairment in stages. In this way, three "stages" of risk are differentiated:

Stage 1: In the first "stage", there are those operations that do not show a significant increase in risk since the initial recognition.

Stage 2: In this stage, the Bank differentiates those operations whose risk is significantly impaired at the reporting date with respect to their origination.

Stage 3: In this stage, as mentioned in the standard, operations that have objective evidence of impairment are included. This concept is aligned both with the definitions of non-compliance that the Bank's risk management follows, as well as with the definition of regulatory noncompliance. Additionally, the Bank considers as default those customers whose classification in the Superintendence of Banks of Panama is greater than or equal to the subnormal category.

Taking into consideration the classification of financial assets according to the stages described, the following components are used for the establishment of provisions:

Stage 1: Expected losses to 12 months for the Loss given Default due to Non-compliance.

Stage 2: Expected losses according to the term of the operation due to the Loss given the Default due to Non-compliance.

Stage 3: It is based on an evaluation of the exposures on a case-by-case basis. The expected loss calculated by comparing the present value of the expected future cash flows, discounted at the current loan rate or the fair value of the loan guarantee minus the costs for sale, against its current carrying amount and the amount of any loss is recognized as a provision for losses in the consolidated statement of income.

The Bank has defined that the measurement of the deterioration of the credit portfolio can be done through a collective or individual evaluation according to the amount and characteristics of the credit.

The measurement of the deterioration was made through collective and individual evaluation models, with sufficient sophistication required for each portfolio; Collective models include parameters of probability of default at 12 months, probability of non-compliance throughout the life of the obligation, loss given non-compliance, and exposure to non-compliance with the inclusion of the prospective criterion. The individual analysis methodology is applied in significant exposures and includes the evaluation of weighted loss scenarios, taking into account the macroeconomic expectations and the particular conditions of each debtor.

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- **Individual methodology**  
The Bank evaluates the loans classified as non-compliance by analyzing the debt profile of each debtor, the guarantees granted and financial information and the credit behavior of the client and the sector. Significant financial assets are considered unfulfilled when, based on current or past information and events, it is probable that the entity will not be able to recover all the amounts described in the original contract, including the interest and commissions agreed in the contract. When a significant financial asset has been identified as non-compliant, the amount of the loss is measured as the balance due minus the weighted net present value of the future cash flows expected under three macroeconomic scenarios with an expected probability of occurrence.
- **Collective methodology**  
For defaulted loans that are not considered individually significant; when it is determined that the fundamental source of collection of the loan is a guarantee, the amount of the loss is estimated as the balance due minus the net present value of the expected value of the collateral. This is affected by multiple macroeconomic scenarios with an expected probability of occurrence that result in a weighted expected loss.

For non-defaulted loans and unfulfilled loans that are not considered individually significant or that the fundamental source of collection is a guarantee, an evaluation is carried out collectively, grouping portfolios of financial assets with similar characteristics. This expected loss model incorporates statistical methodologies that allow identifying the significant increase in risk (ISRC) throughout the life of an instrument, prior to the identification of objective evidence of impairment (OED).

- **Measurement of expected credit losses**

To estimate the provisions under the collective methodology, the following formula is used:

Impairment:  $EAD$  (Exposure at default) \*  $PD$  (Probability of Default) \*  $LGD$  (Loss given default).

The quantification of the expected credit losses takes into account the following factors:

Probability of default ( $PD$ ): estimated probability of occurrence of non-compliance of the instrument.

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IFRS 9 proposes the specification of this parameter and its application discriminated according to the risk status of the instrument. These stages are summarized below:

- Stage 1: is the estimated probability of occurrence of a breach in the next 12 months of the instrument's life as of the date of analysis. The Bank according to the standard defines its use for the healthy portfolio that does not present a significant increase in risk or any evidence of impairment. To estimate the probability of default for 12 months, the Bank uses traditional techniques such as logistic regression, modeling the behavior of the portfolio by level of risk for each of the segments.
- Stage 2: is the estimated probability of occurrence of a breach over the remaining life of an instrument, being dependent on the conditions of the specific product to be analyzed. The Bank according to the standard defines its use for the portfolio with a significant increase in credit risk. The Bank estimates this factor through survival models, which provide a statistical analysis to quantify the survival rate of a portfolio for a given period. One of the advantages presented by the model is the inclusion of censored data within the analysis, that is, those instruments that leave the portfolio during the observation period for various reasons (cancellations, sales and others).
- Stage 3: customers evaluated by the collective methodology have a probability of default of 100% associated.

Loss given default (LGD): is the percentage of exposure that you ultimately expect to lose from the Bank in the event of a default in a financial instrument. The general formulation for the calculation of the PDI is  $PDI = 1 - \% \text{ of recovery}$ , where the percentage of recovery refers to the sum of the flows received from the operation discounted at the rate of the obligation on the date of analysis on the total exposure at the time of non-compliance.

Exposure at default (EAD): is the exposed value of the asset valued at amortized cost (includes the balance of capital, interest and accounts receivable). In the case of products whose nature is of a rotating nature and have an available quota that is likely to be used in its entirety, the estimation of the (EAD) considers the use of the risk conversion factor (FCR), in order to find a relationship regarding the use and the unused component of the instrument.

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*Significant increase in credit risk*

The Bank determines whether the credit risk of a financial asset has increased significantly since its initial recognition, considering reasonable and sustainable information that is relevant and available without cost or disproportionate effort, including information and analysis of a quantitative nature and qualitative based on historical experience and expert credit assessment including future information.

When a financial instrument has a low credit risk at the reporting date, the entity can assume that such credit risk has not been significantly increased since the initial recognition. The above occurs when the financial instrument has a low default risk, the borrower has a strong ability to meet its cash flow obligations through the payment of principal and interest in the near term and adverse changes in economic and business conditions in the long term they can reduce, but not necessarily, the ability of the borrower to satisfy its cash flow obligations.

The portfolio classified in stage 2 will include those instruments that comply with the corporate definition of a significant increase in risk. To establish whether an asset presents a significant increase in risk since the initial recognition, an evaluation of quantitative and qualitative factors is carried out, these factors are:

Assets with arrears of more than 30 days, except for the mortgage portfolio where a default height greater than 60 days is considered.

- Assets restructured by risks, where the customer is experiencing financial difficulties.
- Clients in the observation list (Special Customer Administration) with medium risk level.
- Instruments with increased risk from the origin through the identification of a threshold in the change of the probability of default of the life of the asset.
- In addition, the Bank reviews every six months if there are collective criteria for the migration of a group of clients to stage 2.
- Definition of Default:

The portfolio classified in stage 3 will include those instruments that comply with the corporate definition of non-compliance.

An asset is considered to be in default when it has any of the following characteristics:

- Customers who have a default of more than 90 days in any of their obligations, except for the mortgage portfolio, where it is considered unfulfilled in a default of more than 180 days.
- Clients who present at least one instrument punished.
- Clients in special states of restructuring law or business reorganization and insolvency agreements.
- Clients on watch list with high risk level.
- Qualified customers in non-compliance category according to the internal rating models.

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**Looking-Forward Information**

The Bank has incorporated macroeconomic scenarios in the calculation of the expected loss in order to reflect the prospective effect. The inclusion of macroeconomic conditions in the models of expected loss is made from methodologies that correlate the historical behavior of the portfolio with certain economic variables. The Bank has made the projection of three macro scenarios (base, pessimistic and optimistic).

Each scenario has a plausible probability of occurrence in order to evaluate the best estimate of the expected credit loss under possible future economic conditions. The Bank has carried out statistical analyzes in which it has determined that the monthly economic activity index (IMAE) is the macroeconomic variable that has the highest correlation with the levels of the Bank's overdue portfolio.

**Policies Used until December 31, 2017**

**Investments in Securities**

Investments in securities are classified at the trading date, and initially measured at fair value plus incremental costs related to the transaction, and are subsequently accounted for, based on the classifications according to the characteristics of the instrument and the purpose for which was determined its acquisition. The classifications used by the Bank are detailed below:

*Investment available-for-sale*

This category includes investments acquired with the intention of maintaining them for an indefinite period, which can be sold in response to liquidity needs, changes in interest rates, currency exchange rates or prices. of the stock market. These investments are measured at fair value and changes in value are recognized directly in the consolidated statement of comprehensive income using a reserve account for valuation until they are sold or redeemed (written-off) or it has been determined that an investment has been made. deteriorated in value; in which case the accumulated gain or loss previously recognized in equity is included in the consolidated statement of income.

*Impairment of Available Securities for Sale*

The Bank evaluates at each date of the consolidated statement of financial position, if there is objective evidence of impairment in the investment securities. In the event that the investments are classified as available-for-sale, a significant and prolonged decrease in the fair value below its cost is considered to determine whether the assets are impaired.

If there is any objective evidence of impairment for available-for-sale financial assets, the accumulated loss is deducted from equity and recognized in the consolidated statement of income.

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If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase is objectively related to an event that occurred after the impairment loss recognized in gains and losses, the impairment loss will be reversed to through the consolidated statement of results. When the fair value of investments in equity instruments cannot be measured reliably, investments remain at cost.

*Investment held to maturity*

This category includes those securities that the Bank intends and the ability to hold until maturity. These securities consist mainly of debt instruments, which are presented based on amortized cost. Any value that undergoes a reduction in valuation that is not of a temporary nature, is reduced to its fair value by establishing a specific reserve of investments 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 generally originated by providing funds to a debtor as a loan. Loans are presented at their principal value pending collection, less interest and commissions not earned and the reserve for loan losses. Unearned interest and commissions are recognized as income over the life of the loans using the effective interest method.

Financial leases mainly consist of leases of equipment and rolling stock, 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 interest for unearned interest, which is amortized to income from operations using a method that reflects a periodic rate of return.

The factoring consists of the purchase of invoices, which are presented at their principal value pending collection. These invoices receivable reflect the present value of the contract. The Bank is dedicated to the financing of invoices, whose source of repayment comes from the loan assignment of the same, whose financing ranges between 30 and 180 days.

**Provision for Impairment in Loans**

The Bank evaluates 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 a provision expense in the results of operations and increases a reserve account for loan losses. The estimate is presented deducted from the loans receivable in the consolidated statement of financial position. When a loan is determined as uncollectible, the irrecoverable amount is reduced from the aforementioned provision for impairment.

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

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The impairment losses are determined using two methodologies, which are indicated below:

(a) *Individually Assessed Loans*

Impairment losses on individually assessed loans are determined based on an exposure assessment on a case-by-case basis. If it is determined that there is no objective evidence of impairment for an individually significant loan, it is included in a group of loans with similar characteristics and is evaluated collectively for impairment. The impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the current loan rate or the fair value of the loan guarantee minus the costs for sale, against its current carrying amount and the amount of the loan. 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 Evaluated Loans*

For the purposes of a collective assessment of impairment, the Bank primarily uses statistical models of historical trends of probability of default, the timing of recoveries and the amount of the loss incurred, and makes an adjustment if the current economic conditions and credit losses are such that the actual losses are likely to be greater or less than those suggested by historical trends. The default rates, loss rates and the expected term of future recoveries are regularly compared against actual results to ensure that they remain appropriate.

**Restructured Loans**

Restructured loans are those that have been restructured due to a deterioration in the debtor's financial condition, and where the Bank considers granting a change in the credit parameters. These loans, once they are restructured, remain in the assigned category, regardless of whether the debtor presents any improvement in their condition, after the restructuring.

**Compensation of Financial Assets and Liabilities Financial**

Assets and liabilities are offset and presented in their net amount in the consolidated statement of financial position only when there is a legally recognized right to offset the amounts recognized and there is an intention to settle in net terms, or realize the asset and settle the liability simultaneously.

**Measurement at Fair Value Fair**

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

When applicable, the Bank measures the fair value of an instrument using a quoted price in an active market for that instrument. A market is considered as active, if the transactions of these instruments take place frequently and sufficient volume to provide information to fix prices on an ongoing basis.

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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 valuation technique chosen incorporates all the factors that the 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 due, discounted from the first date in 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.

**Properties, Equipment and Improvements**

The properties, equipment and improvements include 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. The historical cost includes the expense that is directly attributable to the acquisition of the goods.

Subsequent costs are included in the book value of the asset or recognized as a separate asset, as appropriate, only when the Bank is likely to obtain the future economic benefits associated with the asset and the cost of the asset can be measured reliably. The costs considered as repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

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

Buildings	40-50 years
Buildings improvements	5-35 years
Furniture and equipment	3-5 years
Software and licenses	3-15 years

The useful life is reviewed, and adjusted if appropriate, on each date of the consolidated statement of financial position.

**Intangible Assets**

*Licenses and Programs*

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

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**Available Properties for Sale**

The properties available for sale are recognized at the lowest value between the book value of the unpaid loans or the realizable market value of the properties, net of the sale costs. The Bank's Management considers it necessary to maintain a reserve for losses against any significant impairment affecting the properties not sold. The impairment loss is recognized in the consolidated statement of income.

**Impairment of Non-Financial Assets**

The amounts of the Bank's non-financial assets are reviewed at the date of the consolidated statement of financial position to determine whether there is a deterioration in their value. If such impairment exists, the recoverable value of the asset is estimated and an impairment loss is recognized equal to the difference between the book value of the asset and its estimated recovery value. The recoverable value is the highest between the fair value of an asset less the cost of sale and its value in use. The impairment loss in the value of an asset is recognized as an expense in the consolidated income statement.

