BANCO LA HIPOTECARIA, S. A.
AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent's Auditor's 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, 2018 and 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the years 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years 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.

Adoption of IFRS 9 Financial Instruments
See Note 35 to the consolidated financial statements

Key audit matters	How the key matter was addressed during the audit
As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the appropriate classification and measurement and subsequent evaluation of impairment of financial instruments, which impacts the processes and controls related to the calculation of impairment reserves. Here are some of the areas of judgment involved: • The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model. • The identification of exposures with a significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors, such as the gross domestic product growth. • The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following: • We assessed the Bank's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9. • We obtained an understanding and evaluated the reasonableness of the assumptions or judgments used by management on the classification and measurement of financial instruments, including the business model applied by the Bank. • We assessed the contractual cash flows of the financial instruments, which give rise to cash flows that are 'solely payments of principal and interest' (SPPI test). • We checked the appropriateness of the IFRS 9's opening balance adjustments. Our audit procedures regarding impairment assessment methodology, considering the use of specialists, included: • We assessed that the modeling techniques and methodologies used by the Bank to calculate its impairment allowance were in compliance with IFRS 9.

- We assessed the design of the processes and tested the operating effectiveness of relevant controls over the:

  - The technological environments of the information systems involved in calculating the estimate according to the ECL model, including the inputs used in the model on the financial instruments at the date of adoption, the transactional data captured at the time the loan was granted, continuous internal evaluations of the credit quality of financial instruments, and the storage of key data.

  - The ELC model, including the development and approval of each methodology, continuous monitoring and validation, governance of the model and its mathematical accuracy.

- We assessed and tested the material modeling assumptions of the ECL model for the different financial instruments.

- We assessed the accuracy and adequate presentation of the disclosures in the consolidated financial statements for the adoption of this new standard.

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

Key audit matter

The allowance for loan losses in loans at amortized cost requires the use of judgments and subjective assumptions made by management for the construction of expected credit loss model ("ECL"). The loan portfolio represents 85% of the Bank´s total assets. The allowance for loan losses comprised the ECL as a result of the loan rating model and the mechanism to determine the probability of default of the loan according to the impairment stage in which it is assigned.

The model to estimate the ECL is composed of estimates of the probability of default, loss given default, prospective analysis and exposure to default.

The evaluation of whether or not a significant increase in the credit risk of the loans has been presented entails the application of important judgments in those methodologies. This is a challenge from an audit perspective due to the complexity in estimating the components used to perform these calculations and the application of management judgment.

How the key matter was addressed in our audit

Our audit procedures, considering the use of specialists, included:

- We assessed the key controls over delinquency calculations, internal customer risk ratings, accuracy review of customer and model information and the methodologies used.
- 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.
- We assessed the judgments applied by management on assumptions related to the current conditions of the economy and the considerations on the prospective analysis that could change the level of ECL, based on our experience and knowledge of the industry.
- Assessment of the delinquency profiles for mortgage and personal loans.
- An independent assessment was made of the inputs used in the methodology, and a recalculation was carried out for the ECL estimation model.
- The methodology applied by the Bank in the ECL model were assessed in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals and methodology documented and approved by the Bank's corporate government.

Investment valuation
See Notes 3(j), 4 and 8 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit
Investment in securities are 8.4% of the total assets as of December 31, 2018. 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, 2018, securities classified as level 3 represented 65% of total securities at fair value and 5% of total assets.	Our audit procedures, considering the use of specialists, 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(t) and 27 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit
Trusts under management amounted to B/.198,053,932 as of December 31, 2018. These trusts are unconsolidated vehicles designed by the Bank to securitize loans originated by itself.	Our audit procedures included: • Assessment of loan sale contracts made and the characteristics in relation to the required by IFRS 9 to derecognize a financial asset.

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.

- 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 Information

Management is responsible for the Other Information, which comprises the information that is published together to the consolidated financial statements, but does not include the consolidated financial statements and our auditors' report thereon, which was obtained before the date of this audit report.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information identified before and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or if, in some way, it seems to contain a material misstatement.

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 Jorge Castrellon.

KPMG.

Panama, Republic of Panama
May 21, 2019

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

Consolidated Statement of Financial Position

December 31, 2018 and 2017

(Stated in Balboas)

Assets	Note	2018	2017
Cash and cash equivalents		350,656	337,800
Deposits in banks:			
Demand deposits in local banks		30,673,537	17,340,520
Demand deposits in foreign banks		6,039,906	5,128,017
Savings deposits in local banks		1,098,281	1,071,053
Savings deposits in foreign banks		958,288	3,656,794
Total deposits in banks		38,770,012	27,196,384
Total of cash, cash equivalents and deposits in banks at amortized cost	7	39,120,668	27,534,184
Investment in securities	8	68,069,658	59,512,559
Allowance for investment securities at amortized cost	8	(877)	0
Investment securities, net		68,068,781	59,512,559
Loans	9	688,536,501	595,098,106
Accrued interest receivable		1,635,088	1,477,992
Allowance for loan losses	9	(603,038)	(313,625)
Loans at amortized cost		689,568,551	596,262,473
Furniture, equipment and improvements, net	10	2,933,309	2,230,664
Accounts and interest receivable	11	2,292,536	2,197,657
Accounts receivable - related parties		30,000	0
Tax credit	31	8,097,687	8,479,096
Deferred tax	26	1,032,623	987,891
Other assets	12	2,921,412	2,618,923
Total assets		814,065,567	699,823,447

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	2018	2017
Liabilities:			
Deposits from customers:			
Savings deposits - local	6	1,038,387	851,096
Savings deposits - foreign	6	557,914	139,388
Time deposits - local	6	180,882,818	189,621,270
Time deposits - foreign	6	57,264,547	17,934,223
Accrued interest payable		1,533,175	1,211,161
Total deposits from customers		241,276,841	209,757,138
Negotiable commercial papers	13	90,688,165	83,386,616
Negotiable commercial notes	14	113,118,210	96,537,363
Covered bonds	15	10,431,427	0
Ordinary bonds	16	8,832,345	14,390,920
Investment certificates	17	15,893,531	13,633,339
Other negotiable debts	18	18,997,888	13,912,290
Borrowed funds	19	237,023,005	188,599,222
Income tax payable	26	982,678	1,143,500
Other liabilities	20	5,901,582	7,875,148
Total liabilities		743,145,672	629,235,536
Equity:			
Common shares	21	15,000,000	15,000,000
Additional paid-in capital		25,025,329	26,300,000
Treasury shares	21	(727,000)	0
Capital reserve		1,800,000	1,800,000
Fair value reserve		1,569,569	1,738,846
Currency translation reserve		(6,455,494)	(4,640,024)
Regulatory reserves		7,883,553	7,564,524
Retained earnings		25,977,166	21,932,674
Total equity attributable to controlling interest		70,073,123	69,696,020
Non-controlling interest		846,772	891,891
Total equity		70,919,895	70,587,911
Commitments and contingencies	28		
Total liabilities and equity		814,065,567	699,823,447

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

Consolidated Statement of Profit or Loss

Year ended December 31, 2018 and 2017

(Stated in Balboas)

	Note	2018	2017
Interest and commission income:			
Interest on:			
Loans		43,462,561	36,962,631
Investment securities		2,300,127	2,524,289
Deposits in banks		138,300	711,558
		45,900,988	40,198,478
Commissions on loan granting		2,819,523	2,547,334
Total interest and commission income		48,720,511	42,745,812
Interest and commision expense:			
Deposits		10,551,769	9,272,208
Borrowed funds		20,900,615	17,960,525
Commissions	24	922,994	1,319,436
Total interest and commission expense		32,375,378	28,552,169
Net interest and commission income		16,345,133	14,193,643
Provision for loan losses		888,341	512,648
Provision for credit losses on securities at FVOCI		144,529	0
Reversal of provision for credit losses on securities at amortized cost		(7)	0
Net interest and commission income, after provisions		15,312,270	13,680,995
Income from banking services, commissions and others, net:			
Management and servicing commissions earned	23	5,687,708	5,530,682
Net gain on securities		1,504,959	2,960,280
Other commissions incurred	23	(657,475)	(606,579)
Othe income	6, 23	2,156,525	1,339,392
Total income from banking services and others, net		8,691,717	9,223,775
General and administrative expenses:			
Salaries and other personnel benefits	6, 25	9,295,612	8,362,435
Depreciation and amortization	10	863,943	761,364
Professional and legal fees		1,136,801	967,790
Taxes		2,164,075	1,824,516
Other expenses	6, 25	4,191,081	4,171,452
Total general and administrative expenses		17,651,512	16,087,557
Net income before income tax		6,352,475	6,817,213
Income tax	26	1,760,216	1,423,085
Net income		4,592,259	5,394,128
Income attributable to:			
Controlling interest		4,566,527	5,362,471
Non-controlling interest		25,732	31,657
		4,592,259	5,394,128
Earnings per share:			
Basic earnings per share		321.74	359.61
Diluted earnings per share		321.74	359.61

The consolidated statement of profit or loss 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, 2018 and 2017

(Stated in Balboas)

	2018	2017
Net income	4,592,259	5,394,128
Other comprehensive income:		
Items that are or may be reclassified subsequently to the statement of income:		
Fair value reserve:		
Fair value of loan portfolio acquired:		
Amortization	(79,341)	(79,581)
Valuation of debt securities at FVOCI:		
Reclassified to the statement of income	(98,270)	888,806
Net change in fair value	(141,941)	(2,481,130)
Provision for credit losses on debt securities at FVOCI	144,529	0
Foreign currency translation differences for foreign operations	(1,886,320)	49,002
Total other comprehensive income	(2,061,343)	(1,622,903)
Total comprehensive income	2,530,916	3,771,225
Comprehensive income attributable to:		
Controlling interest	2,576,035	3,741,078
Non-controlling interest	(45,119)	30,147
Total comprehensive income	2,530,916	3,771,225

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, 2018 and 2017

(Stated in Balboas)

	Attributable to the controlling interest											
					Fair value reserve			Regulatory reserves				
	Common shares	Treasury shares	Additional paid-in capital	Capital reserve	Credit losses reserves on securities	Fair value reserve	Currency translation reserve	Dynamic provision	Specific provision in excess	Retained earnings	Non-controlling interest	Total equity
Balance at December 31, 2016	15,000,000	0	26,300,000	1,800,000	0	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	0	0	5,362,471	31,657	5,394,128
Other comprehensive income (loss)												
Fair value reserve:												
Fair value of loan portfolio acquired, net	0	0	0	0	0	(79,581)	0	0	0	0	0	(79,581)
Net change in fair value of securities AFS	0	0	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	0	0	50,512	0	0	0	(1,510)	49,002
Total other comprehensive income (loss)	0	0	0	0	0	(1,671,905)	50,512	0	0	0	(1,510)	(1,622,903)
Total comprehensive income	0	0	0	0	0	(1,671,905)	50,512	0	0	5,362,471	30,147	3,771,225
Other changes in equity												
Constitutions of reserves	0	0	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	0	(64,112)	0	(64,112)
Non-controlling interest	0	0	0	0		0	0	0	0	0	159,769	159,769
Total of contributions and distributions	0	0	0	0	0	0	0	0	0	(64,112)	159,769	95,657
Balance at December 31, 2017	15,000,000	0	26,300,000	1,800,000	0	1,738,846	(4,640,024)	6,863,256	701,268	21,932,674	891,891	70,587,911
Adjustment on initial application of IFRS 9	0	0	0	0	119,147	(113,401)	0	0	0	(108,650)	0	(102,904)
Balance at January 1, 2018	15,000,000	0	26,300,000	1,800,000	119,147	1,625,445	(4,640,024)	6,863,256	701,268	21,824,024	891,891	70,485,007
Net income	0	0	0	0	0	0	0	0	0	4,566,528	25,731	4,592,259
Other comprehensive income (loss)												
Fair value reserve:												
Amortization of fair value of loan portfolio acquired	0	0	0	0	0	(79,341)	0	0	0	0	0	(79,341)
Net change in fair value of securities at FVOCI	0	0	0	0	0	(240,211)	0	0	0	0	0	(240,211)
Provision for credit losses on securities at FVOCI	0	0	0	0	144,529	0	0	0	0	0	0	144,529
Foreign currency translation differences for foreign operations	0	0	0	0	0	0	(1,815,470)	0	0	0	(70,850)	(1,886,320)
Total other comprehensive income (loss)	0	0	0	0	144,529	(319,552)	(1,815,470)	0	0	0	(70,850)	(2,061,343)
Total comprehensive income	0	0	0	0	144,529	(319,552)	(1,815,470)	0	0	4,566,528	(45,119)	2,530,916
Other changes in equity												
Constitutions of reserves	0	0	0	0	0	0	0	51,514	267,515	(319,029)	0	0
Transactions with the shareholders of the Bank:												
Contributions, distributions and change in participations:												
Decrease in additional paid-in capital	0	0	(1,274,671)									(1,274,671)
Treasury shares	0	(727,000)	0	0	0	0	0	0	0	0	0	(727,000)
Complementary tax	0	0	0	0	0	0	0	0	0	(94,357)	0	(94,357)
Total of contributions and distributions	0	(727,000)	(1,274,671)	0	0	0	0	0	0	(94,357)	0	(2,096,028)
Balance at December 31, 2018	15,000,000	(727,000)	25,025,329	1,800,000	263,676	1,305,893	(6,455,494)	6,914,770	968,783	25,977,166	846,772	70,919,895

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.

