BANCO LA HIPOTECARIA, S. A.
AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2017

(With Independent Auditors' Report Thereon)

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Banco La Hipotecaria, S. A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banco La Hipotecaria, S. A. and subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as at December 31, 2017 and 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial *Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Panama and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for loan losses
See notes 3(g), 4 and 9 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit
The allowance for loan losses requires judgment application and use of assumptions made by the management. The loan portfolio represents 85% of the total assets of the Bank. The allowance for loan losses comprises the allowance for loans individually assessed and loan collectively assessed. The loan impairment allowance individually assessed is determined by an assessment of the exposures case by case based in judgment and estimates of the management when an impairment event has occurred and the present value of the expected cash flows are uncertain. The collective allowance for impairment is determined in accordance to the grouping of loans with similar credit risk characteristics.	Our audit procedures included: • Control tests over the delinquency calculations, customers' internal risk ratings, annual review of loans, customers' risk review and of the models and methodologies used. • For a sample of loans with specific allowance, a test of the credit files of such customers and review of the allowance estimate assessment prepared by management. • For individual allowance model, a test of the cash flows calculation considering the value of the collateral in reference to specialists developed valuations. • Tests of the key inputs used in to calculate the collective impairment allowance model. • Assessment of the management judgment over the actual economy and credit conditions related assumptions that could change the real loss level, based in our experience and knowledge of the industry. • Assessment of the delinquency profiles for mortgage and personal loans. • Assessment with our specialists of the collective allowance model and recalculation of such allowance.

Investment valuation
See notes 3(h), 4 and 8 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit
Investment in securities are 8.5% of the total assets as of December 31, 2017. The Bank uses external price vendors to obtain most of prices of these securities and also uses internal methodologies to evaluate the remaining securities. The valuation of these securities using valuation models involves management judgment and use of inputs unavailable in active markets. On the other hand, the securities valuation whose prices are provided by external price vendors that also uses valuation models, requires additional efforts from auditors to validate. Significant judgment is involved in estimating the fair value of a security when some valuation inputs are unobservable. As of December 31, 2017, securities classified as level 3 represented 75% of total securities at fair value and 6% of total assets.	Our audit procedures included: • Key control tests on the identification process, measuring and valuation risk management, and assessment of the methodologies, inputs and assumptions used by the Bank in the fair value determination. • Assessment with our specialists of the fair value models and inputs used in valuation of level 2 instruments; therefore we compared market observable inputs with independent sources and external market available data. • For a securities' sample with significant unobservable valuation inputs (level 3), assessment with our specialists of the models used and approved by corporate government and independent calculation of such securities prices. • Obtaining reports of design and operating effectiveness assessment over the internal controls of the price vendor service organizations and assessment of the complementary controls mentioned in such reports over the relevance for it application by the Bank.

No consolidation of trusts
See notes 3(a.6), 3(r) and 26 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit
Trusts under management amounted to B/.225,153,486 as of December 31, 2017. These trusts are unconsolidated vehicles designed by the Bank to securitize loans originated by itself. The loans are sold to the trusts which structured the bond issuance placed through the Stock Market of Panama. These loans are in custody of a third party and managed by the Bank. The Bank must assess whether at the sale could derecognize the loans and whether should consolidate these trusts. The assessment includes determine who retain the main risks and benefits of the securitized loans. These assessments required significant management judgment, an error in this assessment could have a significant impact in the consolidated financial statements of the Bank.	Our audit procedures included: • Assessment of loan sale contracts made and the characteristics in relation to the required by IAS 39 to derecognize a financial asset. • Assessment of debt issuance prospects of the trusts and contractual covenants that grant the decision making authority to the Bank, bondholders' rights, and the fee obtained by the Bank when providing its management services. • Assessment of any modification to the debt issuance prospects of the trusts to determine whether the characteristics of scope of decision making authority, rights maintained by bondholders, and fees obtained. • Obtaining the annual analyses made by management, in which assess and define the no consolidation of the trusts in accordance the guides required by IFRS to consolidate the trusts.

Other Matter – Supplementary Information

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material aspects, in relation to the consolidated financial statements taken as a whole.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing 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 either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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, whether due to fraud or error, and to issue an auditors' 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 ISAs will always detect a material misstatement 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 on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' 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 fair presentation.

- Obtain sufficient 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 group 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 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 auditors' 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 engagement partner on the audit resulting in this independent auditors' report is Kuldip Singh K.

KPMG

Panama, Republic of Panama
March 27, 2018

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2017 and 2016

(Stated in Balboas)

Assets	Note	2017	2016
Cash and cash equivalents		337,800	281,416
Deposits in banks:			
Demand deposits in local banks		17,340,520	19,798,230
Demand deposits in foreign banks		5,128,017	6,483,190
Savings deposits in local banks		1,071,053	1,129,056
Savings deposits in foreign banks		3,656,794	2,614,741
Time deposits in local banks		0	1,000,000
Total deposits in banks		27,196,384	31,025,217
Total of cash, cash equivalents and deposits in banks	7, 28	27,534,184	31,306,633
Investments in securities	8, 28	59,512,559	59,139,149
Loans	9, 28	595,098,106	505,818,303
Less: Allowance for loan losses	9, 28	313,625	300,664
Loans, net		594,784,481	505,517,639
Furniture, equipment and improvements, net	10	2,230,664	1,466,778
Accounts and interests receivable	11	3,675,649	3,217,978
Tax credit	30	8,479,096	7,247,049
Deferred tax	25	987,891	554,811
Other assets	12	2,618,923	2,249,448
Total assets		699,823,447	610,699,485

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

Liabilities and Equity	Note	2017	2016
Liabilities:			
Deposits from customers:			
Local savings	6, 28	851,096	852,461
Foreign savings	6, 28	139,388	321,017
Local time	6, 28	189,621,270	160,248,249
Foreign time	6, 28	17,934,223	18,428,733
Total deposits from customers:		208,545,977	179,850,460
Negotiable commercial papers	13, 28	82,931,225	70,760,884
Negotiable commercial notes	14, 28	96,309,431	92,861,338
Ordinary bonds	15	14,310,229	16,591,868
Investment certificates	16, 28	13,600,000	23,072,087
Other negotiable debts	17, 28	13,840,047	8,988,036
Borrowed funds	18	187,147,534	141,544,615
Income tax payable	25	1,143,500	791,313
Other liabilities	19	11,407,593	9,517,855
Total liabilities		629,235,536	543,978,456
Equity:			
Common shares	20	15,000,000	15,000,000
Additional paid-in capital		26,300,000	26,300,000
Capital reserve		1,800,000	1,800,000
Fair value reserve		1,738,846	3,410,751
Currency translation reserve		(4,640,024)	(4,690,536)
Regulatory reserves		7,564,524	6,593,451
Retained earnings		21,932,674	17,605,388
Total equity of the controlling interest		69,696,020	66,019,054
Non-controlling interest	1	891,891	701,975
Total equity		70,587,911	66,721,029
Commitments and contingencies	27		
Total liabilities and equity		699,823,447	610,699,485

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Income

Year ended December 31, 2017 and 2016

(Stated in Balboas)

	Note	2017	2016
Interest and commisions income:			
Interest on:			
Loans		36,962,631	33,587,241
Investment securities		2,524,289	2,270,626
Deposits in banks		711,558	221,324
		40,198,478	36,079,191
Commision on:			
Management and servicing, net	22	5,530,682	4,454,610
Loan granting		2,547,334	2,702,010
Total interest and commisions income		48,276,494	43,235,811
Interest and commissions expense:			
Deposits		9,272,208	8,540,115
Borrowed funds		17,960,525	15,426,531
Commissions	23	1,926,015	1,359,550
Total interest expenses and commissions		29,158,748	25,326,196
Net interest and commissions income		19,117,746	17,909,615
Provision for loan losses	9	512,648	345,406
Net interest and commission income, after provision		18,605,098	17,564,209
Income from banking services and others:			
Gain (loss) on investments, net		2,960,280	(12,198)
Other income	6, 22	1,339,392	2,716,433
Total income from banking services and others, net		4,299,672	2,704,235
General and administrative expenses:			
Salaries and other personnel expenses	6, 24	8,362,435	7,839,241
Depreciation and amortization	10	761,364	541,550
Professional and legal fees		967,790	1,056,004
Taxes		1,824,516	1,954,447
Other expenses	6, 24	4,171,452	3,906,310
Total general and administrative expenses		16,087,557	15,297,552
Net income before income tax		6,817,213	4,970,892
Income tax	25	1,423,085	1,033,308
Net income		5,394,128	3,937,584
Income attributable to:			
Controlling interest		5,362,471	3,937,359
Non-controlling interest		31,657	225
		5,394,128	3,937,584
Income per share		359.61	262.51
Diluted income per share		359.61	262.51

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

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

Year ended December 31, 2017 and 2016

(Stated in Balboas)

	Note	2017	2016
Net income		5,394,128	3,937,584
Other comprehensive income:			
Items that are or may be reclassified to statement of income			
Fair value reserve:			
Fair value of loan portfolio acquired:			
Amortization		(79,581)	(78,440)
Valuation reserve of available for sale securities:			
Trasferred to profit or loss	8	888,806	458,014
Net change in fair value		(2,481,130)	(458,065)
Foreign currency translation differences for foreign operations		49,002	597,049
		(1,622,903)	518,558
Total other comprehensive income		3,771,225	4,456,142
Comprehensive income attributable to:			
Controlling interest		3,741,078	4,430,166
Non-controlling interest		30,147	25,976
Total comprehensive income		3,771,225	4,456,142

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

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

Year ended December 31, 2017 and 2016

(Stated in Balboas)

		Attributable to the Controlling Interest									
							Regulatory reserves				
	Note	**Common shares**	**Additional paid-in capital**	**Capital reserve**	**Fair value reserve**	**Currency translation reserve**	**Dynamic provision**	**Specific provision in excess**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balance at January 1, 2016		15,000,000	21,300,000	1,800,000	3,489,242	(5,261,834)	5,355,337	520,947	14,481,045	517,955	57,202,692
Net income		0	0	0	0	0	0	0	3,937,359	225	3,937,584
Other comprehensive income (loss)											
Fair value reserve:											
Fair value of loan protfolio acquired, net		0	0	0	(78,440)	0	0	0	0	0	(78,440)
Net change in fair value		0	0	0	(51)	0	0	0	0	0	(51)
Foreign currency translation differences for foreign operations		0	0	0	0	571,298	0	0	0	25,751	597,049
Total other comprehensive income (loss)		0	0	0	(78,491)	571,298	0	0	0	25,751	518,558
Total comprehensive income		0	0	0	(78,491)	571,298	0	0	3,937,359	25,976	4,456,142
Other changes in equity											
Constitution of reserves	32	0	0	0	0	0	591,457	125,710	(717,167)	0	0
Transactions with the shareholders of the Bank:											
Contributions, distributions and change in participations:											
Additional paid-in capital		0	5,000,000	0	0	0	0	0	0	0	5,000,000
Complementary tax		0	0	0	0	0	0	0	(95,849)	0	(95,849)
Non-controlling interest		0	0	0	0	0	0	0	0	158,044	158,044
Total of contributions and distributions		0	5,000,000	0	0	0	0	0	(95,849)	158,044	5,062,195
Balance at December 31, 2016		15,000,000	26,300,000	1,800,000	3,410,751	(4,690,536)	5,946,794	646,657	17,605,388	701,975	66,721,029
Net income		0	0	0	0	0	0	0	5,362,471	31,657	5,394,128
Other comprehensive income (loss):											
Fair value reserve:											
Fair value of loan protfolio acquired, net		0	0	0	(79,581)	0	0	0	0	0	(79,581)
Net change in fair value		0	0	0	(1,592,324)	0	0	0	0	0	(1,592,324)
Foreign currency translation differences for foreign operations		0	0	0	0	50,512	0	0	0	(1,510)	49,002
Total other comprehensive (loss) income		0	0	0	(1,671,905)	50,512	0	0	0	(1,510)	(1,622,903)
Total comprehensive income		0	0	0	(1,671,905)	50,512	0	0	5,362,471	30,147	3,771,225
Other changes in equity											
Constitution of reserves	32	0	0	0	0	0	916,462	54,611	(971,073)	0	0
Transactions with the shareholders of the Bank											
Contributions, distributions and change in participations:											
Complementary tax		0	0	0	0	0	0	0	(64,112)	0	(64,112)
Non-controlling interest		0	0	0	0	0	0	0	0	159,769	159,769
Total of contributions and distributions		0	0	0	0	0	0	0	(64,112)	159,769	95,657
Balance at December 31, 2017		15,000,000	26,300,000	1,800,000	1,738,846	(4,640,024)	6,863,256	701,268	21,932,674	891,891	70,587,911

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

Consolidated Statement of Cash Flows

Year ended December 31, 2017 and 2016

(Stated in Balboas)

	Note	2017	2016
Operating activities:			
Net income		5,394,128	3,937,584
Adjustments to reconcile net income and cash from operating activities:			
Provision for loan losses		512,648	345,406
Realized gain on investment at fair value		(2,071,474)	(445,816)
(Gain) loss on sale of financial instruments		(888,806)	458,014
Depreciation and amortization		761,364	541,550
Loss on disposal of fixed assets		1,715	55,466
Gain on sale of foreclosed assets		(116,991)	(79,389)
Interest income, net		(12,965,745)	(12,112,545)
Income tax expense		1,423,085	1,033,308
Changes in operating assets and liabilities:			
Loans		(89,859,071)	(38,099,702)
Accounts receivable		(347,693)	(24,683)
Sale of tax credits		7,432,053	6,560,778
Accrual of tax credits		(8,664,100)	(7,007,588)
Other assets		(252,483)	(1,514,175)
Time deposits		28,878,511	8,208,662
Saving deposits		(182,994)	300,536
Other liabilities		314,084	1,458,244
Cash generated from operations:			
Interest received		40,088,500	36,404,387
Interest paid		(26,468,280)	(23,514,501)
Income tax paid		(692,778)	(950,217)
Cash flows from operating activities		(57,704,327)	(24,444,681)
Investing activities:			
Purchase of investment securities		(17,269,085)	(26,826,379)
Sale of available for sale securities		11,247,492	8,255,523
Redemption of investment securities		7,016,139	2,286,681
Purchases of furniture and equipments		(1,570,520)	(1,154,917)
Cash flows from investing activities		(575,974)	(17,439,092)
Financing activities:			
Proceeds of borrowed funds		87,342,439	88,800,000
Payment of borrowed funds		(41,739,520)	(106,490,412)
Proceeds from issuance of negotiable commercial papers		92,142,000	82,049,000
Redemption of negotiable commercial papers		(79,971,659)	(65,079,505)
Proceeds of issuance of negotiable commercial notes		37,234,000	47,968,000
Redemption of commercial notes		(33,785,907)	(27,235,180)
Issuance of investment certificate		0	13,608,000
Redemption of investment certificate		(9,472,087)	(10,411,034)
Issuance of negotiable debts		14,316,000	10,070,000
Redemption of negotiable debts		(9,463,989)	(8,069,499)
Proceeds of issuance of ordinary bonds		0	16,591,868
Redemption of ordinary bonds		(2,281,639)	0
Additional paid-in capital		0	5,000,000
Non-controlling interest		159,769	158,044
Complementary tax		(64,112)	(95,849)
Cash flows from financing activities		54,415,295	46,863,433
Effect on the fluctuation of exchange rates on cash held		92,557	591,107
Net (decrease) increase on cash		(3,865,006)	4,979,660
Cash and cash equivalents at the beginning of the year		31,306,633	25,735,866
Cash and cash equivalents at the end of the year	7	27,534,184	31,306,633

The consolidated statement of cash flows should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

(1) General information

Banco La Hipotecaria, S. A. and Subsidiaries before La Hipotecaria, S.A., was incorporated on November 7, 1996 under the law of companies of the Republic of Panama. According to Resolution S. B. P. No. 127-2010 of June 4, 2010, the Superintendence of Banks of Panama granted a General Banking License to start operations as a Bank on June 7, 2010, which allows it to carry out banking transactions in Panama and the abroad in addition to any other activity authorized by this Superintendence.

Banco La Hipotecaria, S.A. is a private bank whose shareholder is La Hipotecaria (Holding), Inc. a company incorporated under the laws of the British Virgin Islands whose main shareholder is Grupo Assa, S. A. in 69.01% (2016: 69.01%).