**Securities Sold Under Repurchase Agreements**

Securities under repurchase agreements are short-term financing transactions with security of securities, in which the Bank has the obligation to repurchase the securities sold at a future date and at a specific price. The difference between the sale price and the future purchase value is recognized as interest expense under the effective interest rate method.

**Income Tax**

The estimated income tax is the tax payable on the taxable income of the year, using the tax rates in effect on the date of the consolidated statement of financial position and any other adjustment of the income tax of previous years.

Deferred taxes are recognized for temporary differences between the carrying amount 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 temporary differences when they are reversed, based on laws that have been approved or are about to be approved as of the date of the consolidated statement of financial position.

A deferred tax asset is recognized to the extent that future taxable income is likely to be available at the time the temporary difference can be used. Deferred tax assets are reviewed on each date of the consolidated statement of financial position and are reduced to the extent that related tax benefits are unlikely to be realized.

**Customer Deposits, Obligations and Loans**

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

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**Financial Guarantees**

The 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, in case the client does not comply with the payment on the agreed date, according to the terms and conditions of the contract. Liabilities for financial guarantees are initially recognized at fair value, this initial value is amortized for the duration 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 the retirement savings plan are recognized in the expense of 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 as defined contributions where the Bank's responsibility corresponds only to the contribution made and actuarial study is not required.

**Revenues**

The Bank classified recognized revenue from contracts with customers in categories that show how the nature, amount, timing and uncertainty of income and cash flows are affected by economic factors.

Revenues are classified into the following categories:

Banking services: Banking services are related to commissions from digital or physical channels, once the client makes a transaction. The performance obligation is met once the service is delivered to the beneficiary and the commission is charged to the customer, which is a fixed amount. The commitment is fulfilled during the entire term of the contract with the client.

**Interest Income and Expenses Interest**

Income and expenses are recognized in the consolidated statement of income for all financial instruments presented at amortized cost using the effective interest rate method.

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

**Income from Commissions**

Fees and commissions on loans, letters of credit and other banking services are recognized as income under the effective interest rate method during the life of the loan.

Commission income related to the management of trusts is registered under the accumulation method. It is the Bank's obligation to administer the resources of the trusts in accordance with the contracts and independently of their assets. Loan commissions are included as commission income on loans in the consolidated statement of income.

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**Dividend Income**

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

**Earnings per Share**

Basic earnings per share measure the Bank's performance over the period reported and it is calculated by dividing the profit available to common shareholders by the weighted average number of common shares outstanding during the period.

**Segment Information**

A business segment is a component of the Bank, whose operating results are reviewed regularly by the General Management to make decisions about the resources that will be assigned to the segment and evaluate its performance, and for which it is available financial information for this purpose.

**Trust Operations**

Assets held in trusts or as fiduciary are not considered part of the Bank, and therefore, such assets and their corresponding income are not included in these consolidated financial statements. It is the Bank's obligation to administer the resources of the trusts in accordance with the contracts and independently of their assets.

The Bank charges a commission for the fiduciary administration of the funds in trusts, which is paid by the trustees based on the amount that the trusts maintain or according to agreements between the parties. These commissions are recognized as income according to the terms of the trust agreements either monthly, quarterly or annually on an accrual basis.

**4. Critical Judgments and Estimates**

For the preparation of the consolidated financial statements of the Bank, the Administration is required to make judgments and estimates, which affect the application of the accounting policies and the amounts of the assets, liabilities, income and expenses presented.

The estimates and assumptions used are reviewed continuously and under the assumption of going business. Changes in accounting estimates are recognized in the period in which the estimate is modified, if the change affects only that period, or to the period of the revision and subsequent periods if it affects current and future periods.

The measurement of the provision for expected credit losses for financial assets measured at amortized cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior.

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Several important judgments are also required when applying the accounting requirements to measure the ECL, such as:

- Determination of the criteria for a significant increase in credit risk.
- Choice of models and appropriate assumptions for ECL measurement.
- Establish the number and relative weights of the future prediction scenarios for each type of product and the associated ECL, and
- Establishment of similar financial asset groups for the purposes of measuring ECL.

The Bank has carried out a sensitivity analysis to measure the impact that the provision of bad loans could have. As of December 31, 2018, the variation of 1% on the rate of loss of credits, results in an increase in the expense of provision of 7.82%; US\$1,574,124 (2017: 7.36%; US\$1,525,276).

## **5. Risk Management of Financial Instruments**

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

The Board of Directors of the Bank is responsible for establishing and monitoring the risk management policies of financial instruments. To this end, the Bank's Administration has established certain Committees to monitor and periodically monitor the risks to which the Bank is exposed. Among these Committees are the following:

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

In addition, the Bank is subject to the regulations of the Superintendence of Banks of Panama and the Superintendence of the Securities Market, in regards concentrations of risks, liquidity and capitalization, among others.

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The Internal Audit Department reviews and validates compliance with the policies and other methodologies defined by the Bank's Management, from an independent perspective, reasonably assuring that these are in accordance with existing regulations while adding value and improving the operations of the organization. From a risk management perspective, control and corporate governance, the department reviews the presentation of the results of its work to the Audit Committee of the Board of Directors, which monitors the compliance of the General Management with the guidelines established by the Board of Directors of the Bank, and its Assembly of Shareholders.

***Geographic concentration of assets, liabilities and items outside the consolidated statement of financial position***

The geographical concentration of assets, liabilities and items outside the consolidated statement of financial position is presented below:

	<b>2018</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance Consolidated Financial Position</b>
<b>Country or Geographic Region:</b>			
Costa Rica	698,569,979	306,582,654	18,914,717
Panama	585,640,781	594,295,279	86,352,435
United States of America	143,656,554	477,524,359	26,472,231
Central America and Mexico	247,079,003	67,147,471	15,452,480
Europe	4,122,006	104,656,716	215,704
South America	188,753,241	108,970,471	4,955,345
Caribbean	12,006,116	442,874	-
Asia	1,424	4,977,593	-
Others	44,075,886	35,548,269	-
	<u>1,923,904,990</u>	<u>1,700,145,686</u>	<u>152,362,912</u>

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	<b>2017</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance Consolidated Financial Position</b>
<b>Country or Geographic Region:</b>			
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	-
	<u>1,797,950,896</u>	<u>1,575,529,677</u>	<u>165,923,210</u>

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

**Credit Risk**

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

The Bank structures acceptable credit risk levels through the establishment of limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and geographic segment. These credits are constantly controlled and subject to periodic review.

Exposure to credit risk is managed through a periodic analysis of the ability of potential borrowers or borrowers to determine their ability to pay principal and interest and restructure such limits when appropriate. Exposure to credit risk is also mitigated, in part, by obtaining collateral, corporate and personal collateral.

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Credit management is carried out under policies clearly defined by the Board of Directors, reviewed, and modified periodically in accordance with 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 a series of credit reports in operation to evaluate the performance of its portfolio, the provisions requirements and especially to anticipate events that may affect the condition of its debtors in the future.

Credit Quality Analysis

The Bank uses, for the evaluation of the loans, the same credit risk classification system that the Superintendence of Banks has established for the determination of regulatory reserves.

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

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

**Loans**

	<b>2018</b>	<b>2017</b>
Maximum exposure		
Carrying amount	<u>1,587,152,824</u>	<u>1,511,213,931</u>
At amortized cost		
Level 1: normal or low risk	1,461,731,975	1,378,247,647
Level 2: special mention	83,453,176	74,173,070
Level 3: subnormal	21,316,516	26,323,512
Level 4: Doubtful	391,578	2,392,047
Level 5: Lost	12,315,631	23,097,552
Plus: Interest receivable	<u>7,943,948</u>	<u>6,980,103</u>
Total	1,587,152,824	1,511,213,931
Provision for impairment	(20,785,837)	(20,721,758)
Commission and interest receivable	<u>(486,269)</u>	<u>(475,132)</u>
Net carrying amount	<u>1,565,880,718</u>	<u>1,490,017,041</u>

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	<b>2018</b>	<b>2017</b>
<b>Restructured loans</b>		
Impaired loans	23,093,027	35,733,558
Provision for impairment	<u>(4,000,420)</u>	<u>(10,705,598)</u>
Net amount	<u>19,097,607</u>	<u>25,027,960</u>
No past due nor impaired		
Level 1: normal or low risk	1,461,731,975	1,378,247,647
Level 2: special mention	<u>83,453,176</u>	<u>74,173,070</u>
Sub-total	<u>1,545,185,151</u>	<u>1,452,420,717</u>
<b>Impaired individual loans</b>		
Level 3: subnormal	21,316,516	26,323,512
Level 4: Doubtful	391,578	2,392,047
Level 5: Lost	<u>12,315,631</u>	<u>23,097,552</u>
Subtotal	34,023,725	51,813,111
Plus: account receivable	<u>7,943,948</u>	<u>6,980,103</u>
Total	<u>41,967,673</u>	<u>58,793,214</u>
Provision for impairment		
Individually	9,345,074	16,491,452
Collective basis	<u>11,440,763</u>	<u>3,780,306</u>
Total impairment provision	<u>20,785,837</u>	<u>20,721,758</u>
	<b>2018</b>	<b>2017</b>
Provision for impairment IFRS 9		
Level 1	10,131,230	-
Level 2	1,444,880	-
Level 3	<u>9,209,727</u>	-
Total of provision IFRS 9	<u>20,785,837</u>	-
Off-balance operations		
Level 1: normal or low risk		
Credit letters and stand-by credit letters	92,547,209	110,588,458
Confirmed commercial letters of credits	21,191,897	14,295,559
Guarantee issued	<u>37,777,219</u>	<u>40,515,342</u>
	<u>151,516,325</u>	<u>165,399,359</u>

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	<b>2018</b>	<b>2017</b>
Level 2: special mention		
Stand-by credit letters	96,402	-
Commercial credit letters	-	29,844
Guarantee	594,763	338,585
Level 2: special mention		
Guarantee issued	<u>155,422</u>	<u>155,422</u>
	<u>846,587</u>	<u>523,851</u>

**Investment in securities**

	<b>2018</b>	<b>2017</b>
Maximum exposure		
Gross carrying amount	<u>42,437,093</u>	<u>44,503,607</u>
Investment securities – IFRS9	42,092,971	-
Interest receivable	<u>344,122</u>	<u>-</u>

**Investment available-for-sale**

Level 1: normal or low risk	-	31,770,358
Plus: Interest receivable	<u>-</u>	<u>131,239</u>
Net carrying amount	<u>42,437,093</u>	<u>31,901,597</u>

**Investment held to maturity**

Level 1: normal or low risk	-	12,543,399
Plus: Interest receivable	<u>-</u>	<u>58,611</u>
Net carrying amount	<u>-</u>	<u>12,602,010</u>

The following table shows the loans classified in the different stages of risk consideration:

Classification	Stage 1	Stage 2	Stage 3	Total	2017
	12 Months	Lifetime	Individually Impaired		Total
Normal	1,466,934,800		-	1,466,934,800	1,384,800,957
Special mention	-	85,972,359	-	85,972,359	74,467,353
Subnormal	-	-	21,518,646	21,518,646	26,452,845
Doubtful	-	-	391,861	391,861	2,393,277
Lost	-	-	12,335,158	12,335,158	23,099,499
	<u>1,466,934,800</u>	<u>85,972,359</u>	<u>34,245,665</u>	<u>1,587,152,824</u>	<u>1,511,213,931</u>
Provision for impairment	<u>(10,131,230)</u>	<u>(1,444,880)</u>	<u>(9,209,727)</u>	<u>(20,785,837)</u>	<u>(20,721,758)</u>
Loans net	<u>1,456,803,570</u>	<u>84,527,479</u>	<u>25,035,938</u>	<u>1,566,366,987</u>	<u>1,490,492,173</u>

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The movement of the provision for impairment in loans as of December 31, 2018 is presented below:

	Stage 1 12 Months	Stage 2 Lifetime	Stage 3 Individually Impaired	Total
Balance at the beginning of year (IAS 39)	-	-	-	20,721,758
Impact of adoption IFRS 9	-	-	-	7,995,685
Balance at beginning of the year (IFRS 9)	10,405,706	1,369,842	16,941,895	28,717,443
Transfer to lifetime - without impaired loans	(289,489)	289,489	-	-
Transfer to lifetime - impaired loans	(12,563)	(3,492,465)	3,505,028	-
Changes in PD's LGD y EAD	(1,175,144)	2,902,647	1,994,370	3,721,873
New loans	5,254,962	670,657	58,832	5,984,451
Loans cancelled	(4,052,242)	(295,289)	(401,222)	(4,748,753)
Effect in income	(274,476)	75,039	5,157,008	4,957,571
Recovery of loans written off	-	-	19,445	19,445
Written off loans	-	-	(12,908,622)	(12,908,622)
Balance at end of year	10,131,230	1,444,881	9,209,726	20,785,837

The factors of greater risk exposure and information of the impaired assets, and the premises used for these disclosures are the following:

- Deterioration in loans and investments in debt securities

The Administration determines if there is objective evidence of deterioration in the loans, based on the following criteria established by the Bank:

- Breach of contract in the payment of principal or interest;
- Cash flow with difficulties experienced by the borrower;
- Non-compliance with the agreed terms and conditions;
- Initiation of a bankruptcy proceeding;
- Deterioration of the competitive position of the borrower; and
- Deterioration in the value of the guarantee.

