BANCO LA HIPOTECARIA, S. A.
AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Financial Statements
and Consolidated Information

September 30, 2018

(With Authorized Public Accountant Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

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

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

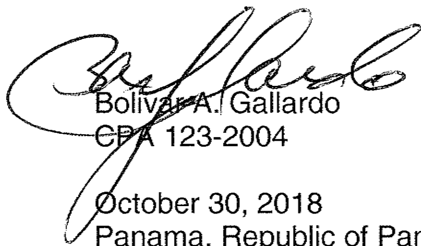
AUTHORIZED PUBLIC ACCOUNTANT CERTIFICATION

We have prepared the consolidated financial statements of Banco La Hipotecaria, S. A. and subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as of September 30, 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the period, and notes, comprising a summary of significant accounting policies and other explanatory information.

We believe that the internal control procedures established in the Bank, allows us to prepare and present fairly, in all material respects, the consolidated financial position of the Bank, free from material misstatement, whether due to fraud or error.

The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis of the consolidated financial statements and not to present the financial position nor the operational results or changes in equity of the individual companies.

The consolidated financial statements of Banco La Hipotecaria, S.A. and subsidiaries as of September 30, 2018 have been prepared internally in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee ("IASC).



Bolivar A. Gallardo
CPA 123-2004

October 30, 2018
Panama, Republic of Panama

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

Consolidated Statement of Financial Position

Period ended September 30, 2018

(Stated in Balboas)

Assets	Note	2018	2017
Cash and cash equivalents		304,938	337,800
Deposits in banks:			
Demand deposits in local banks		18,304,346	17,340,520
Demand deposits in foreign banks		3,636,295	5,128,017
Savings deposits in local banks		1,072,030	1,071,053
Savings deposits in foreign banks		2,283,269	3,656,794
Time deposits in local banks		0	0
Time deposits in foreign banks		0	0
Total deposits in banks		25,295,940	27,196,384
Total of cash, cash equivalents and deposits in banks	7, 28	25,600,878	27,534,184
Investments in securities	8, 28	58,432,372	59,512,559
Less: Investments reserves		523	0
Investments, net		58,431,849	59,512,559
Loans	9, 28	663,645,691	595,098,106
Less: Allowance for loan losses	9, 28	668,128	313,625
Loans, net		662,977,563	594,784,481
Furniture, equipment and improvements, net	10	2,370,588	2,230,664
Accounts and interests receivable	11	3,601,905	3,675,649
Accounts receivable related companies		30,035	0
Tax credit	30	5,257,169	8,479,096
Deferred tax	25	1,094,502	987,891
Other assets	12	4,267,657	2,618,923
Total assets		763,632,146	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:			
Local savings	6, 28	1,002,221	851,096
Foreign savings	6, 28	279,474	139,388
Local time	6, 28	200,607,525	189,621,270
Foreign time	6, 28	23,307,874	17,934,223
Total deposits from customers:		225,197,094	208,545,977
Negotiable commercial papers	13, 28	83,830,014	82,931,225
Negotiable commercial notes	14, 28	108,678,272	96,309,431
Ordinary bonds	15	10,793,292	14,310,229
Investment certificates	16, 28	14,805,372	13,600,000
Other negotiable debts	17, 28	23,612,530	13,840,047
Borrowed funds	18	208,013,244	187,147,534
Deferred tax	25	0	0
Income tax payable	25	1,372,227	1,143,500
Accounts payable-related parties		0	0
Other liabilities	19	16,016,896	11,407,593
Total liabilities		692,318,941	629,235,536
Equity:			
Common shares	20	15,000,000	15,000,000
Treasury shares		(727,000)	0
Additional paid-in capital		25,025,329	26,300,000
Capital reserve		1,800,000	1,800,000
Fair value reserve		1,045,676	1,738,846
Currency translation reserve		(4,635,213)	(4,640,024)
Investment Reserves		178,860	
Regulatory reserves		7,874,562	7,564,524
T Retained earnings		24,837,333	21,932,674
		70,399,547	69,696,020
T Non-controlling interest	1	913,658	891,891
		71,313,205	70,587,911
Commitments and contingencies	27		
Total liabilities and equity		763,632,146	699,823,447

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

Consolidated Statement of Income

Period ended September 30, 2018

(Stated in Balboas)