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

Consolidated Statement of Cash Flows

Year ended December 31, 2018 and 2017

(Stated in Balboas)

	Note	2018	2017
Operating activities:			
Net income		4,592,259	5,394,128
Adjustment to reconcile net income and cash from operating activities:			
Provision for loan losses		888,341	512,648
Provision for losses on investment securities		144,522	0
Unrealized gain on investment securities at fair value		(1,125,184)	(2,071,474)
Net gain gain on sale of investment securities		(98,270)	(888,806)
Depreciation and amortization		863,943	761,364
Loss on disposal of fixed assets		0	1,715
Gain on sale of foreclosed assets		(84,305)	(116,991)
Interest income, net		(14,448,604)	(12,965,745)
Income tax expense		1,760,216	1,423,085
Changes in operating assets and liabilities:			
Loans		(94,273,760)	(89,859,071)
Accounts receivable		(265,291)	(347,693)
Accounts receivable - related parties		(30,000)	0
Sale of tax credits		11,256,701	7,432,053
Accrual of tax credits		(10,875,292)	(8,664,100)
Other assets		(347,220)	(252,483)
Time deposits from customers		30,591,872	28,878,511
Saving deposits from customers		605,817	(182,994)
Other liabilities		(3,453,943)	314,084
Cash generated from operations:			
Interest received		46,071,399	40,088,500
Interest paid		(30,914,203)	(26,468,280)
Income tax paid		(894,537)	(692,778)
Cash flows from operating activities		(60,035,539)	(57,704,327)
Investment activities:			
Purchase of investment securities		(22,692,427)	(17,269,085)
Sale of investment securities at FVOCI		12,334,438	0
Sale of invesment securities available for sale		0	11,247,492
Redemption of investment securities		2,690,428	7,016,139
Purchase of furniture and equipments		(1,563,548)	(1,570,520)
Cash flows from investment activities		(9,231,109)	(575,974)
Financing activities:			
Proceeds from borrowed funds		134,432,043	87,342,439
Payment of borrowed funds		(86,008,260)	(41,739,520)
Proceeds from issuance of negotiable commercial papers		103,685,000	92,142,000
Redemption of negotiable commercial papers		(96,383,451)	(79,971,659)
Proceeds from issuance of negotiable commercial notes		45,039,000	37,234,000
Redemption of negotiable commercial notes		(28,458,153)	(33,785,907)
Proceeds from issuance of investment certificates		11,010,192	0
Redemption of investment certificates		8,750,000	(9,472,087)
Proceeds from issuance of negotiable debts		24,248,969	14,316,000
Redemption of negotiable debts		(19,163,371)	(9,463,989)
Redemption of ordinary bonds		(5,558,575)	(2,281,639)
Proceeds from issuance of covered bonds		10,431,427	0
Additional paid-in capital		(1,274,671)	0
Common shares		(727,000)	0
Non-controlling interest		(70,850)	159,769
Complementary tax		(94,357)	(64,112)
Cash flows from financing activities		99,857,943	54,415,295
Effect of exchange rate fluctuations on cash and cash equivalents held		(1,818,510)	92,557
Net increase (decrease) in cash and cash cash equivalents		13,404,994	(3,865,006)
Cash and cash equivalents at the beginning of the year		27,534,184	31,306,633
Cash and cash equivalents at the end of the year	7	39,120,668	27,534,184

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) Reporting Entity

Banco La Hipotecaria, S. A. (formerly, 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 provide banking services, indistinctly, in Panama or abroad, and conduct any other activity authorized by the 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% (2017: 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 2018	Controlling Interest 2017
La Hipotecaria Compañía de Financiamiento, S. A.	Grant residential mortgage loans, manage 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

The Bank’s consolidated financial statements 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 May 21, 2019.

(2) Basis of Preparation, continued

(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
Financial instruments at fair value through profit or loss (FVTPL)	Fair value
Investments in securities measured at fair value through other comprehensive income (FVOCI) – after January 1, 2018	Fair value
Available-for-sale financial assets – before January 1, 2018	Fair value

(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.

(3) Summary of Significant Accounting Policies

Except for changes explained in Note 3(c.2), Note 3(e), Note 3(h), Note 3(j) and Note 3(r), the accounting policies detailed below have been consistently applied by the Bank for all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

(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.

(3) Summary of Significant Accounting Policies, continued

(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 consolidated statement of profit or loss. Whether the Bank retains any interest in the former subsidiary is measured at fair value when control is lost.

(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

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 consolidated statement of profit or loss. However, foreign currency differences arising from the translation of equity instruments measured at fair value through other comprehensive income ('available-for-sale', before January 1, 2018), are recognized in other comprehensive income.

(3) Summary of Significant Accounting Policies, continued

Non-monetary assets that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange at the reporting date. Non-Moneraty items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the reporting date.

(b.2) Foreign Operations

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).

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.

(c.2) Classification

Financial Assets – Policy applicable from January 1, 2018

The Bank classifies its financial assets as subsequently measured at amortized cost (AC), fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL), based on the business models for the management of these financial assets and in accordance with their contractual cash flow characteristics.

A financial asset is measured at AC if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(3) Summary of Significant Accounting Policies, continued

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

- the asset is held within a business model which objective is achieved by both collecting contractual cash flows and selling financial assets; and;
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

Additionally, on the initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces and accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. Those includes, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis, are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

(3) Summary of Significant Accounting Policies, continued

Assessment of whether the contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, "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 time value of money and the credit risk associated with the amount of the principal amount outstanding during a particular period of time and for other basic lending risk and costs (i.e. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payment of principal and interest, the Bank considers the contractual terms of the instrument. This includes whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet this condition.

- Investments securities held-to-maturity measured at amortized cost under IAS 39 will generally maintain this measurement under IFRS 9.
- Investments in equity instruments classified as available for sale under IAS 39 will generally be measured at FVTPL under IFRS 9.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets – Policy applicable before January 1, 2018

The Bank classified its financial assets into one of the following categories:

- Loans and receivables;
- Held-to-maturity;
- Available-for-sale;
- At FVTPL.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortized cost.

(c.3) Derecognition of financial assets and financial liabilities

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(3) Summary of Significant Accounting Policies, continued

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The guarantee on the transferred asset is measured as the lower between the original book value of the asset and the maximum amount of the consideration that the Bank could be obliged to pay.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(c.4) Modification of financial assets

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

(c.5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it 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 such as in the Bank's trading activity.

(c.6) Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before January 1, 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

(3) Summary of Significant Accounting Policies, continued

(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 one is available, 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. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is a initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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) Impairment

Policy applicable from January 1, 2018

The Bank recognizes loss allowances for 'expected credit loss' (ECL) on the following financial instruments that are not measured at FVTPL:

- Loans receivable;
- Financial assets that are debt instruments.

No impairment loss is recognized on equity instruments as they are measured at FVTPL.

(3) Summary of Significant Accounting Policies, continued

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measure as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(3) Summary of Significant Accounting Policies, continued

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for more than 180 days is considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of the allowance for ECL in the consolidated statement of financial position
Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets; and

- debt instruments measured at FVOCI: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(3) Summary of Significant Accounting Policies, continued

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before January 1, 2018

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

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

- *Individually Assessed Loans*
  Impairment losses on individually assessed loans were determined on an evaluation of the exposures on a case by case basis. If it was determined that no objective evidence of impairment exists for an individually significant loan, it was included in a group of loans with similar characteristics and were collectively assessed for impairment. The impairment loss was 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 was recognized as an allowance for impairment in the consolidated statement of profit or loss. The carrying amount of impaired loans was reduced through the use of an allowance account.

- *Collectively Evaluated Loans*
  For the purposes of a collective evaluation of impairment, consumer loans were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimate of future cash flows for groups of such assets. Future cash flows in a group of loans that were collectively evaluated for impairment were 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 were such that the actual level of inherent losses was likely to be greater or less than the suggested historical experience. Default rates, loss rates and expected time for future recoveries were regularly compared with the real results to ensure they still appropriate.

(3) Summary of Significant Accounting Policies, continued

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

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

- *Renegotiated or Restructured Loans*
  Loans that have been renegotiated or restructured were 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.

(f) 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.

(g) Trading Assets and Liabilities
'Trading assets and liabilities' are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.

(h) Loans
<u>Policy applicable from January 1, 2018</u>
Loans caption in the statement of financial position are presented at amortized cost considering the principal amount and the interest receivable, less the loss allowance for ECL. The loans are measured initially at its fair value plus those incremental direct transaction costs; subsequently at their amortized cost using the effective interest rate method.

(3) Summary of Significant Accounting Policies, continued

Policy applicable before January 1, 2018

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 presented at amortized cost considering the principal amount and the interest receivable, less the loss allowance for ECL. The loans are measured initially at its fair value plus those incremental direct transaction costs; subsequently at their amortized cost using the effective interest rate method.

(i) Allowance for Expected Credit Loss

The allowance for ‘expected credit loss’ (ECL) is constituted to cover the losses derived from the Bank’s credit granting process, inherent to the loan portfolio and loan commitments, as well as the investment securities measured at AC and at FVOCI, applying the model of ECL. Increases in the reserve for ECL is recognized with a charge to the consolidated statement of profit or loss. Write-offs are deducted from the reserve and subsequent recoveries are added. The reserve is also reduced for reversions with charges to profit or loss.

The losses allowance for ECL attributed to financial assets measured at amortized cost is presented as a deduction from their gross carrying amount, and for the financial assets measured at FVOCI in the fair value reserve in OCI.

The Bank measures ECL as a way to reflect: (a) an unbiased probability-weighted estimate determined by assessing a range of possible outcomes; b) the value of money over time; and c) reasonable and sustainable information about past events, current conditions and forecasted future economic conditions, that is available without disproportionate cost or effort at estimation date.

The model of ECL reflects the general pattern of deterioration or improvement in the credit quality of financial assets. The amount of ECL recognized as a reserve or provision depends on the degree of credit deterioration since its initial recognition. The model of ECL have two measurement criteria:

- 12-month ECL (stage 1), which applies to all financial assets (on initial recognition), provided that there is no significant impairment in their credit quality; and

- Lifetime ECL (stages 2 and 3), which applies when the credit risk of the financial assets has increased significantly individually or collectively. In stages 2 and 3 interest income is recognized. In stage 2 (as well as in stage 1), there is a complete dissociation between the recognition of interest and impairment, and the interest income is calculated on the gross amount in books. In stage 3, is when the financial assets becomes impaired.

(3) Summary of Significant Accounting Policies, continued

The allowance for ECL includes a specific active component and a component based on a formula. The specific active component, or of specific assignment, refers to the allowance for losses in financial assets considered impaired and assessed individually, case by case. A specific allowance is recognized when the discounted cash flows (or observable fair value of collateral) of the financial asset is less than the book value of that asset. The second component, which is based on a formula, covers the credit portfolio of the Bank classified as 'normal' and is determined through a process that estimates the probable loss inherent to the portfolio, based on Management's statistical analysis and qualitative judgment. This analysis takes into account the complete information that incorporates not only default data, but other relevant credit information, such as prospective macroeconomic information.

In order to determine whether there has been a significant increase in the credit risk of the financial asset, the assessment is based on quantitative and qualitative information. The Bank considers the following factors, although not exhaustive, in measuring the significant increase in credit risk:

a) Significant changes in credit risk indicators as a result of a change in credit risk from the beginning;

b) Significant changes in the credit risk indicators of the external market for a specific financial instrument or similar financial instruments with the same expected life;

c) A real or expected significant change in the external credit rating of the financial instrument;

d) Significant changes in the value of collateral that supports the obligation.

As a cap, the Bank considers that a significant increase in credit risk occurs no later than when an asset has more than 90 days of delinquency for personal loans or, for mortgage loans, more than 180 days past due. The days due are determined by counting the number of days elapsed since the oldest due date with respect to which the total payment has not been received. The due dates are determined without considering any grace period that may be available to the debtor.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk through periodic reviews to confirm that:

The balances of the allowances for ECL are calculated by applying the following formula:

$\text{ECL} = \sum$ (EAD x PD x LGD); in where:

(3) Summary of Significant Accounting Policies, continued

- Exposure at default (EAD): represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract arising from amortization. The EAD of a financial assets is its gross carrying amount at the time of default. For loans arising from a line of credit facility which approved amount have not been used in its entirety by the customer, this parameter includes the Bank's expectations of future disbursements under the facility incorporating a credit conversion factor (CCF).

- Probability of default (PD): represents the probability that a client does not comply with the total and timely payment of its credit obligations within a one-year horizon. The estimated PD for a period of 12 months is adjusted by the loss identification period to estimate the probability of default.

  The probability of default of one year applied to the portfolio for expected losses less than 12 months and during the life-time for expected losses greater than 12 months, are based on the historical performance of the Bank's portfolio by credit grade category.

- Loss given default (LGD): is the magnitude of the likely loss if there is a default, which estimation uses a factor based on historical information.

(j) Investment securities

<u>*Policy applicable from January 1, 2018*</u>

The ‘investment securities' caption in the consolidated statement of financial position includes:

- Debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;

- Debt and equity investment securities mandatorily measured at FVTPL; these are at fair value with changes recognized immediately in profit or loss;

- Debt securities measured at FVOCI.

For debt instruments measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method; and
- Losses allowance for ECL and reversals.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

(3) Summary of Significant Accounting Policies, continued

Policy applicable before January 1, 2018

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:

- *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.

- *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.

- *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.

(3) Summary of Significant Accounting Policies, continued

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 accumulated losses are 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.

(k) 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.

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

(3) Summary of Significant Accounting Policies, continued

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.

(l) 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.

(m) 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.

(n) Share Based Payments

The fair value at the date of granting options of the Holding's share purchase plan of Bank's 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.

(o) Employee Benefits

(o.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

(o.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.

(p) 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.

Diluted earnings per share is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(q) 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.

(r) Interest Income and Expense

Policy applicable from January 1, 2018

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but no the ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

(3) Summary of Significant Accounting Policies, continued

The calculation of the effective interest rate includes transaction costs and fees 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 a financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or a financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

For the financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For the financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset.

Presentation

Interest income calculated using the effective interest rate method presented in the consolidated statement of profit or loss and the consolidated statement of OCI includes:

- Interest on financial assets and financial liabilities measured at amortized cost;
- Interest on debt instruments measured at FVOCI;

Interest income and expense on all trading assets and liabilities are considered to be incident to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(3) Summary of Significant Accounting Policies, continued

Policy applicable before January 1, 2018

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.

(s) 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. It is a Bank’s obligation to manage the resources of the trusts in conformity with the contracts and independent of its equity.

Performance Obligations and Revenue Recognition Policy for Fees and Commissions Income – From January 1, 2018

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

(3) Summary of Significant Accounting Policies, continued

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Private Banking Commissions	The Bank provides banking services to retail and corporate customers that maintains saving or time deposits, for the issuance of checks and bank confirmations.	Revenue related to transactions is recognized at the point in time when the transaction takes place.
Portfolio management for trusts	The Bank provides portfolio management services. Commissions for portfolio management services are calculated based on a fixed percentage of the value of portfolio managed and charged to the trust fund on a monthly basis.	Revenue from portfolio management services is recognized over time as the services are provided.
Insurance management	The Bank provides insurance management and collection services. Commissions for insurance management and collection services are fixed and are received in a monthly basis.	Revenue from insurance management services is recognized over time as the services are provided. .

(t) 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. It is a Bank's obligation 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.

(u) 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.

(v) 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.

(3) Summary of Significant Accounting Policies, continued

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.

(w) Leases - lessee

Assets held under leases are classified as operating leases and are not recognised in the Bank's consolidated statement of financial position. Payments made under operational leases are recognized in profit or loss on a straight-line basis over the term of the leases.