- Defaulters but not deteriorated

Loans and investments that have a level of guarantees and / or sources of payment sufficient to cover the book value of said loan or investment are considered delinquent without impairment, that is, without incurred losses.

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- Renegotiated loans  
The renegotiated loans are those that, due to difficulties in the payment capacity of the debtor, have been formally documented a significant variation in the original terms of the credit (balance, term, payment plan, rate and guarantees).
- Provision for impairment  
The Bank has established provisions to cover losses incurred 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 assessed individually, do not show deterioration, are evaluated collectively.
- Write-off  
The Bank determines the write-off of the loan groups that are uncollectible. This determination is made after an analysis of the financial conditions made since the last payment of the obligation, and when it is determined that the guarantee is not sufficient for the full payment of the granted facility. The penalties are previously analyzed by the Committee of Special Assets and must be approved by the Board of Directors.

Deposits Placed in Banks

The Bank maintains deposits placed in banks for US \$ 217,230,268 as of December 31, 2018 (2017: US \$ 210,543,330). The placed deposits are held in financial institutions applying the limits established in the counterparty risk policy according to the credit risk rating.

	<b>2018</b>	<b>2017</b>
Investment grade (BBB a AAA)	<u>217,230,268</u>	<u>210,543,330</u>

Guarantees and their Financial Effect

The Bank has guarantees to reduce credit risk, to ensure the collection of its financial assets exposed to credit risk. The table below presents the main types of guarantees taken with respect to different types of financial assets.

**% of exposure that is subject to guarantee requirement**

	<b>2018</b>	<b>2017</b>	<b>Type of Guarantee</b>
Loans	61.80%	43.76%	Cash, mortgage and others

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Residential Mortgage Loans

Below are the credit exposures of consumer mortgage loans by loan-to-value ratio (LTV). The loan value or "loan to value" (LTV) is a mathematical equation that measures the relationship between what is lent and the value of the property that will be the object (and guarantee) of the loan. The gross amounts do not include any provision for impairment. The valuation of the guarantee assets does not include all the adjustments for obtaining and selling the guarantee. The value of the guarantee of the consumer mortgage loans is based on the value of the guarantee at the date of disbursement and is generally not updated, unless the credit is updated, based on changes in the guarantee price indices:

	2018	2017
Residential mortgage loans		
Less than 50%	548,604	295,544
51-70%	33,383	-
71-90%	2,767,335	2,316,188
91-100%	<u>1,620,299</u>	<u>2,370,260</u>
	<u>4,969,621</u>	<u>4,981,992</u>

Concentration of Credit Risk

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

	Loans		Bank Deposits	
	2018	2017	2018	2017
<b>Book value</b>	<u>1,587,152,824</u>	<u>1,511,213,931</u>	<u>217,230,268</u>	<u>210,543,330</u>
<b>Concentration by sector:</b>				
Corporations	1,199,146,238	1,095,399,999	-	-
Particulars	9,069,568	10,294,770	-	-
Banks and financial entities	342,175,946	379,278,125	217,195,085	210,521,742
Public and governmental entities	28,817,124	19,260,934	-	-
Plus: Interest receivable	7,943,948	6,980,103	35,183	21,588
	<u>1,587,152,824</u>	<u>1,511,213,931</u>	<u>217,230,268</u>	<u>210,543,330</u>
<b>Geographical concentration:</b>				
Costa Rica	669,391,179	622,022,118	6,344,376	3,383,486
Panama	412,417,215	396,144,961	100,254,081	94,082,181
Central America and Mexico	283,037,014	267,060,823	735,662	2,253,985
Caribbean	6,129,511	8,759,589	-	-
United States of America	42,967,615	58,836,777	109,261,922	110,479,883
South America	123,635,210	113,651,643	-	-
Europe	28,724,509	28,648,371	597,620	278,944
Asia	12,906,623	9,109,546	1,424	43,263
Plus: Interest receivable	7,943,948	6,980,103	35,183	21,588
	<u>1,587,152,824</u>	<u>1,511,213,931</u>	<u>217,230,268</u>	<u>210,543,330</u>

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	<b>Investments</b>	
	<u>2018</u>	<u>2017</u>
<b>Book value</b>	<u>42,437,093</u>	<u>44,503,607</u>
<b>Concentration by sector:</b>		
Banks and financial entities	11,369,945	1,302,364
Corporations	1,081,914	34,024,380
Public and governmental entities	29,641,112	8,987,013
Plus: Interests receivable	<u>344,122</u>	<u>189,850</u>
	<u>42,437,093</u>	<u>44,503,607</u>
<b>Geographical concentration:</b>		
Costa Rica	28,388,283	19,216,418
Panamá	8,740,378	8,253,033
United States of America	995,299	13,543,295
Europe	1,987,210	2,001,286
Asia	-	299,905
Others	1,981,801	999,820
Plus: Interest receivable	<u>344,122</u>	<u>189,850</u>
	<u>42,437,093</u>	<u>44,503,607</u>

The geographical concentrations of loans are based on the location of the debtor. As for the geographical concentration for investments, it is based on the location of the issuer of the investment.

**Liquidity Risk**

Liquidity risk is defined as the inability of the Bank to meet all its obligations due to, among others, an unexpected withdrawal of funds contributed by creditors or customers, the deterioration of the quality of the loan portfolio, the reduction in the value of investments, excessive concentration of liabilities in a particular source, mismatch between assets and liabilities, lack of liquidity of assets, or financing of long-term assets with short-term liabilities. The Bank manages its liquid resources to honor its liabilities upon maturity in normal conditions.

Liquidity is monitored daily by the Bank's treasury and periodically by the risk unit. The Assets and Liabilities Committee is responsible for the Management and monitoring of the liquidity record, in order to ensure the Bank's capacity to respond, without great difficulty, to non-preliminary withdrawals of deposits or unscheduled needs in the placement of loans.

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The General Management and the Assets and Liabilities Committee periodically monitor the liquidity position by analyzing the maturity structure, stability of deposits by type of client, awareness raising exercises and compliance with minimum standards established in the regulations and corporate policies.

Simulations are carried out that consist of stress tests that are developed in different scenarios contemplating normal or more severe conditions to determine the Bank's capacity to face such crisis scenarios with the available liquidity levels.

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

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

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

	<b>2018</b>	<b>2017</b>
At December 31	25.56%	20.36%
Average of the year	23.90%	20.96%
Maximum of the year	27.33%	26.10%
Minimum of the year	20.14%	16.70%

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The following table shows the undiscounted cash flows of the Bank's financial assets and liabilities, and contingencies for credit risks outside the consolidated statement of financial position based on their closest possible maturity. The expected flows of these instruments can vary significantly from these analyzes.

2018	Book Value	Gross Nominal Amount				
		Inflows/Outflows	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>Liabilities</b>						
Deposits	860,270,974	(891,797,024)	(605,206,119)	(213,513,135)	(73,077,770)	-
Financing received	692,840,004	(741,202,876)	(480,453,126)	(157,474,683)	(60,502,172)	(42,772,895)
Debt	107,342,492	(120,537,243)	(36,526,081)	(55,236,638)	(28,774,524)	-
Total liabilities	1,660,453,470	(1,753,537,143)	(1,122,185,326)	(426,224,456)	(162,354,466)	(42,772,895)
<b>Contingencies</b>	-	(152,362,912)	(152,362,912)	-	-	-
Total	1,660,453,470	(1,905,900,055)	(1,274,548,238)	(426,224,456)	(162,354,466)	(42,772,895)

Assets	Book Value	Gross Nominal Amount				
		Inflows/Outflows	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Cash	944,524	944,524	944,524	-	-	-
Demand deposits in banks	129,325,227	129,325,227	129,325,227	-	-	-
Time deposits in banks	87,905,041	88,035,434	88,035,434	-	-	-
Investments in securities	42,437,093	46,031,394	13,849,222	20,778,734	11,403,438	-
Loans, net	1,565,880,718	1,931,149,398	752,792,005	262,026,093	206,187,956	710,143,344
Total	1,826,492,603	2,195,485,977	984,946,412	282,804,827	217,591,394	710,143,344

2017	Book Value	Gross Nominal Amount				
		Inflows/Outflows	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>Liabilities</b>						
Deposits	864,640,618	(905,418,839)	(582,301,536)	(189,778,307)	(132,459,315)	(879,681)
Securities sold under repurchase ag	10,492,420	-	-	-	-	-
Financing received	533,105,218	(560,671,460)	(396,299,036)	(96,203,604)	(37,330,798)	(30,838,022)
Total liabilities	1,566,126,385	(1,642,525,629)	(1,061,502,211)	(294,192,481)	(251,231,567)	(35,599,370)
<b>Contingencies</b>	-	(165,923,210)	(165,923,210)	-	-	-
Total	1,566,126,385	(1,808,448,839)	(1,227,425,421)	(294,192,481)	(251,231,567)	(35,599,370)

Assets	Book Value	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

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

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

2018	Up to 1	1 to 3	3 to 5	Over 5 years	Total
<b>Financial assets</b>					
Demand deposits in banks	129,325,227	-	-	-	129,325,227
Time deposits in banks	87,869,858	-	-	-	87,869,858
Investments in securities	13,704,688	19,483,915	8,904,368	-	42,092,971
Loans	757,779,480	230,795,010	157,748,789	432,885,596	1,579,208,875
Plus: interests receivable	4,029,606	1,320,896	883,416	2,089,336	8,323,254
<b>Total assets</b>	<b>992,708,859</b>	<b>251,599,821</b>	<b>167,536,573</b>	<b>434,974,932</b>	<b>1,846,820,185</b>
<b>Financial liabilities</b>					
Demand deposits	116,126,366	-	-	-	116,126,366
Savings deposits	75,341	-	-	-	75,341
Time deposits	482,755,226	194,641,126	60,503,765	-	737,900,117
Financing received and debt	507,022,796	185,032,509	70,992,540	28,500,000	791,547,845
Plus: Interests payable	10,562,527	3,057,397	451,593	732,284	14,803,801
<b>Total liabilities</b>	<b>1,116,542,256</b>	<b>382,731,032</b>	<b>131,947,898</b>	<b>29,232,284</b>	<b>1,660,453,470</b>
<b>Net position</b>	<b>(123,833,397)</b>	<b>(131,131,211)</b>	<b>35,588,675</b>	<b>405,742,648</b>	<b>186,366,715</b>
<b>2017</b>					
	<b>Up to 1</b>	<b>1 to 3</b>	<b>3 to 5</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>					
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
<b>Total assets</b>	<b>960,406,911</b>	<b>256,674,517</b>	<b>127,713,107</b>	<b>421,466,333</b>	<b>1,766,260,868</b>
<b>Financial liabilities</b>					
Demand deposits	146,097,634	-	-	-	146,097,634
Savings deposits	162,932	-	-	-	162,932
Time deposits	431,154,010	172,152,666	108,977,648	645,000	712,929,324
Financing received and debt	471,228,895	94,518,200	96,575,638	23,000,000	685,322,733
Plus: Interests payable	7,221,108	2,593,532	807,228	499,474	11,121,342
<b>Total liabilities</b>	<b>1,055,864,579</b>	<b>269,264,398</b>	<b>206,360,514</b>	<b>24,144,474</b>	<b>1,555,633,965</b>
<b>Net position</b>	<b>(95,457,668)</b>	<b>(12,589,881)</b>	<b>(78,647,407)</b>	<b>397,321,859</b>	<b>210,626,903</b>

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**Market Risk**

The risk that the value of a financial asset of the Bank will be reduced due to changes in interest rates, currency exchange rates, share prices, and other financial variables, as well as the reaction of market participants to political and economic events, both to latent losses and to potential profits. The objectives of market risk management are to identify, measure, manage and monitor risk exposures, and to keep them within acceptable parameters by optimizing the return of risk.

The risk management policies establish monitoring controls of the exposures taken, which have compliance with a set of limits, such as: by financial instrument; limits with respect to the maximum amount of loss from which the closing of the positions that caused said loss is required; and the requirement that, except for the approval of the Board of Directors, substantially all assets and liabilities be denominated in United States Dollars.

The Bank's Board of Directors, through the Risk Committee, evaluates and monitors market risk; This is carried out by holding meetings and receiving periodic reports from the Corporate Risk Management, a unit whose management responds directly to said Committee.

Measurement of Market Risk:

The Bank's investment policies are subject to compliance with limits for the total amount of the investment portfolio, individual limits by type of asset, by institution, by issuer and / or issuance and maximum terms.

In addition, the Bank has established maximum limits for losses due to market risk in its investment portfolio that may be the product of movements in interest rates, credit risk and fluctuations in the market values of investments. The policies and structure of exposure limits for investments included in the Investment Manual are established and approved by the Bank's Board of Directors based on the recommendations of the Committees on Assets and Liabilities (ALCO) and Risk; they take into consideration the portfolio and the assets that comprise it.

The main tool used by the Bank to measure and control exposure to market risk is the "Value at Risk" (VaR - Value at Risk) measurement tool; Its function is to determine the estimated loss that may arise within a certain period of time, which is called time horizon, which can be influenced by the adverse market movements, hence a specific probability is determined which it would be the level of confidence ("confident level") that is used within the VaR calculation.