Through Resolution FID No. 3-97 of August 6, 1997, the Superintendence of Banks granted the Bank a fiduciary license that allows it to conduct trust business in or from the Republic of Panama. The Bank is registered with the Superintendence of the Securities Market by means of Resolution No.487-01 of December 14, 2001.

The following table provides the detail of the Bank's significant subsidiaries:

	Activity	Country of Incorporation	Controlling Interest	
			2017	2016
La Hipotecaria Compañía de Financiamiento, S. A.	Grant residential mortgage loans, administer residential mortgage loans in the Republic of Colombia.	Colombia	94.99%	94.99%
La Hipotecaria, S. A. de C. V.	Grant residential and personal mortgage loans, manage residential and personal mortgage loans in the Republic of El Salvador.	El Salvador	99.98%	99.98%

The main office is located on Via España, Plaza Regency, floor No. 13, Panama City.

Thereafter, Banco La Hipotecaria, S. A. and its subsidiaries will be referred to as "the Bank".

(2) Basis of Preparation

(a) Statement of Compliance

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

The Audit Committee of the Bank reviewed and authorized the issuance of these consolidated financial statements on March 27, 2018.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following items:

Item	Basis of Measurement
Investments in securities	Fair value

(2) Basis of Preparation, continued

(c) Functional and Presentation Currency

The consolidated financial statements are expressed in Balboas (B/.) the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States Dollar (U.S. Dollars). The Republic of Panama does not issue its own paper currency and, instead, the U.S. Dollar is used as a legal tender. The functional currency of the subsidiary in Colombia is the Colombian peso (COP), and the functional currency of the subsidiary in El Salvador is the U.S. Dollar (U.S. Dollar).

(3) Summary of Significant Accounting Policies

The accounting policies set out below have been applied by the Bank consistently to all periods presented in these consolidated financial statements.

(a) Consolidation Basis

(a.1) Subsidiaries

The subsidiaries are participated entities controlled by the Bank. The Bank controls a subsidiary as it is exposed, or has rights, to variable returns from its involvement in the subsidiary and has the ability to affect those returns through its power over the investee. The Bank reassesses whether it has control over a participated entity if there are changes to one or more of the three elements of control. The financial statements of subsidiaries, as described in Note 1, are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(a.2) Structured Entities

A structured entity, is an entity that has been designed so that the rights to vote or similar they are not the determinant factor to decide who controls the entity, as when the rights to vote are related only to the administrative tasks and the relevant activities are directed by contractual agreements. In the evaluation to determine if the Bank has sufficient rights to give power on these participated entities, the Bank considers factors of the participated entity; such as, its intention and design; its present aptitude to direct the relevant activities; the nature of its relation with other parts; and the exposition to the implication in the participated entity.

(a.3) Non-controlling Interests

Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(a.4) Loss of Control

When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the statement of profit or loss. Whether the Bank retains any interest in the former subsidiary is measured at fair value when control is lost.

(3) Summary of Significant Accounting Policies, continued

(a.5) Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(a.6) Funds Administration

A subsidiary of the Bank acts as administrator and trustee of trust contracts at the risk of customers. The financial statements of these entities are not part of these consolidated financial statements except when the Bank has control over the entity.

(b) Foreign Currency

(b.1) Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currency at the current exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences arising on translation are generally recognized in the statement of profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognized in after comprehensive income.

(b.2) Foreign Operations

The financial position and the results of any subsidiary in a different functional currency are translated to the presentation currency as follows:

- Assets and liabilities, at the current exchange rate at the end of the year.
- Revenue and expenses, at the monthly average exchange rate of the year.
- Equity accounts are measured at historical cost, at relevant exchange rate at the time of each transaction.

The resulting adjustments due to translation are recorded in a separate account directly in the consolidated statement of changes in equity, under currency translation reserve.

(c) Financial Assets and Liabilities

(c.1) Recognition

The Bank initially recognizes loans, receivables, investments, deposits, debt instruments issued, and borrowing on the date on which they are originated or date of settlement.

(3) Summary of Significant Accounting Policies, continued

(c.2) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are offset only for purposes of presentation in the consolidated statement of financial position when the Bank has a legally enforceable right to set off the amounts and intends either to settle them on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions derived from financial instruments held for trading.

(d) Fair Value Measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(e) Cash and Cash Equivalents

For purpose of the consolidated statement of cash flows, cash equivalents include demand deposits with banks and term deposits with original maturities of three months or less, excluding restricted deposits.

(f) Loans

Loans are non-derivative financial assets with fixed determinable payments that are not quoted in the active market, and are generally originated by providing funds to debtors and the Bank does not intend to sell immediately or in the near term. Loans are reported at their principal amounts outstanding, less unearned interest and commissions and the allowance for impairment. Unearned interest and commissions on loans are accrued to income under the effective interest method.

(3) Summary of Significant Accounting Policies, continued

(g) Allowance for Impairment

The Bank assesses at each date of the consolidated statement of financial position whether there is objective evidence of impairment in a loan or loan portfolio. The amount of losses on certain loans during the period is recognized as an allowance for loan´s impairment in the consolidated statement of profit or loss and increases an account allowance for impairment. The allowance is presented deducted from loans receivable in the consolidated statement of financial position. When a loan is determined to be uncollectible, the recoverable amount is deducted from the allowance account.

Impairment losses are determined using two methodologies to determine whether an objective evidence of impairment exists, individually for the loans that are significant individually and collective for loans that are not individually significant.

(g.1) Individually Assessed Loans

Impairment losses on individually assessed loans are determined on an evaluation of the exposures on a case by case basis. If it is determined that no objective evidence of impairment exists for an individually significant loan, it is included in a group of loans with similar characteristics and are collectively assessed for impairment. The impairment loss is calculated by comparing the current value of the expected future cash flows, discounted at the original effective interest rate of the loan, against its current carrying value. Any loss is recognized as an allowance for impairment in the consolidated statement of profit or loss. The carrying amount of impaired loans is reduced through the use of an allowance account.

(g.2) Collectively Evaluated Loans

For the purposes of a collective evaluation of impairment, consumer loans are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimate of future cash flows for groups of such assets. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group, the historical loss experience for assets with similar credit risk characteristics to those in the group and management's experienced judgment as to whether the current economy and credit conditions are such that the actual level of inherent losses is likely to be greater or less than the suggested historical experience. Default rates, loss rates and expected time for future recoveries are regularly compared with the real results to ensure they still appropriate.

(g.3) Reversal of Impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by reducing the allowance for impairment account. The amount of any reversal is recognized in the consolidated statement of profit or loss.

(3) Summary of Significant Accounting Policies, continued

(g.4) Provision for Contingent Credit Risk

The Bank uses the allowance method to provide for possible credit losses. The allowance is increased based on a provision that is recognized as a provision expense in the consolidated statement of profit or loss and is reduced by write-offs related to these contingencies of a credit nature.

(g.5) Renegotiated or Restructured Loans

Loans that have been renegotiated or restructured are the ones that a renegotiation or restructuration has been made because of impairment in the borrower's financial condition, and when the Bank considers granting a change in the terms of the credit.

(h) Investment Securities

Investment securities are initially measured at fair value plus, incremental costs related to the transaction, except for securities at fair value through profit or loss, and subsequently accounted based on the maintained classifications according to the characteristics of the instrument and purpose for which its acquisition was determined. The classifications used by the Bank are detailed below:

(h.1) Held-to-Maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank's has the positive intent and ability to hold to maturity.

Held-to-maturity investments owned by the Bank consist of debt instruments, which are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification that is not insignificant in relation to the amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are close to the maturity date or the redemption date of the financial asset because changes in the market interest rate would not have a significant effect on the financial asset's fair value.

- Sales or reclassifications after the Bank has collected substantially all of the asset's original principal.

- Sales or reclassifications that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(h.2) Securities at Fair Value through Profit or Loss

This category includes those investments securities acquired mainly for the purpose of generating a profit from short - term fluctuations in the price of the instrument. These securities are measured at fair value and changes in fair value are recognized in the consolidated statement of profit or loss in the period in which they are generated.

(3) Summary of Significant Accounting Policies, continued

(h.3) Securities Available-for-Sale

This category includes those investments securities acquired with the intention to be held for an indefinite period of time, which may be sold in response to the needs of liquidity or changes in interest rates, exchange rates or equity prices. These securities are measured at fair value and changes in fair value are recognized in consolidated statement of changes in equity and presented in the fair value reserve within equity, until these securities are sold, redeemed, or impaired, in which case, the accumulated gain or loss in other comprehensive income is reclassified the consolidated statement of profit or loss.

When the fair value of investments in equity instruments cannot be reliable, investments remain at cost.

Impairment of Securities Available for Sale

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

If any such evidence exists for securities available-for-sale, the losses accumulated is reclassified from equity to the consolidated statement of profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized then the impairment loss is reversed through the consolidated statement of profit or loss.

(i) Furniture, Equipment and Improvements

Furniture, equipment and improvements include buildings, furniture and equipment used by branches and offices of the Bank. All furniture, equipment and improvements are measured at cost less accumulated depreciation and amortization. The historic cost includes the expense that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred. Cost considered as repairs and maintenance is charged to the consolidated profit or loss statement during the financial period that they are incurred.

(3) Summary of Significant Accounting Policies, continued

The depreciation expense of furniture and equipment, and amortization of improvements to the leased property is charged to current period using the straight-line method over the estimated useful life. The estimated useful life of assets is summarized as follows:

- Furniture and equipment	3 - 10 years
- Vehicles	5 years
- Improvements	3 - 10 years

The assets' useful lives and residual value are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. Furniture and equipment are subject to review for impairment when there are events or changes in the circumstances that indicate that the carrying value may not be recoverable. An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(j) Assets Classified as Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. An impairment loss is recognized due to reductions in the initial value of such assets. Impairment losses on initial and subsequent classification as held for sale are recognized in the consolidated statement of profit or loss.

(k) Deposits, Borrowed Funds and Debt Securities Issued

These financial liabilities correspond to the Bank's main sources of debt funding. They are initially measured at fair value less incremental direct transaction costs, and subsequently are measured at amortized cost using the method of effective interest rate.

(l) Share based payments

The fair value at the date of granting options of the Holding's share purchase plan of Bank employees is recognized as a personnel expense, with the corresponding increase in the account payable to the Holding, within the vesting period in which employees acquire unconditional rights over the shares. The amount recognized as an expense is adjusted to reflect the amount of concessions, which will effectively meet the conditions of service.

(m) Employee Benefits

(m.1) Termination Benefits

Termination benefits are recognized as expenses between whichever occurs first when the Bank can no longer withdraw the offer of those benefits and when the Bank recognizes costs for a restructuring. If benefits are not expected to be wholly settled within twelve months of the consolidated statement of financial position, then such benefits are discounted to determine their present value.

(3) Summary of Significant Accounting Policies, continued

(m.2) Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(n) Earnings per Share

Basic earnings per share is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period.

(o) Segment Reporting

A business segment is a main component of the Bank, whose operating results are regularly reviewed by management for decision making about resources to be allocated to the segment and evaluate its performance, and for which we have available financial information for this purpose.

The business segments presented in the consolidated financial statements correspond to a main component of the Bank responsible for providing a single product or service or a group of related products or services within a particular economic environment and that is subject to risks and returns that are different from the other business segments.

(p) Interest Income and Expense

Interest income and expense are recognized in the consolidated statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the consolidated statement of profit or loss and include:

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

- Interest on available-for-sale investment securities calculated on an effective interest basis.

(3) Summary of Significant Accounting Policies, continued

(q) Fees and Commission

Income and expenses from fees and commissions, both paid and received, other than those included in determining the effective interest rate, include banking services, premium and other service fees, administration and management of accounts which are recognized as the related services are performed or received.

The Bank receives recurrent income related to management services of trusts. These incomes are registered under the accrual method. Is obligation of the Bank to manage the resources of the trusts in conformity with the contracts and independent of its equity.

(r) Trusts Operations

Assets held on trusts or in function of the trustee are not considered part of the Bank and therefore, those assets and its corresponding income are not included in the consolidated financial statements presented. Its obligation of the Bank to manage the resources of the trusts in conformity with the contracts and independent of its equity.

The Bank charges a commission for the trust management of the funds in the trusts, which is paid by the trustees under the basis of the balance that the trusts have or with an agreement between the parties. These commissions are recognized to income under the terms of the trusts contracts monthly, quarterly, or annually under the accrual basis.

(s) Net Income from as Financial Instruments at Fair Value through Profit or Loss

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and financial liabilities designated at fair value through profit or loss. It includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(t) Income tax

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

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying accounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the tax rates enacted at the consolidated statement of financial position date. These temporary differences are expected to be reversed in future years. If it is determined that the deferred tax would not be realized in future years, the deferred tax will be totally or partially reduced.

(3) Summary of Significant Accounting Policies, continued

(u) New IFRSs and Interpretations that have not been yet adopted

In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standard No. 9 (IFRS 9) Financial Instruments, which replaces International Accounting Standard No. 39 (IAS 39).

IFRS 9 is effective for annual periods beginning on January 1, 2018. Early adoption is permitted.

I. IFRS 9 - Implementation strategy

The Bank's process of implementing IFRS 9 is governed by a Committee whose members include representatives from the areas of risk, finance, operations and information technology (IT) functions. This Committee met during the year 2017, to challenge the key assumptions, make decisions and monitor the progress of implementation at all levels of the Bank, including the evaluation of the sufficiency of resources.

The Bank has completed a preliminary impact assessment and accounting analysis; and has completed the work on the design and development of models, systems, processes and controls.

II. Classification and measurement - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics.

IFRS 9 includes three main classification categories for financial assets: measured at amortized cost (AC), at fair value through changes in other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL).

The standard eliminates the existing categories of IAS 39 of held-to-maturity, loans and receivables and investments available for sale.

A financial asset is measured at amortized cost and not at fair value through profit or loss if it complies with both of the following conditions:

1. The asset is maintained within a business model whose objective is to maintain assets to obtain contractual cash flows; and

2. The contractual terms of the financial asset establish specific dates for the cash flows derived only from payments to principal and interest on the outstanding balance.

A debt instrument is measured at FVOCI only if it complies with both of the following conditions and has not been designated as a FVTPL:

1. The asset is maintained within a business model whose objective is achieved by collecting contractual cash flows and selling these financial assets; and;

(3) Summary of Significant Accounting Policies, continued

2. The contractual terms of the financial asset set specific dates for the cash flows derived only from payments of principal and interest on the current balance.

During the initial recognition of investments in equity instruments not held for trading, the Bank may irrevocably elect to record the subsequent changes in fair value as part of the other comprehensive income. This choice must be made on an instrument-by-instrument basis.

All other financial assets will be measured at fair value through profit or loss.

Additionally, in the initial recognition, the Bank can irrevocably designate a financial asset that meets the measurement requirements to AC or FVOCI to be measured to FVTPL if doing so eliminates or significantly reduces an accounting asymmetry that could occur from do what.

A financial asset is classified in one of the categories mentioned in its initial recognition. However, for financial assets held at the time of initial application, the evaluation of the business model is based on facts and circumstances to date. Additionally, IFRS 9 allows new elective designations to FVTPL or FVOCI to be made on the date of initial application and allows or requires revocation of prior FVTPL elections on the date of initial application depending on the facts and circumstances as of that date.

Under IFRS 9, derivatives embedded in contracts in which the host is a financial asset within the scope of the standard are never bifurcated. Instead, the classification of the hybrid financial instrument taken as a whole is evaluated.

Evaluation of the business model

The Bank made an assessment of the objective of the business model in which financial instruments are maintained at the portfolio level to reflect, in the best way, the way in which the business is managed and in which the information is provided to management. The information that was considered included:

- The policies and objectives indicated for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on collecting revenue from contractual interests, maintaining a specific interest rate profile or coordinating the duration of the financial assets with the liabilities that said assets are financing or the expected cash outflows or realize cash flows through the sale of the assets;

- How key personnel of the Bank's management are evaluated and reported on the performance of the portfolio;

- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which such risks are managed;

(3) Summary of Significant Accounting Policies, continued

- 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); and

- The frequency, value and timing of sales in previous periods, the reasons for those sales and expectations about future sales activity.

Financial assets that are held or managed for trading and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss because they are not maintained to collect contractual cash flows or to obtain contractual cash flows and sell these financial assets.