(x) *Comparative Information*

As a result of the application of the new accounting standards adopted by the Bank, some figures of the period 2017, included in certain notes to the consolidated financial statements, were reclassified to standardize their presentation with that of the consolidated financial statements for 2018. These reclassifications seek to better describe the nature of the Bank's balances and transactions, and are for amounts that are not considered material to the consolidated financial statements as of December 31, 2018. The following table summarize the impacts of these reclassifications on the Bank's consolidated financial statements:

Consolidated statement of financial position	**December 31, 2017**		
	As previously reported	**Reclassifications**	**As reclassified**
Assets			
Loans at amortized cost	594,784,481	1,477,992	596,262,473
Accounts and interest receivable	3,675,649	(1,477,992)	2,197,657
Total	**598,460,130**	**0**	**598,460,130**
Liabilities			
Time deposits from customers	207,555,493	1,211,161	208,766,654
Negotiable commercial papers	82,931,225	455,391	83,386,616
Negotiable commercial notes	96,309,431	227,932	96,537,363
Ordinary bonds	14,310,229	80,691	14,390,920
Investment certificates	13,600,000	33,339	13,633,339
Other negotiable debts	13,840,047	72,243	13,912,290
Borrowed funds	187,147,534	1,451,688	188,599,222
Other liabilities	11,407,593	(3,532,445)	7,875,148
Total	**627,101,552**	**0**	**627,101,552**

(3) Summary of Significant Accounting Policies, continued

Consolidated statement of profit or loss	December 31, 2017		
	As previously reported	Reclassifications	As reclassified
Commission income	8,078,016	(5,530,682)	2,547,334
Commission expense	(1,926,015)	606,579	(1,319,436)
Income from banking services and others, net	4,299,672	4,924,103	9,223,775
Total	**10,451,673**	**0**	**10,451,673**

The reclassifications made to the assets and liabilities accounts correspond to interest receivable and interest payable that were previously presented in a separate caption in the consolidated statement of financial position. For the 2018 financial statements these interests are being presented within the amortized cost of the respective financial asset or liability.

For the consolidated statement of profit or loss, the main reclassification corresponds to commissions on loan products that were reclassified to other income, considering that they were not part of the effective interest method.

These reclassifications have no impact on total assets, total liabilities, net income, or total cash flows from investment, operation or financing activities for the year ended December 31, 2017.

(y) Standars issued but not yet effective

As of the date of the consolidated financial statements, there are standards, modifications and interpretations which are not effective for the period ended December 31, 2018; therefore, they have not been applied in the preparation of these consolidated financial statements. Among the most significant are the following:

IFRS 16 Leases

This Standard establishes the principles for the recognition, measurement, presentation and disclosure of leases and is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard includes recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard: that is, lessors continue to classify leases as finance or operating leases.

Transition

The Bank plans to apply IFRS 16 initially on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019, with no restatement comparative information.

(3) Summary of Significant Accounting Policies, continued

The Bank plans to apply the practical expedient to grandfather the definition of a lease in transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Assessment of the impact

The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, based on its operating lease agreements mainly from its offices and parking lots.

The Bank's preliminary assessment estimates that as of January 1, 2019, the asset for the rights of use and the leases liabilities represent an approximate amount of B/.4,000,000 according to the information currently available.

The Bank does not expect that the adoption of IFRS 16 will affect the ability to comply with the contractual clauses of its financial liabilities.

The Bank has not yet finalized the test and assessment of the operational controls, therefore, the adoption of this standard could cause modifications in the consolidated financial statements.

(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 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)

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.

(4) Financial Risk Management, continued

The Bank's Risk Committee has its origins under the Agreement No.008-2010 of the Superintendence of Banks of Panama and has as its objective that the Bank has a body of the highest level to assess, agree on, define and establish the objectives and policies for Comprehensive Risk Management; as well as the risk exposure limits approved by the Board of Directors.

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 significant assets and liabilities operations, 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 oversight the promotion of a culture of risk management.

8. To develop and maintain the Bank's risk classifications in order to categorize exposures according to the degree of the risk of default.

   The Bank's current risk grade framework for the segments of its loan portfolio, consists of eight classifications based on delinquency, reflecting the different degrees of the risk of default. These grades are associated or related to the different delinquency levels presented by the loan instrument. While the Bank adopts the inclusion of a behavioral "scoring", the grades will be based on delinquency levels.

(4) Financial Risk Management, continued

9. To develop and maintain the Bank's processes to measure the losses allowance for ECL, including the processes for its initial approval, regular assessment and validation, and the retrospective testing of the models used in its estimation; and the incorporation of prospective information.

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.

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 are 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.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost and investment securities measured at FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For promissory notes (loan commitments), the amounts in the table represent the amounts committed.

(4) Financial Risk Management, continued

	2018				2017
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total	Total
Loans					
Normal or low-fair risk	660,946,313	0	0	660,946,313	576,584,739
Watch-list	18,306,095	0	0	18,306,095	12,839,884
Substandard	0	1,858,442	977,563	2,836,005	1,272,508
Doubtful	0	1,422,157	561,627	1,983,784	1,567,064
Loss	0	0	4,464,304	4,464,304	2,833,911
Gross amount	679,252,408	3,280,599	6,003,494	688,536,501	595,098,106
Accrued interest receivable	1,635,088	0	0	1,635,088	1,477,992
Allowance for impairment loss	(146,785)	(77,616)	(378,637)	(603,038)	(313,625)
Carrying value, net	680,740,711	3,202,983	5,624,857	689,568,551	596,262,473
Investment securities at AC					
Normal or low-fair risk	219,321	0	0	219,321	442,132
Gross amount	219,321	0	0	219,321	442,132
Allowance for impairment loss	(877)	0	0	(877)	0
Carrying value, net	218,444	0	0	218,444	442,132
Investment securities at FVOCI					
Normal or low-fair risk	48,531,447	0	0	48,531,447	43,933,581
Promissory notes					
Normal or low-fair risk	59,484,283	0	0	59,484,283	77,155,573

At December 31, 2018, the Bank performed the credit quality analysis over its off-balance accounts, resulting in a classification of 'normal' for the total of its promissory notes.

Deposits placed with banks
At December 31, 2018, the Bank held deposits placed with banks for B/.38,770,012 (2017: B/.27,196,384). 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 enhancements
The Bank holds collateral and other credit enhancements against certain of its credit exposures, as security for their collection. The following table sets out the principal types of collateral held against different types of financial assets.

	% of exposure that is subject to collateral requirement		
	2018	**2017**	**Type of colateral held**
Loans	91%	92%	Properties
Investment securities	78%	77%	Mortgage loans

(4) Financial Risk Management, continued

Residential mortgage loans

The tables below stratify credit exposures from residential mortgage loans by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. 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.

	2018	2017
LTV ranges		
Non credit-impaired loans		
0-20%	3,385,889	500,763
20-40%	20,285,283	4,810,538
40-60%	52,251,992	24,400,710
60-80%	210,280,677	168,193,621
80-100%	342,332,354	349,265,979
Total	628,536,195	547,171,611

The Bank does not update its collateral valuation routinely. The appraisals on the collaterals are updated for residential mortgage loans when their credit risk becomes significantly impaired and the loan is monitored more closely. For loans assessed and classified as doubtful to recover, appraisals are obtained by the Bank for their collateral, whose value is used as an input for measuring impairment.

Assets obtained by taking possession of collateral

Details of assets obtained by the Bank during the year by taking possession of collateral held as security against loans and held at the year-end are shown below:

	2018	2017
Properties	271,138	234,239

Amounts arising from ECL

Significant increase in credit risk

When determining whether the credit risk on a financial instrument has increased significantly, the Bank considers the changes in its risk of default since the initial recognition.

For a financial instrument that incurs an event of default, management will consider the criteria based on the different defaulting stages as established for the implementation of the ‘Expected Loss’, while evaluating the application of other criteria used in the internal credit risk model, such as ‘scoring’ of behavior, bureau score and/or qualitative aspects and factors, when appropriate. At each reporting date, the Bank assess whether there is a significant increase in credit risk based on the change in default risk that occurs during the expected life of the credit instrument.

(4) Financial Risk Management, continued

In order to assess whether a significant credit deterioration has occurred, the Bank considers reasonable and sustainable information that is available without disproportionate cost or effort, comparing the default risk that occurs in the financial instrument on the reporting date.

Degree of credit risk for the credit portfolio

The Bank allocates each exposure to a credit risk grade based on the delinquency transitions that the operation generates. These migrations are assigned a 'Probability of Default' (PD) based on the results of 66 transition matrices that were reviewed at 1, 2 and 3 years, which gives a real default rate based on the default level at which the operation is. As explained above, the Bank is in the process of adapting other variables in addition to the actual rate of default, such as behavior scoring, bureau scoring and/or collective factors depending on the economic events that the sectors of the economy can present.

Credit risk grades are defined and calibrated so that risk of default occurring increases exponentially as credit risk deteriorates, for example, the difference in risk of default between credit risk grades 1 and 2 is lower than the difference between credit risk grades 2 and 3.

Each exposure is assigned to a credit risk grade in the initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Consequently, and according to the risk impairment suffered by each instrument throughout its residual life, the Bank, periodically, from the date of the initial recognition, will establish the differences in the credit risk status in that respect of the one registered in that initial recognition. Depending on the assessment performed, the Bank will assign each instrument to 3 stages (impairment stages):

- Stage 1: Financial instruments with a low credit risk
- Stage 2: Financial instruments with significant impairment of credit risk
- Stage 3: Impaired financial instruments (high credit risk).

The objective of the assignment to different stages of credit risk is to adjust the algorithm for calculating expected losses, in such a way that the losses of the instruments that would have been assigned to Stage 1 will be determined for a horizon of 12 months. The losses for instruments assigned to Stage 2 or 3, will be calculated for the residual life of the instruments, that is, until their maturity or expiration ("lifetime").

The Bank, in the first phase of application of the Standard, while it did not have a structure of internal grades that would allow it to assess the impairment as an alternative, will adopt, as a general criterion, the one established by IFRS 9 in B5.5.17 (p.): "Past due Information, including the rebuttable presumption [...]".

(4) Financial Risk Management, continued

The foregoing implies that the Bank will use for the assignment the scheme of past-due ranges, according to the following order of grades:

A1 – Current (without arrears or delinquency) and from 1 to 30 days (normal)
A2 – Delinquency range from 31 to 60 days (low-fair risk)
B1 – Delinquency range from 61 to 90 days (watch-list)
B2 – Delinquency range from 91 to 120 days (substandard)
C1 – Delinquency range from 121 to 150 days (doubtful)
C2 – Delinquency range from 151 to 180 days (doubtful)
D – Delinquency range greater than 180 days (loss)

Generating the term structure of PD

Instrument treatment approach

Given the homogeneity of the profiles of the borrowers that comprise the Bank's credit portfolios, when determining their credit impairment it was established that in a general manner, except for certain exceptions, they will be treated under a collective approach. For practical purposes, this implies that the determined PD and LGD values will be shared collectively, either partially or totally, by all the instruments that participate in each identified segment.

The Bank's instruments present similar risk profiles in relation to the amount of exposure, interest rate, guarantees and other factors within the group to which they belong.

A dispersion statistics (volatility) of the values of such profiles were determined using average values. No instrument of the loan portfolio has been identified to be treated individually by management.

Consequently, Management determined as convenient to group the financial instruments that make up the Bank's credit portfolios by country and by segments according to their guarantee. Therefore, two (2) segments were defined per country:

a) Home loans with mortgage guarantee and personal loans with mortgage guarantee (LWMG);

b) Personal loans without guarantee (LWOG).

The implementation of this instrument grouping criterion derives, not only from the risk sharing requirement, but from the need to facilitate the subsequent calculation of the 'Loss Rate' given the non-compliance of the segments, a parameter significantly associated with the guarantees of the instruments.

(4) Financial Risk Management, continued

In the sense, in the case of the LWMG, the loss rate includes in the calculation, the value of recoveries derived from the execution of mortgages and appropriations in payment, which explains the importance of its disaggregation with respect to another type of recoveries that do not present such quality of guarantees. In the specific case of the LWMG, the main risk factor they share, in addition to the volatility of the value of the mortgaged property, is the moral risk, in as much as the houses financed by the Bank, in general, are of the residential type for use of the borrowers, which present a relatively low to middle income level, and their families. The LGD of the LWOG segment will be determined through the recoveries whose process is described below in the corresponding section in this document.

In order to determine the PD of the segments identified, and in the context of the collective treatment of credit portfolios, the Bank will focus the measurement based on the processes denominated 'Markov Chain', through which the probability (conditional) that an instrument, which is at a certain moment in a certain risk category, migrates to another in a time horizon that is also determined. Mathematically, it is expressed as the probability that an event A will occur, given another event B. The Bank's calculation process will determine the probability that an instrument that at the reporting date presents a certain grade will default for a horizon of time.

For the calculation of the PD, transition matrices have been structured that reflect the annual migration of the risk categories of the instruments taken monthly. For structuring the matrix, the historical series of grades of each instrument that makes up each portfolio segment of each country will be used, which will be arranged in historical series of five (5) years for each instrument. With this database, the grade (risk category) of an instrument is compared monthly at the end of a certain month, with the category of that instrument for the same months of different time horizons (1, 2, 3 or more years).

Through this process, "pairs" of categories corresponding to a historical period of five years will be formed within each segment. Each "pair" represents the risk grade of each instrument for a given month (T) and the same month of the following year (T + 12), the same month as other years (T + 24, T + 36, T + n), depending on the time horizon analyzed. With arranging the matrix pairs and calculating the frequencies of their occurrence, the conditional probability of migration between the current category of risk of the instrument and the category of non-compliance for different time horizons will be obtained.

The Bank uses statistical models to analyze the data collected and generate PD estimates of the remaining life of the exposures and how they are expected to change as a result of the passage of time.

(4) Financial Risk Management, continued

General approach for determining default and refutation of presumptions

The behavior and payment commitment of the clients when it comes to taking care of their home, causes the delinquency of the loans granted by the Bank to be very low when compared to the behavior of other types of loans. Even the unsecured personal loans granted by the Bank remain below the default curves of the market. It is estimated that this behavior is due to the fact that the Bank only offers personal or consumer loans to clients that have mortgages with the institution.

The previous hypothesis is reinforced by the implementation of adequate origination policies and an effective collection strategy. Undoubtedly, another important aspect about its low delinquency, is the high number of clients that pay by ‘Direct Discount’, which is one of the conditions for the approval of credit in the Bank.

By virtue of the foregoing, to define "default" in each segment of each country, the different transitions of arrears shown by the credits according to delinquency heights (delinquency ranges) have been analyzed.

As a first approach to the identification of the level of non-compliance, the calculation was made for the height of arrears (by days of arrears) of each one of the operations in each segment (Mortgage Loan and Personal Credit) made by the Bank, taking as a basis for the historical series of them, both in Panama, El Salvador and Colombia.

Under this statistical approach, 66 intermediate matrices have been prepared, corresponding to each month for each segment and country between January 2012 and July 2017, containing the monthly roll-rates of delinquency of the loans granted by the Bank according to their rates of delinquency. From these matrices, 2 matrices with average data were drawn up, corresponding to each credit segment by country, in such a way as to reflect a probability of occurrence of the arrears according to delinquency ranges.

The matrices show the probabilities that an instrument reaches a certain height of default according to the range of delinquency at the beginning of the period in a horizon of 1 year. Also shown are the accumulated percentage of arrears in which the instruments of the segment fall within a horizon of 12 months after the month of the start of the count.