	Note	2018	2017
Interest and commisions income:			
Interest on:			
Loans		31,900,575	27,077,939
Investment securities		1,683,728	1,936,383
Deposits in banks		97,313	616,549
		33,681,616	29,630,871
Commision on:			
Management and servicing, net	22	4,213,149	4,191,306
Loan granting		2,018,335	1,942,174
Total interest and commisions income		39,913,100	35,764,351
Interest and commissions expense:			
Deposits		7,778,081	6,803,999
Borrowed funds		15,170,146	13,239,924
Commissions	23	1,063,703	1,196,122
Total interest expenses and commissions		24,011,930	21,240,045
Net interest and commissions income		15,901,170	14,524,306
Provision for loan losses		770,751	767,243
Provision for investments		59,352	0
Net interest and commission income, after provision		15,071,067	13,757,063
Income from banking services and others:			
Gain (loss) on investments, net		1,195,338	1,243,234
Other income	6, 22	1,982,214	2,264,694
Total income from banking services and others, net		3,177,552	3,507,928
General and administrative expenses:			
Salaries and other personnel expenses	6, 24	6,878,324	6,526,273
Depreciation and amortization	10	636,410	548,432
Professional and legal fees		1,278,736	1,138,605
Taxes		1,592,991	1,443,228
Other expenses	6, 24	3,154,806	3,039,309
Total general and administrative expenses		13,541,267	12,695,847
Net income before income tax		4,707,352	4,569,144
Income tax	25	1,268,069	885,586
Net income		3,439,283	3,683,558
Income attributable to:			
Controlling interest		3,417,704	3,653,856
Non-controlling interest		21,579	29,702
		3,439,283	3,683,558
Income per share		240.96	245.57
Diluted income per share		240.96	245.57

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

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

Consolidated Statement of Comprehensive Income

Period ended September 30, 2018

(Stated in Balboas)

	Note	2018	2017
Net income		3,439,283	3,683,558
Other comprehensive income:			
Items that are or may be reclassified to statement of income			
Fair value reserve:			
Fair value of loan portfolio acquired:			
Amortization		(59,505)	(59,476)
Valuation reserve of available for sale securities:			
Trasferred to profit or loss	8	(168,656)	888,806
Investment reserves		59,713	0
Net change in fair value		(351,608)	(2,392,161)
Foreign currency translation differences for foreign operations		4,999	418,666
		(515,057)	(1,144,165)
Total other comprehensive income		2,924,226	2,539,393
Comprehensive income attributable to:			
Controlling interest		2,902,459	2,496,175
Non-controlling interest		21,767	42,948
Total comprehensive income		2,924,226	2,539,123

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

Period ended September 30, 2018

(Stated in Balboas)

		Attributable to the Controlling Interest											
									Regulatory reserves				
	Note	Common shares	Treasury Shares	Additional paid-in capital	Capital reserve	Investments reserve	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	3,653,856	29,702	3,683,558
Other comprehensive income (loss)													
Fair value reserve:													
Fair value of loan protfolio acquired, net		0	0	0	0	0	(59,746)	0	0	0	0	0	(59,746)
Net change in fair value		0	0	0	0	0	(1,503,355)	0	0	0	0	0	(1,503,355)
Foreign currency translation differences for foreign operations		0	0	0	0	0	0	405,420	0	0	0	13,246	418,666
Total other comprehensive income (loss)		0	0	0	0	0	(1,563,101)	405,420	0	0	0	13,246	(1,144,435)
Total comprehensive income		0	0	0	0	0	(1,563,101)	405,420	0	0	3,653,856	42,948	2,539,123
Other changes in equity													
Constitution of reserves		0	0	0	0	0	0	0	916,462	83,504	(999,966)	0	0
Transactions with the shareholders of the Bank:													
Contributions, distributions and change in participations:													
Additional paid-in capital		0	0	0	0		0	0	0	0	0	0	0
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	159,770	159,770
Total of contributions and distributions		0	0	0	0	0	0	0	0	0	(64,112)	159,770	95,658
Balance at September 30, 2017		15,000,000	0	26,300,000	1,800,000	0	1,847,650	(4,285,116)	6,863,256	730,161	20,195,166	904,693	69,355,810
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
Impact on adopting IFRS 9						119,147	(113,401)				(108,650)		(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	3,417,704	21,579	3,439,283
Other comprehensive income (loss):													
Fair value reserve:													
Fair value of loan protfolio acquired, net		0	0	0	0		(59,505)	0	0	0	0	0	(59,505)
Net change in fair value		0	0	0	0		(520,264)	0	0	0	0	0	(520,264)
Foreign currency translation differences for foreign operations		0	0	0	0		0	4,811	0	0	0	188	4,999
Total other comprehensive (loss) income		0	0	0	0	0	(579,769)	4,811	0	0	0	188	(574,770)
Total comprehensive income		0	0	0	0	0	(579,769)	4,811	0	0	3,417,704	21,767	2,864,513
Other changes in equity													
Constitution of reserves		0	0	0	0	59,713	0	0	0	310,038	(310,038)	0	59,713
Transactions with the shareholders of the Bank													
Contributions, distributions and change in participations:													
Additional paid-in capital	26	0	0	0	0		0	0	0	0	0	0	0
Decrease on additional paid-in capital		0	0	(1,274,671)									(1,274,671)
Treasury shares		0	(727,000)										(727,000)
Complementary tax		0	0	0	0		0	0	0	0	(94,357)	0	(94,357)
Non-controlling interest		0	0	0	0	0	0	0	0	0	0	0	0
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 September 30, 2018		15,000,000	(727,000)	25,025,329	1,800,000	178,860	1,045,676	(4,635,213)	6,863,256	1,011,306	24,837,333	913,658	71,313,205