Evaluation if the contractual cash flows are only principal and interest payments
For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as the consideration of the value of money over time and the credit risk associated with the amount of the principal in force for a particular period of time and other basic risks of a loan agreement and other associated costs (ex. liquidity risk and administrative costs), as well as the profit margin.

When evaluating whether the contractual cash flows are only principal and interest payments, the Bank will consider the contractual terms of the instrument. This will include the evaluation to determine if the financial asset contains a contractual term that could change the period or amount of the contractual cash flows in such a way that it does not comply with this condition. In making this evaluation, the Bank will consider:

- Contingent events that will change the amount and periodicity of cash flows;
- Leverage conditions;
- Terms of advance payment and extension;
- Terms that limit the Bank to obtain cash flows from specific assets (eg asset agreements without resources); and
- Characteristics that modify considerations for the value of money over time eg. periodic review of interest rates.
- Investments in securities held to maturity measured at amortized cost under IAS 39 will generally maintain this measurement under IFRS 9.
- Instruments in securities measured at FVTPL under IAS 39 will generally maintain this measurement under IFRS 9; and
- Investments in equity classified as available for sale under IAS 39 will generally be measured at FVTPL under IFRS 9.

(3) Summary of Significant Accounting Policies, continued

Preliminary impact assessment

Based on the preliminary high-level evaluation of possible changes in classification and measurement of financial assets held as of December 31, 2017, were as follows:

- Negotiable assets that are classified as held for trading and measured at FVTPL under IAS 39 will maintain this measurement under IFRS 9.

- Negotiable assets that are classified as available for sale and measured at FVOCI under IAS 39 will maintain this measurement under IFRS 9, with the exception of the mutual funds that will be reclassified to be measured at FVTPL.

- Negotiable assets that are classified as held-to-maturity and measured at AC under IAS 39 will maintain this measurement under IFRS 9.

- Bank loans and deposits that are classified as loans and accounts receivable and measured at amortized cost under IAS 39 will generally maintain this measurement under IFRS 9.

The previous assessment is preliminary and may change due to:

- IFRS 9 will require the Bank to review its accounting processes, policies and internal controls and these changes have not yet been completed.

- The Bank is completing the supporting documentation on the exposure to credit risk of the instruments linked contractually.

The new accounting policies, assumptions and judgments are subject to change until the Bank prepares its first interim financial statements as of March 31, 2018, which will include the initial application date.

III. Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with a model of 'expected credit loss' (ECL).

This will require that considerable judgment be applied regarding how changes in economic factors affect the ECL, which will be determined on a weighted average basis.

The new impairment model will be applicable to the following financial assets that are not measured at FVTPL:

- Debt instruments;
- Loan commitments issued.

No impairment loss will be recognized on investments in equity instruments.

(3) Summary of Significant Accounting Policies, continued

Under IFRS 9, allowances for losses will be recognized at an amount equal to the ECL for the life of the asset, except in the following cases in which the amount recognized is equivalent to a 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and

- Other financial instruments over which the credit risk has not increased significantly since its initial recognition.

The assessment of whether there has been a significant increase in the credit risk of a financial asset is one of the critical judgments implemented in the impairment model of IFRS 9.

The 12-month ECL is the portion of the ECL that results from loss events on a financial instrument that are possible within a period of 12 months after the reporting date.

Measurement of the ECL

The ECL is the estimated weighted probability of credit loss and is measured as follows:

- Financial assets that do not show credit impairment as of the reporting date: the present value of all arrears of cash contractual payments (eg, the difference between the cash flows owed to the Bank according to the contract and the cash flows that the Bank expects to receive);

- Financial assets that are impaired at the reporting date: the difference between the book value and the present value of the estimated future cash flows;

- Outstanding loan commitments: the present value of the difference between the contractual cash flows that are owed to the Bank in the event that the commitment is executed and the cash flows that the Bank expects to receive;

Financial assets that are impaired are defined by IFRS 9 in a manner similar to financial assets impaired under IAS 39.

Definition of loss

Under IFRS 9, the Bank will consider a financial asset in default when:

- It is unlikely that the debtor fully pays its credit obligations to the Bank, with no course of action on the part of the Bank to take the collateral (in the case they maintain); or

- The debtor has more than 90 days delinquency in personal loans and more than 180 days in mortgage loans.

(3) Summary of Significant Accounting Policies, continued

This definition is broadly consistent with the definition that is expected to be used for regulatory purposes from January 1, 2018.

When evaluating if a debtor is in default, the Bank will consider indicators that are:

- Qualitative - Breach of contractual clauses

- Quantitative - Non-payment and delinquency status over other obligations of the same issuer. The Bank is developing a qualification model that is expected to be ready between 2019 and 2020.

The inputs used in the evaluation of whether the financial instruments are in default and their importance may vary over time to reflect changes in circumstances and the effects that may have the results of the maturation of the rating model.

Significant Increase in Credit Risk
Under IFRS 9, when determining whether the credit risk of a financial asset has increased significantly since its initial recognition, the Bank will consider reasonable and sustainable information that is relevant and available without cost or disproportionate effort.

The Bank expects to identify if there has been a significant increase in credit risk for exposure as follows:

- For loans, the delinquency status is used as a criterion for a significant increase in risk. The Bank is developing a qualification model that is expected to be ready between 2019 and 2020.

- Changes in the risk rating of the financial instrument are used for investments.

Credit Risk Rating
The Bank will allocate each exposure to a credit risk rating based on a variety of data that is determined to be predictive of the Probability of Default (PD) due to delinquency obtained by transition matrices and will be incorporating the qualitative variables to strengthen the model. The Bank expects to use these ratings for purposes of identifying significant increases in credit risk under IFRS 9. Credit risk ratings are defined using factors that are indicative of the risk of loss.

Generating the term structure of the PD
Credit risk ratings are expected to be the main input to determine the PD term structure for the different exposures. The Bank intends to obtain performance and loss information on the credit risk exposures analyzed by country, type of product (with or without guarantee) and debtor as well as credit risk rating.

(3) Summary of Significant Accounting Policies, continued

The Bank designed and tested statistical models to analyze the data collected and generate estimates of the PD through multiple transition matrices, about the remaining life of the exposures and how they are expected to change over time.

It is expected that this analysis includes the identification and calibration of relationships between changes in the rate of loss and changes in key macroeconomic factors, as well as an analysis of the impact of other factors on the risk of loss. For most exposures, key macroeconomic indicators generally include: IMAE, unemployment rate, employment rate (for El Salvador), GDP, among other variables.

The Bank intends to formulate a "case by case" view of the future projections of the relevant economic variables as well as a representative range of other projection scenarios based on the recommendations of the Bank's Risk Committee and experts in economics, taking into consideration a variety of current and projected external information. The Bank plans to use these projections to adjust its PD estimates.

Determine if the credit risk has increased significantly

The criteria to determine if the credit risk has increased significantly varies depending on the portfolio and should include quantitative changes in the PD, including limits based on delinquency for loans and risk rating of the financial instruments of the investments.

In certain instances, using its expert judgment and, as far as possible, relevant historical experience, the Bank may determine that an exposure has significantly increased its credit risk based on particular qualitative indicators that it considers are indicative of this and whose effect would not be fully reflected otherwise by means of a timely quantitative analysis.

As a limit, and as required by IFRS 9, the Bank will presumably consider that a significant increase in credit risk occurs no later than when an asset shows delinquency for more than 90 days for the unsecured segment and 180 days for the mortgage guaranteed segment.

The Bank intends to monitor the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews that confirm:

- The criteria are able to identify significant increases in credit risk before an exposure is in default;

- There is no unforeseen volatility in the loan reserve derived from transfers between the 12-month PD (stage 1) and PD over the life of the instrument (stage 2).

(3) Summary of Significant Accounting Policies, continued

Inputs in the measurement of ECL

The key inputs in the ECL measurement are usually the term structures of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure to default (EAD)

In general, the Bank expects to derive these parameters from internal statistical models and other historical data. They will be adjusted to reflect information with future projection as described above.

Inputs in the measurement of ECL

The PD estimates are made at a certain date, in which the Bank expects to calculate the statistical models of rating, and evaluated using rating tools appropriate to the different categories of counterparty and exposure. It is expected that these statistical models are based on internally compiled data composed of both qualitative and quantitative factors. Market information, if it is available. If a counterpart or exposure migrates between rating categories, then this will result in the associated PD estimate instead. The PD will be estimated considering the contractual maturities of the exposures and the estimated prepayment rates.

The LGD is the magnitude of the loss given an event of default. The Bank plans to estimate the parameters of the LGD based on a historical rate of recovery of claims against counterparties in default. It is expected that the LGD models consider the structure, collateral, level of preference of the claim, counterpart industry and recovery costs of any comprehensive guarantee for the financial asset. The Bank calculates the LGD taking into account all the historical records of recoveries and expenses associated with these recoveries depending on the year in which the exposure occurred. These will be calculated on a discounted cash flow basis using the opportunity cost rate of the loans as a discount factor. The LGD may differ from the figures used for regulatory purposes. The main differences are related to: the elimination of regulatory impositions and calibration assumptions in cases of recession, inclusion of information with future projections and the use of multiple economic scenarios and the discount rate used.

The EAD represents the expected exposure in the event of default. The Bank expects to determine the EAD from the current exposure to the counterparty and the potential changes to the current figure allowed under contract, including any amortization. The LGD of a financial asset will be the gross book value at the time of default. For some financial assets, the Bank expects to determine LGD by means of a model of ranges of possible exposure results at various points in time using scenarios and statistical techniques. The LGD may differ from that used for regulatory purposes.

(3) Summary of Significant Accounting Policies, continued

Projection of future conditions

Under IFRS 9, the Bank will incorporate information with projections of future conditions both in its evaluation of whether the credit risk of an instrument has increased significantly since its initial recognition and in its measurement of ECL. Based on the recommendations of the Bank's Risk Committee, economic experts and consideration of a variety of current and projected external information. The Bank intends to formulate a projection of the relevant economic variables as well as a representative range of other possible projected scenarios. This process involves the development of two or more additional economic scenarios and considers the relative probabilities of each result.

The external information may include economic data and publish projections by government bodies and monetary authorities in the countries in which the Bank operates, supranational organizations such as the OECD and the International Monetary Fund, and academic and private sector projections.

It is expected that the base case represents the most probable outcome and aligned with the information used by the Bank for other purposes, such as strategic planning and budget. The other scenarios would represent a more optimistic and pessimistic result.

The Bank is in the process of identifying and documenting key credit risk and credit loss guidelines for each financial instrument portfolio and, using an analysis of historical data, to estimate the relationships between macroeconomic variables, credit risk and credit losses.

Preliminary impact evaluation

The most significant impact on the Bank's financial statements caused by the implementation of IFRS 9 is the new impairment requirements.

The Bank considers that impairment losses are likely to increase and become more volatile for the instruments under the new methodology of expected credit losses of IFRS 9.

The Bank's preliminary assessment indicates that the application of the impairment requirements of IFRS 9 as of December 31, 2017 will impact the reserves as of January 1, 2018, with increases between 60% and 70% compared to the impairment losses as per IAS 39.

The previous evaluation is preliminary and may change due to:

- IFRS 9 will require the Bank to review its accounting processes, policies and internal controls and these changes have not yet been completed.

- The Bank is completing the definition of loss.

(3) Summary of Significant Accounting Policies, continued

- The term for the estimation of the PD lifetime is subject to the results of the maturity of the portfolios.

- Is completing the documentation of the EAD and PD of the investments.

- The qualitative factors to be incorporated into the Bank's allowance models are in the process of being defined.

The new accounting policies, assumptions and judgments are subject to change until the Bank prepares its first interim financial statements as of March 31, 2018, which will include the initial application date.

IV. Classification - Financial liabilities

IFRS 9 largely preserves the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all changes in the fair value of liabilities designated as a FVTPL are recognized in income, whereas under IFRS 9 these changes in fair value are generally presented as follows:

- The amount of the change in fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and

- The remaining amount of the change in fair value is presented in profit or loss statement.

The Bank has not designated any liabilities to FVTPL and does not intend to do so. The Bank's preliminary assessment indicated that there would be no material impact if the requirements of IFRS 9 related to the classification of financial liabilities as of January 1, 2018 were applied.

V. Hedge accounting

When initially applying IFRS 9, the Bank may choose as an accounting policy to continue applying the hedge accounting requirements of IAS 39 instead of those included in IFRS 9. The Bank currently does not maintain hedge accounting.

VI. Disclosures

IFRS 9 will require extensive new disclosures on credit risk and expected credit losses. The Bank plans to implement the changes in the system and the controls it believes will be necessary to capture the required data, before the issuance of the first financial statement that includes IFRS 9.

VII. Impact on capital planning

The main impact on the regulatory capital of the Bank arises from the new requirements for the impairment of IFRS 9, which is affected through the profits not distributed in the primary capital.

(3) Summary of Significant Accounting Policies, continued

VIII. Transition

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

The Bank plans to take advantage of the exemption that allows it not to express the comparative information of previous periods in terms of classification and measurement changes (including impairment). The differences in the carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as of January 1, 2018.

- IFRS 15 "Revenue from Contracts with Customers". This Standard establishes a conceptual framework to determine when and how much revenue is recognized. This Standard replaces the existing guidelines, including IAS 18 "Revenue from Ordinary Activities", IAS 11 "Construction Contracts" and the interpretation of the Interpretations Committee of the International Financial Reporting Standards ("IFRIC") 13 "Loyalty Programs of Customers". IFRS 15 enters into force for annual periods beginning on January 1, 2018. The Bank is carrying out an initial review of the potential impact of the adoption of IFRS 15 in its consolidated financial statements.

  Due to the nature of the financial operations maintained by the Bank, the adoption of these standards will not have significant impacts on the financial statements, an aspect that is under evaluation by the administration.

- IFRS 16 "Leases". On January 13, 2016, IFRS 16 "Leases", which replaces the current, IAS 17 "Leases" was issued. IFRS 16 eliminates classification of leases either as operating leases or finance leases for the lessee. Instead, all leases are recognized similarly to finance leases under IAS 17. Leases are measured at the present value of future lease payments and are presented as either leased assets (right of use assets) or along with property, furniture and equipment. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 "Revenue from Contracts with Customers".

(4) Financial Risk Management

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities are mainly related to the use of derivative financial instruments and therefore, the consolidated statement of financial position is comprised mainly of financial instruments. These instruments expose the Bank to various types of risk, for which the Bank Board has established certain committees for administration and regular monitoring of risks to which the Bank is exposed. To manage and monitor these risk, the Board has established the following committees, which are the following:

- Credit Committee
- Collections Committee
- Audit Committee
- Compliance Committee
- Risk Committee
- Asset and Liability Committee (ALCO)

(4) Financial Risk Management, continued

The Audit Committee of the Bank supervises the way in which Management monitors the compliance of the policies and procedures of risk management and reviews if the risk management framework is appropriate in respect of the risks that the Bank confronts.

This Committee is assisted by Internal Audit in its supervision role. Internal Audit makes periodic revisions of the controls and procedures of risk management, and these results are reported to the Audit Committee.

The Bank's Risk Committee main responsibilities are the following:

1. Oversight of the performance and independence of the Risk Department of the Bank, according to its role.

2. To monitor the risk expositions and compare those expositions to the risk limits approved by the Board of Directors; as to bring to the Board of Directors the presented results.

3. To develop and to propose methodologies, procedures, limits and strategies for the administration of the risks; as well as to propose improvements to the risk management policies.

4. Issue recommendations to support the maintenance and/or improvement of the risk qualification of the Bank.

5. Periodically, as well as prior to performing assets and liabilities operations with large entities, to help management quantify the possible losses which the Bank might incur, in case of an operation is carried out.

6. To propose contingency plans on the risks subject, which will be submitted to the approval of the Board of Directors and to recommend courses of action or mechanisms which can normalize any situation in which the Bank has left of the established limits.

7. To watch that the management of the Bank promotes the culture of risk management.

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

(a) Credit Risk:

Is the risk that the debtor, issuer or counterpart of a financial asset owned by the Bank does not fully and timely comply with any payment due to the Bank, in conformity with the agreed upon terms and conditions, when the financial asset was acquired or originated by the Bank. Also this risk is conceived as an impairment in the credit quality of the counterpart, of the collateral and/or of the guarantee agreed initially.