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The VaR model used by the Bank is based on a 95% confidence level. The VaR evaluation model is executed by performing at least 10,000 iterations, in the Monte Carlo simulation method. Additionally, "Stress Testing" tests are carried out in order to evaluate the potential losses in case of extreme conditions. Standardized scenarios have been developed that are carried out periodically, so that you can always compare how the portfolios behave.

Although the VaR model is an important tool in the measurement of market risks, the premises used for this model have some limitations that we indicate below:

- The waiting period assumes that some positions may be covered or disposed of within that period, which it considers a real estimate in many cases, but may not consider cases in which a severe illiquidity in the market may occur for a long time.
- The indicated confidence level range may not reflect the losses that may occur around that level. In general, this model uses a percentage in such a way that the probability of losses could not exceed the VaR value.
- The use of historical information is the basis for determining the range of future results, since it could not possibly cover possible scenarios, especially those of a particular nature.
- The measurement of the VaR depends on the results that the Bank maintains and the volatility of the market prices; additionally, the VaR for positions that have not changed, is reduced if the volatility of market prices falls, and vice versa.
- The Bank's actual exposure would be the VaR of securities measured at fair value against other comprehensive income (FVOCI).
- The use of the Value at Risk (VaR) metric comes to represent in a single figure the maximum expected loss with a given level of confidence (95%) and a defined time interval that a portfolio can record (at 21 days). It is important to note that this methodology is valid only under normal market conditions, since in cases where financial markets experience moments of crisis and / or turbulence, the expected loss would be defined by simulations of stress tests. In order to better measure the risk of the total portfolio, the VaR analysis is done for instruments measured at fair value against other comprehensive profits (FVOCI).

	<b>2018</b>	<b>2017</b>
VaR available-for-sale	<u>307,260</u>	<u>142,958</u>

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The internal methodology includes the historical record of the prices of the securities that are in the portfolio. The correlations between the different titles are determined and 10,000 iterations are made of the different values that the portfolio can have both 1 day and 21 days. The 5th percentile of those values is determined as VaR of the portfolio.

Below, the composition and analysis of each of the market risk types are presented in detail:

- Interest rate risk of cash flow and fair value:  
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in the interest rates of a financial instrument market.

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

- Measurement of sensitivity gaps  
Assets and liabilities sensitive to interest rates are distributed in predefined time bands, for which expected gaps in sensitivity are calculated.
- Financial margin sensitivity  
The variation in the sensitivity of the financial margin is estimated based on the difference in durations of assets and liabilities considering only those interest rates. The impact on net interest income is summarized below: sensitive transactions at a rate that mature or depreciate within one year, and the change in the financial margin is measured against a parallel variation of + or - 1%. This indicator is expressed in absolute values.
- Sensitivity of equity margin  
Measures the impact of a parallel change in the interest rate + or - 1% on the present value of equity. The report is based on the difference in modified durations of the asset and liability rate sensitive, weighted by the respective present values. This indicator is expressed in absolute values and as a percentage of the adequacy of capital or technical equity.

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The base analysis carried out by the Administration is to determine the impact of increases or decreases of 50 and 100 basis points (bp) in interest rates. The impact on net interest income is summarized below:

Sensibility on projected net income interests:

<b>2018</b>	<b>50pb Increase</b>	<b>100pb Increase</b>	<b>50pb Decrease</b>	<b>100pb Decrease</b>
As of December 31	318,261	636,522	(318,261)	(636,522)
Average of the period	419,777	839,555	(419,777)	(839,555)
Maximum of the period	607,662	1,215,325	(607,662)	(1,215,325)
Minimum of the period	238,847	477,693	(238,847)	(477,693)
<b>2017</b>	<b>50pb Increase</b>	<b>100pb Increase</b>	<b>50pb Decrease</b>	<b>100pb Decrease</b>
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)

Sensibility on net equity of related rate movements:

<b>2018</b>	<b>50pb Increase</b>	<b>100pb Increase</b>	<b>50pb Decrease</b>	<b>100pb Decrease</b>
As of December 31	(3,441,343)	(6,583,135)	3,759,481	7,858,918
Average of the period	(1,546,820)	(2,870,015)	1,785,462	3,827,442
Maximum of the period	159,261	451,556	3,759,481	7,858,918
Minimum of the period	(3,441,343)	(6,583,135)	(16,551)	122,031
<b>2017</b>	<b>50pb Increase</b>	<b>100pb Increase</b>	<b>50pb Decrease</b>	<b>100pb Decrease</b>
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)

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***Exchange Rate Risk***

The risk that the value of a financial instrument fluctuates as a result of changes in the exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For the purposes of accounting standards, this risk does not come from financial instruments that are not monetary items, nor from financial instruments denominated in the functional currency. The Bank does not have significant own positions in foreign currencies; it only maintains operating accounts to meet the demands of its customers.

The following table details the currency exposure of the Bank:

	2018					Total
	Colons, Expressed in US\$	Euros, Expressed in US\$	Japanese Yen, Expressed in US\$	Sterling Pound Expressed in US\$	Other Currencies Expressed in US\$	
<b>Exchange rate</b>	604.39	1.143	111.01	1.2644	-	-
<b>Assets</b>						
Cash and cash equivalents	13,289	597,620	1,424	29,984	15,064	657,381
Total assets	13,289	597,620	1,424	29,984	15,064	657,381
<b>Liabilities</b>						
Demand and time deposits	-	577,250	-	-	-	577,250
Total liabilities	-	577,250	-	-	-	577,250
<b>Net position</b>	13,289	20,370	1,424	29,984	15,064	80,131
	2017					
	Colons, Expressed in US\$	Euros, Expressed in US\$	Japanese Yen, Expressed in US\$	Sterling Pound Expressed in US\$	Other Currencies Expressed in US\$	Total
<b>Exchange rate</b>	566.42	1.19	113.21	1.34	-	-
<b>Assets</b>						
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
<b>Liabilities</b>						
Demand and time deposits	-	414,795	31,932	285,700	-	732,427
Total liabilities	-	414,795	31,932	285,700	-	732,427
<b>Net position</b>	48,911	9,926	11,331	36,220	16,631	123,019

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

***Interest Rate Risk***

The risk of reducing the value of financial assets in interest rates, quoted prices and other variables that affect the value of these assets in the market.

The Bank has limited exposure to losses as a result of an adequate financial structure with respect to interest rates and a conservative investment policy.

For the evaluation and control of each unit, the Bank has an Assets and Liabilities Committee that, under policies defined by the Board of Directors, is responsible for monthly analyzing the sensitivity to variations in interest rates, determining the balance structure, the term of the different items and investment strategies.

The Bank's exposure to interest rate risks is presented below. The assets and liabilities of the Bank are included in the table at their book value, classified by category, whichever occurs first between the new contractual rate fixation or due dates. The assets and liabilities presented do not include accrued interest receivable or payable, for which reason their figures differ with those presented in the consolidated statement of financial position.

2018	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
<b>Assets</b>					
Time deposits in banks	87,869,858	-	-	-	87,869,858
Investments securities	13,704,688	19,483,915	8,904,368	-	42,092,971
Loans	<u>1,281,644,372</u>	<u>88,311,706</u>	<u>47,892,640</u>	<u>161,360,157</u>	<u>1,579,208,875</u>
Total assets	<u>1,383,218,918</u>	<u>107,795,621</u>	<u>56,797,008</u>	<u>161,360,157</u>	<u>1,709,171,704</u>
<b>Liabilities</b>					
Savings deposits	75,341	-	-	-	75,341
Time deposits	482,755,226	192,791,126	62,353,765	-	737,900,117
Borrowings and debt issuance obligations	<u>507,022,796</u>	<u>185,032,509</u>	<u>60,992,540</u>	<u>38,500,000</u>	<u>791,547,845</u>
Total liabilities	<u>989,853,363</u>	<u>377,823,635</u>	<u>123,346,305</u>	<u>38,500,000</u>	<u>1,529,523,303</u>
<b>Total interest rate sensibility</b>	<u>393,365,555</u>	<u>(270,028,014)</u>	<u>(66,549,297)</u>	<u>122,860,157</u>	<u>179,648,401</u>
<b>2017</b>					
<b>Assets</b>					
Time deposits in banks	93,285,918	-	-	-	93,285,918
Investments securities	20,743,939	23,482,268	-	87,550	44,313,757
Loans	<u>1,268,070,193</u>	<u>69,728,698</u>	<u>34,451,384</u>	<u>131,983,553</u>	<u>1,504,233,828</u>
Total assets	<u>1,382,100,050</u>	<u>93,210,966</u>	<u>34,451,384</u>	<u>132,071,103</u>	<u>1,641,833,503</u>
<b>Liabilities</b>					
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	<u>471,228,895</u>	<u>94,518,200</u>	<u>81,575,638</u>	<u>38,000,000</u>	<u>685,322,733</u>
Total liabilities	<u>902,575,837</u>	<u>265,314,857</u>	<u>190,129,295</u>	<u>40,395,000</u>	<u>1,398,414,989</u>
<b>Total interest rate sensibility</b>	<u>479,524,213</u>	<u>(172,103,891)</u>	<u>(155,677,911)</u>	<u>91,676,103</u>	<u>243,418,514</u>

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***Risk Price***

is the risk that the value of a financial instrument fluctuates as a result of changes in market prices, regardless of whether they are caused by specific factors related to the particular instrument or its issuer, or by factors that affect all securities negotiated in the market.

The Bank is exposed to the price risk of instruments classified at fair value against comprehensive income (FVOCI). To manage the price risk derived from these investments, the Bank diversifies its portfolio, based on the established limits.

The Bank measures whether there is impairment in available-for-sale capital investments when there is a significant decrease and / or for an extended period at fair value in relation to its cost. This evaluation is determined by analyzing various factors, such as: historical volatility of the security, deterioration of the credit quality of the issuer, prospects of the economic environment, industry, sector, and financial market conditions. In the application of price sensitivity analysis, it is not material.

***Operational Risk***

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

The Bank pays special attention to the risks associated with operational process failures due to errors, or deviation from procedures or inappropriate behavior of personnel; improper or malfunctioning of technological systems or external factors that could compromise the continuity and proper functioning of the Bank's operations. Periodic reviews and audits of the operating procedures are carried out regularly to strengthen 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 different technological applications.

In addition to officials dedicated to technological safety, this area has external consultants and the main shareholder to limit the possibility that technological facilities may be used improperly by unauthorized personnel or third parties.

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The Bank has an internal control system whose operation is followed by the Bank's Internal Audit Staff and the main shareholder. The Audit Committee and the Board of Directors follow up on the implementation of the recommendations made by those instances and by the regulatory authorities.

The Operational Risk Management model includes the following points:

- Identification and evaluation of risks
- Report of events of losses and incidents
- Definition of mitigates actions
- Timely follow-up of the implementation of action plans defined by the areas
- Evaluation of the level of operational risk in new Bank initiatives, products and / or services and significant improvements in processes
- Periodic trainings with the areas

The different areas that participate together for the optimal management of operational risk are:

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

As part of the Corporate Governance model, the strategy, work methodology and monitoring of the action plans defined for the events and risks assessed as critical and high are reported to the Risk Committee of the Board of Directors.

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

***Capital Management***

The Bank's regulators, which are the Superintendence of Banks of Panama and the Superintendence of the Securities Market of Panama, require the Bank to maintain a total capital ratio measured based on average weighted assets based on risk. The Bank complies with the regulatory capital requirements to which it is subject.

The Bank analyzes its regulatory capital considering the two pillars of capital, in accordance with the interpretation of the Basel 1 Management Agreement and which is applied in the rules of the Superintendence of Banks of Panama based on Agreements No.001-2015 and No.003-2016.

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

*Primary Capital (Pillar 1):* It includes capital paid in shares, declared reserves, retained earnings, where capital paid in shares is understood to be that represented by common shares issued and fully paid. The declared reserves are those identified as such by the Bank from accumulated earnings on their books to strengthen their financial situation.

The retained earnings are the undistributed profits of the period and the undistributed profits corresponding to previous periods.

*Secondary Capital (Pillar 2):* it includes the hybrid capital and debt instruments, the subordinated debt at term, the general reserves for losses and the undeclared reserves. As of December 31, 2018, the Bank does not maintain secondary capital.

The calculation of the amount of the Capital Funds of a General License Bank must take into account the deductions, which will be made quarterly, and which are indicated below:

- The unconsolidated capital assigned to the agency abroad.
- The unconsolidated paid-in capital of the Bank's subsidiaries.
- The paid-in capital of non-banking subsidiaries. The deduction will include the balances recorded in the asset for the highest value paid - with respect to book value - in permanent investments in companies in the country and abroad.
- Asset items corresponding to expenses or other items, which under the International Financial Reporting Standards on valuations or various forms of unrecognized losses, and also the losses experienced at any time during the year.