The values allow, in each segment, to determine the range of delinquency in which it is estimated that the default would occur from a percentage considered as the acceptance limit. Based on this information, the Bank has decided that the default would be established from 180 days for the segments of mortgage-backed credit instruments and 90 days for the segments of personal credit instruments without mortgage guarantee.

The Bank intends to implement or incorporate other variables and elements to complement the PD or actual default rate. These elements may include the incorporation of a behavioral scoring, the incorporation of credit bureau scores and/or collective elements associated with economic situations.

(4) Financial Risk Management, continued

Modification of financial assets

The contractual terms of a loan can be modified for several reasons, including changes in market conditions, customer retention and other factors not related to a current or potential credit impairment of the borrower. An existing loan whose terms have been modified can be derecognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the accounting policy established in Note 3 (c).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects the comparison of:

- the risk of non-compliance for the remaining life based on the modified terms; with
- the risk of non-compliance for the remaining lifetime estimated based on the data in the initial recognition and the original contractual terms.

Impairment definition

The Bank considers that a financial asset is impaired when:

- It is unlikely that the debtor will pay its credit obligations to the Bank in its entirety, without the Bank resorting to actions such as the performance of the guarantees (if applicable); or
- the debtor is over 90 days past-due in personal loans and more than 180 days in mortgage loans;
- Significant changes in credit risk indicators as a consequence of a change in credit risk from the beginning;
- Significant changes in the indicators of the external credit risk market for a specific financial instrument or similar financial instruments with the same expected life;
- A real or expected significant change in the external credit rating of the financial instrument.

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

- Qualitative – breaches of contractual clauses.
- Quantitative – delinquency status and non-payment of another obligation of the same debtor to the Bank; and based on data developed internally.

The inputs used to assess whether a financial instrument is impaired and its importance may vary over time to reflect changes in circumstances.

The definition of impairment for the loan portfolio is aligned to a great extent with that applied by the Bank for regulatory capital purposes.

(4) Financial Risk Management, continued

Incorporation of forward-looking information

The incorporation of forward-looking information into the Bank's calculation process for 'Expected Losses' will be made based on the possible impact that could be recorded in the value of those losses, caused by expected changes in the short and medium term of the behavior of macroeconomic variables, that could affect the payment flow of the instruments.

In the Central American region and especially in the countries where the Bank operates, statistics on macroeconomic aggregates are provided almost exclusively by state statistical agencies, and in practice they constitute the main source of information for obtaining values of macroeconomic indicators. In view of such limitations, the Bank, in order to identify those parameters that could have an impact on the payment behavior of financial instruments, has established that those that complied with at least a series of profiles that made them suitable for this type of measurement would be used; namely those: a) that are regularly available; b) that are accessible to the public in a relatively simple way; b) that are reasonably reliable. While there are no alternative sources to confirm or validate the information indicated in order to have acceptable data for the analysis, it was necessary to select among all the available variables, those that presented the indicated profiles of regularity, accessibility and reliability, and that were:

a) Inflation (Consumer Price Index or 'CPI')
b) Unemployment
c) Social security contributors
d) Gross Domestic Product (GDP)
e) Monthly Index of Economic Activity (MIEA)
f) Market currency exchange rate
g) Past due loan portfolio of the Bank
h) Past due loan portfolio of the financial system.

The methodology used in the Bank to identify the 'forward-looking' variables (FL) that will participate in the process of incorporation of these to the determination of the 'Expected Losses', is based on the calculation of the Multiple Correlation Coefficient.

The process of defining the most significant variables among the universe of those that are available, consists of the following three steps:

i. The Multiple Correlation and Explanation coefficients were calculated between the historical series of the annual percentage variations of the value of the Bank's 'Past Due Loan Portfolio' (taken as a dependent variable), and the historical series of the values of the inter-annual variations of GDP, MIEA, Inflation and Unemployment (considered independent variables). This calculation allows to determine if those last ones could explain and/or reasonably infer the possible impacts on the payment behavior of the instruments in the future.

(4) Financial Risk Management, continued

ii. Once the existence of an acceptable degree of association between these variables was determined, the Bank proceeded to calculate the marginal contribution of each, separately, to the value of the multiple correlation, by neglecting the contribution of each one to the value of that correlation. This is achieved by recalculating the multiple correlation by sequentially eliminating each variable that participates in the original series. The new multiple correlation value after these eliminations, would allow to infer the contribution of each elimination to the originally calculated correlation value.

iii. Finally, the results were compared with those corresponding to the existing correlation between the Bank's 'Past Due Loans Portfolio' and those of the Financial System of each country, in order to confirm the meaning of the associations.

As a result of the application of the methodology exposed in historical series corresponding to annual periods between 2012 and 2016, the following variables were identified by country and segment:

- Panama – Operations with Guarantees (Unemployment)
- Panama – Operations without Guarantee (Inflation)
- El Salvador – Operations with Guarantees (Unemployment)
- El Salvador – Operations without Guarantee (MIEA).

Measurement of estimated credit losses (ECL)
The key inputs in the measurement of credit losses are the structure terms of the following variables:

- Probability at Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD).

These parameters are usually derived from internally developed statistical models and other historical data. They are adjusted to reflect the forward-looking information as described above.

As previously mentioned, for the determination of the PD of the identified segments, and in the context of the collective treatment of the credit portfolios, the Bank will focus the measurement from the processes denominated as 'Markov Chain'. The Bank estimates the PD parameters based on the history of recovery rates of claims against impaired counterparts. The PD models consider the structure, the guarantee, the antiquity of the claim, the counterpart industry and the recovery costs of any guarantee that is integral to the financial asset. For secured loans with properties, LTV ratios are a key parameter for determining the PD.

(4) Financial Risk Management, continued

PD estimation

The calculation of the PD is implemented for each segment identified in each country, and requires comparing the amounts recovered in each of those against the unfulfilled amounts. The convenience of providing information on "closed" cases was established, that is, the data of noncompliance and recoveries will correspond to specific events, whose collection management has been determined as completed by the Bank, either due to the total recovery of the amounts owed or due to justified withdrawal from collection according to approved credit management policies. The final objective of the calculations is to establish the percentage ratio of recoveries over the value of unfulfilled exposures. The following are definitions relevant to the calculation of PD in the Bank.

PD of mortgage operations that have gone through legal process and/or in lieu of payment

For the calculation, a database was used where all the operations for which the Bank has received the asset, have been registered, either by means of in lieu of payment or by adjudication via legal process. This sheet is recorded when the loan starts the process and the good is received until it is sold, or is placed again in the figure of a credit to another customer. The legal expenses and repairs that for the recovery of the asset were incurred by the Bank are also taken into consideration. This will allow calculating the PD of operations received in lieu of payment or via legal process.

PD of operations that reached more than 90 days for personal loans, which were canceled or recognized as a loss

For this case, personal loan operations that reach the number of days in arrears indicated above and which ended up canceled or in the portfolio at loss are taken into consideration, that is, the recoveries of the personal loans that were recognized as a loss and also those of personal loans who having reached the point of default were canceled. Then the average of both PD is obtained and averaged to obtain the PD of the ‘Personal Loans Segment’. In the case of personal loans, due to their nature, legal recovery expenses are not incurred.

Mortgage PD for the Colombian operations

For the mortgage portfolio of Colombia, the Bank does not have historical data on recoveries of residential mortgage loans that allow estimating its PD. Therefore, to determine its PD, the Bank take into consideration variables as the property value growth in Colombia, the current housing deficit, the LTV at disbursement and the average of the portfolio.

(4) Financial Risk Management, continued

Exposure at Default (EAD)

EAD represents the expected exposure in case of default. The Bank determines the EAD of the current exposure of the counterparty and the possible changes in the current amount allowed under the contract, including amortization. The EAD of a financial asset is its gross value in books. For loan commitments and financial guarantees, the EAD includes the amount used, as well as the potential future amounts that may be used from the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, the EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenarios and statistical techniques.

The EAD is the amortized cost of the exposed balances. The Bank determines the annual EAD over the remaining life of the instruments for subsequent weighting due to the respective marginal annual default probability.

At the Bank, the value of the nominal annual EAD will be calculated from the projection of the balances at amortized cost of the instruments. To calculate the EAD, the Bank periodically performs a projection of the amortization tables of the loans of each segment until their cancellation. Based on the above, the annual average of the residual (projected) capital balances is obtained annually, a value that is used as the annual EAD exposure projected for the life of the instruments. Finally, those balances are discounted at the annual effective rate.

Aggrupation is subject to periodic review to ensure that exposures within a particular group remain appropriately homogenous.

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	
	2018	2017	2018	2017
Concentration by:				
Sector:				
Mortgage banking	628,536,195	547,171,611	43,761,562	44,029,545
Personal banking	60,000,306	47,926,495	0	0
Other sectors	0	0	24,308,096	15,483,014
Interest receivable	1,635,088	1,477,992	0	0
	690,171,589	596,576,098	68,069,658	59,512,559
Geographic:				
Panama	501,180,800	435,069,985	43,980,883	44,283,233
El Salvador	130,887,518	111,726,941	0	0
Colombia	56,468,183	48,301,180	4,122,175	5,364,951
United States of America	0	0	19,966,600	9,864,375
Interest receivable	1,635,088	1,477,992	0	0
	690,171,589	596,576,098	68,069,658	59,512,559

(4) Financial Risk Management, continued

Concentration by geographic location for loans is based on the customer's country of domicile and 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.

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.

(4) Financial Risk Management, continued

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%:

	2018	**2017**
At December 31	82.60%	59.25%
Average of the year	57.17%	87.14%
Maximum of the year	82.60%	146.68%
Minimum of the year	40.13%	43.61%

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

2018	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More tan 10 years
Financial Liabilities:						
Saving deposits	1,596,301	(1,596,301)	(1,596,301)	0	0	0
Time deposits	239,680,540	(252,174,283)	(135,706,743)	(116,467,540)	0	0
Negotiable commercial papers	90,688,165	(91,990,262)	(91,990,262)	0	0	0
Negotiable commercial notes	113,118,210	(118,733,930)	(55,790,211)	(62,943,719)	0	0
Covered bonds	10,431,427	(13,888,875)	(613,403)	(13,275,472)	0	0
Ordinary bonds	8,832,345	(9,734,407)	(333,061)	(9,401,346)	0	0
Investment certificates	15,893,531	(17,113,835)	(8,000,312)	(9,113,523)	0	0
Other negotiable debts	18,997,888	(19,261,392)	(19,261,392)	0	0	0
Borrowed funds	237,023,005	(262,980,567)	(86,792,878)	(136,067,866)	(40,119,823)	0
Total finacial liabilites	736,261,412	(787,473,852)	(400,084,563)	(347,269,466)	(40,119,823)	0
Financial Assets:						
Cash	350,656	350,656	350,656	0	0	0
Deposits in banks	38,770,012	38,770,012	38,770,012	0	0	0
Investment securities	68,069,658	135,778,483	2,585,637	10,982,639	43,627,156	78,583,051
Loans	689,568,551	1,168,897,704	58,772,616	229,186,002	264,627,873	616,311,213
Total financial assets	796,758,877	1,343,796,855	100,478,921	240,168,641	308,255,029	694,894,264
Commitments and contingencies						
Loan commitments	0	(59,484,283)	(59,484,283)	0	0	0

2017	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More tan 10 years
Financial Liabilities:						
Saving deposits	990,484	(990,484)	(990,484)	0	0	0
Time deposits	208,766,654	(222,571,814)	(103,518,484)	(119,053,330)	0	0
Negotiable commercial papers	83,386,616	(84,302,996)	(84,302,996)	0	0	0
Negotiable commercial notes	96,537,363	(98,446,601)	(33,152,509)	(65,294,092)	0	0
Ordinary bonds	14,390,920	(16,583,965)	(725,449)	(15,858,516)	0	0
Investment certificates	13,633,339	(14,534,160)	(6,173,639)	(8,360,521)	0	0
Other negotiable debts	13,912,290	(13,880,549)	(13,880,549)	0	0	0
Borrowed funds	188,599,222	(208,045,893)	(35,143,214)	(152,708,564)	(20,194,115)	0
Total financial liabilities	620,216,888	(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
Deposits in banks	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	596,262,473	1,028,536,200	50,915,967	198,267,434	228,546,079	550,806,720
Total financial assets	683,274,201	1,165,583,817	81,235,535	209,823,582	244,276,665	630,248,035
Commitments and contingencies						
Loan commitments	0	(77,155,573)	(77,155,573)	0	0	0

(4) Financial Risk Management, continued

For financial assets and liabilities that are non-derivatives, the gross nominal amount is measured based on the undiscounted flows and include the estimated interest payable and receivable.

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

	2018	**2017**
Financial liabilities:		
Time deposits	105,423,014	106,568,404
Negotiable commercial notes	58,337,000	63,902,000
Covered bonds	11,000,000	0
Ordinary bonds	8,784,024	14,310,229
Investment certificates	8,280,000	7,600,000
Borrowed funds	152,649,925	153,842,987

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 financial assets recognize in the consolidated statement of financial position that had been pledged as collateral for liabilities.

2018	**Pledged as Collateral**	**Available as Collateral**	**Total**
Cash and cash equivalent	0	39,120,668	39,120,668
Investment securities	0	68,068,781	68,068,781
Loans, net	214,797,652	473,135,811	687,933,463
Interest receivable on loans	0	1,635,088	1,635,088
Non-financial assets	0	17,307,567	17,307,567
	214,797,652	599,267,915	814,065,567

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
Interest receivable on loans	0	1,477,992	1,477,992
Non-financial assets	0	16,514,231	16,514,231
	158,173,667	541,649,780	699,823,447

(4) Financial Risk Management, continued

(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 the Bank's market risk management is to manage and control market risk exposures within the acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

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:

Foreign Exchange Risk:

Foreign Exchange 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 foreign exchange risk, 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 foreign exchange risk.

(4) Financial Risk Management, continued

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

	Expressed in B/. 2018	2017
Assets		
Cash and cash equivalents	3,112,829	4,802,534
Loans, net	56,370,232	48,301,180
Other assets	6,233,313	7,067,252
Total assets	65,716,374	60,170,966
Liabilites		
Time deposits	32,135,960	19,159,683
Ordinary bonds	8,784,024	14,310,229
Borrowed funds	2,154,012	2,770,331
Other liabilities	604,500	634,166
Total liabilities	43,678,496	36,874,409
Net position	22,037,878	23,296,557

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
Sensivity of projected net interest income				
2018	1,028,784	(1,028,784)	2,057,568	(2,057,568)
2017	938,605	(940,887)	1,878,970	(1,874,631)
Sensivity of projected net equity				
2018	(1,212,648)	1,212,648	(2,425,297)	2,425,297
2017	(1,217,299)	1,217,299	(2,434,599)	2,434,599

(4) Financial Risk Management, continued

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 repricing rate or maturity.