(4) Financial Risk Management, continued

To mitigate the credit risk, the risk management policies establish processes and controls to follow for loans approvals or credit facilities. The Bank structures the levels of credit risk acceptable by the establishment of limits over the quantity of accepted risk in relation to only one borrower, or group of borrowers, and geographic segment. These credits are controlled constantly and subject to a periodic revision.

Exposure to credit risk is also managed through a periodic analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. The exposure to credit risk is also mitigated through collaterals, corporate, and personals obtained by the Bank.

Risk management is carried out under policies approved by the Board of Directors; these policies are reviewed and modified to reflect changes in markets, regulations, and other factors to consider in the formulation of these policies.

The Bank has several risk assessment reports to evaluate the performance of their credit portfolio, allowance requirements, and especially to anticipate the circumstances that can affect the repayment ability of their borrowers.

The Board of Directors has delegated the responsibility for the management of the credit risk in the Credit Committee, Administration of Credit Committee, Risk Committee, Collections Committee which watch periodically the financial condition of the debtors and respective issuers, who involve a credit risk for the Bank.

(4) Financial Risk Management, continued

Credit Quality Analysis

The following table analyzes the Bank's financial instruments that are exposed to the credit risk and their corresponding assessment:

	Loans As of December 31, 2017 (in Balboas)	Loans As of December 31, 2016 (in Balboas)	Investments securities (1) As of December 31, 2017 (in Balboas)	Investments securities (1) As of December 31, 2016 (in Balboas)
Maximum exposure				
Carrying amount	594,784,481	505,517,639	59,477,544	59,104,134
At amortized cost				
Low-fair risk	576,584,739	491,378,401	442,132	1,537,501
Watch list	12,839,884	10,244,902	0	0
Substandard	1,272,508	774,808	0	0
Doubtful	1,567,064	779,304	0	0
Loss	2,833,911	2,640,888	0	0
Gross amount	595,098,106	505,818,303	442,132	1,537,501
Allowance for impairment	313,625	300,664	0	0
Net carrying amount	594,784,481	505,517,639	442,132	1,537,501
Available for sale				
Low-fair risk	0	0	43,898,566	44,762,589
Carrying amount	0	0	43,898,566	44,762,589
At fair value through profit or loss				
Low-fair risk	0	0	15,136,846	12,804,044
Carrying amount	0	0	15,136,846	12,804,044
Neither past due nor impaired				
Normal or low-fair risk	576,584,739	491,378,401	0	0
Total	576,584,739	491,378,401	0	0
Past due but not impaired				
31 a 60 days	9,416,655	7,040,165	0	0
61 a 90 days	3,423,229	3,204,737	0	0
91 a 180 days	2,839,572	1,554,112	0	0
Total	15,679,456	11,799,014	0	0
Individually impaired				
Watch list	0	0	0	0
Substandard	0	0	0	0
Doubtful	0	0	0	0
Loss	2,833,911	2,640,888	0	0
Total	2,833,911	2,640,888	0	0
Allowance for impairment				
Individual allowance	159,623	206,519	0	0
Collective allowance	154,002	94,145	0	0
Total	313,625	300,664	0	0

(1) Excludes equity shares

At December 31, 2017, the Bank made the analysis based on the required on the Agreement No.4-2013 which regulates off-balance accounts. Of the total off-balance accounts, 100% correspond to revocable promise of payment cards. The total of the promise of payment cards are classified in the normal category.

(4) Financial Risk Management, continued

Renegotiated and restructured loans are presented as follows:

	2017	**2016**
Renegotiated and restructured loans		
Carrying amount	183,913	186,998
Impaired amount	145,750	154,684
Allowance for impairment	(4,200)	(9,230)
Net carrying amount	141,550	145,454

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

- Impaired loans and investment debt securities:
  Management assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired based on the following criteria:
  - Contractual non-payment of principal or interest;
  - borrowers' cash flow difficulties;
  - non-compliance with covenants and conditions;
  - borrower or issuer will enter bankruptcy;
  - impairment of the competitive position of the borrower; or
  - impairment of warranty

- Past due but not impaired:
  Loans that hold enough level of guarantees and/or sources of payment to cover the carrying value of such loans are considered in arrears with no impairment.

- Renegotiated or restructured loans:
  Renegotiated loans are those loans for which a significant variation in the original credit terms (balance, term, payment plan, rate and guarantees) have been formally documented, due to material difficulties in the payment capacity of the debtor The objective of a restructuration is to obtain a more favorable situation so that the Bank recovers the debt.

- Write-off policy:
  The Bank determines the write-off a group of loans that demonstrate non-recoverability. This determination is made after performing an analysis of the conditions since a payment of an obligation has not been made, and chance of recovery. For loans of lower amounts, write-offs are generally based on the expired time of the credit granted.

(4) Financial Risk Management, continued

- Allowance for impairment:
  The Bank has established reserves to cover losses incurred in the loans portfolio. These reserves are calculated on an individual basis for the loans that are individually significant and collectively for the loans that are not individually significant the loans that are evaluated on an individual basis and are not impaired, are evaluated on a collective basis.

Deposits placed with Banks
At December 31, 2017, the Bank held deposits placed with banks for B/.27,196,384 (2016: B/.31,025,217). These deposits are held with financial institutions that are rated at least BBB- y BBB+, based on Fitch Ratings Inc., Moodys, and Standard & Poors.

Collateral held and Other Credit improvement and their Financial Effect
The Bank held collateral and other credit to secure the payment of its financial assets exposed to credit risk improvements. The table below presents the main types of collateral held by different types of financial assets.

	% of coverage subject to requirements of Collaterals		
	2017	**2016**	**Type of Collateral**
Loans	92%	92%	Properties
Investment securities	77%	78%	Mortgage loans

Residential mortgage loans
The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination and generally is not updated.

LTV ranges	**2017**	**2016**
0-20%	500,763	391,022
20-40%	4,810,538	3,440,419
40-60%	24,400,710	21,475,393
60-80%	168,193,621	151,826,428
80-100%	349,265,979	287,919,741
Total	547,171,611	465,053,003

The Bank does not update its collateral valuation routinely. The appraisals on the collaterals are updated for consumer loans when the credit risk of a loan becomes significantly impaired and the loan is under close supervision. For loans that are doubtful to recover, the Bank obtains appraisals for collaterals because it is an input for measuring impairment.

(4) Financial Risk Management, continued

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at year end are shown below:

	2017	2016
Properties	234,239	291,885

Concentration of Credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the date of the consolidated financial statements is as follows:

	Loans		Investment Securities	
	2017	2016	2017	2016
Concentration by Sector:				
Mortgage banking	547,171,611	465,053,003	44,029,545	44,556,529
Personal banking	47,926,495	40,765,300	0	0
Other sectors	0	0	15,483,014	14,582,620
	595,098,106	505,818,303	59,512,559	59,139,149
Geographic:				
Panama	435,069,985	364,220,041	44,283,233	52,549,864
El Salvador	111,726,941	98,069,243	0	0
Colombia	48,301,180	43,529,019	5,364,951	6,589,285
United States of America	0	0	9,864,375	0
	595,098,106	505,818,303	59,512,559	59,139,149

Concentration by location for loans is based on the customer's country of domicile. Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

(b) Liquidity Risk

The liquidity risk consists of two definitions and depends on its origination:

Funding Liquidity Risk:

It represents the difficulty of an entity to obtain the resources necessary to comply with all its obligations, through the income generated by their assets or by the acquisition of new liabilities. This type of risk, generally, is occasioned by a drastic and sudden deterioration of the quality of the assets which originates an extreme difficulty to turn them into liquid resources.

(4) Financial Risk Management, continued

Market Liquidity Risk:

It is the probability of economic loss due to the difficulty of disposing assets without a significant reduction in its price. It is incurred in this class of risk as a result of changes in the market (prices, rates, etc.), or when investments realized are in markets or instruments for which does not exist an ample offer and demand.

Liquidity Risk Management

The Bank monitors this risk with sufficient and appropriate liquid funds and assets that can easily be liquidated, usually at level required by the regulator and maintains an adequate gap between maturities of assets and liabilities which is reviewed regularly.

The ALCO Committee is in charge of the management of the liquidity risk in order to assure the Bank can respond in case of unexpected cash withdrawals of deposits or unscheduled loans commitments.

Bank's management and the ALCO Committee is responsible to monitor the liquidity position through an analysis of the contractual maturity are structure, stability of deposits by type of customer, and the compliance with regulations and corporate policies.

Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the index of net liquid assets to deposits from customers. The net liquid assets are considered as including cash and cash equivalents and debt securities for which there is an active and liquid market less any deposit from banks, debt securities issued and other borrowings.

The index of net liquid assets on deposits from customers of the Bank reported to the Superintendence of Banks of Panama; this index should not be less than 30%:

	2017	2016
At December 31	59.25%	86.11%
Average of the year	87.14%	77.64%
Maximum of the year	146.68%	136.42%
Minimum of the year	43.61%	45.94%

(4) Financial Risk Management, continued

The table below set out the undiscounted cash flows of the financial assets and liabilities of the Bank and its loan commitments not recognized.

2017	Carrying amount	Gross nominal (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial Liabilities:						
Saving deposits	990,484	(990,484)	(990,484)	0	0	0
Time deposits	207,555,493	(222,571,814)	(103,518,484)	(119,053,330)	0	0
Negotiable commercial papers	82,931,225	(84,302,996)	(84,302,996)	0	0	0
Negotiable commercial notes	96,309,431	(98,446,601)	(33,152,509)	(65,294,092)	0	0
Ordinary bonds	14,310,229	(16,583,965)	(725,449)	(15,858,516)	0	0
Investment certificates	13,600,000	(14,534,160)	(6,173,639)	(8,360,521)	0	0
Other negotiable debts	13,840,047	(13,880,549)	(13,880,549)	0	0	0
Borrowed funds	187,147,534	(208,045,893)	(35,143,214)	(152,708,564)	(20,194,115)	0
Total financial liabilities	616,684,443	(659,356,462)	(277,887,324)	(361,275,023)	(20,194,115)	0
Financial Assets:						
Cash	337,800	337,800	337,800	0	0	0
Demand deposits	27,196,384	27,196,384	27,196,384	0	0	0
Investment securities	59,477,544	109,513,433	2,785,384	11,556,148	15,730,586	79,441,315
Loans	595,098,106	1,168,695,681	57,578,383	224,700,562	260,412,642	626,004,094
Total financial assets	682,109,834	1,305,743,298	87,897,951	236,256,710	276,143,228	705,445,409
Commitments and contingencies						
Loan commitments	0	(77,155,573)	(77,155,573)	0	0	0

2016	Carrying amount	Gross nominal (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial Liabilities:						
Saving deposits	1,173,478	(1,173,478)	(1,173,478)	0	0	0
Time deposits	178,676,982	(184,006,462)	(52,574,452)	(131,432,010)	0	0
Negotiable commercial papers	70,760,884	(72,038,452)	(72,038,452)	0	0	0
Negotiable commercial notes	92,861,338	(99,615,302)	(34,376,487)	(65,238,815)	0	0
Ordinary bonds	16,591,868	(20,069,247)	(841,116)	(19,228,131)	0	0
Investment certificates	23,072,087	(25,279,123)	(9,893,297)	(15,385,826)	0	0
Other negotiable debts	8,988,036	(9,128,639)	(9,128,639)	0	0	0
Borrowed funds	141,544,615	(160,436,696)	(23,785,492)	(110,979,852)	(25,671,352)	0
Total financial liabilities	533,669,288	(571,747,399)	(203,811,413)	(342,264,634)	(25,671,352)	0
Financial Assets:						
Cash	281,416	281,416	281,416	0	0	0
Demand deposits	31,025,217	31,025,217	31,025,217	0	0	0
Investment securities	59,104,134	107,775,178	3,152,336	12,293,081	12,400,300	79,929,461
Loans	505,818,303	999,008,868	49,656,575	192,680,134	222,342,374	534,329,785
Total financial assets	596,229,070	1,138,090,679	84,115,544	204,973,215	234,742,674	614,259,246
Commitments and contingencies						
Loan commitments	0	(66,490,092)	(66,490,092)	0	0	0

For financial assets and liabilities that are non-derivatives, the gross nominal amount is measured based on the flows of comprising cash and include estimated interest payable and receivable, read on for it to differ from the amounts presented in the consolidated statement of financial position.

(4) Financial Risk Management, continued

The table below sets out the carrying amounts of financial assets and financial liabilities expected to be recovered or settled more than twelve months after the reporting date:

	2017	2016
Financial Liabilities:		
Time deposits	106,568,404	116,632,993
Negotiable commercial notes	63,902,000	59,287,000
Ordinary bonds	14,310,229	16,591,868
Investment certificates	7,600,000	13,600,000
Borrowed funds	153,842,987	119,637,121

The Bank is dedicated to generate mortgage and personal loans and is capable of securitize part of its loans in accordance with its liquidity needs. Mortgage loans reflect a monthly flow in capital subscriptions and interest payments which are not listed in the table above.

The table below shows the Bank's commitment and available assets as collateral in connection with any financial liability or other compromise, and represent those financial assets available to support future commitments or borrowed funds:

2017	Pledged as Collateral	Available as Collateral	Total
Cash and cash equivalent	0	27,534,184	27,534,184
Investment securities	0	59,512,559	59,512,559
Loans, net	158,173,667	436,610,814	594,784,481
Non-financial assets	0	17,992,223	17,992,223
	158,173,667	541,649,780	699,823,447

2016	Pledged as Collateral	Available as Collateral	Total
Cash and cash equivalent	0	31,306,633	31,306,633
Investment securities	0	59,139,149	59,139,149
Loans, net	119,701,728	385,815,911	505,517,639
Non-financial assets	0	14,360,064	14,360,064
	119,701,728	490,621,757	610,323,485

(c) Market Risk:

It is the risk that the value of a financial asset is reduced as a result of changes in interest rates, in monetary exchange rates, stock prices and other financial variables, as well as the reaction of market participants to political and economic events. These elements cause that the Bank is subject to latent losses as to potential profit. The objective of market risk management is of managing and watching the risk exposures and that the same ones are supported inside the acceptable parameters optimizing the risk return.

(4) Financial Risk Management, continued

Market Risk Management:

The management of this risk is supervised constantly by the General Management. To mitigate this risk, the Bank has documented in its control policies related to investment limits, classification and valuation of investments, qualification of portfolio, cross-check of interest payments, sensibility and stress tests.

Below are detailed the composition and analysis of each of the types of market risk:

Exchange Rate Risk

Is the risk that the value of a financial instrument fluctuates as a consequence of changes in exchange rates of foreign currencies and other financial variables, and the reaction of market participants to political and economic events. For purposes of IFRS 7, this risk does not derive from financial instruments that are not monetary items, nor for financial instruments denominated in the functional currency.

The Bank holds and makes loans in Colombian Pesos, the national currency of Colombia. The value of positions fluctuates as a result of changes in the prices of the exchange rate.

The sensibility analysis for the risk of exchange rate, is considered principally in the measurement of the position inside a specific currency. The analysis consists of verifying how much would represent the position in the functional currency on the currency to which it would be converting and therefore the mix of the exchange rate risk.

The currency position is presented in its equivalent in dollars as follows:

	Expressed in B/.	
	2017	**2016**
Assets		
Cash and cash equivalent	4,802,534	5,575,212
Loans, net	48,301,180	43,498,692
Other assets	7,067,252	7,703,987
Total assets	60,170,966	56,777,891
Liabilities		
Time deposits	19,159,683	10,673,991
Ordinary bonds	14,310,229	16,591,868
Borrowed funds	2,770,331	9,692,151
Other liabilities	634,166	1,459,470
Total liabilities	36,874,409	38,417,480
Net position	23,296,557	18,360,411

(4) Financial Risk Management, continued

Interest Rate Risk

Interest rate risk is the Bank's financial exposure (net margin and equity market value) to possible losses in the event of unexpected movement in the interest rates.

The Board of Directors establishes that the ALCO Committee has the responsibility to analyze the sensibility to interest rate fluctuations, statement of financial position structure, transaction terms and investment strategies.