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The Capital Funds of a General License Bank may not be less than 8% of its weighted assets according to their risks. For these purposes, the assets must be considered net of their respective provisions or reserves and with the weights indicated in the Superintendence Agreement. There have been no material changes in the Management of the Bank's capital during the period of the consolidated financial statements issued as of December 31, 2018. The Bank maintains a regulatory capital position that is composed as follows for the period ended December 31, 2018 and 2017, which is detailed as follows:

	2018	2017
<b>Primary Capital (Pillar 1)</b>		
Common shares	132,787,000	132,787,000
Capital reserve	150,000	150,000
Retained earnings	41,611,142	34,538,813
Reserve of financial asset at fair value	80,532	-
Valuation reserve for securities	(1,575,152)	(194,621)
Other intangibles assets	(5,409,947)	-
Deferred tax assets	<u>(1,855,528)</u>	<u>(1,737,135)</u>
Total capital	<u>165,788,047</u>	<u>165,544,057</u>
Dynamic reserve of loans	<u>32,311,446</u>	<u>29,442,426</u>
Total of regulatory capital funds	<u>198,099,493</u>	<u>194,986,483</u>
Total weighted bases risk assets	<u>1,597,052,518</u>	<u>1,518,922,062</u>

<b>Indicators</b>	<b>2018</b>	<b>Minimum</b>	<b>2017</b>	<b>Minimum</b>
Total of Pillar 1 comprises a percentage or weighted based risk asset	<u>12.40%</u>	<u>8%</u>	<u>12.84%</u>	<u>8%</u>
Leverage ratio	<u>8.77%</u>	<u>3%</u>	<u>9.11%</u>	<u>3%</u>

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**6. Cash and Cash Equivalents**

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

	<b>2018</b>	<b>2017</b>
Cash	944,524	1,156,281
Deposit in banks – at sight	129,325,227	117,235,824
Deposit in banks - term	<u>88,000,000</u>	<u>93,285,918</u>
Total of cash and deposit in banks	218,269,751	211,678,023
Less:		
Deposit in banks with maturity greater than 90 days	-	(285,918)
Provision for impairment in placed deposits	<u>(130,142)</u>	<u>-</u>
	<u><u>218,139,609</u></u>	<u><u>211,392,105</u></u>

**7. Investment Securities**

The investment securities comprises the following:

	<b>2018</b>	<b>2017</b>
<b>2018</b>		
Investment at fair value with changes in other comprehensive income (FVOCI)		
Private debt	10,383,443	9,901,997
Governmental debt	31,622,913	21,780,811
Stocks	86,615	87,550
Plus: Interest receivable	<u>344,122</u>	<u>131,239</u>
	<u><u>42,437,093</u></u>	31,901,597
2017 Investment held to maturity		<u>12,602,010</u>
		<u><u>44,503,607</u></u>

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The movements of the investments is as follows:

	<b>2018</b>	<b>2017</b>
Balance at the beginning of the year	44,313,757	63,993,279
Purchase	34,418,258	20,720,443
Redemptions / Sales	(35,258,513)	(41,027,675)
Gain transferred to income	-	53,531
Net change in fair value	<u>(1,380,531)</u>	<u>574,179</u>
Balance at end of the year	<u>42,092,971</u>	<u>44,313,757</u>

**8. Loans**

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

	<b>2018</b>	<b>2017</b>
Industrial	337,615,270	366,822,301
Commercial	385,561,385	258,087,284
Banks and financial institutions	342,175,946	379,278,125
Services	312,779,098	287,667,997
Infrastructure and construction	104,401,941	110,769,244
Agriculture	80,566,830	83,891,629
Livestock	7,038,838	7,422,478
Consumer	9,069,568	10,294,770
Plus: Interest receivable	<u>7,943,948</u>	<u>6,980,103</u>
	<u>1,587,152,824</u>	<u>1,511,213,931</u>

As of December 31, 2018, the loan portfolio guaranteed in cash amounted US\$67,038,348 (2017: US\$43,117,067).

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The movements of the provision for impairment in loan is as follows:

	<b>2018</b>	<b>2017</b>
Balance at the beginning of year	20,721,758	15,400,000
Adjustment by IFRS adoption	7,344,958	-
Provision charged to income	4,957,571	5,318,700
Written-off loans	(12,908,622)	(12,923)
Recoveries	<u>19,445</u>	<u>15,981</u>
	<u><u>20,135,110</u></u>	<u><u>20,721,758</u></u>

The loan portfolio include financing leasing which maturities is as follows:

	<b>2018</b>	<b>2017</b>
Less than 1 year	573,554	986,420
Between 1 - 5 years	8,741,167	6,452,520
More than 5 years	<u>351,317</u>	<u>292,174</u>
	<u><u>9,666,038</u></u>	<u><u>7,731,114</u></u>

**9. Property, Equipment and Leasehold**

Properties, equipment and leasehold is presented as follows:

	2018							Total
	Land	Building	Vehicles	Furniture and Equipment	Computer Equipment	Improvements to Premises	Work in Progress	
<b>Cost</b>								
At the beginning of the year	782,900	12,461,515	96,000	1,618,073	4,750,073	5,128,320	39,436	24,876,317
Additions	-	-	24,950	58,518	195,183	-	177,824	456,475
Sales and discards	-	-	-	(57,895)	(157,663)	39,435	(96,809)	(272,932)
At the end of the period	<u>782,900</u>	<u>12,461,515</u>	<u>120,950</u>	<u>1,618,696</u>	<u>4,787,593</u>	<u>5,167,755</u>	<u>120,451</u>	<u>25,059,860</u>
<b>Accumulated depreciation and amortization</b>								
At the beginning of the period	-	1,251,913	86,177	1,445,747	4,192,767	1,554,999	-	8,531,603
Expenses of the period	-	235,743	4,679	81,220	300,564	318,472	-	940,678
Sales and discards	-	-	-	(57,890)	(157,201)	-	-	(215,091)
At the end of the period	<u>-</u>	<u>1,487,656</u>	<u>90,856</u>	<u>1,469,077</u>	<u>4,336,130</u>	<u>1,873,471</u>	<u>-</u>	<u>9,257,190</u>
Net balance	<u>782,900</u>	<u>10,973,859</u>	<u>30,094</u>	<u>149,619</u>	<u>451,463</u>	<u>3,294,284</u>	<u>120,451</u>	<u>15,802,670</u>

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		2017							
		Land	Building	Vehicles	Furniture and Equipment	Computer Equipment	Improvements to Premises	Work in Progress	Total
<b>Cost</b>									
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
<b>Accumulated depreciation and amortization</b>									
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

**10. Intangible Assets**

The movements of licenses and software is as follows:

	2018	2017
Balance at beginning of the year	6,616,521	6,173,620
Additions	343,495	2,246,191
Withdrawals	-	(5,762)
Amortization of the year	(1,550,069)	(1,797,528)
Balance at end of the year	<u>5,409,947</u>	<u>6,616,521</u>

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

2018				
Description	Useful Life	Gross Amount	Accumulated Amortization	Book Value
Licenses and software	5 - 15 years	7,983,892	(3,241,618)	4,742,274
Licenses and software	3 years	6,061,423	(5,393,750)	667,673
		<u>14,045,315</u>	<u>(8,635,368)</u>	<u>5,409,947</u>

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2017				
Description	Useful Life	Gross Amount	Accumulated Amortization	Book Value
Licenses and software	5 - 15 years	7,870,792	(2,292,342)	5,578,450
Licenses and software	3 years	5,831,029	(4,792,958)	1,038,071
		13,701,821	(7,085,300)	6,616,521

**11. Taxes**

Miami

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

According to current tax legislation, the tax rate for 2018 and 2017 in Miami is 21% and 34%, respectively; however, there are other factors that affect the calculation of the tax rate.

The carryover of tax losses is as follows:

Year of Expiration	Amount
2027	84,610

As of December 31, 2018, the Bank recorded a tax on deferred income for US\$162,894 (2017: US\$1,067,533) as a result of an analysis carried out at its Miami Agency. When performing the analysis of the realization of the active deferred tax, the Administration of the Agency considers if it is probable that some or all of the deferred asset tax portion will not be realizable. The realization or not of the active deferred tax depends on the future generation of taxable income during the periods in which the temporary differences become deductible. The Administration of the Agency considers the detail of reversals of the deferred tax asset and liability, projections of future taxable income, planning of fiscal strategies when performing this evaluation. Based on the levels of historical taxable income and projections of future taxable income for the periods in which the deferred tax asset will be deductible, the Agency's management considers that it is likely that it can realize the benefits of these deductible temporary differences. The Agency has made the respective calculations and has estimated that it will incur federal and state income tax of the United States of America.

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As of December 31, 2018, for the purposes of the Miami Agency, an update of the tax benefit of US\$961,953 (2017: US\$941,484) was determined, resulting in a net balance of US\$105,580 (2017: US\$1,067,533) of the deferred tax for temporary differences, at the end of that period.

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

	<b>2018</b>	<b>2017</b>
Net taxable income	2,889,791	1,277,772
Less: Loss carry forward	<u>(2,889,791)</u>	<u>(1,149,995)</u>
Net taxable income	<u>-</u>	<u>127,777</u>
Alternative tax (benefit)	<u>(223,250)</u>	<u>6,263</u>

Panama

According to current tax regulations, companies incorporated in Panama are exempt from paying income tax on profits from foreign operations, interest earned on term deposits in local banks, debt securities of the Government of Panama and of the investments in securities listed in the Superintendence of the Securities Market and traded on the Stock Exchange of Panamá, S. A.

In Panama, in accordance with the provisions of Article 699 of the Fiscal Code, modified by Article 9 of Law No.8 of March 15, 2010, effective as of January 1, 2010, the income tax rate for the Legal persons dedicated to the business of banking in the Republic of Panama is 25%.

Law No.8 of March 15, 2010 introduces the form of presumed taxation of income tax, obligating any legal entity that accrues income in excess of one million five hundred thousand dollars (US\$1,500,000) to be determined as the tax base of said tax, the sum that is greater between: (a) the net taxable income calculated by the ordinary method established in the Tax Code and (b) the net taxable income that results from applying, to the total taxable income, the four point sixty and seven percent (4.67%).

Legal entities that incur losses due to tax calculated under the presumed method or that, due to the application of said presumed method, their effective rate exceeds the tax rates applicable to their net taxable income under the ordinary method for the period tax may be requested, may request the Directorate General of Revenue - "DGI" to authorize the calculation of the tax under the ordinary method of calculation.

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In accordance with current tax regulations, the income tax statements 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 (E.U.A.) For the last three years

The provision for income taxes is as follows:

	<b>2018</b>	<b>2017</b>
Provision for income taxes	1,233,909	880,263
Deferred income taxes	<u>(152,264)</u>	<u>900,843</u>
Total of income taxes	<u>1,081,645</u>	<u>1,781,106</u>

The Bank's effective tax rate for the year ended December 31, 2018 was 8.78% (2017: 15.81%).

The reconciliation of the financial income before the income tax and the taxable net profit is detailed below:

	<b>2018</b>	<b>2017</b>
Financial profit before income tax	13,702,177	11,265,380
Foreign income, exempt and non-taxable, net	(99,874,236)	(88,114,514)
Non-deductible costs and expenses	<u>91,785,267</u>	<u>80,370,186</u>
Taxable net income	<u>5,613,208</u>	<u>3,521,052</u>
Income tax - Panama	1,403,302	874,000
Income tax - Miami (E.U.A.)	<u>(169,393)</u>	<u>6,263</u>
Total of income tax	<u>1,233,909</u>	<u>880,263</u>

The deferred income tax is as follows:

	<b>2018</b>	<b>2017</b>
Deferred income tax – asset:		
Provision for impairment in loans	1,692,634	644,239
Carry forward losses	17,768	738,087
Others	<u>145,126</u>	<u>320,939</u>
	<u>1,855,528</u>	<u>1,703,265</u>

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	<b>2018</b>	<b>2017</b>
Current	1,052,967	960,731
No current	<u>802,561</u>	<u>742,534</u>
	<u><u>1,855,528</u></u>	<u><u>1,703,265</u></u>

The Administration records its deferred tax estimates using the tax rates that are expected to be applied to the temporary differences when they are reversed.

The reconciliation of the deferred income tax asset is presented below:

	<b>2018</b>	<b>2017</b>
Deferred income tax at beginning of the year	1,703,265	2,604,608
Less:		
Provision for impairment in loans	1,048,395	134,578
Loss carry forward	(720,319)	503,380
Others	<u>(175,813)</u>	<u>(1,539,301)</u>
	<u><u>1,855,528</u></u>	<u><u>1,703,265</u></u>

Based on the current and projected results, the Bank's Administration considers that there will be sufficient taxable income to absorb the deferred taxes.