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

Period ended September 30, 2018

(Stated in Balboas)

	Note	2018	2017
Operating activities:			
Net income		3,439,283	3,683,558
Adjustments to reconcile net income and cash from operating activities:			
Provision for loan losses		770,751	767,243
Provision for investment losses		59,352	0
Realized gain on investment at fair value		(943,171)	(354,429)
(Gain) loss on sale of financial instruments		0	(888,805)
Depreciation and amortization		636,410	548,432
Gain on sale of fixed assets		0	1,714
Assets adjudment and reclasification		0	26,454
Interest income		(33,681,616)	(29,630,385)
Interest expense		22,948,227	20,043,923
Income tax expense		1,268,069	885,586
Changes in operating assets and liabilities:			
Loans		(69,023,338)	(69,178,442)
Accounts receivable		(223,566)	(119,038)
Accounts receivable related companies		(30,035)	(300,000)
Accrual of tax credits		3,221,927	1,048,193
Other assets		(1,755,345)	(1,459,783)
Time deposits		16,359,906	13,397,640
Saving deposits		291,211	138,208
Other liabilities		4,431,407	1,681,899
Cash generated from operations:			
Interest received		33,978,926	29,634,798
Interest paid		(23,258,092)	(19,770,674)
Income tax paid		(551,581)	(462,350)
Cash flows from operating activities		(42,061,275)	(50,306,258)
Investing activities:			
Purchase of investment securities		(12,493,004)	(10,215,108)
Sale of available for sale securities		11,545,912	11,247,492
Redemption of investment securities		2,348,166	1,896,762
Purchases of furniture and equipments		(786,327)	(1,331,796)
Cash flows from investing activities		614,747	1,597,350
Financing activities:			
Proceeds of borrowed funds		70,272,907	63,069,419
Payment of borrowed funds		(49,407,197)	(23,022,236)
Proceeds from issuance of negotiable commercial papers		79,901,789	54,798,000
Redemption of negotiable commercial papers		(79,003,000)	(41,313,916)
Proceeds of issuance of negotiable commercial notes		37,842,841	29,234,000
Redemption of commercial notes		(25,474,000)	(31,850,413)
Issuance of investment certificate		9,955,372	0
Redemption of investment certificate		(8,750,000)	(3,472,087)
Issuance of negotiable debts		20,910,483	8,186,000
Redemption of negotiable debts		(11,138,000)	(9,453,874)
Redemption of ordinary bonds		(3,516,937)	(825,147)
Additional paid-in capital		(1,274,671)	0
Common shares		(727,000)	0
Non-controlling interest		188	173,015
Complementary tax		(94,357)	(64,112)
Cash flows from financing activities		39,498,418	45,458,649
Effect on the fluctuation of exchange rates on cash held		14,804	404,356
Net (decrease) increase on cash		(1,948,110)	(3,250,259)
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	25,600,878	28,460,730

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

(1) General information

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

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

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

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

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

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

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

(2) Basis of Preparation

(a) Statement of Compliance

These consolidated financial statements of the Bank have been prepared in conformity with International Financial Reporting Standards (IFRS) No. 34.

The Audit Committee of the Bank reviewed and authorized the issuance of these consolidated financial statements on October 30, 2018.

(b) Basis of Measurement

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

(2) Basis of Preparation, continued

Item	Basis of Measurement
Investment in securities with changes in fair value through profit or loss (FVTPL)	Fair value
Investment in securities with changes in other comprehensive income (FVOCI) – after January 1st,2018	Fair value
Investment available for sale – 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 of America Dollar (US$). The Republic of Panama does not issue its own paper currency and, instead, the United States of America Dollar is used as a legal tender. The functional currency of the subsidiary in Colombia is the Colombian peso (COP), and the functional currency of the subsidiary in El Salvador is the United States of America Dollar (US$).