The basic analysis carried out every month by management consists in determining the impact caused on financial assets and liabilities by increases or decreases of 25 and 50 basis points in interest rates, considering as a premise, the minimum rate of 0.005% in cases that their results yield negative values to raise the actual values. The impact is summarized as follows:

	Increase of 25 bp	Decrease of 25 bp	Increase of 50 bp	Decrease of 50 bp
Sensitivity of projected net interest income				
2017	86,075	(88,357)	173,905	(169,569)
2016	122,776	(125,058)	247,903	(243,567)
Sensitivity of projected net equity				
2017	(1,217,299)	1,217,299	(2,434,599)	2,434,599
2016	(1,069,372)	1,071,654	(2,138,743)	2,134,407

The table below summarizes the Bank's exposure to interest rate risk. It includes the Bank's assets and liabilities at carrying value, categorized by the earlier of contractual reprising rate or maturity.

2017	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Demand deposits	17,180,807	0	0	0	17,180,807
Investments available for sale	43,887,069	0	0	0	43,887,069
Investments held to maturity	223,459	0	0	218,673	442,132
Investments at fair value through profit or loss	1,362,746	0	0	13,774,100	15,136,846
Loans	595,098,106	0	0	0	595,098,106
Total assets	657,752,187	0	0	13,992,773	671,744,960
Liabilities:					
Saving deposits	990,484	0	0	0	990,484
Time deposits	100,840,995	106,714,498	0	0	207,555,493
Borrowed funds	187,147,534	0	0	0	187,147,534
Issued debt	135,390,272	85,600,660	0	0	220,990,932
Total liabilities	424,369,285	192,315,158	0	0	616,684,443
Interest rate sensitivity, net	233,382,902	(192,315,158)	0	13,992,773	55,060,517

(4) Financial Risk Management, continued

2016	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Demand deposits	20,319,978	0	0	0	20,319,978
Time deposits	1,000,000	0	0	0	1,000,000
Investments available for sale	31,787,500	0	4,073,403	7,705,280	43,566,183
Investments held to maturity	1,319,477	0	0	218,024	1,537,501
Investments at fair value through profit or loss	0	0	0	12,804,044	12,804,044
Loans	505,818,303	0	0	0	505,818,303
Total assets	560,245,258	0	4,073,403	20,727,348	585,046,009
Liabilities:					
Saving deposits	1,173,478	0	0	0	1,173,478
Time deposits	62,043,988	116,632,994	0	0	178,676,982
Borrowed funds	141,544,615	0	0	0	141,544,615
Issued debt	123,079,920	89,194,293	0	0	212,274,213
Total liabilities	327,842,001	205,827,287	0	0	533,669,288
Interest rate sensitivity, net	232,403,257	(205,827,287)	4,073,403	20,727,348	51,376,721

To evaluate the interest rate risk and its impact in the fair value of financial assets and liabilities, management of the Bank makes stress tests to determine the sensibility of financial assets and liabilities.

Price Risk:
Is the risk that the value of a financial instrument fluctuates due to changes in market prices, independently that they are caused by specific factors related to the particular instrument or its issuer, or factors that affect all securities traded on the market.

The Bank is exposed to price risk of equity instruments classified as available for sale or securities at fair value through profit or loss. To mitigate the price risk in equity or debt instruments, the Bank diversifies its portfolio according to the established limits.

(d) Operational Risk
Operational risk involves potential losses, directly or indirectly related to the banking process. It could be caused by personnel, technology, infrastructure, as well as external factors that are not related to credit, market and liquidity risks. These external factors involve government legal requirements and regulatory requirements and generally accepted standards of corporate behavior.

(4) Financial Risk Management, continued

The model of Operative Risk Management covers as principal points:

- Definition of mitigating actions.
- Identification and evaluation of the risks.
- Report of events of losses and incidents.
- Proper follow up to the execution of plans of actions defined by new initiatives of the Bank, products and/or services and significant improvements to the processes.
- To evaluate the operative risk level in the initiatory piece of news of the Bank, products and/or services and significant progress to the processes.
- Development of trainings.
- Participation in the design of policies and procedures.

The different areas that take part in joint form for the ideal management of the operative risk are:

- Unit of Administration of Risk.
- Technology of Information.
- Unit of Computer Security.
- Monitoring and Prevention of Frauds.
- Unit of Internal control.

As part of the model of Corporate Government, the strategy, methodology of work and follow up to the plans of actions defined for the events and risks valued as critical and high are brought to the Top Management and in turn to the Risk Committee of the Board of Directors every three months.

The Department of Internal Audit checks and validates the fulfillment of the policies and definite methodologies and that these go according to the existing regulation, the results of this review are presented to the Audit Committee.

(e) Capital Management:

One of the Bank's policies is to maintain a level of capital to accompanying credit business and investment growth in the market, maintaining a balance between the return on investments, and the adequacy of capital required by regulators.

The Bank is subject to the Panamanian Banking Law, which states that the total capital adequacy ratio shall not be less than 8% of its total weighted assets and off-balance accounts which represent an irrevocable contingency, weighted based on their risks.

(4) Financial Risk Management, continued

Based in the Agreements No. 1-2015 and its amendments and No. 3-2016, issued by the Superintendence of Banks of Panama, as of December 31, 2017, the Bank held a regulatory capital position that is comprised as follows:

	2017	2016
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid in capital	26,300,000	26,300,000
Capital reserves	1,800,000	1,800,000
Other items of comprehensive income (1)		
Gain in available for sale securities	571,834	2,164,157
Adjust for translation of foreign currency	(4,640,024)	(4,690,536)
Retained earnings	21,932,674	17,605,388
Non-controlling interests	891,891	701,975
Less: Deferred tax	(987,891)	(554,811)
Total Primary Ordinary Capital	60,868,484	58,326,173
Dynamic provision	6,863,256	6,058,625
Total Regulatory Capital	67,731,740	64,384,798
Total of Risk weighed assets	429,296,001	392,702,907

Ratios:	**Minimum requested**		
Capital Adequacy ratio	8%	15.78%	16.40%
Primary Ordinary Capital Ratio	3.75%	14.18%	14.85%
Primary Capital Ratio	5.25%	14.18%	14.85%

(1) Excludes the fair value of the portfolio acquired

(5) Use of Estimates and Judgments in Applying Accounting Policies

The Bank's management prepares the consolidated financial statements in accordance with International Financial Reporting Standards. They have applied judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the period. Actual results may differ from these estimates.

The assumptions and decisions are continuously evaluated and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(5) Use of Estimates and Judgments in Applying Accounting Policies, continued

Bank's management evaluates the selection, disclosures and application of critical accounting policies in the mayor uncertain estimates. The information related to the related to the presumptions and estimates that affect the reported amounts of assets and liabilities under the next fiscal year and critical judgments in the selection and application of the accounting policies detailed as follows:

(a) *Impairment losses on Loans*

The Bank reviews its loan portfolios on the date of each consolidated statement of financial position to determine whether there is objective evidence of impairment of a loan or portfolio of loans that must be recognized in the consolidated statement of profit or loss for the year. The Bank uses its best judgment to determine whether there is observable data that may indicate a measurable deterioration in a group of loans using estimates based on historical loss experience for loans with similar when predicting recoverable future cash flows of the following features.

This evidence may include observable data indicating that there has been and adverse change in payment status of borrowers or economic conditions that correlate with defaults on loans in the Bank. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimated losses and actual loss experience.

(b) *Impairment of Investments Securities*

The Bank determines that investments securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires the management judgment, when there is evidence of impairment in the financial health of the issuer, industry and sector performance, changes in technology, and operational and financing cash flows.

(c) *Income tax*

The Bank is subject to income taxes under the jurisdictions of the Republic of Panama, Colombia, and El Salvador. Significant estimates are required in determining the provision for income taxes and deferred tax product of temporary differences. There are many transactions and calculations for which the final tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities based on estimates that if there is an obligation to pay additional taxes. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income taxes in the period in which such determination was made.

(d) *Non-consolidated structured entities*

The Bank's management conducted an analysis of their structured entities, and in turn concluded that the same should not be consolidated because the Bank performs the function of an agent and not principal. An agent act on behalf and for the benefit of another party or parties (the principal or principals) and therefore does not control an investee when exercising its authority to make decisions. Therefore, sometimes the power of a principal can be maintained and exercised by an agent, but on behalf of the principal.

(6) Balances and Transactions with Related Parties

The consolidated statement of financial position and the consolidated statement of profit or loss include balances and transactions with related parties, which are summarized as follows:

	2017	**2016**
Assets:		
Demand deposits	67,208	105,500
Liabilities:		
Savings deposits	688,484	894,407
Time deposits	6,964,511	5,748,401
Other income (expenses):		
Interest of saving deposits	(276,991)	(225,075)
Short-term benefits to executives	(1,154,469)	(1,203,510)

Transactions with Directors and Executives

As of December 31, 2017, the Bank has paid fees for B/.35,422 (2016: B/.39,919) to Directors that attend the meetings of the Board of Directors and Committees.

The Bank has paid salaries and other benefits including life insurance, bonus, and salaries in species to the executives for B/.1,154,469 (2016: B/.1,203,510).

(7) Cash and Cash Equivalents

The cash and cash equivalents are detailed as follows for purposes of reconciliation with the consolidated statement of cash flows:

	2017	**2016**
Cash and cash effects	337,800	281,416
Demand deposits	22,468,538	26,281,420
Saving deposits	4,727,846	3,743,797
Time deposits	0	1,000,000
Cash and cash equivalents in the consolidated statement of cash flows	27,534,184	31,306,633

(8) Investment in Securities

The investment securities and other financial assets are classified as follows:

	2017	2016
Securities available for sale	43,933,581	44,797,604
Securities at fair value through profit or loss	15,136,846	12,804,044
Securities held to maturity	442,132	1,537,501
Total investments in securities	59,512,559	59,139,149

Securities Available-for-Sale

These securities are detailed as follow:

	2017	2016
Mortgage bonds	30,255,445	31,752,485
Republic of Panama bonds	0	7,740,295
Republic of Colombia treasury bonds	3,767,249	4,073,403
United States of America Treasury Bonds	9,864,375	0
Mutual funds	11,497	1,196,406
Shares	35,015	35,015
Total	43,933,581	44,797,604

As of December 31, 2017, the Bank holds a share investment amounted on B/.35,015 (2016: B/.35,015), which the Bank could not assess a reliable fair value. This investment is held at cost and is tested for impairment annually.

As of December 31, 2017, the Bank made sales of investments available for sale of B/.11,247,492 (2016: B/.8,255,523), these sales generate a gain of B/.888,806 (2016: loss B/.458,014).

Securities at Fair Value through Profit or Loss

These securities consist of residual interests that the Bank has retained as part of the securitization of their portfolios, and are detailed as follows:

	Maturity	2017	2016
Residual interest of eighth trust	December 2036	2,573,532	3,236,077
Residual interest of ninth trust	December 2022	573,964	619,407
Residual interest of tenth trust	September 2039	5,107,150	3,961,893
Residual interest of eleventh trust	October 2041	2,725,621	2,440,936
Residual interest of twelfth trust	November 2042	1,574,304	1,464,727
Residual interest of thirteenth trust	December 2045	1,219,529	1,081,004
Agricultural development securities	October 2018	180,373	0
Time deposit certificate	February 2018	1,182,373	0
Total		15,136,846	12,804,044

The trust's residual interests were determined by discounting the future cash flows as trustee commissions and incentives that will receive the Bank of these trusts. At the time of creation of these trusts, it was estimated that the realization of values was 30 years for the Eighth, Ninth, Tenth, Eleventh, Twelfth, and Thirteenth Mortgage Bonds Trust: (maturing in 2036, 2022, 2039, 2041, 2042 and 2045 respectively).

(8) Investment in Securities, continued

As of December 31, 2017, the Bank has not made any purchase or sale of residual bonds (2016: purchase of B/.3,805,685).

Securities Held-to-Maturity

The Bank maintains bonds of the Republic of Panama with a nominal value of B/.225,000, which are recorded at amortized cost of B/.218,673 (2016: B/.218,024) with a fair value of B/.327,645 (2016: B/.308,813). These bonds have an interest rate of 8.875% (2016: 8.875%) and maturity date on December 31, 2027. These bonds are held in the Banco Nacional de Panama and are at the disposition of the Superintendence of Banks of Panama, in order to guarantee proper compliance with the fiduciary obligations of the Bank. Similarly the Bank maintain Colombian agricultural development securities (TDA and TDB) with a carrying amount of B/.223,459 (2016: B/.470,143) a fair value of B/.223,459 (2016: B/.470,143) with maturity on October 27, 2018 and Time Deposit Certificate amounted on B/.0 (2016: B/.849,334).

(9) Loans, Net

The composition of the loans portfolio is summarized as follows:

	2017	2016
Domestic loans:		
Personal	35,268,757	30,986,955
Residential mortgages	399,801,228	333,233,086
Total local loans	435,069,985	364,220,041
Foreign loans:		
Personal	12,657,738	9,778,345
Residential mortgages	147,370,383	131,819,917
Total foreign loans	160,028,121	141,598,262
Total loans	595,098,106	505,818,303

The movements of the allowance for loan losses are detailed as follows:

	2017	2016
Balance at beginning of year	300,664	261,314
Provision charged to expenses	512,648	345,406
Loans charged-off	(499,687)	(306,056)
Balance at end of year	313,625	300,664

The Bank has made purchases of residential mortgage loan portfolios from Sixth and Seventh Trust of Mortgage loans bonds with a fair value of B/.4,517,878 and B/.4,773,715, respectively, the difference between the amount paid and the fair value of these purchased loans of B/.1,325,034 was recorded in fair value reserve account in the consolidated statement of changes in equity. As of December 31, 2017, the amount outstanding at the date is B/.1,167,013 (2016: B/.1,246,594).

(10) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

2017	**Furniture**	**Office Equipment**	**Vehicles**	**Leasehold Improvements**	**Total**
Cost:					
Balance at January 1, 2017	690,970	2,526,661	385,673	1,136,160	4,739,464
Purchases	171,047	547,177	14,018	838,278	1,570,520
Sales and disposals	(85,727)	(77,798)	0	0	(163,525)
Balance at December 31,2017	776,290	2,996,040	399,691	1,974,438	6,146,459
Accumulated depreciation:					
Balance at January 1 2017	506,329	1,893,130	264,988	608,239	3,272,686
Expense for the year	101,336	441,048	59,882	159,098	761,364
Sales and disposals	(84,055)	(77,755)	0	0	(161,810)
Adjustment for conversion	29,468	14,087	0	0	43,555
Balance at 31, 2017	553,078	2,270,510	324,870	767,337	3,915,795
At December 31, 2017	223,212	725,530	74,821	1,207,101	2,230,664

2016	**Furniture**	**Office Equipment**	**Vehicles**	**Leasehold Improvements**	**Total**
Cost:					
Balance at January 1, 2016	565,221	2,076,029	355,828	901,567	3,898,645
Purchases	132,037	455,981	32,921	533,978	1,154,917
Sales and disposals	(6,288)	(5,349)	(3,076)	(299,385)	(314,098)
Balance at December 31, 2016	690,970	2,526,661	385,673	1,136,160	4,739,464
Accumulated depreciation:					
Balance at January 1, 2016	462,153	1,561,220	204,620	766,349	2,994,342
Expense for the year	50,759	341,299	63,444	86,048	541,550
Sales and disposals	(6,049)	(5,350)	(3,076)	(244,158)	(258,632)
Adjustment for conversion	(534)	(4,041)	0	0	(4,575)
Balance at December 31, 2016	506,329	1,893,130	264,988	608,239	3,272,686
At December 31, 2016	184,641	633,531	120,685	527,921	1,466,778

(11) Accounts and Interests Receivable

The following is a detail of accounts and interests receivable:

	2017	2016
Accounts receivable:		
Clients	1,199,257	880,276
Employees	16,188	4,596
Insurance	652,184	552,248
Others	59,456	142,272
	1,927,085	1,579,392
Interests receivable:		
Loans	1,477,991	1,222,962
Bonds	270,573	415,624
	1,748,564	1,638,586
	3,675,649	3,217,978

(12) Other Assets

The other assets are detailed as follows:

	2017	2016
Guarantee deposits	57,303	55,369
Bond of trust license	25,000	25,000
Severance fund	616,887	541,485
Various prepaid	840,133	852,824
Advance to assets purchase	312,616	408,837
Foreclosed assets	234,239	291,885
Other	532,745	74,048
Total	2,618,923	2,249,448

(13) Negotiable Commercial Papers

The Bank is authorized by the Superintendence of the Securities Market of Panama six rotating programs up to B/.200,000,000 in negotiable commercial papers which are backed up by the general credit of the Bank. Of these programs, two for the amount of B/.40,000,000 are backed by Grupo ASSA, S. A. as solidary Surety. At this date those two programs has no papers issued.