**12. Other Assets**

Other assets are as follows:

	<b>2018</b>	<b>2017</b>
Advance for letter of credit borrowing	232,853	300,178
Severance fund	1,058,665	977,299
Other accounts receivable to clients	501,381	1,665,556
Prepaid expenses	1,447,228	979,847
Project development in process	1,590,618	1,207,740
Assets received in payment of obligations	16,356,333	3,008,812
Assets by right of collection to adjudge	26,162,945	7,135,270
Available-for-sale properties	323,094	1,787,160
Others	<u>3,792,192</u>	<u>2,773,375</u>
	<u><u>51,465,309</u></u>	<u><u>19,835,237</u></u>

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**13. Borrowings**

A detail of borrowings is as follows:

<u>Creditor</u>	<u>Maturity</u>	<u>Book Value</u>	
		<u>2018</u>	<u>2017</u>
Bac Florida Bank	Various until June 2019	10,946,273	17,409,524
Banco Centroamericano de Integración Económica (BCIE)	Various until October 2019	34,331,494	44,811,166
Banco de Crédito e Inversiones	Dec-18	-	4,898,524
Banco Itau (Uruguay)	March 2018	-	4,979,018
Huntington National Bank	February 2019	7,060,182	-
Eco Business Fund	Various until December 2023	21,892,547	14,937,055
Banco Latinoamericano de Comercio Exterior, S. A. (BLADEX)	Varios until June 2019	19,902,315	24,795,512
Bank Negara, N. Y.	Dec-19	4,975,579	4,979,018
Atlantic Forfaiting	Various until December 2020	2,985,347	1,991,607
Bank of America	Various until April 2019	21,358,132	15,932,859
Bank of Montreal	March 2018	-	9,958,037
Bank of Nova Scotia	Varios until September 2018	-	9,958,037
Barclays Bank	Various until May 2019	9,951,158	-
London Forfaiting	November 2020	6,965,810	9,958,037
Citibank, N. Y.	January 2019	9,951,158	6,970,626
Cobank	Various until August 2019	45,912,854	33,099,988
Banco Pichincha C.A.	Various until February 2019	4,975,579	-
Credit Commodity Corp	Varius until December 2019	42,999,196	44,475,535
Credit Suisse	June 2021	99,511,577	-
Deutsche Bank A.G. NY	Various until June 2019	99,511,577	77,672,687
Cargill Financial Services	Various until Mach 2020	70,691,588	69,684,550
DEG	May 2023	24,877,894	-
Proparco	January 2028	28,360,799	29,874,111
Regions Bank	January 2018	-	6,548,838
Sumitomo Mitsui Banking	Various until December 2019	39,804,631	29,376,209
Unicredit Group	March 2021	4,195,636	5,598,049
Wells Fargo Bank, N.A.	Various until May 2019	59,010,365	50,288,086
Zurcher Kantonalbank	Various until June 2019	14,092,614	9,460,136
Plus: interest payable		8,575,699	5,448,009
		<u>692,840,004</u>	<u>533,105,218</u>

As of December 31, 2018, the Bank does not have guaranteed obligations with investments in securities. Annual interest rates for financing received as of December 31, 2018 ranged between 2.64% and 6.86% (2017: 1.60% and 5.74%).

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

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**14. Debt Issued**

Through the Resolution of the Superintendence of the Securities Market CNV No.246-08 of August 5, 2008, Public Offer of Corporate Bonds with a nominal value of up to one hundred million dollars (US\$100,000,000), issued in a global manner, is made , rotating, 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 they may be redeemed in advance at the option of the Issuer, two (2) years after the issuance date.

Likewise, through Resolution of the National Securities Commission of Panama CNV No.68-09 of March 3, 2009, public offerings of VCNs with a nominal value of up to one hundred million dollars (US\$100,000,000), issued in global, rotating, nominative, registered and without coupons, denominations of one thousand dollars (US\$1,000). The VCNs will be backed by the general credit of Banco Internacional de Costa Rica, S. A. and they cannot be redeemed in advance by the Issuer.

In 2014, through the Resolution of the Superintendence of the Securities Market SMV No.372-14 of August 14, 2014, a public offering of Corporate Bonds was made with a nominal value of up to two hundred million dollars (US\$200,000,000), issued globally, rotating, 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 they may be redeemed in advance at the option of the Issuer, two (2) years after the issuance date.

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The Bank maintained bonds and VCNs, as follows:

**Corporate Bonds**

Resolution	Date	Serie	Qualifier Emission	Quote	Maturity	Rate	2018	2017
CNV No.246-08	05-Aug-08	AA	Equilibrium Calificadora de Riesgo, S. A.	A+.pan	20-Nov-18	4.00%	-	19,983,589
SMV No.372-14	14-Aug-14	B	Fitch Ratings	A+(pan)	29-Sep-19	4.50%	4,999,652	4,995,897
SMV No.372-14	14-Aug-14	C	Fitch Ratings	A+(pan)	19-Nov-21	5.75%	39,997,219	39,967,179
SMV No.372-14	14-Aug-14	D	Fitch Ratings	A+(pan)	12-Dec-21	5.75%	4,953,656	4,949,935
SMV No.372-14	14-Aug-14	E	Fitch Ratings	A+(pan)	22-Jan-22	5.75%	4,999,652	4,995,897
SMV No.372-14	14-Aug-14	F	Fitch Ratings	A+(pan)	24-Feb-22	5.75%	4,999,652	4,995,897
SMV No.372-14	14-Aug-14	G	Fitch Ratings	A+(pan)	06-May-22	5.75%	4,999,652	4,995,897
SMV No.372-14	14-Aug-14	H	Fitch Ratings	A+(pan)	06-May-18	4.00%	-	1,974,379
SMV No.372-14	14-Aug-14	I	Fitch Ratings	A+(pan)	06-May-20	4.50%	1,149,920	1,149,056
SMV No.372-14	14-Aug-14	J	Fitch Ratings	A+(pan)	08-May-18	4.00%	-	834,315
SMV No.372-14	14-Aug-14	K	Fitch Ratings	A+(pan)	08-May-20	4.50%	1,389,903	1,388,859
SMV No.372-14	14-Aug-14	L	Fitch Ratings	A+(pan)	14-Aug-22	5.75%	2,999,791	2,997,538
SMV No.372-14	14-Aug-14	M	Fitch Ratings	A+(pan)	14-Jan-23	5.75%	2,999,791	2,997,538
SMV No.372-14	14-Aug-14	N	Fitch Ratings	A+(pan)	13-Dec-22	5.38%	2,999,791	2,997,538
							<u>76,488,679</u>	<u>99,223,514</u>

**Negotiable Commercial Papers**

Resolution	Date	Serie	Qualifier Emission	Quote	Maturity	Rate	2018	2017
CNV No.68-09	March 5, 2019	EQ	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	05-Nov-17	3.38%	-	-
CNV No.68-09	March 3, 2009	EU	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	27-Dec-17	3.38%	-	-
CNV No.68-09	March 3, 2019	EV	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	01-Jan-18	3.38%	-	2,997,539
CNV No.68-09	March 3, 2019	EW	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	08-Jan-18	3.38%	-	3,197,374
CNV No.68-09	March 3, 2019	EX	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	24-Jan-18	3.38%	-	4,995,898
CNV No.68-09	March 3, 2019	EY	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	06-Sep-18	3.75%	-	1,049,139
CNV No.68-09	March 3, 2019	EZ	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	13-Sep-18	3.75%	-	1,112,087
CNV No.68-09	March 3, 2019	FA	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	15-Sep-18	3.75%	-	1,998,359
CNV No.68-09	March 3, 2019	FB	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	20-Sep-18	3.75%	-	1,443,814
CNV No.68-09	March 3, 2019	FC	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	24-Sep-18	3.75%	-	3,966,742
CNV No.68-10	March 3, 2019	FC	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	29-Sep-18	-	-	1,049,138
CNV No.68-09	March 3, 2019	FE	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	08-Oct-18	3.75%	-	1,998,359
CNV No.68-09	March 3, 2019	FF	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	01-May-18	-	-	6,494,667
CNV No.68-09	March 3, 2019	FG	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	28-Oct-18	-	-	4,213,540
CNV No.68-09	March 3, 2019	FH	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	19-Nov-18	3.88%	-	3,542,091
CNV No.68-09	March 3, 2019	FI	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	22-Nov-18	3.88%	-	2,398,031
CNV No.68-09	March 3, 2019	FJ	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	16-Jun-18	-	-	2,997,539
CNV No.68-09	March 3, 2019	FK	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	25-Jun-18	-	-	2,997,539
CNV No.68-09	March 3, 2019	FU	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	19-Jan-19	3.75%	4,999,652	-
CNV No.68-09	March 3, 2019	FV	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	18-Feb-19	3.88%	1,999,861	-
CNV No.68-09	March 3, 2019	FW	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	01-Sep-19	3.50%	1,114,922	-
CNV No.68-09	March 3, 2019	FX	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	08-Sep-19	3.50%	1,649,885	-
CNV No.68-09	March 3, 2019	FY	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	12-Sep-19	-	1,999,861	-
CNV No.68-09	March 3, 2019	FT	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	26-Dec-18	3.50%	-	-
CNV No.68-09	March 3, 2019	GA	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	19-Sep-19	-	3,219,776	-
CNV No.68-09	March 3, 2019	GB	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	26-Sep-19	-	999,930	-
CNV No.68-09	March 3, 2019	GC	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	24-Oct-19	-	2,916,797	-
CNV No.68-09	March 3, 2019	GD	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	27-Apr-19	-	1,999,862	-
CNV No.68-09	March 3, 2019	GE	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	29-May-19	-	1,149,921	-
CNV No.68-09	March 3, 2019	GF	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	15-Jun-19	-	2,999,792	-
CNV No.68-09	March 3, 2019	GG	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	17-Jun-19	-	2,999,792	-
CNV No.68-09	March 3, 2019	GH	Equilibrium Calificadora de Riesgo, S.A.	EQL 1.pa	24-Jun-19	-	1,499,897	-
							<u>30,794,861</u>	<u>58,442,010</u>

Total debt issued	107,283,540	157,665,524
Plus: Interest payable	58,952	222,605
Total debt and interest payable	<u>107,342,492</u>	<u>157,888,129</u>

As of December 31, 2018, the annual interest rates for corporate bonds ranged between 4.50% and 5.75% (2017: 4.00% and 5.75%). For Negotiable Trading Securities, the rates ranged between 3.50% and 3.88% (2017: 3.38% and 3.75%).

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**15. Other Liabilities**

Other liabilities is as follows:

	<b>2018</b>	<b>2017</b>
Accrued expenses payable	21,000	8,710
Obligations for third parties relationships	247,028	227,350
Guarantee deposits - financial lease	168,607	164,840
Pending operations of deposits and other accounts to be applied	1,085,728	545,997
Provisions for off balance credit risk and legal litigations	284,413	284,413
Pending obligations with suppliers	1,028,057	528,750
Contributions to retirement fund	1,328,472	1,184,183
Accounts payable - various	756,982	1,112,015
Provisions for labor benefits	2,007,217	1,989,449
Income tax payable	1,190,014	874,000
Deferred credits	817,482	1,136,575
Others	<u>5,158,480</u>	<u>3,495,093</u>
	<u>14,093,480</u>	<u>11,551,375</u>

**16. Retirement Saving Plan**

The Bank adopted a voluntary savings plan for retirement of defined contributions in which the Bank contributes twice the amount contributed by the employees up to a maximum of 10% of employer contribution of the monthly salaries, with the exception of the Miami Agency. It is up to 6% of employer contribution of monthly salaries. All the employees that work in the Bank participate in the plan and decide to join the benefit. To make withdrawals to the contributions of the plan, the employee must meet at least one of the following conditions, in order to withdraw the contribution made by the Bank in their favor:

- (a) To have opted for a retirement;
- (b) To have withdrawn from the Bank;
- (c) To have suffered total and permanent disability duly certified by the Social Security Fund; or
- (d) To have died, in which case it will be delivered for the portion to which the beneficiary is entitled.

The contribution of the Bank and its Subsidiaries to this plan during the period ended December 31, 2018 amounts to US\$774,202 (2017: US\$752,805). A third party independent of the Bank manages this plan. This expense is included in the consolidated income statement in the caption of salaries and other personnel expenses.

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**17. Common Shares**

Common shares is as follows:

	2018		2017	
	Quantity of Shares	Amount	Quantity of Shares	Amount
<b>Authorized and issued shares</b>				
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	<u>13,278,700</u>	<u>132,787,000</u>	<u>13,278,700</u>	<u>132,787,000</u>

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

As of December 31, 2018, the Bank's capital funds represented 12.40% (2017: 12.84%) of the weighted assets based on risks calculated according to the interpretation of the Basel Accord I Management and of Agreement No.1- 2015 that requires maintaining capital funds of not less than 8% of its assets weighted based on risks.

**18. Earnings per Share**

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

Calculation of basic earnings per share:

	2018	2017
Consolidated net income	<u>11,240,439</u>	<u>9,484,274</u>
Weighted average amount of common shares	<u>13,278,700</u>	<u>13,278,700</u>
Net income per basic share	<u>0.85</u>	<u>0.71</u>

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**19. Commitments and Contingencies**

**Contingencies**

**Income Tax, BICSA Costa Rica**

BICSA SERVICIOS, S. A., as a surviving entity of the group of companies that formed BICSA Corporación Financiera, S. A., was sentenced by the Administrative Tax Court to pay the income tax for the fiscal periods of 1999 to 2004. In strict respect of the term to effect the cancellation, the sum of US\$1,243,985 adduced in the condemnatory was paid by BICSA on November 29, 2013, charged to the provision that was maintained for the case.

Notwithstanding that the payment was made to avoid other sanctions, given the dissatisfaction that the institution maintained with such scope, a judicial administrative contentious proceeding had already been filed, in order to declare the absolute nullity and ineffectiveness of the determinative Resolution No. DT10R-11-08 of the Large Taxpayers Directorate, Resolution No.AU-10-4-135-08, Administrative Court Decision No.035-2012 and Resolution No.SFGCN-AL-075-12, all derived from the Transfer of Charges number 2752000016446 of the income tax of the fiscal periods 1999-2004. Along with the refund of objected sums, with interest, damages are also claimed for a currently undetermined amount, but that would be determined in execution of a possible favorable ruling.