(3) Summary of Significant Accounting Policies

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

(a) *Consolidation Basis*

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

(a.2) Structured Entities
A structured entity, is an entity that has been designed so that the rights to vote or similar they are not the determinant factor to decide who controls the entity, as when the rights to vote are related only to the administrative tasks and the relevant activities are directed by contractual agreements. In the evaluation to determine if

(3) Summary of Significant Accounting Policies, continued

the Bank has sufficient rights to give power on these participated entities, the Bank considers factors of the participated entity; such as, its intention and design; its present aptitude to direct the relevant activities; the nature of its relation with other parts; and the exposition to the implication in the participated entity.

(a.3) Non-controlling Interests

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

(a.4) Loss of Control

When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the statement of income. 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

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

(b) Foreign Currency

(b.1) Foreign Currency Transactions

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

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

(b.2) Foreign Operations

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

- Assets and liabilities, at the current exchange rate at the end of the year.

(3) Summary of Significant Accounting Policies, continued

- 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 since January 1, 2018

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

A financial asset is measured to the AC if it meets the following two conditions and is not designated as fair value with changes in results:

- the asset is maintained within a business model whose objective is to maintain the assets to collect the contractual cash flows; and

- the contractual terms of the financial asset give rise on specific dates to the cash flows that are only payments of the principal and interest on the amount of the outstanding principal.

A debt instrument is measured at FVOCI only if it meets the following two conditions and is not designated as fair value with changes in results:

- the asset is maintained within a business model whose objective is achieved both by the collection of contractual cash flows and the sale of financial assets; and

- the contractual terms of the financial asset give rise on specific dates to the cash flows that are only payments of the principal and interest on the amount of the outstanding principal.

(3) Summary of Significant Accounting Policies, continued

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

In addition, in the initial recognition, the Bank can irrevocably designate a financial asset that otherwise meets the requirements to be measured at the AC or at FVOCI, as at fair value with changes in result if doing so eliminates or significantly reduces an accounting mismatch that otherwise it would arise.

Evaluation of the business model

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

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

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis, are measured at FVTPL because they are not held to collect contractual cash flows.

Evaluation if the contractual cash flows are only capital and interest payments

For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as the consideration of the value of money over time and the credit risk associated with the principal amount in force at a particular time period and other basic risks of a loan agreement.

When evaluating whether the contractual cash flows are only principal and interest payments, the Bank will consider the contractual terms of the instrument. This includes the evaluation to determine whether the financial asset contains a

(3) Summary of Significant Accounting Policies, continued

contractual term that could change the period or amount of the contractual cash flows in such a way that it does not comply with this condition.

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

Reclassification
Financial assets are not reclassified after their initial recognition, except in the period following the modification of the business model for the administration of financial assets.

Financial Assets - Policy applicable before January 1, 2018
The Company classified its financial assets into one of the following categories:
• Loans and accounts receivable
• Maintained until expiration
• Available for sale
• Values at fair value with changes in result (VFTPL)
See note 3: f, h, e.

Financial liabilities
The Bank classifies all financial liabilities at amortized cost.

(c.3) Derecognition of financial assets and liabilities
Financial Assets
The Bank derecognizes a financial asset when the contractual rights to the cash flows of the financial asset expire, or transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred or in which the Bank does not transfer or substantially retain all the risks and advantages of the property and does not retain control of the financial asset.

When deregistering a financial asset, the difference between the book value of the asset (or the book value assigned to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liabilities assumed) and (ii) any accumulated gain or loss that has been recognized in other comprehensive income is recognized in results.

The continuous participation that takes the form of a guarantee on the transferred asset is measured by the lower of the original book value of the asset and the maximum amount of consideration that the Bank could be obliged to pay.

(3) Summary of Significant Accounting Policies, continued

Financial liabilities

A financial liability is written off when the obligation extinguishes, by virtue of liability, when the obligation specified in the contract has been paid or canceled, or has expired.

(c.4) Modification of Financial Assets

Financial assets

If the terms of a financial asset are modified, 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 the cash flows of the original financial asset are considered expired. In this case, the original financial asset is written off in accounts and a new financial asset is recognized at its fair value

(c.5) Offsetting Financial Assets and Liabilities

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

(d) Fair Value Measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value in the initial recognition differs from the transaction price and the fair value is not evidenced by a quoted price in an active market for an identical asset or liability, nor is it based on a valuation technique for which is judged to be insignificant in relation to measurement, then the financial instrument is measured initially at its fair value, adjusted to defer the

(3) Summary of Significant Accounting Policies, continued

difference between the fair value at the initial recognition and the transaction price. Subsequently, that difference will be recognized in results on an adequate basis over the useful life of the instrument, but at the latest when the valuation is fully supported by observable market data or when the transaction is closed.