		2017	
Type	Interest rate	Maturity	Amount
Series CCZ	3.8750%	January, 2018	3,000,000
Series CDA	3.8750%	January, 2018	2,000,000
Series CDB	3.8750%	January, 2018	1,000,000
Series DBW	3.8750%	January, 2018	2,143,000
Series BCJ	3.0000%	February, 2018	1,000,000
Series DBX	3.8750%	February, 2018	1,482,000
Series CDC	3.8750%	February, 2018	3,600,000
Series DBZ	3.8750%	March, 2018	2,723,000
Series DCA	3.8750%	March, 2018	2,500,000
Series BCO	3.8750%	March, 2018	2,000,000
Series BCC	3.8750%	March, 2018	1,225,000
Series BCD	3.8750%	March, 2018	1,000,000
Series BCQ	3.8750%	April, 2018	3,000,000
Series CDD	3.8750%	April, 2018	4,085,000
Series CDE	3.8750%	April, 2018	2,004,000
Series BCG	3.8750%	April, 2018	2,000,000
Series BCF	3.8750%	April, 2018	1,459,000
Series BCH	3.8750%	April, 2018	2,240,000
Series BCI	3.8750%	May, 2018	1,300,000
Series DCD	3.8750%	May, 2018	1,898,000
Series CDF	3.8750%	May, 2018	1,000,000
Series CDJ	3.8750%	May, 2018	3,000,000
Series CDG	3.8750%	June, 2018	980,000
Series DCE	3.8750%	June, 2018	2,000,000
Series CDH	3.8750%	June, 2018	1,000,000
Series CDI	3.8750%	June, 2018	4,000,000
Series DCF	3.8750%	July, 2018	3,000,000
Series DCG	3.8750%	July, 2018	2,500,000
Series BCK	3.8750%	August, 2018	900,000
Series BCL	3.8750%	August, 2018	1,629,000
Series BCN	3.8750%	August, 2018	1,590,000
Series BCM	3.8750%	August, 2018	5,410,000
Series BCP	3.8750%	September, 2018	2,770,000
Series BCR	3.8750%	September, 2018	2,505,000
Series A	3.8750%	October, 2018	300,000
Series B	3.8750%	October, 2018	2,000,000
Series C	3.8750%	November, 2018	4,390,000
Series D	3.8750%	December, 2018	2,350,000
			82,983,000
Less issuance costs			(51,775)
			82,931,225

(13) Negotiable Commercial Papers, continued

		2016	
Type	Interest rate	Maturity	Amount
Series CCH	3.5000%	January, 2017	1,775,000
Series CCI	3.5000%	January, 2017	3,000,000
Series CCJ	3.5000%	January, 2017	2,000,000
Series CCK	3.5000%	January, 2017	1,000,000
Series CCL	3.5000%	February, 2017	1,527,000
Series CCM	3.5000%	February, 2017	3,600,000
Series CCN	3.5000%	March, 2017	1,225,000
Series CCP	3.7500%	April, 2017	1,250,000
Series CCO	3.7500%	March, 2017	1,000,000
Series CCQ	3.7500%	April, 2017	2,990,000
Series CCR	3.7500%	April, 2017	1,684,000
Series CCS	3.7500%	May, 2017	2,472,000
Series CCT	3.7500%	May, 2017	2,140,000
Series CCU	3.7500%	June, 2017	1,000,000
Series CCV	3.7500%	June, 2017	558,000
Series DBM	3.5000%	January, 2017	2,420,000
Series DBN	3.5000%	February, 2017	379,000
Series DBO	3.5000%	March, 2017	2,723,000
Series DBP	3.7500%	April, 2017	2,858,000
Series DBR	3.8750%	August, 2017	1,629,000
Series DBS	3.8750%	October,2017	2,505,000
Series DBT	3.8750%	October,2017	300,000
Series DBU	3.8750%	October,2017	2,000,000
Series DBV	3.8750%	November,2017	1,390,000
Series BBQ	3.7500%	May, 2017	1,300,000
Series BBS	3.8750%	June, 2017	4,000,000
Series BBT	3.8750%	July, 2017	2,000,000
Series BBU	3.8750%	July, 2017	3,000,000
Series BBV	3.8750%	July, 2017	2,500,000
Series BBW	3.0000%	February, 2017	360,000
Series BBX	3.8750%	August, 2017	1,000,000
Series BBY	3.8750%	September, 2017	1,590,000
Series BBZ	3.8750%	August, 2017	5,410,000
Series BCA	3.8750%	September, 2017	2,770,000
Series BCB	3.8750%	December, 2017	3,515,000
			70,870,000
Less issuance costs			(109,116)
			70,760,884

(14) Negotiable Commercial Notes

The Bank has been authorized by the Securities Market Superintendence of Panama of three programs totaling B/.190,000,000 in Negotiable Commercial Notes (NCN). The placements of the first issuance by B/.40,000,000 are supported by the general credit of the Bank, a trust mortgage loan guarantee and Grupo ASSA, S. A. solidary Surety that will cover any difference not covered with the proceeds of the mortgage loans' sale.

(14) Negotiable Commercial Notes, continued

The placements of the other two programs of B/.50,000,000 and B/.100,000,000, respectively, are only supported by the general credit of the Bank.

Type	Interest rate	Maturity date	As of December 31, 2017 Face value		2017 Carrying amount	2016
SERIES J	4.13%	January, 2017	B/.	[•]	0	4,000,000
SERIES V	4.75%	February, 2017			0	1,761,000
SERIES L	4.00%	March, 2017			0	3,090,000
SERIES A	4.25%	March, 2017			0	1,500,000
SERIES O	4.25%	April, 2017			0	2,000,000
SERIES P	4.25%	May, 2017			0	3,000,000
SERIES S	4.00%	June, 2017			0	10,000,000
SERIES I	4.75%	July, 2017			0	1,500,000
SERIES Z	4.75%	July, 2017			0	1,200,000
SERIES K	4.25%	July, 2017			0	3,000,000
SERIES T	4.00%	August, 2017			0	750,000
SERIES F	3.75%	September, 2017			0	30,000
SERIES Q	4.00%	December, 2017			0	2,000,000
SERIES S	4.00%	January, 2018			2,060,000	2,060,000
SERIES D	4.00%	February, 2018			355,000	355,000
SERIES I	4.25%	March, 2018			2,880,000	2,880,000
SERIES H	4.25%	April, 2018			2,996,000	2,996,000
SERIES K	4.25%	April, 2018			4,991,000	4,341,000
SERIES J	5.00%	May, 2018			2,661,000	2,661,000
SERIES L	4.25%	May, 2018			780,000	780,000
SERIES M	4.25%	May, 2018			1,000,000	1,000,000
SERIES Q	4.25%	May, 2018			5,000,000	5,000,000
SERIES R	4.25%	May, 2018			1,000,000	1,000,000
SERIES N	4.25%	May, 2018			75,000	75,000
SERIES O	4.25%	June, 2018			952,000	952,000
SERIES P	4.25%	June, 2018			2,870,000	2,870,000
SERIES R	4.25%	July, 2018			2,000,000	2,000,000
SERIES Y	4.25%	November, 2018			2,999,000	600,000
SERIES AB	4.50%	January, 2019			3,451,000	3,451,000
SERIES A	4.50%	January, 2019			2,500,000	2,500,000
SERIES C	4.50%	January, 2019			2,000,000	2,000,000
SERIES Z	4.25%	February, 2019			2,000,000	0
SERIES V	4.38%	February, 2019			4,239,000	4,239,000
SERIES AB	4.25%	March, 2019			3,090,000	0
SERIES AD	4.25%	March, 2019			2,250,000	0
SERIES M	4.25%	March, 2019			2,150,000	2,150,000
SERIES N	4.25%	April, 2019			500,000	500,000
SERIES AE	4.25%	April, 2019			1,000,000	0
SERIES AF	4.25%	May, 2019			2,469,000	0
SERIES AG	4.25%	June, 2019			2,000,000	0
SERIES AH	4.25%	July, 2019			1,500,000	0
SERIES AL	4.50%	March, 2020			1,000,000	0
SERIES AM	4.50%	March, 2020			5,000,000	0
SERIES AN	4.50%	March, 2020			2,000,000	0
SERIES AJ	4.25%	July, 2019			3,000,000	0
SERIES U	4.50%	August, 2019			1,250,000	1,250,000
SERIES AK	4.25%	September, 2019			3,000,000	0
SERIES AA	4.50%	September, 2019			720,000	720,000
SERIES W	4.50%	October, 2019			1,990,000	1,990,000
SERIES AC	4.50%	March, 2020			1,500,000	0
SERIES T	4.50%	July, 2020			1,800,000	1,800,000
SERIES AA	4.50%	February, 2021			1,761,000	0
SERIES E	5.00%	February, 2021			7,017,000	6,417,000
SERIES AI	4.75%	July, 2021			1,200,000	0
SERIES U	5.00%	September, 2021			1,858,000	1,858,000
SERIES X	5.00%	November, 2021	B/.	[•]	1,657,000	842,000
					96,521,000	93,118,000
		Less issuance costs			(211,569)	(256,662)
					96,309,431	92,861,338

(15) Ordinary Bonds

The Financial Superintendence of Colombia through Resolution 015094871-006-000 of October 8, 2015 authorized the incorporation of Ordinary Bonds in the National Registration of Securities and Issuers and its public offer.

As of December 31, 2017, the subsidiary in Colombia has issued medium-term ordinary bonds by B/.14,310,229 (2016: B/.16,591,868) at a rate of 10.05% (2016: 10.05%) for 5 years term, its maturity are December 10, 2020.

(16) Investment Certificates

The Bank is authorized by the Superintendence of Securities Market of El Salvador an issuance of B/.30,000,000 in Investments Certificates (IC).

					As of December 31,	
Type	**Interest Rate**	**Maturity date**	**Face value**		**2017**	**2016**
Tranche 5	5.25%	September, 2017	B/.	[•]	0	3,500,000
Tranche 6	5.30%	October, 2017			0	2,000,000
Tranche 3	5.25%	October, 2017			0	1,000,000
Tranche 4	5.25%	November, 2017			0	3,000,000
Tranche 7	6.00%	June, 2018			2,000,000	2,000,000
Tranche 8	6.00%	June, 2018			2,000,000	2,000,000
Tranche 9	6.25%	June, 2019			3,000,000	3,000,000
Tranche 10	6.25%	July, 2018			2,000,000	2,000,000
Tranche 11	6.25%	August, 2019			3,000,000	3,000,000
Tranche 12	6.25%	August, 2019	B/.	[•]	1,600,000	1,600,000
					13,600,000	23,100,000
	Less issuance costs				0	(27,913)
			B/.	[•]	13,600,000	23,072,087

(17) Other Negotiable Debts

The Bank was authorized by the Superintendence of Securities of El Salvador for one revolving plan of up to B/.35,000,000 of Negotiable Debt (stock market paper).

2017

Type	**Interest Rate**	**Maturity**	**Amount**
Tranche 19	4.75%	March, 2018	3,000,000
Tranche 20	4.50%	May, 2018	1,000,000
Tranche 21	4.50%	June, 2018	1,000,000
Tranche 23	4.25%	April, 2018	85,000
Tranche 24	4.25%	April, 2018	1,000,000
Tranche 22	4.50%	August, 2018	2,000,000
Tranche 25	4.25%	October, 2018	2,000,000
Tranche 26	4.25%	October, 2018	300,000
Tranche 27	4.25%	October, 2018	1,000,000
Tranche 28	4.25%	November, 2018	2,480,000
			13,865,000
Less issuance costs			(24,953)
			13,840,047

2016

Type	**Interest Rate**	**Maturity**	**Amount**
Tranche 14	5.00%	January,2017	3,000,000
Tranche 15	5.00%	February,2017	2,000,000
Tranche 17	5.00%	June,2017	2,000,000
Tranche 18	5.75%	August,2017	2,000,000
			9,000,000
Less issuance costs			(11,964)
			8,988,036

(18) Borrowed Funds

Borrowed funds are summarized as follows:

	2017	2016
Line of credit for working capital for B/.4,000,000, with maturity the year 2018 renewable at the parties' option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	1,500,000	2,500,000
Line of credit for working capital for B/.30,000,000, with maturity the year 2021 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	13,773,000	7,000,000
Line of credit for working capital for B/.6,000,000, with maturity the year 2017 renewable at the parties option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	0	1,000,000
Revolving line of credit for working capital for B/.10,000,000, with maturity the year 2019 renewable at the parties option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	8,000,000	7,500,000
Line of credit for working capital for B/.15,000,000, with maturity the year 2019, renewable at the parties' option and fixed annual interest rate backed by a portfolio of residential mortgage loans.	12,500,000	5,500,000
Line of credit for working capital for B/.10,000,000, with maturity the year 2018 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	0	5,000,000
Line of credit for working capital for B/.12,000,000, with maturity the year 2018 renewable at the parties option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	1,450,000	1,450,000
Line of credit for working capital for B/.13,000,000, with maturity the year 2022 and annual Libor interest rate plus a margin backed by a portfolio of residential mortgage loans.	9,923,077	12,384,615
Line of credit for working capital for B/.25,000,000, with maturity the year 2019 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	25,000,000	6,880,561
Sub - total going to next page	72,146,077	49,215,176

(18) Borrowed Funds, continued

	2017	2016
Sub - total coming from previous page	72,146,077	49,215,716
Line of credit for working capital for B/.25,000,000, with maturity the year 2019 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	19,633,333	20,000,000
Line of credit for working capital for B/.40,000,000, with maturity the year 2020 and fixed rate.	40,000,000	20,000,000
Line of credit for working capital for B/.15,000,000, with maturity the year 2019 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	2,616,666	6,250,000
Line of credit for working capital for B/.25,000,000, with maturity the year 2022 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	17,857,143	21,428,572
Line of credit for working capital for B/.16,000,000, with maturity the year 2024 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	16,000,000	16,000,000
Line of credit for working capital for B/.17,000,000, with maturity the year 2020 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	17,000,000	0
Revolving line of credit for working capital up to approximately B/.10,000,000 (COP 30 thousand millions), with maturity the year 2017 renewable at the parties' option and annual interest rate DTF plus a margin.	0	4,665,563
Revolving line of credit for working capital up to approximately B/.4,000,000 (COP 12 thousand millions), with maturity the year 2018 renewable at the parties' option and annual interest rate DTF plus a margin.	1,429,848	1,194,162
Revolving line of credit for working capital up to approximately B/.4,000,000 (COP 12 thousand millions), with maturity the year 2018 renewable at the parties' option and annual interest rate DTF plus a margin.	1,340,483	2,499,408
Revolving line of credit for working capital up to approximately B/.2,000,000 (COP 6 thousand millions), with maturity the year 2018 renewable at the parties' option and annual interest rate DTF plus a margin.	0	1,333,018
Total	188,023,550	142,585,899
Less issuance costs	(876,016)	(1,041,284)
Total of borrowed funds	187,147,534	141,544,615

As at December 31, 2017 and 2016, there has not been incompliance in the payment of capital and interest in relation to the borrowings.

(19) Other Liabilities

The other liabilities are detailed as follows:

	2017	2016
Accrued interest payable of deposits, borrowed funds and other obligations	3,532,444	2,767,990
Allowance for employee benefits and other benefits	831,344	919,546
Cashier's checks	1,179,951	1,579,875
Others	5,863,854	4,250,444
	11,407,593	9,517,855

(20) Capital and Reserves

The composition of common shares is detailed as follows:

	2017	2016
Authorized shares with nominal value of B/.1,000	15,000	15,000
Shares issued and paid on January 1st and at the end of the period	15,000	15,000
Carrying amount of the shares at the end of the period	15,000,000	15,000,000

Reserves

Nature and purpose of reserves:

Capital Reserve

One of the subsidiaries constitutes a reserve to support any loans portfolio´s impairment loss considering the country risks in which the debtors are located. This reserve is established from the retained earnings.

Fair Value Reserve

Comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets is derecognized, redeemed, or impaired. In addition, includes the net amount of the loan portfolio acquired fair value, which will be amortized during the remaining life of the loans or until been cancelled.

Currency Conversion Reserve

Comprises all foreign exchange differences arising on foreign currency translation to the currency presented in the financial statements of foreign subsidiaries with a functional currency different from the presentation currency for purposes of presentation of the consolidated financial statements.