2018	**Up to 1 year**	**From 1 to 5 years**	**From 5 to 10 years**	**More than 10 years**	**Total**
Assets:					
Deposits in banks	23,436,129	0	0	0	23,436,129
Investments at FVOCI	16,533,088	0	23,162,184	8,836,175	48,531,447
Investments at amortized cost	0	0	0	219,321	219,321
Investments at FVTPL	1,678,346	0	0	17,607,407	19,285,753
Loans	688,536,501	0	0	0	688,536,501
Total assets	730,184,064	0	23,162,184	26,662,903	780,009,151
Liabilities:					
Saving deposits	1,596,301	0	0	0	1,596,301
Time deposits	133,490,939	106,189,601	0	0	239,680,540
Borrowed funds	237,023,005	0	0	0	237,023,005
Issued debt	164,036,053	93,926,513	0	0	257,962,566
Total liabilities	536,146,298	200,116,114	0	0	736,262,412
Interest rate sensivity, net	194,037,766	(200,116,114)	23,162,184	26,662,903	43,746,739

2017	**Up to 1 year**	**From 1 to 5 years**	**From 5 to 10 years**	**More than 10 years**	**Total**
Assets:					
Deposits in banks	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 FVTPL	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	102,052,156	106,714,498	0	0	208,766,654
Borrowed funds	188,599,222	0	0	0	188,599,222
Issued debt	136,259,868	85,600,660	0	0	221,860,528
Total liabilities	427,901,730	192,315,158	0	0	620,216,888
Interest rate sensivity, net	229,850,457	(192,315,158)	0	13,992,773	51,528,072

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 at FVOCI (2017: available-for-sale) or securities at FVTPL. To mitigate the price risk in equity or debt instruments, the Bank diversifies its portfolio according to the established.

(4) Financial Risk Management, continued

(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.

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 Corporate Government Model, the strategy, work methodology and plan follow-up of actions defined for critical and high risks events are brought to the Top Management and to the Risk Committee of the Board of Directors on a quarterly basis.

The Internal Audit Department verifies and validates the compliance of the defined policies and methodologies and that these go according to the existing regulation; the results obtained in 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, 2018, the Bank held a regulatory capital position that is comprised as follows:

	2018	**2017**
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,025,329	26,300,000
Treasury shares	(727,000)	0
Capital reserves	1,800,000	1,800,000
Other ítems of comprehensive income (1)		
Gains on securities and ECL reserve for investments at FVOCI (2017: investments available-for-sale)	481,897	571,834
Adjustment for translation of foreign currency	(6,455,494)	(4,640,024)
Retained earnings	25,977,166	21,932,674
Non-controlling interest	846,772	891,891
Less: deferred tax	(1,032,623)	(987,891)
Total Primary Ordinary Capital	60,916,047	60,868,484
Dynamic provision	6,914,741	6,863,256
Total Regulatory Capital	67,830,788	67,731,740
Total of Risk-Weighted Assets	473,630,658	429,296,001

Ratios:	**Minimum Required**		
Capital Adequacy Ratio	8.00%	14.32%	15.78%
Primary Ordinary Capital Ratio	3.75%	12.86%	14.18%
Primary Capital Ratio	5.25%	12.86%	14.18%

(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 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:

Applicable to 2018 only:

(a) Classification of financial assets

When determining the classification of financial assets, the Bank uses its judgment to evaluate the business model within which the assets are held and whether the contractual terms of the financial asset are only payments of the principal, and interest on the outstanding principal amount.

(b) Impairment of financial instruments

The Bank reviews its financial assets at each reporting date to determine whether the credit risk on the financial asset has increased significantly since the initial recognition. Determine inputs into the ECL measurement model, including incorporation of forward-looking information.

Applicable to 2018 and 2017:

(c) Non-consolidated structured entities

The Bank's management conducted an analysis of their structured entities, and in turn concluded that such structured entities 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 included balances and transactions with related parties, which are summarized as follows:

	2018	2017
Assets:		
Demand deposits	170,753	67,208
Accounts receivable	30,000	0
Liabilities:		
Saving deposits	777,528	688,484
Time deposits	5,951,143	6,964,511
Other income (expenses):		
Interest expense on deposits	(265,026)	(276,991)
Short-term benefits to executives	(1,202,364)	(1,154,469)

The terms of transactions with related parties are substantially similar to those granted to unrelated third parties.

Transactions with Directors and Executives

As of December 31, 2018, the Bank has paid fees for B/.40,984 (2017: B/.35,422) 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/.1,202,364 (2017: B/.1,154,469).

(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:

	2018	2017
Cash and cash equivalents	350,656	337,800
Demand deposits	36,713,443	22,468,538
Saving accounts	2,056,569	4,727,846
Cash and cash equivalents in the consolidated statement of cash flows	39,120,668	27,534,184

(8) Investment in Securities

Investment securities are classified as follows:

	2018	2017
Securities at fair value through other comprehensive income (FVOCI)	48,531,447	0
Securities at fair value through profit or loss (FVTPL)	19,318,890	15,136,846
Securities at amortized cost	219,321	0
Securities available-for-sale	0	43,933,581
Securities held-to-maturity	0	442,132
	68,069,658	59,512,559
Allowance for investment securities at amortized cost	(877)	0
Total investment securities, net	68,068,781	59,512,559

Securities at Fair Value through Other Comprehensive Income (FVOCI)

Securities at FVOCI classified in accordance with their credit quality indicators are detailed as follows:

2018			
Mortgage bonds	Republic of Colombia treasury bonds	United States of America treasury bonds	Total
25,369,263	3,195,584	19,966,600	48,531,447
25,369,263	3,195,584	19,966,600	48,531,447

During 2018, the Bank realized sales of securities at FVOCI for B/.12,334,438, generating a net gain for B/.98,270.

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for ECL related to securities at FVOCI.

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL (not credit-impaired / collectively assessed)	Lifetime ECL (credit-impaired / individually assessed)	Total
Balance at January 1	23,191	95,956	0	119,147
- Net remeasurement of loss allowance	26,822	99,107	0	125,929
- New financial assets purchased	38,816	0	0	38,816
- Financial assets that have been derecognized	(20,216)	0	0	(20,216)
Balance at December 31	68,613	195,063	0	263,676

The loss allowance for ECL related to securities at FVOCI is not recognized in the consolidated statement of financial position because their carrying amount of B/.48,531,447 corresponds to their fair value.

(8) Investment in Securities, continued

Securities at Fair Value through Profit or Loss (FVTPL)

This portfolio consists, mainly, of residual interests that the Bank has retained as part of the securitization of their portfolios, and are detailed as follows:

	Maturity	2018	2017
Residual interest of the Eighth Trust	December 2036	2,448,374	2,573,532
Residual interest of the Ninth Trust	December 2022	402,445	573,964
Residual interest of the Tenth Trust	September 2039	5,802,118	5,107,150
Residual interest of the Eleventh Trust	October 2041	3,035,701	2,725,621
Residual interest of the Twelfth Trust	November 2042	1,682,934	1,574,304
Residual interest of the Thirteenth Trust	December 2045	1,459,813	1,219,529
Eleventh Trust bond	October 2041	1,848,129	0
Twelfth Trust bond	November 2042	784,892	0
Thirteenth Trust bond	December 2045	927,893	0
Agricultural development securities	July 2019	893,454	180,373
Time deposit certificate	February 2018	0	1,182,373
Mutual funds	At demand	33,137	0
Total		19,318,890	15,136,846

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

Securities at Amortized Cost

As of December 31, 2018, the Bank's portfolio of securities at amortized cost is composed of Republic of Panama sovereign bonds with a nominal value of B/.225,000, and an amortized cost of B/.218,444, and which fair value amounts to B/.299,374 at period end. These sovereign bonds have an interest rate of 8.875% and maturity on December 31, 2027. These bonds are held in the National Bank of Panama at the disposal of the Superintendence of Banks of Panama, to guarantee the adequate fulfillment of the Bank's fiduciary obligations. The amortized cost of these sovereign bonds is detailed as follows:

2018		
Republic of Panama bonds	Allowance for losses	Total
219,321	(877)	218,444
219,321	(877)	218,444

(8) Investment in Securities, continued

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for ECL related to securities at amortized cost.

	2018			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL (not credit-impaired / collectively assessed)	Lifetime ECL (credit-impaired / individually assessed)	Total
Balance at January 1	884	0	0	884
- Net remeasurement of loss allowance	475	0	0	475
- New financial assets purchased	547	0	0	547
- Financial assets that have been derecognized	(1,029)	0	0	(1,029)
Balance at December 31	877	0	0	877

Securities Available-for-Sale

These investment securities are detailed as follow:

2017					
Mortgage bonds	Republic of Colombia treasury bonds	United States of America treasury bonds	Mutual funds	Shares	Total
30,255,445	3,767,249	9,864,375	11,497	35,015	43,933,581
30,255,455	3,767,249	9,864,375	11,497	35,015	43,933,581

As of December 31, 2017, the Bank held a share investment amounted to B/.35,015, for which the Bank could not assess a reliable fair value. This share investment was held at cost and was annually tested for impairment.

As of December 31, 2017, the Bank made sales of investments securities available-for-sale amounting to B/.1,972,163, which generated a net gain of B/.542,163.

Securities Held-to-Maturity

Investment securities held-to-maturity are detailed as follows:

2017		
Republic of Panama bonds	Colombian Agricultural Development securities	Total
218,673	223,459	442,132
218,673	223,459	442,132

(9) Loans, Net

The composition of the loans portfolio is summarized as follows:

	2018	2017
Domestic loans:		
Personal	39,766,830	35,268,757
Residential mortgages	461,413,970	399,801,228
Total domestic loans	501,180,800	435,069,985
Foreign loans:		
Personal	20,233,476	12,657,738
Residential mortgages	167,122,225	147,370,383
Total foreign loans	187,355,701	160,028,121
Total loans	688,536,501	595,098,106

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for ECL related to the loan portfolio. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

	2018				
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL (not credit-impaired / collectively assessed)	Lifetime ECL (credit-impaired / individually assessed)	Total	December 31, 2017
Balance at January 1	134,341	81,847	239,478	455,666	300,664
- Transfer to Stage 1	522,621	(245,338)	(277,283)	0	0
- Transfer to Stage 2	(130,864)	305,352	(174,488)	0	0
- Transfer to Stage 3	(5,835)	(299,400)	305,235	0	0
- Net reamesurement of loss allowance	(358,322)	269,721	1,205,832	1,117,231	512,648
- New financial assets originated	41,146	899	0	42,045	0
- Financial instruments that have been derecognized	(56,301)	(35,464)	(179,170)	(270,935)	0
- Write-offs	0	0	(740,969)	(740,969)	(499,687)
Balance at December 31	146,786	77,617	378,635	603,038	313,625

In June and September 2015, the Bank purchased residential mortgage loan portfolios from the Sixth and Seventh Trusts of Mortgage Loans Bonds, which had 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 the fair value reserve account presented in the consolidated statement of changes in equity. As of December 31, 2018, the outstanding amount is of B/.1,087,672 (2017: B/.1,167,013).

(10) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

2018	**Furniture**	**Office equipment**	**Vehicles**	**Leasehold improvements**	**Total**
Cost:					
Balance at January 1	776,290	2,996,040	399,691	1,974,438	6,146,459
Purchases	116,794	535,699	281,719	629,336	1,563,548
Sales and disposals	(19,198)	(80,429)	0	0	(99,627)
Balance at December 31, 2018	873,886	3,451,310	681,410	2,603,774	7,610,380
Accumulated depreciation:					
Balance at January 1	553,078	2,270,510	324,870	767,337	3,915,795
Depreciation for the year	110,149	432,116	80,140	241,538	863,943
Sales and disposals	(19,198)	(80,429)	0	0	(99,627)
Balance at December 31, 2018	644,029	2,622,197	405,010	1,008,875	4,680,111
Effect of movement of exchange rates	11,309	(8,962)	0	693	3,040
Carrying amount balance at December 31, 2018	241,166	820,151	276,400	1,595,592	2,933,309

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
Depreciation for the year	101,336	441,048	59,882	159,098	761,364
Sales and disposals	(84,055)	(77,755)	0	0	(161,810)
Balance at December 31, 2017	523,610	2,256,423	324,870	767,337	3,872,240
Effect of movement of exchange rates	(29,468)	(14,087)	0	0	(43,555)
Carrying amount balance at December 31, 2017	223,212	725,530	74,821	1,207,101	2,230,664

(11) Accounts and interest receivable

The accounts receivable and interest receivables are detailed as follows:

	2018	**2017**
Accounts receivable:		
Clients	1,337,818	1,199,257
Employees	31,206	16,188
Insurance	47,093	59,455
Others	592,531	652,184
	2,008,648	1,927,084
Interest receivable:		
On investment securities at fair value	283,888	270,573
Total	2,292,536	2,197,657

(12) Other assets

The other assets are detailed as follows:

	2018	2017
Guarantee deposits	56,326	57,303
Trust license	25,000	25,000
Employee severance fund	694,160	616,887
Other prepaids	1,220,366	840,133
Advances for assets purchase	94,635	312,616
Foreclosed assets	271,138	234,239
Other	559,787	532,745
Total	2,921,412	2,618,923

(13) Negotiable Commercial Papers

The Bank has six (2017: five) rotating programs of negotiable commercial papers up to B/.200,000,000 (2017: B/.150,000,000), authorized by the Superintendence of the Securities Market of Panama, which are backed up by the general credit of the Bank. Of these rotating programs, one for the amount of B/.10,000,000, is backed by Grupo ASSA, S. A. Actually, no paper has been issued under this program.