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) Deterioration

<u>Policy applicable since January 1, 2018</u>

The Bank recognizes the reserve for expected credit losses (ECL) in the following financial instruments that are not measured at FVTPL:

- Loans receivable
- Debt instruments

Loss due to impairment in equity investments is not recognized.

The Bank measures reserves for losses in an amount equal to the expected credit losses during the life time, with the exception of the following ones, for which they are measured as expected credit losses during the next 12 months:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments over which the credit risk has not increased significantly since its initial recognition.

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

Measurement of the ECL

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

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

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

(3) Summary of Significant Accounting Policies, continued

Restructured financial assets

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

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

- If the expected restructuring will result in the derecognition of existing assets, then the expected fair value of the new asset is treated as the final cash flow of the existing financial asset at the time of derecognition. This amount is included when calculating the cash deficits of 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.

Financial assets with credit deterioration

At each reporting date, the Bank evaluates whether the financial assets accounted for by AC and the financial assets measured by FVOCI have credit impairment. A financial asset has "credit deterioration" when one or more events occur that have a negative impact on the expected future cash flows of the financial asset.

Evidence that a financial asset has credit impairment includes the following observable data:

- Significant financial difficulty of the debtor or issuer;
- A breach of contract, such as an event of non-payment or default;
- The restructuring of a loan or advance from the Bank in terms that the Bank would not consider otherwise;

evaluates whether the financial assets accounted for to AC and the financial assets measured to FVOCI have credit deterioration. A financial asset has "credit deterioration" when one or more events occur that have a negative impact on the expected future cash flows of the financial asset.

When evaluating whether an investment in sovereign debt has credit deterioration, the Bank considers the following factors.

- The evaluation of the market on solvency reflected in the yields of the bonds.
- The solvency assessments of rating agencies.
- The capacity of the country to access the capital markets for the issuance of new debts.

(3) Summary of Significant Accounting Policies, continued

- The probability that the debt will be restructured, which causes the holders to suffer losses through the cancellation of the voluntary or mandatory debt.

Presentation of the reserve for ECL in the consolidated statement of financial position
The reserves for ECL are presented in the consolidated statement of financial position as follows:

- Financial assets measured at AC: as a deduction from the gross book value of the assets;

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

Impairment losses - Write-offs
Loans and investments in securities are written off (either partially or totally) when there is no reasonable expectation of recovery. This is generally the case when the Bank determines that the debtor has no assets or sources of income that could generate sufficient cash flows to pay the amounts owed subject to the impairment loss, without the Bank's course of action to recover the collateral (in the case that they maintain). However, financial assets that are written off may still be subject to legal actions for the recovery of the amounts owed.

<u>Deterioration - Policy applicable before January 1, 2018</u>
The Company evaluates, at each reporting date, whether there is any objective evidence of impairment of a loan or loan portfolio. The amount of losses on loans determined during the period is recognized as a provision expense in the consolidated statement of income and increases an account of allowance for loan losses. The reserve is presented deducted from the loans receivable in the consolidated statement of financial position. When a loan is determined as uncollectible, the irrecoverable amount is reduced from the aforementioned reserve account.

Impairment losses are determined using two methodologies to determine whether there is objective evidence of impairment, that is, individually for loans that are individually significant and collectively for loans that are not individually significant.

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

(3) Summary of Significant Accounting Policies, continued

provision for loan losses in the consolidated statement of results. The book value of the impaired loans is reduced from the reserve account.

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

- Reversal due to deterioration
  If in a subsequent period, the amount of the impairment loss decreases and the decrease could be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by decreasing the reserve account for loan impairment. The amount of any reversal is recognized in the consolidated statement of income.

- Reserve for Contingent Loans Risk
  The Bank uses the reserve method to provide for possible losses on contingencies of a credit nature. The reserve is increased based on a provision that is recognized as a provision expense in the consolidated statement of income and is reduced by write off related to these contingencies of a credit nature.

- Renegotiated or Restructured Loans
  The renegotiated or restructured loans are those to which a renegotiation or restructuring has been made due to any deterioration in the debtor's financial condition, and where the Bank considers granting a change in the credit parameters.

Designation at fair value with changes in results
Financial assets

In the initial recognition, the Bank has designated certain financial assets as FVTPL because this designation eliminates or significantly reduces an accounting asymmetry, which would otherwise increase.

Prior to January 1, 2018, the Bank also designated certain financial assets as measured at FVTPL because the assets were managed, evaluated and reported internally.

(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

(3) Summary of Significant Accounting Policies, continued

or less, excluding restricted deposits.