(20) Capital and Reserves, continued

Dynamic Provision

Is constituted according to prudential criteria on all credit facilities that lack specific provision allocated, i.e. on credit facilities classified in the Normal category, as defined in the Agreement No. 004-2013 issued by the Superintendence of Banks of Panama. It corresponds to an equity account presented under the heading of regulatory reserve in the statement of changes in equity and appropriates retained earnings.

Specific Provision in Excess

Provisions that are to be constituted on the basis of the classification of credit facilities in the risk categories Watch list, Substandard, Doubtful or Loss, as provided in the Agreement No. 004-2013 issued by the Superintendence of Banks of Panama. They are for individual credit facilities as for a group of these. For a group corresponds to circumstances indicating the existence of deterioration in credit quality, although it is not yet possible the individual identification. It corresponds to an equity account that is presented under the heading of regulatory reserve in the statement of changes in equity and appropriates retained earnings.

(21) Earning per Share

The calculation of basic earning per share is based on profit for the period attributable to common shareholders by the weighted average number of common shares outstanding.

Attributable income to common shareholders:

	2017	**2016**
Net income for the period	5,394,128	3,937,584
Attributable profit to the common shareholders	5,394,128	3,937,584

Weighted average of common shares:

	2017	**2016**
Issued shares at January 1st	15,000	15,000
Weighted average of common shares	15,000	15,000

Profit attributable to common stockholders is as follows:

	2017	**2016**
Attributable income to common shareholders	5,394,128	3,937,584
Weighted average of shares capital (basics)	15,000	15,000
Earnings per share basic and diluted	359.61	262.51

(22) Service Commissions, Net and Other Income

The breakdown of service commissions and other income are detailed as follows:

	2017	2016
Commissions for administration and management:		
Trusts administration	1,639,748	1,354,740
Management collection	2,013,103	1,891,930
Insurance management	711,082	670,691
Others	1,166,749	537,249
	5,530,682	4,454,610
Other income:		
Income on sale of tax credit	218,372	92,045
Trusts	1,669	1,097,028
Insurance	150,756	148,389
Sale of foreclosed assets	116,991	79,389
Other income	851,604	1,299,032
	1,339,392	2,716,433

(23) Commission Expenses

The detail of commission expenses are detailed as follows:

	2017	2016
Commissions expenses:		
NCP commissions	446,048	256,346
NCN commissions	315,294	245,464
Line of credit commissions	558,094	465,769
Other commissions	606,579	391,971
	1,926,015	1,359,550

(24) Salaries, Other Personnel Expenses, and Other Operating Expenses

Salaries, other personnel expenses, and other operating expenses are detailed as follows:

	2017	2016
Salaries and other personnel expenses:		
Wages, thirteenth month and vacations	4,997,770	4,604,106
Representation expenses	849,518	854,021
Bonuses	426,821	425,564
Social security costs	737,059	685,472
Severance costs	203,786	230,824
Travel, allowances and fuel	167,423	163,784
Others	980,058	875,470
	8,362,435	7,839,241

(24) Salaries, Other Personnel Expenses, and Other Operating Expenses, continued

	2017	2016
Other operational expenses:		
Rent	632,997	545,493
Advertising	696,344	678,270
Equipment maintenance	840,256	736,713
Office supplies	119,439	122,309
Utilities expenses	282,737	275,514
Bank charges	111,649	123,211
Other expenses	1,488,030	1,424,800
	4,171,452	3,906,310

Options Plan of Purchase of Shares
In 2014 and 2012, the Board of La Hipotecaria (Holding), Inc. approved plans to grant options to executives of the Bank for 15,200 options with a unit fair value of B/.8.591 and 19,290 options with a unit fair value of B/.3.694, respectively, with exercise maturity in 10 years for each plan. As of December 31, 2017, there are 29,491 options outstanding (2016: 29,491), has not been cancelled options (2016: 0) and at the reporting date no options has been exercised. These options has a weighted-average price of exercise of B/.27.13 (2016: B/.27.13). The plans gives the executive the right to exercise the options over La Hipotecaria (Holding), Inc. shares, at the time of the first anniversary of both plans. In 2017 the Bank has not recorded any expense for options issuance (2016: B/.0).

(25) Income Tax

The statements of income tax of the Bank incorporated in the Republic of Panama, according to current tax regulations are subject to review by tax authorities for up to three (3) years. According to current tax regulations, companies incorporated in Panama are exempt of income tax for earnings from foreign operations, interest earned on deposits in local banks, government securities and debt Panama investments in securities listed with the Superintendence of stock market securities and traded on the Bolsa de Valores de Panama, S. A. (Stock Exchange of Panama).

According as required by Article 699 of the Tax Code, as amended by Article 9 of Law 8 of March 15, 2010 with effect from January 1, 2010, the income tax for legal entities engaged in the business banking in the Republic of Panama, they should calculate the tax according to the rate of 25%.

Additionally, legal entities whose taxable income exceeds one million five hundred thousand dollars (B/.1,500,000) annually, will pay tax by the applicable income tax rate to the taxable net income according to current legislation in the Republic of Panama or the alternative calculation, which results higher.

(25) Income Tax, continued

Act 52 of August 28, 2012, restored the payment of estimated income tax from September 2012. According to this law, the estimated income tax payable in three equal amounts over June, September and December each year.

The Bank´s subsidiaries shall calculate the income tax according the following rates:

	Colombia	El Salvador
Current rates	34%	30%

The Congress of the Republic of Colombia, enacted the 1607 Act on December 26, 2012, introducing major reforms to the Colombian tax system, mainly the following:

- The income tax rate is reduced from 33% to 25 % from 2013 and the income tax for equity (CREE) is created, with rate of 9% between 2013 and 2015 and 8% from 2016. debugging which is made the basis for determining the tax has some differences with respect to which is made for income tax purposes, calculated by the ordinary income.

- Taxpayers of income tax for equity are not required to pay contributions to SENA and ICBF for employees earning less than 10 minimum monthly wages; this exemption will be extended for the contributions to the contributory health scheme from the first of January 2014.

- The concept of permanent establishment is defined, which is identified as a fixed place through which a foreign Bank develops business in the country.

- The method on how to calculate the taxable and non-taxable profits for companies that distribute profits to its partners or shareholders is amended.

- New rules are introduced on the transfer pricing regime. Among others, the scope of the transactions with related parties located in free zones is increased and some operations from taxpayers with foreign entities related to a permanent establishment in Colombia or abroad are regulated.

For this purpose, the Technical Board of Public Accountancy of Colombia, through the strategic management directions classified the companies in groups according to our analysis with cutoff date of December 31, 2013, the subsidiaries in Colombia belong to Group 2, classified as SMEs, in which transition period begins on January 1, 2015 and the issuance of the financial statements under International financial Reporting Standards in 2016.

The total expense on income tax as at December 31, 2017 is detailed is follows:

	2017	2016
Current income tax	1,856,165	1,634,029
Deferred tax temporary differences	(433,080)	(600,721)
Total income tax costs	1,423,085	1,033,308

(25) Income Tax, continued

The effective rate of the estimated income tax is detailed as follows:

	2017	2016
Profit before income taxes	6,817,213	4,970,892
Income tax expense	1,423,085	1,033,308
Effective rate of income tax	20.87%	20.79%

The deferred income tax arises from temporary differences relating to the provision for loan losses and the operative losses carry forward. Deferred tax asset is included as part of other assets in the consolidated statement of financial position.

Deferred income tax is comprised as follows:

	2017		2016	
	Temporary differences	Deferred tax	Temporary differences	Deferred tax
Deferred tax assets				
Allowance for loan losses	313,625	89,075	300,664	88,255
Operative losses carry forward (1)	2,654,215	898,816	1,372,223	466,556
	2,967,840	987,891	1,672,887	554,811

(1) Correspond to losses carry forward in Colombia, without expiration date.

Deferred tax movement is as follows:

	2017	2016
Beginning balance	554,811	(47,277)
Provision for loan losses	820	28,592
Operative losses carry forward	432,260	466,556
Valuation of residual bond of trust	0	106,940
Deferred income tax at year end	987,891	554,811

The reconciliation between profit before income tax and net income tax as at December 31, 2017, is a follows:

	2017	2016
Net income before income taxes	6,817,213	4,970,892
Calculation of “expected” income tax expense	1,704,303	1,242,723
Non-deductible expenses	1,003,073	613,049
Income and expense from foreign and exempt sources, net	(1,068,936)	(613,495)
Change for temporary differences	(430,080)	(600,721)
Difference in foreign tax rates	217,725	391,752
Total income tax expense	1,423,085	1,033,308

(25) Income Tax, continued

As of December 31, 2017, the Bank has not recognized a liability for deferred income tax of approximately B/.497,503 (2016: B/.403,526) for the retained earnings of its operations abroad, due to the Bank considers that approximately B/.9,950,063 (2016: B/.8,070,512) of its earnings will be reinvested indefinitely.

(26) Trusts under Management

The Bank held in trust management contracts at customer risk amounted to B/.225,153,486 (2016: B/.246,569,078). Considering the nature of these services, management believes that there are not significant risks for the Bank.

(27) Commitments and Contingencies

The Bank has subscribed lease contracts, for terms of up to five (5) years, related to the use of properties where its offices operate. A detail of annual lease payments that the Bank have to pay for the next five years according the lease contracts is as follows:

Year	Amount
2018	471,793
2019	471,793
2020	471,793
2021	471,793
2022	471,793

As at December 31, 2017, there is an ongoing complaint filed against the subsidiary of El Salvador by the Consumer Advocacy. The Bank's management and its legal counsel believe it is not expected that the result of this process have a material adverse effect on the financial position of the Bank.

In the normal course of business, the Bank held financial instruments without-balance sheet risk to cover the financial needs of its customers. As of December 31, 2017, the Bank has issued promise letters for B/.77,155,573 (2016: B/.66,490,092).

(28) Fair value of financial instruments

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

For financial instruments that are traded on a low frequency and have few availability of pricing information, the fair value is less objective, and its determination requires the use of varying degrees of judgment that depend on liquidity, geographical concentration, uncertainty of market assumptions factors in determining prices and other risks affecting the specific instrument.

The Bank establishes a fair value hierarchy that categorizes into three levels the input data valuation techniques used in measure fair value:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments

(28) Fair Value of Financial Instruments, continued

- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

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

Other valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premise used in estimating discount rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The following table presents the carrying value and fair value of financial assets and liabilities, by the level in the fair value hierarchy into which the fair value measurement is categorized. This table does not include information on the fair value of financial assets and liabilities measured at fair value when its carrying approximates their fair value.

		Fair Value			
2017	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:					
Financial assets measured at fair value:					
Securities available for sale	43,898,566	9,864,375	3,767,239	30,266,952	43,898,566
Securities at fair value through profit or loss	15,136,846	0	1,362,746	13,774,100	15,136,846
Financial assets not measured at fair value:					
Loans	595,098,106	0	0	655,644,039	655,644,039
Securities held to maturity	442,132	0	333,115	0	333,115
Liabilities:					
Financial liabilities not measured at fair value:					
Deposits from customers – time	207,555,493	0	0	221,831,560	221,831,560
Negotiable commercial paper	82,931,225	0	0	81,688,132	81,688,132
Negotiable commercial notes	96,309,431	0	0	96,746,641	96,746,641
Ordinary bonds	14,310,229	0	0	14,310,229	14,310,229
Investment certificate	13,600,000	0	0	13,593,290	13,593,290
Other negotiable debt	13,840,047	0	0	13,851,192	13,851,192
Borrowed funds	187,147,534	0	0	182,123,169	182,123,169

(28) Fair Value of Financial Instruments, continued

2016	Carrying amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Securities available for sale	44,762,589	0	11,813,698	32,948,891	44,762,589
Securities at fair value through profit or loss	12,804,044	0	0	12,804,044	12,804,044
Financial assets not measured at fair value:					
Loans	505,818,303	0	0	563,627,942	563,627,942
Securities held to maturity	1,537,500	0	788,955	849,334	1,638,289
Liabilities:					
Financial liabilities not measured at fair value:					
Deposits from customers – time	178,676,982	0	0	180,406,168	180,406,168
Negotiable commercial paper	70,760,884	0	0	69,733,845	69,733,845
Negotiable commercial notes	92,861,338	0	0	93,257,301	93,257,301
Ordinary bonds	16,591,868	0	0	16,591,868	16,591,868
Investment certificate	23,072,087	0	0	23,034,048	23,034,048
Other negotiable debt	8,988,036	0	0	8,996,072	8,996,072
Borrowed funds	141,544,615	0	0	141,721,454	141,721,454

As of December 31, 2017, there were not transfers of fair value hierarchy on securities available for sale and securities at fair value through profit or loss.

The following table shows the valuation technique the input data used and significant unobservable inputs when measuring the fair value of the instruments classified in Level 2 and Level 3 as at December 31, 2017 and 2016:

Quantitative information Level 3 fair values

	Valuation technique	Unobservable inputs	Range (weighted average) 2017	2016
Mortgage bonds	Discounted cash flows	Cumulative Default Assumptions (“SDA”)	4.48% - 0.14% (1.26%)	7.46% - 0.26% (2.78%)
		Cumulative Speed Assumptions and Prepayment rate (“PSA” and “CPR”)	48.95% - 21.01% (42.66%)	42.18% - 33.77% (38.49%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Residual Interests of trust	Discounted cash flows	Cumulative Default Assumptions (“SDA”)	4.48% - 0.14% (0.84%)	7.46% - 0.26% (1.52%)
		Cumulative Speed Assumptions and Prepayment rate (“PSA” and “CPR”)	48.95% - 21.01% (41.42%)	42.18% - 33.77% (36.80%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Government Bonds	The valuation model is based on different prices of observable references on an active market. Present value of the flows of a title, discounting them with the reference rate and the corresponding margin.	N/A	N/A	N/A

(28) Fair Value of Financial Instruments, continued

Financial Instrument	Valuation Technique and Observable Input Used
Not measured at fair value:	
Deposits from customers	For saving deposits it fair value represents the outstanding amount expected to receive/pay at reporting date. For time deposits its fair value is determined using discounted cash flows at market interest rate.
Securities held to maturity	Fair value represents the amount receivable / payable at the reporting date.
Loans	The fair value of loans represent the discounted expected cash flow to receive. The cash flows are discounted at market interest rates to assess its fair value.
Repurchase agreements	The value of the future cash flows is discounted using a discount rate that represents the present interest rate of market for financings of new debts with maturity similar surplus.
Borrowed funds	The fair value for loans payable in semiannual interest rate adjustments are determined using the future cash flows discounted at the current market interest rate.
Ordinary bonds	The fair value for ordinary bonds are determined using the future cash flows discounted at the current market interest rate.
Negotiable commercial papers	The fair value for negotiable commercial papers are determined using the future cash flows discounted at the current market interest rate.
Other negotiable debts	The fair value for other negotiable debt are determined using the future cash flows discounted at the current market interest rate.
Negotiable commercial notes and investment certificate	Fair value for the negotiable commercial notes is determined using future cash flows discounted at the current interest rate of the market.

The table below presents the reconciliation as at December 31, 2017 for financial instruments categorized as Level 3 in the hierarchy of levels of fair value:

	2017	**2016**
Balance at the beginning of the year	45,752,935	37,771,053
Total income or (loss):		
In the consolidated statement of profit or loss	970,056	622,320
In the consolidated statement of comprehensive income	(389,310)	(590,616)
Purchases	922,236	18,610,403
Liquidations	(3,214,875)	(10,660,225)
Balance at the end of the year	44,041,052	45,752,935

(28) Fair Value of Financial Instruments, continued

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more assumptions to reflect reasonable alternative assumptions would have the following effects:

2017

	Effect on Consolidated Statement of Profit or Loss		Effect on Other Comprehensive Income (Loss)	
	Favorable	**(Unfavorable)**	**Favorable**	**(Unfavorable)**
Investments at fair value through profit or loss	1,106,247	(761,940)	0	0
Securities available for sale	0	0	1,101,706	(921,133)
	1,106,247	(761,940)	1,101,706	(921,133)

2016

	Effect on Consolidated Statement of Profit or Loss		Effect on Other Comprehensive Income (Loss)	
	Favorable	**(Unfavorable)**	**Favorable**	**(Unfavorable)**
Investments at fair value through profit or loss	914,898	(839,874)	0	0
Securities available for sale	0	0	1,183,883	(1,117,282)
	914,898	(839,874)	1,183,883	(1,117,282)

Favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of mortgage bonds and bonds of residual interests in securitizations are calculated recalibrating the values of the models, using methods based on possible estimates of unobservable inputs of the Bank.