		2018	
Type	**Interest rate**	**Maturity**	**Amount**
Series G	3.8750%	January 2019	2,000,000
Series H	3.8750%	January 2019	1,000,000
Series I	3.8750%	January 2019	2,014,000
Series J	3.8750%	January 2019	2,306,000
Series K	3.8750%	February 2019	5,283,000
Series L	3.8750%	February 2019	2,854,000
Series M	3.8750%	February 2019	2,584,000
Series N	3.8750%	February 2019	2,500,000
Series P	3.8750%	March 2019	1,185,000
Series Q	3.8750%	March 2019	858,000
Series DCU	3.2500%	March 2019	1,208,000
Series CDP	3.2500%	March 2019	500,000
Series DCI	4.0000%	March 2019	3,890,000
Series DCJ	4.0000%	April 2019	1,864,000
Series DCK	4.0000%	April 2019	2,000,000
Series DCL	4.0000%	April 2019	959,000
Series DCM	4.0000%	April 2019	1,210,000
Series DCN	4.0000%	April 2019	1,300,000
Series DCO	4.0000%	May 2019	1,936,000
Series DCP	4.0000%	May 2019	1,000,000
Series BDD	3.6520%	May 2019	2,000,000
Series DCQ	4.0000%	May 2019	2,064,000
Series CDK	4.0000%	May 2019	1,980,000
Series CDL	4.0000%	June 2019	4,000,000
Series CDM	4.0000%	June 2019	2,000,000
Series CDN	4.0000%	June 2019	1,000,000
Series BDF	3.6250%	June 2019	5,000,000
Series DCR	4.0000%	July 2019	1,865,000
Series DCS	4.0000%	July 2019	2,135,000
Series DCT	4.0000%	July 2019	979,000
Series BCU	4.0000%	August 2019	1,000,000
Series BCV	4.0000%	August 2019	1,629,000
Series BCW	4.0000%	August 2019	5,410,000
Series BCX	4.0000%	August 2019	1,590,000
Series BCY	4.0000%	September 2019	1,606,000
Series BCZ	4.0000%	September 2019	2,770,000
Series BDA	4.0000%	September 2019	583,000
Series BDB	4.0000%	September 2019	3,449,000
Series BDC	4.0000%	October 2019	2,123,000
Series R	4.1250%	November 2019	3,866,000
Series S	4.1250%	December 2019	2,420,000
Series CDQ	4.1250%	December 2019	1,100,000
Series T	4.1250%	December 2019	1,370,000
			90,390,000
Interest payable			436,419
Less issuance costs			(138,254)
			90,688,165

(13) Negotiable Commercial Papers, continued

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
		Interest payable	455,391
		Less issuance costs	(51,775)
			83,386,616

As of December 31, 2018 and 2017, the Bank has complied with the payment terms of principal and interest for its negotiable commercial papers.

(14) Negotiable Commercial Notes

The Bank has three (2017: three) programs of negotiable commercial notes totaling B/.190,000,000 (2017: B/.190,000,000) which has been authorized by the Securities Market Superintendence of Panama. The placements of the first issuance by B/.40,000,000 are guaranteed by the general credit of the Bank and a trust guarantee of loan mortgages, and additionally, a solidary surety of Grupo ASSA, S. A. that would cover any difference between the proceeds from the sale of the mortgage loans and the outstanding amounts.

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.

(14) Negotiable Commercial Notes, continued

Type	Interest rate	Maturity	2018	2017
SERIES S	4.00%	January 2018	0	2,060,000
SERIES D	4.00%	February 2018	0	355,000
SERIES I	4.25%	April 2018	0	2,880,000
SERIES H	4.25%	April 2018	0	2,996,000
SERIES K	4.25%	April 2018	0	4,991,000
SERIES J	5.00%	May 2018	0	2,661,000
SERIES L	4.25%	May 2018	0	780,000
SERIES M	4.25%	May 2018	0	1,000,000
SERIES Q	4.25%	May 2018	0	5,000,000
SERIES R	4.25%	May 2018	0	1,000,000
SERIES N	4.25%	May 2018	0	75,000
SERIES O	4.25%	June 2018	0	952,000
SERIES P	4.25%	June 2018	0	2,870,000
SERIES R	4.25%	July 2018	0	2,000,000
SERIES Y	4.25%	November 2018	0	2,999,000
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	2,000,000
SERIES V	4.38%	February 2019	4,239,000	4,239,000
SERIES AB	4.25%	March 2019	3,090,000	3,090,000
SERIES AD	4.25%	March 2019	2,250,000	2,250,000
SERIES M	4.50%	March 2019	2,150,000	2,150,000
SERIES N	4.50%	April 2019	500,000	500,000
SERIES AE	4.25%	April 2019	1,000,000	1,000,000
SERIES AF	4.25%	May 2019	2,469,000	2,469,000
SERIES AG	4.25%	June 2019	2,000,000	2,000,000
SERIES AH	4.25%	July 2019	1,500,000	1,500,000
SERIES AO	4.00%	July 2019	4,000,000	0
SERIES AI	4.75%	July 2019	1,200,000	1,200,000
SERIES AJ	4.25%	July 2019	3,000,000	3,000,000
SERIES AS	4.00%	August 2019	355,000	0
SERIES U	4.50%	August 2019	1,250,000	1,250,000
SERIES AT	4.00%	August 2019	622,000	0
SERIES AV	4.13%	September 2019	1,464,000	0
SERIES AA	4.50%	September 2019	720,000	720,000
SERIES AK	4.25%	September 2019	3,000,000	3,000,000
SERIES W	4.50%	October 2019	1,990,000	1,990,000
SERIES AL	4.25%	October 2019	1,000,000	1,000,000
SERIES AM	4.25%	November 2019	5,000,000	5,000,000
SERIES AN	4.25%	December 2019	2,000,000	2,000,000
SERIES AQ	4.25%	January 2020	2,000,000	0
SERIES AU	4.25%	March 2020	1,378,000	0
SERIES AC	4.50%	March 2020	1,500,000	1,500,000
SERIES AW	4.25%	March 2020	1,710,000	0
SERIES BD	4.50%	March 2020	1,100,000	0
SERIES BK	4.13%	March 2020	435,000	0
SERIES AY	4.25%	April 2020	1,155,000	0
SERIES AZ	4.25%	April 2020	2,300,000	0
SERIES BA	4.25%	May 2020	2,250,000	0
SERIES BB	4.25%	May 2020	780,000	0
SERIES BC	4.25%	May 2020	3,900,000	0
SERIES BE	4.25%	June 2020	849,000	0
SERIES BF	4.25%	June 2020	2,870,000	0
SERIES X	4.25%	June 2020	4,000,000	0
SERIES BG	4.25%	June 2020	530,000	0
SERIES BH	4.25%	July 2020	2,000,000	0
SERIES AP	4.38%	July 2020	960,000	0
SERIES T	4.75%	July 2020	1,800,000	1,800,000
SERIES BI	4.25%	August 2020	4,000,000	0
SERIES BJ	4.25%	September 2020	547,000	0
SERIES W	4.38%	November 2020	2,000,000	0
SERIES BL	4.38%	November 2020	989,000	0
SERIES AR	4.50%	February 2021	2,000,000	0
SERIES AA	4.75%	February 2021	1,761,000	1,761,000
SERIES E	5.00%	February 2021	7,017,000	7,017,000
SERIES K	5.00%	February 2021	4,991,000	0
SERIES U	5.00%	September 2021	1,858,000	1,858,000
SERIES X	5.00%	November 2021	1,657,000	1,657,000
			113,087,000	96,521,000
		Interest payable	243,974	227,932
		Less issuance costs	(212,764)	(211,569)
			113,118,210	96,537,363

(14) Negotiable Commercial Notes, continued

As of December 31, 2018 and 2017, the Bank has complied with the payment terms of principal and interest for its negotiable commercial notes.

(15) Covered Bonds

On May 24, 2018, the Bank's Board of Directors authorized the issuance of a covered bond program for up to B/.200,000,000.

As of December 31, 2018, the Bank has issued covered medium-term bonds, net of commissions, amounting to B/.10,431,427 (2017: B/.0), at an interest rate of 5.5% for 5 years term, maturing on September 15, 2023.

The covered bonds are guaranteed with mortgage loans portfolio amounting to B/.13,750,000 (2017: B/.0).

As of December 31, 2018, the Bank has complied with the payment terms of principal and interest for its covered bonds.

(16) 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, 2018, this Colombian subsidiary has issued medium-term ordinary bonds for B/.8,832,345 (2017: B/.14,390,920) at an interest rate of 10.05% (2017: 10.05%) for of 5 years term, maturing on December 10, 2020.

The ordinary covered are guaranteed with a Panamanian mortgage loans portfolio amounting to B/.11,029,181 (2017: B/.17,988,650).

As of December 31, 2018 and 2017, the Bank has complied with the payment terms of principal and interest for its ordinary bonds.

(17) Investment Certificates

The Bank is authorized by the Superintendence of Securities Market of El Salvador for the issuance of Investment Certificates up to B/.80,000,000. Currently both programs have no guarantees.

Type	Interest rate	Maturity	2018	2017
Tranche 7	6.00%	June 2018	0	2,000,000
Tranche 8	6.00%	June 2018	0	2,000,000
Tranche 9	6.25%	June 2019	3,000,000	3,000,000
Tranche 10	6.25%	July 2018	0	2,000,000
Tranche 11	6.25%	August 2019	3,000,000	3,000,000
Tranche 12	6.25%	August 2019	1,600,000	1,600,000
Tranche 2	5.25%	February, 2020	3,000,000	0
Tranche 1	5.50%	June 2020	2,200,000	0
Tranche 3	5.50%	August 2020	1,980,000	0
Tranche 7	6.00%	November 2020	100,000	0
Tranche 4	6.00%	September 2021	1,000,000	0
			15,880,000	13,600,000
		Interest payable	33,342	33,339
		Less issuance costs	(19,811)	0
			15,893,531	13,633,339

As of December 31, 2018 and 2017, the Bank has complied with the payment terms of principal and interest for its investment certificates.

(18) Other Negotiable Debts

The Bank has one (2017: one) revolving plan of negotiable debt (stock market paper) up to B/.35,000,000 (2017: B/.35,000,000), which was authorized by the Superintendence of Securities of El Salvador.

		2018	
Type	Interest rate	Maturity	Amount
Tranche 29	5.00%	February 2019	1,000,000
Tranche 30	5.00%	February 2019	1,000,000
Tranche 31	5.00%	March 2019	2,000,000
Tranche 32	5.00%	March 2019	1,000,000
Tranche 33	5.00%	March 2019	1,000,000
Tranche 34	5.00%	March 2019	3,000,000
Tranche 36	5.00%	May 2019	1,000,000
Tranche 45	4.75%	May 2019	700,000
Tranche 37	5.00%	May 2019	1,000,000
Tranche 47	4.75%	May 2019	800,000
Tranche 38	5.00%	May 2019	1,000,000
Tranche 41	5.00%	May 2019	1,000,000
Tranche 39	5.00%	June 2019	1,653,000
Tranche 42	5.00%	August 2019	955,000
Tranche 43	5.00%	August 2019	485,000
Tranche 44	5.00%	October 2019	1,000,000
Tranche 46	5.25%	November 2019	348,000
			18,941,000
		Interest payable	78,212
		Less issuance costs	(21,324)
			18,997,888

(18) Other Negotiable Debts, continued

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
		Interest payable	72,243
		Less issuance costs	(24,953)
			13,912,290

As of December 31, 2018 and 2017, the Bank has complied with the payment terms of principal and interest for its negotiable debt.

(19) Borrowed Funds

The borrowed funds are summarized as follows

	2018	2017
Line of credit for working capital for B/.5,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	4,900,825	1,500,000
Line of credit for working capital for B/.30,000,000, with maturity in the year 2021 and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	10,329,750	13,773,000
Line of credit for working capital for B/.6,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	1,700,000	0
Line of credit for working capital for B/.5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	5,000,000	0
Line of credit for working capital for B/.10,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin.	7,800,000	8,000,000
Line of credit for working capital for B/.5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin	3,000,000	0
Line of credit for working capital for B/.20,000,000, with maturity in the year 2020, renewable at the parties' option and an annual fixed interest rate, backed by a portfolio of residential mortgage loans.	19,000,000	12,500,000
Line of credit for working capital for B/.17,000,000, with maturity in the year 2019, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	13,500,000	1,450,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	7,000,000	0
Line of credit for working capital for B/.13,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	6,692,307	9,923,077
Line of credit for working capital for B/.25,000,000, with maturity in the year 2019, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	25,000,000	25,000,000
Line of credit for working capital for B/.25,000,000, with maturity in the year 2019, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	14,066,667	19,633,333
Sub - total going to next page	117,989,549	91,779,410

(19) Borrowed Funds, continued

	2018	2017
Sub - total coming from previous page	117,989,549	91,779,410
Line of credit for working capital for B/.40,000,000, with maturity in the year 2020 and fixed interest rate.	40,000,000	40,000,000
Line of credit for working capital for B/.15,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	14,900,000	2,616,666
Line of credit for working capital for B/.25,000,000, with maturity in the year 2022, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	14,285,716	17,857,143
Line of credit for working capital for B/.32,000,000, with maturity in the year 2026, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	29,714,285	16,000,000
Line of credit for working capital for B/.17,000,000, with maturity in the year 2020, and an annual Libor interest rate plus a margin.	17,000,000	17,000,000
Revolving line of credit for working capital up to approximately B/.6,200,000 (COP 20 thousand millions), with maturity in the year 2020, renewable at the parties' option and an annual interest rate DTF plus a margin.	1,538,580	0
Revolving line of credit for working capital up to approximately B/.3,700,000 (COP 12 thousand millions), with maturity in the year 2019, renewable at the parties' option and an annual interest rate DTF plus a margin.	0	1,429,848
Revolving line of credit for working capital up to approximately B/.3,700,000 (COP 12 thousand millions), with maturity in the year 2020, renewable at the parties' option and an annual interest rate DTF plus a margin.	615,432	1,340,483
Sub-total	236,043,562	188,023,550
Interest payable	1,676,018	1,451,688
Less issuance costs	(696,575)	(876,016)
Total borrowed funds	237,023,005	188,599,222

As of December 31, 2018 and 2017, the Bank has complied with the payment terms of principal and interest for its borrowings.

(20) Other Liabilities

The other liabilities are detailed as follows:

	2018	2017
Reserve for employee benefits and other remunerations	936,817	831,344
Cashier's check	1,504,008	1,179,951
Others	3,460,757	5,863,853
	5,901,582	7,875,148

(21) Capital and Reserves

The composition of common shares is detailed as follows:

	2018	2017
Authorized shares with nominal value of B/.1,000	15,000	15,000
Shares issued and paid on January 1st	15,000	15,000
Treasury shares	(727)	0
Shares at the end of the period	14,273	15,000
Carrying amount of the shares at the end of the period	14,273,000	15,000,000

On March 28, 2018, the Bank repurchased seven hundred and twenty seven (727) common shares to its parent company (2017: 0). With this transaction, the Bank registered these shares in treasury, leaving the amount of outstanding common shares at 14,273 (2017: 15,000).

Reserves

Nature and purpose of reserves:

Capital Reserve
One of the subsidiaries constitutes a reserve to support any impairment loss in its loan portfolio 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 financial assets at FVOCI (2017: available-for-sale), until the assets is derecognized, redeemed, or impaired. In addition, it includes the net amount of the fair value of an acquired loan portfolio, which will be amortized during the remaining life of the loans or until their cancellation.

Currency Conversion Reserve
Comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Regulatory Reserves
Dynamic Provision
It 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 consolidated statement of changes in equity and it is appropriated from retained earnings.

(21) Capital and Reserves, continued

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.

(22) Earnings per Share

The calculation of basic and diluted earnings per share (‘EPS’) is based on the following income attributable to common shareholders and weighted-average number of common shares outstanding.

i. Income attributable to common shareholders:

	2018	2017
Net income for the year	4,592,259	5,394,128
Net income attributable to common shareholders	4,592,259	5,394,128

ii. Weighted-average number of common shares:

	2018	2017
Issued shares at January 1st	15,000	15,000
Treasury shares	(727)	0
Weighted-average of common shares	14,273	15,000

As of December 31, 2018 and 2017, the Bank has not granted share options to employees that could have a dilutive potential on its common shares.