In response to this action, the Costa Rican State initiated on January 28, 2014 a contentious administrative proceeding against the Bank (“Lesividad Process”), referring to the part earned by BICSA in the administrative headquarters. In order to manage better the two actions, the accumulation of the processes was proposed, and in March 2015, the Administrative Contentious Court 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 petition filed by one of the experts was made known, granting a period of 3 business 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 business 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 term 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 Contentious Administrative Court set the oral hearing for the July 19, 2019 and subsequently, the judgement will be issued.

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**Commitments**

Financial instruments with credit risk out of the consolidated statement of financial position are detailed below:

	<b>2018</b>	<b>2017</b>
Letters of credits – “stand-by”	92,643,611	110,588,458
Confirmed commercial letters of credit	21,191,897	14,325,403
Guarantees issued	<u>38,527,404</u>	<u>41,009,349</u>
	<u>152,362,912</u>	<u>165,923,210</u>

The Bank has commitments with third parties arising from operating leases of real estate, which expire on several dates during the coming years. The value of the annual lease rates of the occupancy contracts for the next years is as follows:

<b>Year</b>	<b>Amount</b>
2019	857,517
2020	822,039
2021	793,791
2022 until 2026	<u>1,203,836</u>
	<u>3,677,183</u>

During the period ended December 31, 2018, the rental cost of real estate amounted to US\$882,233 (2017: US\$863,892).

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**20. Other Commissions and Other Income**

The commission's income and other income is as follows:

	<b>2018</b>	<b>2017</b>
<b>Other commissions on:</b>		
Letters of credit and document collection	1,314,317	1,884,323
Transfers	560,036	560,610
Current account services	100,629	105,295
Purchase and sale of foreign currency	272,265	289,471
Commissions on loan structuration	29,244	779,078
Commission of administrative agent	140,000	176,852
Others	<u>93,412</u>	<u>122,434</u>
	<u>2,523,623</u>	<u>3,918,063</u>
<b>Other income:</b>		
For fixed assets sale	42,958	204,536
For factoring operations	21,734	34,343
Other income - various	<u>663,918</u>	<u>2,560,684</u>
	<u>728,610</u>	<u>2,799,563</u>

**21. Commission Expenses and Other General and Administrative Expenses**

Commission expenses and general and administratities expenses are as follows:

	<b>2018</b>	<b>2017</b>
<b>Commission expenses:</b>		
Bank correspondent	284,663	292,198
Other commissions	<u>411,135</u>	<u>497,903</u>
	<u>695,798</u>	<u>790,101</u>
<b>Salaries and other personal expenses:</b>		
Salaries	11,415,784	11,406,226
Labor expenses	1,666,097	2,068,590
Employee benefits	1,083,913	1,041,805
Retirement Savings Plan (Note 16)	774,202	752,197
Training	164,029	154,790
Remuneration for performance	321,455	-
Others	<u>63,009</u>	<u>24,060</u>
	<u>15,488,489</u>	<u>15,447,668</u>

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	2018	2017
<b>Others general and administrative expenses:</b>		
Administrative expenses of representation offices	222,834	294,036
Travel and transportation	167,649	185,647
Electricity and telephone	865,540	885,263
Technical software services	1,594,244	1,314,959
Repairs and maintenance	883,118	1,116,973
Taxes	2,301,292	2,097,229
Stationary and offices supplies	84,854	74,360
Communications and mail	127,248	130,029
Insurance	82,881	104,798
Others	<u>972,378</u>	<u>1,030,304</u>
	<u>7,302,038</u>	<u>7,233,598</u>

**22. Balances and Transactions with Related Parties**

The Bank conducted transactions in the ordinary course of business with related parties such as shareholders, directors and key management personnel. The following were the aggregate balances in relation to significant transactions with related parties:

	<b>Managers and Key Management Personnel</b>		<b>Related Party</b>	
	2018	2017	2018	2017
<b>Assets:</b>				
Deposits in bank:				
Demand deposits – BCR <sup>(1)</sup>	<u>-</u>	<u>-</u>	<u>407,681</u>	<u>84,441</u>
Loans- Key personal BICSA	<u>712,788</u>	<u>921,896</u>	<u>-</u>	<u>-</u>
Loans – Head Office - BCR <sup>(1)</sup>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,207,076</u>
Accumulate interest receivable	<u>2,362</u>	<u>13,032</u>	<u>-</u>	<u>12,765</u>

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	Managers and Key Management Personnel		Related Party	
	2018	2017	2018	2017
<b>Deposits received:</b>				
Demand deposits - Key Personal BICSA	133,879	161,569	-	-
Demand deposits – Head Office - BCR (1)	-	-	3,765,008	3,300,048
Demand deposits - Related Party – BNCR (2)	-	-	370,512	365,647
Time Deposit – Key Personal BICSA	391,587	374,061	-	-
Time Deposit - Head Office – BCR (1)	-	-	2,770,000	2,400,000
Time Deposit – Relate Party – BNCR (2)	-	-	27,090,000	30,070,000
Accumulate interest payable	9,749	5,831	1,117	13,736
<b>Commitments and contingencies:</b>				
Commercial credit letters Head Office-BCR(1)	-	-	-	2,000,000

(1) Banco de Costa Rica (Head Office)

(2) Banco Nacional de Costa Rica – Related party

The following items of income and expenses are included in the aggregate amounts resulting from the related transactions:

	Managers and Key Management Personnel		Related Party	
	2018	2017	2018	2017
<b>Interest income on:</b>				
Loan - Key personal - BICSA	31,703	42,888	-	-
Loans - Headquarter - BCR(1)	-	-	23,009	-
Loans - Related party - BNCR(2)	-	-	2,414	12,765
Time Deposits Headquater - BCR(1)	-	-	-	50
Time deposits related party - BNCR(2)	-	-	-	6,499
<b>Interest expense on:</b>				
Deposits - Key personal - Bicsa	16,608	14,076	-	-
Deposits - Headquater - BCR (1)	-	-	224,210	135,529
Deposits - Related party - BNCR(2)	-	-	322,841	74,640
<b>Others general and administrative expenses:</b>				
	2018	2017		
Salaries - Key personal Bicsa - Short-term	2,771,588	2,597,359		
Director diets - short-term	63,009	24,061		
Others general expense - Key personal - Bicsa - long-term	231,840	220,684		

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**23. Administration of Fiduciary Contracts**

As of December 31, 2018, the Bank had fiduciary contracts under management for client account and risk for US\$129,579,232 (2017: US\$198,556,142). Considering the nature of these services, the Administration considers that there are no significant risks for the Bank.

As of December 31, 2018, the subsidiary BICSA Capital, S. A. maintained cash management and investment portfolio at the client's account and risk amounting to a total of US\$80,592,968 (2017: US\$72,746,018).

**24. Financial Instruments at Fair Value**

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for assets or liabilities identical to those that the Bank's Management can access at the measurement date.
- Level 2: input data other than quoted prices included in Level 1, which are observable, either directly (that is, prices) or indirectly (that is, determined based on prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active or other valuation techniques where significant inputs are directly or indirectly observable in a market.
- Level 3: this category includes all the instruments in which the valuation techniques include unobservable inputs and have a significant effect on the valuation of the instrument. This category includes instruments that are valued, based on quoted prices for similar instruments where the assumptions or significant unobservable adjustments reflect the difference between the instruments.

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Other valuation techniques include net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. The assumptions and input data used in valuation techniques include risk-free reference rates, credit spreads, and other assumptions used in estimating discount rates. The objective of using a valuation technique is to estimate the price at which an orderly sale transaction of the asset or transfer of the liability would take place between market participants at the measurement date under the current market conditions. A summary of the carrying amount and the estimated fair value of financial assets and liabilities not measured at fair value in the consolidated statement of financial position is presented below:

	2018			2017		
	Book Value	Fair Value	Hierarchy Level	Book Value	Fair Value	Hierarchy Level
<b>Assets</b>						
Demand deposits	129,325,227	129,325,227	3	145,450,173	117,235,824	3
Time deposits	87,905,041	87,905,041	3	57,838,015	93,285,918	3
Held-to-maturity securities	-	-	2	12,613,783	12,505,355	2
Loans, net	<u>1,565,880,718</u>	<u>1,553,690,020</u>	2	<u>1,396,438,388</u>	<u>1,475,884,717</u>	2
	<u>1,783,110,986</u>	<u>1,770,920,288</u>		<u>1,612,340,359</u>	<u>1,698,911,814</u>	
<b>Liabilities</b>						
Demand deposits	116,127,692	116,127,692	3	93,150,286	146,097,634	3
Savings deposits	75,341	75,341	3	324,020	162,932	3
Time deposits	744,067,941	741,578,797	2	766,125,648	716,082,302	2
Financing received	692,840,004	684,995,415	2	439,403,176	529,502,804	2
Debt issuance obligations	<u>107,342,492</u>	<u>108,172,476</u>	2	<u>173,264,549</u>	<u>158,626,895</u>	2
	<u>1,660,453,470</u>	<u>1,650,949,721</u>		<u>1,482,760,099</u>	<u>1,550,472,567</u>	

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

Description	2018			
	Level 1	Level 2	Level 3	Total
Debt - private	2,982,509	7,400,934	-	10,383,443
Debt-governmental	3,234,630	28,388,283	-	31,622,913
Share capital	-	86,615	-	86,615
	<u>6,217,139</u>	<u>35,875,832</u>	-	<u>42,092,971</u>

Description	2017			
	Level 1	Level 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)	<u>5,565,575</u>	<u>26,204,783</u>	-	<u>31,770,358</u>

(1) Not included interest.

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

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

<b>Financial Instruments</b>	<b>Technical Valuation and Input Data Used</b>
Investments securities	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, their remaining term, at the valuation date, and discounts the flows by a compound rate of the sum of the following variables: <ul style="list-style-type: none"> <li>– Market reference rates</li> <li>– Spread of adjustments of market factors</li> <li>– Observable market prices</li> </ul>
Term deposits in banks, demand deposits and savings	Their fair value represents the amount receivable / payable at the balance sheet.
Loans	The fair value for the loans represents the discounted amount of the estimated future cash flows to be received. The cash flows provided are discounted at current market rates to determine their fair value.
Time deposits of clients, financing received and obligations for debt issued	Discounted cash flows using market interest rates for new term deposits, financing and obligations for debt issued with similar remaining maturity.

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**25. Segment Information**

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

The Bank directs its business management to Corporate Banking and with emphasis on Foreign Trade financing, which it carries out both in the local market and abroad; likewise, it maintains a discount business for invoices (factoring) and financial leasing. The Assets and Liabilities Committee monitors the management by segments, for which it evaluates its performance periodically. In view of the above, the ALCO Committee of the Bank manages its business management, in the segments presented in the following table:

	2018					Total Consolidated
	Local Commercial Banking	Foreign Commercial Banking	Leasing and Factoring Services	Bicsa Miami	Eliminations	
Income on interest and commissions	29,827,181	63,611,282	7,447,984	17,289,831	(9,770,561)	108,405,717
Interest and provisions expenses	(18,125,765)	(40,398,348)	(4,526,087)	(10,506,907)	9,770,561	(63,786,546)
Provisions	(1,608,330)	(3,651,005)	(52,393)	354,157	-	(4,957,571)
Other income, net	814,476	726,890	188,075	851,864	(1,380,093)	1,201,212
General and administrative expenses	(8,981,443)	(13,064,854)	(1,157,165)	(5,337,266)	-	(28,540,728)
Net income before income tax	1,926,119	7,223,965	1,900,414	2,651,679	(1,380,093)	12,322,084
Total assets	782,533,719	988,656,546	95,819,251	370,512,398	(313,616,924)	1,923,904,990
Total liabilities	587,709,875	1,004,101,653	80,722,214	327,131,129	(299,519,185)	1,700,145,686

	2017					Total Consolidated
	Local Commercial Banking	Foreign Commercial Banking	Leasing and Factoring Services	Bicsa Miami	Eliminations	
Income on interest and commissions	24,655,565	56,894,319	6,745,896	14,520,155	(8,180,655)	94,635,280
Interest and provisions expenses	(14,923,005)	(34,435,803)	(4,083,015)	(8,788,455)	8,180,655	(54,049,623)
Provisions	(1,539,092)	(2,860,850)	(909,947)	(8,811)	-	(5,318,700)
Other income, net	3,667,200	1,369,970	407,558	884,718	(1,121,628)	5,207,818
General and administrative expenses	(9,910,235)	(12,707,397)	(1,304,625)	(5,287,138)	-	(29,209,395)
Net income before income tax	1,950,433	8,260,239	855,867	1,320,469	(1,121,628)	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

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**26. Main Applicable Laws and Regulation**

The main laws and regulations applicable in the Republic of Panama are detailed below:

(a) *Banking Law Banking*

The operations in the Republic of Panama are regulated and supervised by the Superintendence of Banks of Panama, according to the legislation established by Executive Decree No.52 of April 30, 2008, which adopts the unique text of the Law Decree 9 of February 26, 1998, modified by Decree Law 2 of February 22, 2008, by which the banking regime in Panama is established and the Superintendence of Banks is created and the rules that govern it.

For purposes of compliance with prudential regulations issued by the Superintendence of Banks of Panama, the Bank must prepare a calculation of the credit reserve based on regulatory guidelines. In the event that the regulatory calculation is greater than the respective calculation determined under IFRS, the excess reserve will be recognized in a regulatory reserve of equity. (See specific provisions).