The most important unobservable data inputs refer to the risk discount rates. The reasonable alternative assumptions are 0.5% below and 0.5% higher, respectively, of discount rates used in the models.

The Bank has established a control framework with respect to the measurement of fair values. This control framework includes a separate management unit reporting directly to the Executive Vice President of Finance, and has independent responsibility to verify the results of the operations of investment and significant fair value measurements.

Specific controls include:

- Checking the quoted prices;
- Validation or "re-performance" of valuation models;
- Review and approval of the processes for new models and changes to existing valuation models;
- Review of significant unobservable data; adjustments and significant changes in fair value of Level 3 compared with the previous month.

(28) Fair Value of Financial Instruments, continued

The Bank uses a third party, as a service provider for this control unit evaluates and documents the evidence obtained from such third parties that support the conclusion that such assessments meet the requirements of IFRS. This review includes:

- Verify that the vendor price is approved by the Bank;
- Obtain an understanding of how the fair value has been determining and whether it reflects current market transactions;
- When similar instruments are used to determine fair value, how these prices have been adjusted to reflect the characteristics of the instrument being measured.

This process is also monitored by the Audit Committee through Internal Audit.

(29) Segment Information

The segment information of the Bank is presented regarding its business lines and has been determined by management based on reports by senior management for decision making.

The composition of the business segments is described as follows:

– *Trust Administration:* This segment includes commissions earned by management and collection of mortgage and personal loans belonging to third parties, which hires the Bank under management contracts to carry out such function.

– *Mortgages as assets:* Within this concept interest income is recognized less costs *generated* by financing mortgages loans that Bank hold as assets, plus commissions for disbursements and the proportional share of the commissions from collections and reinsurance services from the insurance Bank to which it provides the service of reinsurance.

– *Personal loans as assets:* Within this concept interest income is recognized less costs generated by financing personal loans that Bank hold as assets, plus commissions for granted and the proportional share of the commissions from collections and reinsurance services from the insurance Bank to which it provides the service of reinsurance.

– *Other investments:* This concept includes the income generated by other investments of the Bank.

(29) Segment Information, continued

2017	Trust administration	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	32,097,019	4,865,612	3,235,847	40,198,478
Commission on management and servicing, net	2,358,565	2,945,464	226,653	0	5,530,682
Commission on loan granting	0	1,862,089	685,245	0	2,547,334
Interest and commission expense	0	(25,650,284)	(1,553,754)	(1,954,710)	(29,158,748)
Provision for loan losses	0	(372,281)	(140,367)	0	(512,648)
Gain on investments, net	0	0	0	2,960,280	2,960,280
Other income	0	1,178,233	71,371	89,788	1,339,392
Operating expenses	(1,384,278)	(10,924,574)	(3,030,447)	(748,258)	(16,087,557)
Profit by segment before tax	974,287	1,135,666	1,124,313	3,582,947	6,817,213
Segment assets	0	584,987,620	50,870,447	63,965,380	699,823,447
Segment liabilities	0	553,524,120	33,529,472	42,181,944	629,235,536

2016	Trust administration	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	29,358,783	4,227,424	2,492,984	36,079,191
Commission on management and servicing, net	2,114,050	2,125,608	214,952	0	4,454,610
Commission on loan granting	0	2,213,072	488,938	0	2,702,010
Interest and commission expense	0	(22,320,338)	(1,300,806)	(1,705,052)	(25,326,196)
Provision for loan losses	0	(266,836)	(78,570)	0	(345,406)
Gain on investments, net	0	0	0	(12,198)	(12,198)
Other income	0	2,394,031	139,522	182,880	2,716,433
Operating expenses	(1,602,933)	(10,175,137)	(2,822,555)	(696,927)	(15,297,552)
Profit by segment before tax	511,117	3,329,183	868,905	261,687	4,970,892
Segment assets	0	506,618,127	45,041,937	59,039,421	610,699,485
Segment liabilities	0	479,415,986	27,939,861	36,622,609	543,978,456

The composition of the geographic segments is described as follows:

2017	Panama	El Salvador	Colombia	Total
Interest income	26,246,534	8,436,180	5,515,764	40,198,478
Commission on management and servicing, net	4,277,457	1,133,080	120,145	5,530,682
Commission on loan granting	2,104,222	443,112	0	2,547,334
Interest and commission expense	(21,192,820)	(4,520,495)	(3,445,433)	(29,158,748)
Provision for loan losses	(342,828)	(113,326)	(56,494)	(512,648)
Gain on investments, net	2,617,301	0	342,979	2,960,280
Other income	1,112,808	211,676	14,908	1,339,392
Operating expenses	(11,355,436)	(2,669,496)	(2,062,625)	(16,087,557)
Profit by segment before tax	3,467,238	2,920,731	429,244	6,817,213
Segment assets	520,870,707	118,749,296	60,203,444	699,823,447
Segment liabilities	492,213,658	100,147,469	36,874,409	629,235,536

(29) Segment Information, continued

2016	Panama	El Salvador	Colombia	Total
Interest income	22,034,704	9,378,119	4,666,368	36,079,191
Commission on management and servicing, net	3,674,055	661,227	119,328	4,454,610
Commission on loan granting	2,257,189	444,821	0	2,702,010
Interest and commission expense	(16,914,889)	(5,102,125)	(3,309,182)	(25,326,196)
Provision for loan losses	(163,687)	(156,096)	(25,623)	(345,406)
Gain on investments, net	162,526	(174,724)	0	(12,198)
Other income	2,271,280	397,430	47,723	2,716,433
Operating expenses	(10,341,656)	(2,973,241)	(1,982,655)	(15,297,552)
Profit by segment before tax	2,979,522	2,475,411	(484,041)	4,970,892
Segment assets	447,142,792	106,778,802	56,777,891	610,699,485
Segment liabilities	415,849,803	89,711,173	38,417,480	543,978,456

(30) Preferential Interests on Mortgage Loans

According to current fiscal regulations in Panama, the financial institutions that grant mortgage loans not exceeding B/.120,000 with preferential interest, receive the benefit of an annual fiscal credit. From July 2010 according to the law 8 of 15 March 2010 repealing Article 6 of Act 3 of 1985, it increases the benefit of a tax credit of ten (10) years, to, the first (15) years for new loans for the purpose of new houses in the amount equal to the difference between the income that the lender would have received if you have taken the benchmark interest rate market, which has been in effect during that year and the actual income received in interest in relation to each preferential mortgage loans.

Law No. 3 of May, 1985 in the Republic of Panama establishes that fiscal credit can be used for payment of national taxes, including income tax. The fiscal credit, under Law No. 11 of September, 1990, which extends the previous law, and Law No. 28 of June, 1995, establishes that it can be used only for payment of income tax. If in any fiscal year the financial institution cannot effectively use the entire fiscal credits to which it is entitled, then it can use the excess credit over the next three years, at their convenience, or transfer, in whole or in part, to another taxpayer.

At December 31, 2017, the Bank recorded, net of reserve, B/.8,491,623 (2016: B/.6,894,527), as preferential interest income on the portfolio of residential mortgage loans. During the same period, a subsidiary of the Bank sold to third parties prior years' fiscal credits for B/.7,342,053 (2016: B/.6,560,778), which generated an income of B/.218,372 (2016: B/.92,045).

As at December 31, 2017, the accumulated fiscal credit is included in the consolidated statement of financial position for the amount of B/.8,479,096 (2016: B/.7,247,049).

(31) Participations in Non-Consolidated Structured Entities

The following table describes the types of structured entities in which the Bank holds a participation and acts as an agent thereof. (See Note 3 a5).

Type	Nature and purpose	Participation maintained by the Bank
Loan Securitization Trusts	Generate: • Funds for lending activities of the Bank • Commission for administration and management of loan portfolio These trusts are financed by the sale of debt instruments.	Investments in the mortgage bonds issued by the trusts

The participation maintained by the Bank in the non-consolidated structured entities represents 10%, 3% and 5% (2016: 10%, 3% y 5%) in three trusts.

(32) Main Applicable Laws and Regulations

The principal laws and regulations applicable in the Republic of Panama are:

(a) *Banking Law*

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendence of Banks of the Republic of Panama, according to the laws established by Executive Decree No.52 of April 30, 2008, which adopts the only text Decree Law 9 of February 26, 1998, as amended by Decree Law 2 of 22 February 2008, by which the banking system in Panama is established and the Superintendence of Banks and the rules that govern it is created.

(b) *Trust Law*

Trust operations in Panama are regulated by the Superintendence of Banks of Panama in accordance with the legislation established in Law No. 1 of January 5, 1984.

(c) *Securities Law*

The operations brokerage firm in Panama are regulated by the Superintendence of the share market in accordance with the legislation established in Decree Law No.1 of July 8, 1999, reformed by Act No. 67 of September 1, 2011.

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

(32) Main Applicable Laws and Regulations, continued

The main regulations or norms in the Republic of Panama, which have an effect on the preparation of these consolidated financial statements are described below:

(a) *General Board Resolution SBP-GJD-0003-2013 issued by the Superintendence of Banks of Panama on July 9, 2013*
This resolution establishes the accounting treatment for those differences arising between prudential standards issued by the Superintendence of Banks and International Financial Reporting Standards (IFRS), such that 1) the accounting records and financial statements are prepared in accordance with IFRS as required by the Agreement No.006 - 2012 December 18, 2012 and 2) in the event that the calculation of a provision or reserve under prudential rules applicable to banks to submit additional accounting specific aspects required IFRS, is greater than the respective calculation under IFRS oversupply or under prudential reserves is recognized in a regulatory reserve in equity.

Prior authorization of the Superintendence of Banks, banks shall be able to partially or totally reverse the provision established, after submitting due justification before the Superintendence of Bank.

(b) *Agreement No. 003 – 2009 Dispositions on Acquired Foreclosed Assets, issued by the Superintendence of Banks of Panama on May 12, 2009*
For regulatory purposes, the Superintendence sets a term of five (5) years, effective the date of registration before the Public Registry to sell immovable goods acquired for the payment of past due credits. If after that term the Bank has not sold the property acquired, it shall conduct an independent appraisal to determine if its value has decreased, by applying in such case the provisions of IFRS.

Likewise, the Bank shall create a reserve in equity, through the appropriation in the following order of: a) undistributed earnings; b) profits for the period, to which the following value of the foreclosed asset will be transferred:

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

The aforementioned reserves shall maintain until the acquired asset is actually transferred, and it shall not be considered a regulatory reserve for purposes of calculating the equity ratio.

(c) *Agreement No. 004-2013, "Whereby provisions on credit risk management inherent of in credit portfolio and off-balance sheet transactions are established", issued by the Superintendence of Banks of Panama on May 28, 2013.*
Sets forth general classification criteria for credit facilities in order to determine the specific and dynamic provisions to cover the Bank's credit risk. Additionally, this Agreement establishes certain required minimum disclosures, in line with IFRS disclosure requirements about credit risk management and administration.

(32) Main Applicable Laws and Regulations, continued

This Agreement is effective as of June 30, 2014 and repeals all parts of the Agreement No. 6-2000 of June 28, 2000 and all amendments, Agreement No. 6-2002 of August 12, 2002 and Article 7 of Agreement No. 2-2003 of March 12, 2003.

Specific Provisions

Agreement No.004-2013 sets forth that specific provisions are generated by any objective and concrete evidence of impairment. These provisions shall be recorded for credit facilities classified in the risk categories named: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

Banks shall calculate and maintain the amount of the specific provisions determined through the methodology explained in this Agreement, which takes into consideration the balance owed by each credit facility classified in any of the categories subjected to provision, mentioned in the preceding paragraph; the present value of each collateral available as risk mitigating, as established per type of collateral in this Agreement, and a table of estimates applied to the net balance exposed to losses for such credit facilities.

In case of a surplus in the specific provision, calculated in conformity with this Agreement, over the provision calculated in conformity to IFRS; this surplus shall be accounted for in a regulatory reserve in equity increasing or decreasing through allocations from or to retained earnings. The balance of the regulatory reserve shall not be considered as capital funds for purposes of calculating certain indices or ratios mentioned in this Agreement.

The table below summarizes the loans at amortized cost of the Panamanian Bank classified according this Agreement and the specific provision:

	2017		2016	
Classification	**Balance**	**Allowance**	**Balance**	**Allowance**
Normal	429,229,393	0	360,100,986	0
Watch list	2,400,218	131,800	2,317,680	152,219
Substandard	1,502,959	228,404	444,011	72,511
Doubtful	1,306,821	344,905	506,235	100,360
Loss	630,594	111,779	851,129	209,736
Total	435,069,985	816,888	364,220,041	534,826

The table below summarizes the balances of past due and default loans for the principal categories:

2017	**Current**	**Past due**	**Default**	**Total**
Loans to customers	424,221,337	7,966,451	2,882,197	435,069,985

2016	**Current**	**Past due**	**Default**	**Total**
Loans to customers	357,070,211	5,519,307	1,630,523	364,220,041

(32) Main Applicable Laws and Regulations, continued

At December 31, 2017, the balances of the loans which accumulation of interests has been suspended due to an impairment in the quality of the credit or for the nonperformance of payment in accordance with the indicated in the Agreement No. 4-2013 was of B/.1,342,105 (2016: B/.1,813,097).

Dynamic Provision

Agreement No. 004 - 2013 indicates that the dynamic provision is a reserve established to meet possible future needs for establishment of specific provisions, which is governed by its own prudential bank regulation criteria. The dynamic provision constitutes at quarterly basis on credit facilities that lack specific provision allocated, i.e. on credit facilities normally classified category.

The dynamic provisioning is a heritage item that increases or decreases with assignments to or from retained earnings. The credit balance of this provision is part of dynamic regulatory capital but does not replace or offset the capital adequacy requirements established by the Superintendence.

The balance of dynamic provision of the Bank is as follows

	2017	**2016**
Banco La Hipotecaria, S. A.	4,844,652	3,928,190
La Hipotecaria, S. A. de C.V.	1,416,926	1,416,926
La Hipotecaria C. F., S. A.	601,678	601,678
Total	6,863,256	5,946,794

With this Agreement is established a dynamic provision which will not be less of 1.25%, nor higher to 2.50% of the risk weighed assets corresponding to credit facilities classified as normal.

By requirements of Agreement No.004-2013, is constituted a regulatory provision of B/.701,268 (2016: B/.646,657) which represents the excess of regulatory provision over the allowance for loan losses according IFRS.

The principal laws and regulations applicable in the Republic of El Salvador are:

(a) Law of the Superintendence of Corporate Obligations (formerly Business Enterprises)

The operations of business enterprises in El Salvador are regulated by the Superintendence of Companies and Corporations, contained in Legislative Decree No.448 of 09 October 1973.

(32) Main Applicable Laws and Regulations, continued

(b) Securities Law

The operations of issuers and brokerage positions in El Salvador are regulated by the Securities in accordance with the procedures established in the Decree Law No.809 of April 31, 1994. According to Legislative Decree No.592 of 14 January 2011, the Securities ceased to exist as of August 2, 2011, which contains the Law on Regulation and Supervision of the Financial System, published in Official Journal No.23 of February 2, 2011, which became effective on August 2, 2011, and gave birth to the new Financial System Superintendence as single supervisory body that integrates the functions of the former Superintendence of the Financial System, Pensions and Securities.

The principal laws and regulations applicable in the Republic of Colombia are:

(a) Laws for Commercial Business

The operations of commercial business in Colombia are regulated by the Superintendence of Companies in accordance with the laws established in the Decree Law No.222 of December 20, 1995.

(b) Equity Tax

According to Decree 4825 of December 29, 2010, issued by the Ministry of Finance and Public Credit, establishing the state tax applicable to juridical persons, natural and indeed societies. This tax is generated by the possession of wealth by January 1st of 2011, whose value equals or exceeds one billion dollars and less than three billion pesos. The tax rate ranges from 1% to 1.4% and added a surcharge of 25% of the estate tax result. The estate tax is presented in the consolidated statement of comprehensive income in the area of taxes.

(33) Subsequent Events

The Bank has evaluated subsequent events from the reporting date through March 17, 2018, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.