(g) Negotiable assets and liabilities

Negotiable assets and liabilities are those that the Bank acquires or contracts mainly for the purpose of selling or repurchasing in the short term, or they are maintained as part of a portfolio that is jointly administered for taking positions or short-term gains.

Negotiable 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 marketable income in results.

(h) Loans

Policy applicable since 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 reported at their principal amounts outstanding, less unearned interest and the allowance for impairment. Unearned interest on loans are accrued to income during the life of the loans under the effective interest method.

Loans are presented at amortized cost considering the principal amount outstanding, less unearned interest and the allowance for expected losses. Loans are initially measured at fair value plus the incremental direct cost attributable to the transaction and later carried at amortized cost under the effective interest method.

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 reported at their principal amounts outstanding, less unearned interest and the allowance for impairment. Unearned interest on loans is accrued to income during the life of the loans under the effective interest method.

(i) Allowance for Expected Credit Losses

The allowance for credit losses is set up to cover the losses arising from the credit origination process, inherent to the portfolio of loans and loan commitments, as well as the portfolio of investment securities measured at AC and FVOCI, using the reserve method for ECL. The increases to the reserve for ECL are made with charge to results. The ECL is deducted from the reserve, and subsequent recoveries are added. The reserve is also reduced by reversals of the reserve with credit to results.

The reserve attributable to the financial instruments measured to AC is presented as a deduction to the loans, the reserve for ECL. The reserve for ECL of the investment in

(3) Summary of Significant Accounting Policies, continued

securities measured at FVOCI is presented in the fair value reserve in other comprehensive income.

The Bank measures the ECL in a way that reflects: a) an unbiased weighted probability amount that is determined by evaluating a range of possible outcomes; b) the value of money over time; and c) reasonable and sustainable information that is available without cost or disproportionate effort on the date of the presentation about past events, current conditions and the forecast of future economic conditions.

The ECL model 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 the initial recognition. There are two evaluation criteria:

- 12-month PCE (stage 1), which applies to all financial assets (on initial recognition), provided there is no significant deterioration in credit quality, and

- ECL during the life time (stages 2 and 3), which is applied when there has been a significant increase in credit risk individually or collectively. In these stages 2 and 3 interest income is recognized. In stage 2 (as in stage 1), there is a total dissociation between the recognition of interest and impairment and the interest income is calculated on the gross amount in books. In stage 3, when the financial asset subsequently becomes impaired (where a credit event has occurred),

The provision for PCE includes a specific active component and a component based on a formula. The specific active component, or of the specific assignment, refers to the provision for losses in financial assets considered impaired and evaluated individually, case by case. A specific provision is established 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 component based on the formula (collective tax base) covers the normal credit portfolio of El Banco and is established based on a process that estimates the probable loss inherent in the portfolio, based on the statistical analysis and qualitative judgment of the administration. 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 evaluation is based on quantitative information 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;

(3) Summary of Significant Accounting Policies, continued

b) 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;

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 when an asset has more than 90 days delinquent, 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 reserves for ECL are calculated by applying the following formula:

$ECL = \Sigma\ (EAD \times PD \times LGD)$; where:

- Exposure at default (EAD): is defined as the current balance of the principal at the date of the statement of financial position. In the case of credits or loans that include a line of credit with a quota that can be used in its entirety in the form of loan contracts, this parameter includes the Bank's expectations of future disbursements incorporating a credit conversion factor (CCF).

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

- The probability of default of one year applied to the portfolio for expected losses for less than 12 months and during the life time for expected losses greater than 12 months. The default rates are based on the historical performance of the Bank's portfolio by rating category, supplemented by the probabilities of default of an International Risk Rating Agency.

- Loss of non-compliance o Loss Given Default (LGD) = a factor based on historical information is used.

(3) Summary of Significant Accounting Policies, continued

(j) Investments in Securities

Policy applicable since January 1, 2018

Investments in securities presented in the consolidated statement of financial position include:

- Investment in securities in debt instruments measured to the AC. These are initially measured at fair value plus the incremental direct costs of the transaction, and subsequently at their amortized cost using the effective interest method;
- Investment in securities in debt and equity instruments mandatorily designated and measured at FVTPL. These are measured at fair value with changes recognized immediately in results;
- Investment in securities in instruments measured at FVOCI

For the debt instruments measured at FVOCI, gains and losses are recognized in the consolidated statement of comprehensive income, except for the following, which are recognized in results in the same way as for financial assets measured at amortized cost:

- Interest income using the effective interest method;
- Reserves and reversals of expected credit losses.

When the investments in securities measured at the FVOCI are derecognized, the accumulated gain or loss previously recognized in the consolidated statement of comprehensive income is reclassified from equity to income.