(b) *Financial Leasing Law Financial leasing*

Operations in Panama are regulated by the Financial Companies Directorate of the Ministry of Commerce and Industries according to the legislation established in Law No.7 of July 10, 1990.

(c) *Trust Law Trust*

Operations in Panama are regulated by the Superintendence of Banks in accordance with the legislation established in Law No.21 of May 10, 2017.

(d) *Securities Law Stock exchange*

Operations in Panama are regulated by the Superintendence of Securities Market in accordance with the legislation established in Decree Law No.1 of July 8, 1999, reformed by Law No.67 of September 1, 2011.

The operations of the Securities Houses are in the process of adapting to Agreement No.4-2011, modified in certain provisions by means of Agreement No.8-2013, established by the Superintendence of the Securities Market, which indicate that they are obliged to comply with the rules of capital adequacy and their modalities.

(e) *Foreclosed Assets*

For regulatory purposes, the Superintendence establishes in five (5) years, as of the date of registration in the Public Registry, the term to dispose of real estate acquired in payment of unpaid loans. If after this period has elapsed, the Bank has not sold the property acquired, it must make an independent appraisal of the property to establish if it has decreased in value, applying in that case what is established in the IFRS.

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

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

The aforementioned regulatory reserves will be maintained until the actual transfer of the acquired asset is made and said reserve will not be considered as a regulatory reserve for the purpose of calculating the equity index. The balance of this reserve is presented in equity for US\$828,776 (2017: US\$556,822).

(f) Specific Provisions

Accord No.4-2013 indicates that the specific provisions originate from the objective and concrete evidence of impairment. These provisions must be established for credit facilities classified in the categories of risk known as special, subnormal, doubtful, or irrecoverable, both for individual credit facilities and for a group of such facilities.

The Bank must calculate and maintain at all times the amount of the specific provisions determined by the methodology specified in this Agreement, which takes into account the balance owed of each credit facility classified in any of the categories subject to provision, mentioned in the previous paragraph previous. Furthermore, this takes into account the present value of each guarantee available as a risk mitigant, as established by type of guarantee in this Agreement, and a weighting table that applies to the net balance exposed to loss of such credit facilities.

If there is an excess of a specific provision, calculated in accordance with this Agreement, on the provision calculated in accordance with IFRS, this excess will be accounted for in a regulatory reserve in the equity that increases or decreases with allocations to or from undistributed profits. The balance of the regulatory reserves will not be considered as capital funds for the purpose of calculating certain prudential ratios or ratios mentioned in the Agreement.

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

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

	2018		2017	
	Loans	Provisions	Loans	Provisions
<b>Individual Impairment Analysis</b>				
Special mention	83,453,176	11,848,832	74,173,070	10,187,849
Subnormal	21,316,516	7,646,824	26,323,512	9,043,258
Doubtful	391,578	286,556	2,392,047	1,913,637
Lost	12,315,631	9,620,507	23,097,552	17,828,701
	<u>117,476,901</u>	<u>29,402,719</u>	<u>125,986,181</u>	<u>38,973,445</u>
Country risk provision	-	8,610,533	-	6,609,804
Contingency provision	-	338,145	-	279,288
<b>Collective Impairment Analysis</b>				
Normal	1,461,731,975	-	1,378,247,647	-
Total impairment analysis	<u>1,579,208,876</u>	<u>38,351,397</u>	<u>1,504,233,828</u>	<u>45,862,537</u>
Plus: interest receivable	7,943,948	-	6,980,103	-
Total loans	<u>1,587,152,824</u>	<u>38,351,397</u>	<u>1,511,213,931</u>	<u>45,862,537</u>
Less: provision for impairment in loans	-	20,785,837	-	20,721,758
Total loans and regulatory provisions on loans	<u>1,587,152,824</u>	<u>17,565,560</u>	<u>1,511,213,931</u>	<u>25,140,779</u>

As of December 31, 2018, loans in non-accrual status amounted to US\$22,015,510 (2017: US\$40,340,298).

Agreement No.4-2013 defines as delinquent any credit facility that presents an unpaid amount, principal, interest or contractually agreed expenses, with an age of more than 30 days and up to 90 days, from the date established for compliance with the payments.

The Agreement No.4-2013 defines as expired any credit facility whose lack of payment of the contractually agreed amounts is more than 90 days old. This term will be computed from the date established for the fulfillment of the payments. Transactions with a single payment at expiration and overdrafts will be considered past due when the length of nonpayment exceeds 30 days from the date on which the payment obligation is established.

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The balances of delinquent and past due loans based on Agreement No.4-2013 are summarized below:

2018			2017		
Deliquent	Past due	Total	Deliquent	Past due	Total
7,309,082	14,677,159	21,986,241	3,713,336	26,925,554	30,638,890

On the other hand, based on Agreement No.8-2014, the recognition of interest on income is suspended based on the days of late payment of principal and / or interest and the type of credit operation according to the following:

- a) For consumer and business loans, if there is a delay of more than 90 days.
  - b) For mortgage loans for housing, if there is a delay of more than 120 days.
- (g) **Dynamic Provision**  
Agreement No.4-2013 indicates that the dynamic provision is a reserve set up to meet possible future needs for the establishment of specific provisions, which is governed by prudential criteria of banking regulation. The dynamic provision is made on a quarterly basis on the credit facilities that lack a specific provision assigned, that is, on credit facilities classified in the normal category. This Agreement regulates the methodology for calculating the amount of the dynamic provision, which considers a maximum and minimum percentage restriction applicable to the amount of the provision determined on credit facilities classified in the normal category.

The dynamic provision is an equity item that increases or decreases with allocations from or to the undistributed earnings. The credit balance of this dynamic provision is part of the regulatory capital, but does not substitute or compensate the capital adequacy requirements established by the Superintendence.

The following is a summary of the dynamic provision by entities:

	2018	2017
BICSA, S. A.	30,201,402	27,332,382
Arrendadora Internacional, S. A.	<u>2,110,044</u>	<u>2,110,044</u>
	<u>32,311,446</u>	<u>29,442,426</u>

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The movements of the regulatory reserves is as follows:

	<b>Dynamic Reserve of Loans</b>	<b>Specific Reserve of Loans</b>	<b>Foreclosed Assets Reserve</b>	<b>Total</b>
Balance at January 1, 2017	29,442,426	22,340,029	531,635	52,314,090
Increase	-	2,800,750	25,187	2,825,937
Balance at December 31, 2017	29,442,426	25,140,779	556,822	55,140,027
Adoption of IFRS9 - adjustment	-	(7,995,685)	-	(7,995,685)
Increase	2,869,020	420,466	271,954	3,561,440
Balance at December 31, 2018	32,311,446	17,565,560	828,776	50,705,782

**27. Changes in Accounting Policies**

The Bank adopted IFRS 9 with a transition date of January 1, 2018, which resulted in changes in accounting policies and adjustments to the figures previously recognized in the consolidated financial statements.

As allowed by the transitory paragraphs, the Bank chose the option of not restructuring the comparative figures. Any adjustment to the carrying amount of financial assets and liabilities at the date of transition was recognized in retained earnings as of January 1, 2018.

In addition, for purposes of disclosures of the notes, the amendments to IFRS 7 - Disclosures were only applied to the current period. The comparative notes of the previous period are maintained for disclosure purposes.

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**Evaluation of the business model**

The Bank conducted an evaluation of the objective of the business model through which the groups of financial assets are managed, since this reflects better the way in which the portfolios are managed and information is provided to the Management.

**Evaluation of whether contractual cash flows are only principal and interest payments (SPPI)**

For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as the consideration of the time value of money and the credit risk associated with the outstanding principal amount during a particular time period and for other risks and costs of basic loans, as well as the profit margin.

When evaluating whether the contractual cash flows are only principal and interest payments, the Bank considers the contractual terms of the instrument. This includes evaluating whether the financial asset contains a contractual term that could change the time or amount of the contractual cash flows so that it does not meet this condition. In making the evaluation, the Bank considered the following:

- Contingent events that would change the amount and time of cash flows.
- Leverage conditions
- Prepayment and extension periods.
- Terms that limit the group's rights to the cash flows of specific assets.
- Characteristics that modify the consideration of the time value of money.

As a result of the SPPI evaluation, the Bank determined that the contractual cash flows of the loan portfolio are only payments of the principal and interest of the outstanding principal.

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Below are the measurement and book value categories of financial assets and liabilities as of December 31, 2017 under IAS 39 and the new categories under IFRS 9 as of January 1, 2018:

	Classification under IAS39	Classification under IFRS9	Book Value under IAS39	Book Value under IFRS9
<b>Financial assets</b>				
Cash and cash equivalents	Amortized cost	Amortized cost	118,392,105	118,392,105
Deposits in bank	Amortized cost	Amortized cost	93,307,506	93,169,547
Investment securities	Available for sale	FVOCI	31,901,597	31,840,297
Investment securities	Held to maturity	Amortized cost	12,602,010	12,602,010
Loans, net	Amortized cost	Amortized cost	1,490,017,041	1,482,021,356
Total financial assets			<u>1,746,220,259</u>	<u>1,738,025,315</u>
<b>Financial liabilities</b>				
Sight deposits	Amortized cost	Amortized cost	146,097,634	146,097,634
Savings accounts	Amortized cost	Amortized cost	162,932	162,932
Term deposits - customers	Amortized cost	Amortized cost	570,131,558	570,131,558
Interbanking - term deposits	Amortized cost	Amortized cost	148,248,494	148,248,494
Debt	Amortized cost	Amortized cost	157,888,129	157,888,129
Borrowings	Amortized cost	Amortized cost	533,105,218	533,105,218
Total financial liabilities			<u>1,555,633,965</u>	<u>1,555,633,965</u>

Below is the reconciliation of the carrying amount and remeasurement between IAS 39 and IFRS 9 as of January 1, 2018.

	Balance at January 1, under IAS 39	Remeasurement	Balance at January 1, 2018, under IFRS 9
<b>Financial assets</b>			
Cash and cash equivalents	118,392,105	-	118,392,105
Deposits in bank	93,307,506	(137,959)	93,169,547
Investment available for sale (FVOCI)	31,901,597	(61,300)	31,840,297
Investment held to maturity (AC)	12,602,010	-	12,602,010
Loans, net	1,490,017,041	(7,995,685)	1,482,021,356
Total financial assets	<u>1,746,220,259</u>	<u>(8,194,944)</u>	<u>1,738,025,315</u>
<b>Financial liabilities</b>			
Sight deposits	146,097,634	-	146,097,634
Savings accounts	162,932	-	162,932
Term deposits - customers	570,131,558	-	570,131,558
Interbanking - term deposits	148,248,494	-	148,248,494
Debt	157,888,129	-	157,888,129
Borrowings	533,105,218	-	533,105,218
Total financial liabilities	<u>1,555,633,965</u>	<u>-</u>	<u>1,555,633,965</u>

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As a result of the application of the new impairment model, adopted as of January 1, 2018, the Bank determined an increase in the provision of loans in the amount of US\$7,995,685 based on the new expected loss model.

The reconciliation of the provision for impairment as of the end of December 2017 is presented below, in accordance with IAS 39 and the provision for opening impairment determined in accordance with IFRS 9 as of January 1, 2018.

	<u>Balance at January 1, under NIC39</u>	<u>Remeasurement</u>	<u>Balance at January 1, 2018, under IFRS9</u>
<b>Financial assets</b>			
Provision for securities with changes in other comprehensive income	-	61,300	61,300
Provision for deposits placed	-	137,959	137,959
Adjustment for impairment of instruments at fair value with changes in other comprehensive income	-	(61,300)	(61,300)
Provision for loan portfolio	20,721,758	7,995,685	28,717,443
	<u>20,721,758</u>	<u>8,133,644</u>	<u>28,855,402</u>

**28. Supplementary Information for the Consolidated Statements of Cash Flows**

The movements of the financing and debt is as follows:

	<b>2018</b>	<b>2017</b>
Balance at the beginning of year	690,993,347	623,160,145
Debt and financing issued	1,134,848,618	759,354,238
Debt and financing amortization	(1,028,623,506)	(692,275,312)
Interest	<u>2,964,037</u>	<u>754,276</u>
Balance at end of year	<u>800,182,496</u>	<u>690,993,347</u>

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**29. Registration of Corporate Bonds and Negotiable Commercial Papers**

Through the Resolution of the Superintendencia of Securities Market SMV No.562-18 of December 7, 2018, the subsidiary Arrendadora Internacional, S. A., made the registration of the Public Offer of Rotating Corporate Bonds with a nominal value of up to one hundred million dollars (US\$100,000,000). The bonds will be in denominations of one thousand dollars (US\$1,000). The rotating program will be available for a defined term, which will be 10 years. The initial date of the offer of the rotating corporate bonds is from January 8, 2019.

Through the Resolution of the Superintendencia of Securities Market SMV No.558-18 of December 6, 2018, the subsidiary Arrendadora Internacional, S. A., made the registration of Negotiable Commercial Papers for a total nominal value of fifty million dollars (US\$50,000,000). Negotiable commercial papers will be in denominations of one thousand dollars (US\$1,000). The rotating program will be available for a defined term, which will be 10 years. The initial date of the offer of negotiable commercial papers is as of January 8, 2019.

**30. Approval of Financial Statements**

The consolidated financial statements were approved by the Board of Director for issuance on March 14, 2019.