The calculation of basic and diluted EPS is as follows:

	2018	2017
Net income attributable to common shareholders	4,592,259	5,394,128
Weighted-average number of basic and diluted common shares	14,273	15,000
Basic and diluted EPS	321.74	359.61

(23) Service Commissions, Net and Other Income

The service commissions and other income are detailed as follows:

	2018	2017
Management and servicing commissions earned:		
Trust management	1,507,633	1,639,748
Collection management	2,508,400	2,013,103
Insurance management	277,611	711,082
Others	1,394,064	1,166,749
	5,687,708	5,530,682
Other income:		
Gain in the sale of tax credit	575,594	218,372
Insurance	154,088	150,756
Gain in the sale of foreclosed assets	84,305	116,991
Other	1,342,538	853,273
	2,156,525	1,339,392
Other commissions	(657,475)	(606,579)

(24) Commission expense

The commission expense is detailed as follows:

	2018	2017
Commission expense incurred on:		
Negotiable commercial papers, investment certificates and other negotiable debt	331,113	446,048
Negotiable commercial notes and covered bonds	155,350	315,294
Lines of credit	436,531	558,094
	922,994	1,319,436

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

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

	2018	2017
Salaries and other personnel benefits:		
Wages	5,566,604	4,997,770
Representation expenses	993,328	849,518
Bonuses	371,338	426,821
Social security costs	799,664	737,059
Severance costs	311,460	203,786
Travel, per diem and fuel	163,728	167,423
Other	1,089,490	980,058
	9,295,612	8,362,435
Other operating expenses:		
Rent	693,668	632,997
Advertising	687,341	696,344
Equipment maintenance	842,389	840,256
Office supplies	118,282	119,439
Utilities expense	292,585	282,737
Bank charges	168,269	111,649
Other	1,388,547	1,488,030
	4,191,081	4,171,452

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

Share Purchase Option Plan

In 2014 and 2012, the Board of Directors of La Hipotecaria (Holding), Inc. approved plans to grant share purchase 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, and with an exercise maturity in 10 years for both plans. As of December 31, 2018, there are 29,491 options outstanding (2017: 29,491), no options have been cancelled (2017: 0) and no options has been exercised. These options has a weightedaverage price of exercise of B/.27.13 (2017: 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 2018 the Bank has not recorded any expense for options issuance (2017: B/.0).

(26) Income Taxes

The income tax returns 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 from securities listed with the Superintendence of stock market securities and traded on the Bolsa de Valores de Panama, S. A. (Stock Exchange of Panama).

The Article 699 of the Tax Code, as amended by Article 9 of Law 8 of March 15, 2010 with effect from January 1, 2010, requires that the income tax for legal entities engaged in the banking business in the Republic of Panama, should be calculated at a rate of 25%.

Additionally, legal entities whose annual taxable income exceeds one million five hundred thousand dollars (B/.1,500,000), 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.

Act 52 of August 28, 2012, restored the payment of estimated income tax from September 2012. According to this law, the estimated income tax is 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%

(26) Income Taxes, continued

On December 28, 2018, the Congress of the Republic of Colombia issued Law 1943 (Financing Law), through which new rules were introduced in tax material, whose most relevant aspects are presented below:

- Gradual reduction in the corporate income tax and complementary rate as follows: taxable year 2019, 33% rate; 2020 taxable year, 32% rate; 2021 taxable year, 31% rate; and as of taxable year 2022, 30% rate.

- For financial institutions, a 4% surcharge is created for taxable year 2019 and 3% for taxable years 2020 and 2021, when the taxable net income exceeds 120,000 tax value unit (TVU).

- Gradual reduction and finally elimination of the presumed income in the following terms: taxable year 2018, rate of 3.5%; 2019 taxable year, 1.5% rate; 2020 taxable year, 1.5% rate; and from the taxable year 2020, 0% rate.

- General rule that determines that 100% of the taxes, rates and contributions effectively paid in the taxable year will be deductible, which have a causal relationship with the generation of income (except income tax). As special rules, it is stated that 50% of the tax on financial transactions (TFT) will be deductible, regardless of whether or not it has a causal relationship with the income generating activity.

- 50% of the industry and commerce tax may be taken as a tax deduction for the income tax in the taxable year in which it is effectively paid and to the extent that it has a causal link with its economic activity. As of the year 2022 it can be discounted 100%.

- For the taxable periods 2019 and 2020, the audit benefit is created for taxpayers who increase their net income tax of the taxable year in relation to the net income tax of the immediately preceding year by at least 30% or 20%, with which the income statement will be finalized within 6 or 12 months following the date of its presentation, respectively.

- Starting in 2017, tax losses may be compensated with ordinary liquid income obtained in the following 12 taxable periods.

- Excess of presumptive income can be compensated in the following 5 taxable periods.

The total income tax expense as at December 31, 2018 is detailed as follows:

	2018	**2017**
Current tax expense	1,803,239	1,856,165
Deferred tax temporary differences	(43,023)	(433,080)
Total income tax expense	1,760,216	1,423,085

(26) Income Taxes, continued

The effective tax rate is detailed as follows:

	2018	2017
Net income before tax	6,352,475	6,817,213
Income tax expense	1,760,216	1,423,085
Effective tax rate	27.70%	20.87%

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:

	2018		2017	
	Temporary differences	Deferred tax	Temporary differences	Deferred tax
Deferred tax assets				
Allowance for ECL (2017: loan losses)	603,038	170,464	313,625	89,075
Operating losses carried forward(1)	2,535,762	862,159	2,654,215	898,816
	3,138,800	1,032,623	2,967,840	987,891

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

The movement in deferred tax balances is as follows:

	2018	2017
Balance at January 1st	987,891	554,811
Adjustment on initial application of IFRS 9	40,019	0
	1,027,910	554,811
Allowance for ECL (2017: loan losses)	41,371	820
Operating losses carried forward	(36,658)	432,260
Balance at December 31	1,032,623	987,891

The reconciliation between income before income tax and net income tax is a follows:

	2018	2017
Net income before taxes	6,352,475	6,817,213
Calculation of "expected" income tax expense	1,588,369	1,704,303
Non-deductible expenses	930,277	1,003,073
Income and expense from foreign and exempt sources, net	(762,911)	(1,068,936)
Change for temporary differences	(43,023)	(433,080)
Difference in foreign tax rates	47,504	217,725
Total income tax expense	1,760,216	1,423,085

(26) Income Taxes, continued

As of December 31, 2018, the Bank has not recognized a liability for deferred income tax of approximately B/.584,988 (2017: B/.497,503) for the retained earnings of its operations abroad, as the Bank considers that approximately B/.11,699,756 (2017: B/.9,950,063) of these earnings will be reinvested indefinitely.

(27) Trusts Under Management

As of December 31, 2018, the Bank maintains fiduciary contracts under its management at the risk of the customer amounting to B/.198,053,932 (2017: B/.225,153,486). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Bank. See note 32, for participations in non-consolidated structures entities.

(28) 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.

At December 31, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018	2017
Less than 1 year	736,800	471,793
Between 1 and 5 years	2,947,200	1,887,172

As at December 31, 2018, there is an ongoing claim filed against the Bank's subsidiary in El Salvador by the Consumer Defender Office. The Bank's management and its legal counsel do not expect that the outcome of this process will have a material adverse effect on the consolidated 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, 2018, the Bank has issued promise letters for B/.59,484,283 (2017: B/.77,155,573).

(29) 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.

(29) Fair value of Financial Instruments, continued

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

- 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.

(29) Fair value of Financial Instruments, continued

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			
2018	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:					
Financial assets measured at fair value:					
Securities at FVOCI	48,531,447	19,966,600	3,195,584	25,369,263	48,531,447
Securities at FVTPL	19,318,890	0	893,454	18,425,436	19,318,890
Financial assets not measured at fair value:					
Loans	689,568,551	0	0	709,490,905	709,490,905
Securities at amortized cost	218,444	0	299,374	0	299,374
Liabilities:					
Financial assets not measured at fair value:					
Time deposits from customers	239,680,540	0	0	239,649,222	239,649,222
Negotiable commercial papers	90,688165	0	0	88,801,598	88,801,598
Negotiable commercial notes	113,118,210	0	0	111,633,055	111,633,055
Covered bonds	10,431,427	0	0	11,000,000	11,000,000
Ordinary bonds	8,832,345	0	0	8,784,024	8,784,024
Investment certificates	15,893,531	0	0	15,880,104	15,880,104
Other negotiable debt	18,997,888	0	0	18,909,131	18,909,131
Borrowed funds	237,023,005	0	0	236,621,544	236,621,544

		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	3,767,249	30,266,942	43,898,566
Securities at FVTPL	15,136,846	0	1,362,746	13,774,100	15,136,846
Financial assets not measured at fair value:					
Loans	596,262,473	0	0	655,644,039	655,644,039
Securities held-to-maturity	442,132	0	333,115	0	333,115
Liabilities:					
Financial assets not measured at fair value:					
Time deposits from customers	207,555,493	0	0	221,831,560	221,831,560
Negotiable commercial papers	83,386,616	0	0	81,688,132	81,688,132
Negotiable commercial notes	96,537,363	0	0	96,746,641	96,746,641
Ordinary bonds	14,390,920	0	0	14,310,229	14,310,229
Investment certificates	13,633,339	0	0	13,593,290	13,593,290
Other negotiable debt	13,912,290	0	0	13,851,192	13,851,192
Borrowed funds	188,599,222	0	0	182,123,169	182,123,169

As of December 31, 2018 and 2017, there were not transfers of fair value hierarchy on securities at FVOCI (2017: available-for-sale) and securities at FVTPL.

(29) Fair value of Financial Instruments, continued

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, 2018 and 2017:

Quantitative information Level 3 fair values

	Valuation technique	Unobservable inputs	Range (weighted-average) 2018	2017
Mortgage bonds	Discounted cash flows	Standard Default Assumptions ("SDA")	2.15% - 0.13% (0.76%)	4.48% - 0.14% (1.26%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	48.44% - 17.50% (42.19%)	48.95% - 21.01% (42.66%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Residual interests of trusts	Discounted cash flows	Standard Default Assumptions ("SDA")	2.15% - 0.13% (0.68%)	4.48% - 0.14% (0.84%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	48.44% - 19.28% (42.42%)	48.95% - 21.01% (41.42%)
		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

(29) 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 at amortized cost (2017: 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.
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.
Covered and ordinary bonds	The fair value for covered and 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 for financial instruments categorized as Level 3 in the hierarchy of levels of fair value:

	2018	2017
Balance at January 1	44,041,042	45,752,935
Total income or (loss):		
In the consolidated statement of profit or loss	1,125,184	970,056
In the consolidated statement of comprehensive income	(85,997)	(389,310)
Purchases	4,344,273	922,236
Liquidations	(5,629,803)	(3,214,875)
Balance at December 31	43,794,699	44,041,042

(29) 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:

	2018			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Securites at FVTPL	75,770	(76,399)	0	0
Securities at FVOCI	0	0	(45)	162
	75,770	(76,399)	(45)	162

	2017			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Securites at FVTPL	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)

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.

(29) Fair value of Financial Instruments, continued

The Bank uses a third party as a service provider. A control to evaluate and document the evidence obtained from third parties is in place to support the conclusion according 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.

(30) Segment Information

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

The composition of the business segments is described as follows:

– *Trust management:* 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 company 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 company to which it provides the service of reinsurance.

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

(30) Segment Information, continued

2018	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	37,393,945	6,068,616	2,438,427	45,900,988
Commission on loan granting	0	2,183,135	636,388	0	2,819,523
Interest and commission expense	0	(28,174,570)	(1,823,665)	(2,377,143)	(32,375,378)
Provisions for loan losses and for securities at FVOCI and at AC	0	(668,384)	(364,479)	0	(1,032,863)
Commission on management and servicing	2,612,276	2,822,793	252,639	0	5,687,708
Gain on investments, net	0	0	0	1,504,959	1,504,959
Other income net of commissions	0	1,300,543	88,440	110,067	1,499,050
General and administrative expenses	(1,518,851)	(11,986,608)	(3,325,052)	(821,001)	(17,651,512)
Segment income before tax	1,093,425	2,870,854	1,532,887	855,309	6,352,475
Segment assets	0	679,924,965	58,328,628	75,811,974	814,065,567
Segment liabilities	0	646,720,175	41,860,472	54,565,025	743,145,672

2017	Trust management	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 loan granting	0	1,862,089	685,245	0	2,547,334
Interest and commission expense	0	(25,043,705)	(1,553,754)	(1,954,710)	(28,552,169)
Provision for loan losses	0	(372,281)	(140,367)	0	(512,648)
Commission on management and servicing	2,358,565	2,945,464	226,653	0	5,530,682
Gain on investments, net	0	0	0	2,960,280	2,960,280
Other income net of commissions	0	571,654	71,371	89,788	732,813
General and administrative expenses	(1,384,278)	(10,924,574)	(3,030,447)	(748,258)	(16,087,557)
Segment income 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

The composition of the geographic segments is described as follows:

2018	Panama	El Salvador	Colombia	Total
Interest income	30,266,157	9,405,270	6,229,561	45,900,988
Commission on loan granting	2,296,727	522,796	0	2,819,523
Interest and comisión expense	(23,538,441)	(5,608,187)	(3,228,750)	(32,375,378)
Provisions for loan losses and for securities at FVOCI and at AC	(580,059)	(257,790)	(195,014)	(1,032,863)
Commission on management and servicing	4,510,081	1,038,603	139,024	5,687,708
Other income net of commissions	925,806	483,336	89,908	1,499,050
Gain on investments, net	1,336,303	0	168,656	1,504,959
General and administrative expenses	(12,293,366)	(2,867,227)	(2,490,919)	(17,651,512)
Segment income before tax	2,923,208	2,716,801	712,466	6,352,475
Segment assets	612,299,408	136,049,785	65,716,374	814,065,567
Segment liabilities	585,178,975	114,288,201	43,678,496	743,145,672

(30) Segment Information, continued

2017	Panama	El Salvador	Colombia	Total
Interest income	26,246,534	8,436,180	5,515,764	40,198,478
Commission on loan granting	2,104,222	443,112	0	2,547,334
Interest and commission expense	(20,590,279)	(4,516,457)	(3,445,433)	(28,552,169)
Provision for loan losses	(342,828)	(113,326)	(56,494)	(512,648)
Commission on management and servicing	4,277,457	1,133,080	120,145	5,530,682
Gain on investments, net	2,617,301	0	342,979	2,960,280
Other income net of commissions	510,267	207,638	14,908	732,813
General and administrative expenses	(11,355,436)	(2,669,496)	(2,062,625)	(16,087,557)
Segment income 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

(31) 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 March 15, 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, 2018, the Bank recorded, net of reserve, B/.10,595,444 (2017: B/.8,491,623) 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/.11,256,701 (2017: B/.7,342,053), which generated an income of B/.575,594 (2017: B/.218,372).