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

(3) Summary of Significant Accounting Policies, continued

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.

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

occurring after the impairment loss was recognized then the impairment loss is reversed through the consolidated statement of income.

(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 income 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

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 income.

(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.

(3) Summary of Significant Accounting Policies, continued

(n) Share based payments

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

(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.

(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.

(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 since January 1, 2018

Effective interest rate

Interest income and expenses are recognized in income using the effective interest method. The "effective interest rate" is the rate that accurately discounts estimated future cash payments or collections over the expected life of the financial instrument for:

(3) Summary of Significant Accounting Policies, continued

- 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 assets with credit deterioration, the Bank estimates the future cash flows considering all the contractual terms of the financial instrument, but not the ECL. In the case of financial assets with credit impairment, the effective interest rate adjusted for the credit is calculated using the estimated future cash flows including the ECL.

The calculation of the effective interest rate includes the transaction costs, fees and premiums or discounts paid or received which are integral parts of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or a financial liability.

Amortized cost and gross balance in books
The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured in the initial recognition less the payments to principal, plus or minus the accumulated amortization using the effective interest method of any difference between the initial amount and the amount at maturity and, for financial assets, adjusted for any expected credit loss.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any reserve for ECL.

Calculation of interest income and expenses

When calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the asset (when the asset has no credit impairment) or to the amortized cost of the liability.

For financial assets that present a deteriorated credit after their initial recognition, interest income is calculated by applying the effective interest rate on the gross amount of the financial asset.

Presentation
The income and interest expenses presented in the consolidated statement of income and in the consolidated statement of comprehensive income include:

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

- Interest on debt instruments measured at fair value with changes in other comprehensive income calculated on an effective interest basis;

(3) Summary of Significant Accounting Policies, continued

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

Interest income and expenses on other financial assets and financial liabilities at FVTPL are presented in the net income of other financial instruments measured at FVTPL.

Policy applicable before January 1st, 2018

Interest income and expense are recognized in the consolidated statement of income 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 commissions, transaction costs and fees, and any premium paid or discount 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 or disposal of a financial asset or financial liability.

Interest income and expense presented in the consolidated statement of income 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. Is obligation of the Bank to manage the resources of the trusts in conformity with the contracts and independent of its equity.

(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

(3) Summary of Significant Accounting Policies, continued

consolidated financial statements presented. Its obligation of the Bank to manage the resources of the trusts in conformity with the contracts and independent of its equity.

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

(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.

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) New IFRSs and Interpretations that have not been yet adopted

To the date of these consolidated financial statements, there are IFRS that have not been applied in the preparation of the statements:

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

Due to the nature of the financial operations of the Bank, the adoption of this norm will not have a significant impact on the financial statements, an aspect that is under evaluation by the administration.

(4) Financial Risk Management

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

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

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

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

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

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

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

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

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

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

(4) Financial Risk Management, continued

6. To propose risk contingency plans, which will be submitted for approval by the Board of Directors, and recommend courses of action or mechanisms through which any situation in which the Bank does not comply with the established limits can be normalized.

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

8. Develop and maintain the Bank's risk classifications to categorize exposures according to the degree of default risk. The current risk rating framework consists of 8 levels on default that reflect different degrees of default risk for the loan portfolio segments. These ratings are associated or related to the delinquency presented by the loan instrument. While the Bank adopts the inclusion of a behavioral credit scoring, the ratings will be based on the delinquency.

9. Develop and maintain Bank processes to measure ECL, this includes processes for initial approval, regular validation and retrospective testing of the models used; and 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 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.

(4) Financial Risk Management, continued

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 presents information on the credit quality of the financial assets measured to the AC and the investments in securities measured to the FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent the gross book values. For the promissory letters, the amounts in the table represent the amounts committed:

	2018				2017
	ECL next 12 months	**ECLPCE during lifetime (not impaired)**	**ELC during lifetime (impaired)**	**Total**	**Total**
Loans					
Low-fair risk	640,249,709	0	0	640,249,709	576,584,739
Watch list	15,572,359	0	0	15,572,359	12,839,884
Substandard	0	1,573,994	841,894	2,415,888	1,272,508
Doubtful	0	1,726,537	0	1,726,537	1,567,064
Loss	0	0	3,681,198	3,681,198	2,833,911
Gross Amount	655,822,068	3,300,531	4,523,092	663,645,691	595,098,106
Allowance for impairment	(171,045)	(120,678)	(376,405)	(668,128)	(313,625)
Net carrying amount	655,651,023	3,179,853	4,146,687	662,977,563	594,784,481
Investment in securities at AC					
Low-fair risk	219,159	0	0	219,159	442,132
Gross Amount	219,159	0	0	219,159	442,132
Allowance for impairment	(523)	0	0	(523)	0
Net carrying amount	218,636	0	0	218,636	442,132
Investment in securities at FVOCI					
Low-fair risk	38,709,155	0	0	38,709,155	43,933,581
Promissory Letters					
Low-fair risk	71,282,618	0	0	71,282,618	77,155,573

At September 30, 2018, the Bank made the analysis based on the required on the Agreement No.4-2013 which regulates off-balance accounts. Of the total off-balance accounts, 100% correspond to revocable promissory letters. The total of the promissory letters are classified in the low-fair risk category.