As at December 31, 2018, the accumulated fiscal credit is included in the consolidated statement of financial position for the amount of B/.8,097,687 (2017: B/.8,479,096).

(32) 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 27)

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% (2017: 10%, 3% y 5%) in three trusts.

During the 2018 period, the Bank has not granted financial support to the structured non-consolidated entities.

(33) 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.

(33) 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.

(33) Main Applicable Laws and Regulations, continued

(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.

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 of Banco La Hipotecaria, S. A. (Panamanian bank) classified according to this Agreement and the specific provision:

	2018		**2017**	
Classification	**Balance**	**Allowance**	**Balance**	**Allowance**
Normal	489,859,514	0	429,229,393	0
Watch list	5,055,986	240,425	2,400,218	131,800
Substandard	1,787,243	224,671	1,502,959	228,404
Doubtful	2,851,141	678,282	1,306,821	344,905
Loss	1,626,916	286,234	630,594	111,779
Total	501,180,800	1,429,612	435,069,985	816,888

(33) Main Applicable Laws and Regulations, continued

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

2018	**Current**	**Past due**	**Default**	**Total**
Loans to customers	478,974,707	17,154,687	5,051,406	501,180,800
2017	**Current**	**Past due**	**Default**	**Total**
Loans to customers	424,221,337	7,966,451	2,882,197	435,069,985

At December 31, 2018, 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/.1,615,393 (2017: B/.1,342,105).

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

	2018	**2017**
Banco La Hipotecaria, S. A.	4,844,652	4,844,652
La Hipotecaria, S. A. de C.V.	1,468,411	1,416,926
La Hipotecaria C. F., S. A.	601,678	601,678
Total	6,914,741	6,863,256

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/.968,783 (2017: B/.701,268) which represents the excess of regulatory provision over the allowance for loan losses according IFRS.

(33) Main Applicable Laws and Regulations, continued

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.

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.

(34) Changes in Accounting Policies

Except for the changes detailed below, the Bank has consistently applied the accounting policies established in Note 3 to all the periods presented in these consolidated financial statements.

IFRS 9 – Financial Instruments

The Bank has adopted IFRS 9 Financial Instruments issued in July 2014 with an initial application date of January 1, 2018. The requirements of IFRS 9 represent a significant change in IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes in the accounting of financial assets and in certain aspects of the accounting of financial liabilities.

(34) Changes in Accounting Policies, continued

The key changes in the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below:

Classification of financial assets and financial liabilities

IFRS 9 contains three main categories of classification for financial assets: measured at amortized cost (AC), fair value with changes in other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The classification of IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing categories of IAS 39 from held-to-maturity, loans and accounts receivable and securities available for sale. Under IFRS 9, derivatives implicit in contracts where the host is a financial asset within the scope of the standard never diverge. In contrast, the complete hybrid instrument is evaluated for classification. See Note 3, for an explanation of how the Bank classifies its financial assets according to IFRS 9.

IFRS 9 retains to a large extent the requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all changes in the fair value of the liabilities designated under the fair value option were recognized in profit or loss, in accordance with IFRS 9, changes in fair value are generally presented as follows:

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

- the remaining amount of change in fair value is presented in profit or loss. See Note 3, for an explanation of how the Bank classifies its financial liabilities according to IFRS 9.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity investments.

According to IFRS 9, credit losses are recognized before than according to IAS 39. See Note 3, for an explanation of how the Bank applies the impairment requirements of IFRS 9.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retroactively, except as described below.

- The comparative periods have not been restated. Differences in carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and accumulated reserves as of January 1, 2018. Consequently, the information presented for 2017 does not reflect the requirements of IFRS 9 and, therefore, is not comparable to the information presented for 2018 under IFRS 9.

(34) Changes in Accounting Policies, continued

- The following assessments have been made based on the facts and circumstances that existed on the date of the initial application:

    - The determination of the business model within which a financial asset is maintained.
    - The designation and revocation of previous designations of certain financial assets and financial liabilities measured at FVTPL.
    - The designation of certain investments in equity instruments not held for trading as in FVOCI.

- If an investment in debt securities had a low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that the credit risk on the asset has not increased significantly since its initial recognition.

For more information and details about the changes and the implications resulting from the adoption of IFRS 9, see Note 35.

IFRS 15 – Revenue from Contracts with Customers
The Bank has adopted IFRS 15 *Revenue from Contracts with Customers* since January 1, 2018, the date of its entry into force.

According to the assessment carried out by the Bank, this standard has not had an impact on the accounting policies for the recognition of income from fees and commissions.

The adoption of IFRS 15 had no impact on the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Bank. Consequently, the impact on comparative information is limited to the new disclosure requirements.

(35) Financial Assets and Financial Liabilities

Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments:

	Mandatorily at FVTPL	Investment securities at FVOCI	Amortized cost	Total carrying amount
December 31, 2018				
Financial assets:				
Deposits in banks	0	0	38,770,012	38,770,012
Investment securities:				
Measured at amortized cost	0	0	219,321	219,321
Measured at fair value	19,318,890	48,531,447	0	67,850,337
Loans measured at amortized cost	0	0	690,171,589	690,171,589
Total financial assets	19,318,890	48,531,447	729,160,922	797,011,259
Financial liabilities:				
Deposits from customers:				
Savings deposits - local	0	0	1,038,387	1,038,387
Savings deposits – foreign	0	0	557,914	557,914
Time deposits – local	0	0	180,882,818	180,882,818
Time deposits – foreign	0	0	57,264,547	57,264,547
Negotiable commercial papers	0	0	90,688,165	90,688,165
Negotiable commercial notes	0	0	113,118,210	113,118,210
Covered bonds	0	0	10,431,427	10,431,427
Ordinary bonds	0	0	8,832,345	8,832,345
Investment certificates	0	0	15,893,531	15,893,531
Other negotiable debts	0	0	18,997,888	18,997,888
Borrowed funds	0	0	237,023,005	237,023,005
Total financial liabilities	0	0	734,728,237	734,728,237

	Trading	Available-for-sale	Amortized cost	Held-to-maturity	Loans and receivables	Total carrying amount
December 31, 2017						
Financial assets:						
Cash and deposits in banks	0	0	0	0	27,534,184	27,534,184
Investment securities:						
Measured at amortized cost	0	0	0	442,132	0	442,132
Measures at fair value	15,136,846	43,933,581	0	0	0	59,070,427
Loans at amortized cost	0	0	0	0	596,262,473	596,262,473
Total financial assets	15,136,846	43,933,581	0	442,132	623,796,657	683,309,216
Financial liabilities:						
Deposits from customers:						
Savings deposits - local	0	0	851,096	0	0	851,096
Savings deposits – foreign	0	0	139,388	0	0	139,388
Time deposits – local	0	0	190,832,431	0	0	190,832,431
Time deposits – foreign	0	0	17,934,223	0	0	17,934,223
Negotiable commercial papers	0	0	83,386,616	0	0	83,386,616
Negotiable commercial notes	0	0	96,537,363	0	0	96,537,363
Ordinary bonds	0	0	14,390,920	0	0	14,390,920
Investment certificates	0	0	13,633,339	0	0	13,633,339
Other negotiable debts	0	0	13,912,290	0	0	13,912,290
Borrowed funds	0	0	188,599,222	0	0	188,599,222
Total financial liabilities	0	0	620,216,888	0	0	620,216,888

(35) Financial Assets and Financial Liabilities, continued

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and liabilities as at January 1, 2018.

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets:				
Cash, cash equivalents and deposits in banks	Loans and receivables	Amortized cost	27,534,184	27,534,184
Invesment securities:				
• Investment securities - debt	Held-to-maturity	Amortized cost	442,132	441,248
• Investment securities - debt (a)	Available-for-sale	FVTPL	3,609,913	3,609,913
• Investment securities - debt	Available-for-sale	FVOCI	40,323,668	40,323,668
• Investment securities - debt	FVTPL	FVTPL	15,136,846	15,136,846
Loans at amortized cost	Loans and receivables	Amortized cost	596,262,473	596,120,432
Total financial assets			683,309,216	683,166,291
Financial liabilities:				
Deposits from customers:				
Savings deposits – local	Amortized cost	Amortized cost	851,096	851,096
Savings deposits – foreign	Amortized cost	Amortized cost	139,388	139,388
Time deposits – local and foreign	Amortized cost	Amortized cost	208,766,654	208,766,654
Negotiable commercial papers	Amortized cost	Amortized cost	83,386,616	83,386,616
Negotiable commercial notes	Amortized cost	Amortized cost	96,537,363	96,537,363
Ordinary bonds	Amortized cost	Amortized cost	14,390,920	14,390,920
Investment certificates	Amortized cost	Amortized cost	13,633,339	13,633,339
Other negotiable debts	Amortized cost	Amortized cost	13,912,290	13,912,290
Borrowed funds	Amortized cost	Amortized cost	188,599,222	188,599,222
Total financial liabilities			620,216,888	620,216,888

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3. The application of these policies resulted in the reclassifications set out in the table above and explained below:

(a) Under IAS 39, these debt instruments were classified as available-for-sale securities; these assets have been classified, under IFRS 9, at fair value through profit or loss (FVTPL) because they do not meet the criterion of solely payments of principal and interest (SPPI).

(35) Financial Assets and Financial Liabilities, continued

The following table reconciles the carrying amount under IAS 39 to the carrying amounts under IFRS on transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1, 2018
Financial assets:				
Amortized cost				
Cash, cash equivalents and deposits in banks:				
Opening balance	27,534,184	0	0	27,534,184
Closing balance	27,534,184	0	0	27,534,184
Loans:				
Opening balance	596,262,473	0	0	596,262,473
Remeasurement	0	0	(142,041)	(142,041)
Closing balance	596,262,473	0	(142,041)	596,120,432
Investment securities:				
Opening balance	442,132	0	0	442,132
Remeasurement	0	0	(884)	(884)
Closing balance	442,132	0	(884)	441,248
Total amortized cost	624,238,789	0	(142,925)	624,095,864
Available-for-sale				
Investment securities:				
Opening balance	43,933,581	0	0	43,933,581
To FVOCI – debt	0	(40,323,668)	0	(40,323,668)
To FVTPL	0	(3,609,913)	0	(3,609,913)
Closing balance	43,933,581	(43,933,581)	0	0
FVOCI – debt				
Investment securities:				
Opening balance	0	0	0	0
From available-for-sale	0	40,323,668	0	40,323,668
Closing balance	0	40,323,668	0	40,323,668
Total FVOCI	0	40,323,668	0	40,323,668
FVTPL				
Investment securities:				
Opening balance	15,136,846	0	0	15,136,846
From available-for-sale	0	3,609,913	0	3,609,913
Closing balance	15,136,846	3,609,913	0	18,746,759
Total FVTPL	15,136,846	3,609,913	0	18,746,759
Total financial assets	683,309,216	0	(142,925)	683,166,291

(35) Financial Assets and Financial Liabilities, continued

	IAS 39 carrying amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1, 2018
Financial liabilities:				
Amortized cost				
Deposits from customers	209,757,138	0	0	209,757,138
Debt securities issued	221,860,528	0	0	221,860,528
Borrowed funds	188,599,222	0	0	188,599,222
Total amortized cost	620,216,888	0	0	620,216,888

The following table analyzes the impact, net of taxes, of the transition to IFRS 9 on reserves and retained earnings. The impact is related to the reserve of fair value and the retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at January 1, 2018
Fair value reserve	
Closing balance under IAS 39 (December 31, 2017)	1,738,846
Reclassification of investment securities (debt) from available-for-sale to FVTPL	(113,401)
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	119,147
Opening balance under IFRS 9 (January 1, 2018)	1,744,592
Retained earnings	
Closing balance under IAS 39 (December 31, 2017)	21,932,674
Reclassification of investment securities (debt) from available-for-sale to FVTPL	113,401
Deferred tax	40,020
Recognition of ECL under IFRS 9 for loans	(142,041)
Recognition of ECL under IFRS 9 for investments securities at FVOCI	(119,147)
Recognition of ECL under IFRS 9 for investments securities at amortized cost	(883)
Opening balance under IFRS 9 (January 1, 2018)	21,824,024

The following table reconciles:

- the closing impairment allowance for financial assets under IAS 39 as at December 31, 2017; to
- the opening ECL allowance determined under IFRS 9 as at January 1, 2018.

	December 31, 2017 (IAS 39)	Reclassification	Reamesurement	January 1, 2018 IFRS 9
Loans and receivables under IAS 39 / financial assets at amortized cost under IFRS 9	313,625	0	142,925	456,550
Available-for-sale debt instruments securities under IAS 39 / debt financial assets at FVOCI under IFRS 9	0	0	119,147	119,147
Total	313,625	0	262,072	575,697

(36) Subsequent Events

On February 14, 2019, the Bank finalized two structured mortgage securitization transactions involving residential mortgage loans originated in Panama and El Salvador (together, the "La Hipotecaria 2019 Mortgage Trust Transactions"). The Bank, acting as sponsor and trustee, procured the formation of two independent and segregated pools of assets known as the Fourteenth Mortgage-Backed Notes Trust (which, for approximately B/.60,000,000, acquired residential mortgage loans originated by the Bank in Panama) and the Fifteenth Mortgage-Backed Notes Trust (which, for approximately B/.40,000,000, acquired residential mortgage loans originated by the Bank´s subsidiary in El Salvador). Notes issued by the Fourteenth Mortgage-Backed Notes Trust and the Fifteenth Mortgage-Backed Notes Trust were issued in the Panamanian Securities Exchange. A substantial portion of the senior series of both local transactions worth B/.75,000,000 was purchased by a separate Delaware-domiciled grantor trust known as the La Hipotecaria Mortgage Trust 2019-1. A smaller portion of the senior series of the local transaction involving Panamanian mortgage loans worth B/.6,250,000 was purchased by a second Delaware-domiciled grantor trust known as the La Hipotecaria Mortgage Trust 2019-2. Each Delaware grantor trust in turn issued parallel debt certificates in the United States under Rule 144A. The parallel debt certificates issued by La Hipotecaria Mortgage Trust 2019-1 included a financial guarantee from Overseas Private Investment Corporation (OPIC) and all certificates issued by both grantor trusts were placed with institutional investors in the United States of America. As a result of these simultaneous transactions, the Bank received liquid proceeds totaling B/.83,623,779, in addition to the residual interests of both local transactions. A portion of the liquid proceeds received by the Bank from these transactions was used by the Bank and its subsidiary in El Salvador to reduce B/.73,883,383 of the amount utilized of the Bank´s warehousing credit lines.