Deposits placed in banks

As September 30, 2018, the Bank held deposits placed in banks for B/.25,600,878 (2017: B/.27,196,384). These deposits are held with banks and financial institutions that are rated with investment grade of at least BBB- and BBB+, based on Fitch Ratings Inc., Moody´s and Standard & Poor´s.

(4) Financial Risk Management, continued

Collateral held and Other Credit improvement and their Financial Effect

The Bank held collateral and other credit to secure the payment of its financial assets exposed to credit risk improvements. The table below presents the main types of collateral held by different types of financial assets.

	% of coverage subject to requirements of Collaterals		
	2018	**2017**	**Type of Collateral**
Loans	91%	92%	Properties
Investment securities	75%	77%	Mortgage loans

Residential mortgage loans

The tables below stratify credit exposures from 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 value of the collateral for residential mortgage loans is based on the collateral value at origination and generally is not updated.

LTV ranges	2018	2017
0-20%	2,783,070	500,763
20-40%	14,429,740	4,810,538
40-60%	38,484,682	24,400,710
60-80%	199,978,064	168,193,621
80-100%	351,252,326	349,265,979
Total	606,927,882	547,171,611

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

Assets obtained by taking possession of collateral

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

	2018	2017
Properties	253,636	234,239

Amounts arising from expected credit losses

(4) Financial Risk Management, continued

Significant increase in credit risk

In assessing whether the credit risk of the loan portfolio has increased significantly, the Bank considers the change in default risk that occurs since the initial recognition. For a financial instrument that incurs an event of default, the management will consider the criteria based on the different defaulting states as established for the implementation of the Expected Loss, while evaluating the application of other criteria used in the interna credit risk model such as behavior scoring, bureau score and / or aspects and qualitative factors, when appropriate. At each reporting date, the Bank evaluates whether there is a significant increase in credit risk based on the change in default risk that occurs during the expected life of the loan instrument. In order to assess whether significant credit deterioration has occurred, the Bank considers reasonable and sustainable information that is available without cost or disproportionate 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 assigns a credit risk rating to each exposure based on the delinquency transitions that the operation generates. These migrations are assigned a Probability of Default based on the results of 66 transition matrix that were reviewed at 1, 2 and 3 years, which gives a real default rate based on the default of the operation. As explained above, the Bank is in the process of adapting other variables in addition to the actual default rate, such as credit behavior scoring, bureau scoring and / or collective factors depending on the economic events that can be registered in sectors of the economy.

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

A credit risk rating is assigned to each exposure on the initial recognition based on the information available about the debtor. Exposures are subject to continuous monitoring, which may cause an exposure to move to a different credit risk rating.

Consequently, and according to the impairment of risk suffered by each instrument throughout its residual life, the Bank periodically from the date of the initial recognition, will establish the differences in the risk status of that exposure with the registered in the initial recognition. Based on the evaluation carried out, the Bank will assign each instrument to 3 stages of deterioration (buckets):

a) Bucket 1 (B1): Instruments with low credit risk
b) Bucket 2 (B2): Instruments with significant impairment of credit risk
c) Bucket 3 (B3): Impaired instruments (high credit risk)

The objective of the assignment to different credit risk stages is the adjustment of the expected loss calculation algorithm, so that when the instruments have been assigned to

(4) Financial Risk Management, continued

Bucket 1, these losses will be determined for a 12-month horizon. The losses for instruments assigned to Bucket 2 or 3, will be calculated for the residual life of the instruments, which is until their maturity or lifetime.

The Bank, in the first phase of application of the Standard, as long as it did not have a structure of internal qualifications that would allow to assess the impairment, will adopt, as a general criterion, the one established by the Standard in B5.5.17 (p). : "Information about delinquency, including the rebuttable presumption [...]"
The foregoing implies that the Bank will use the schedule of arrears ranges for the allocation, according to the following order of ratings:

A1 - Current range (current, no delay) and 1 to 30 days
A2 - 31 to 60 days range
B1 - 61 to 90 days range
B2 - 91 to 120 days range
C1 - 121 to 150 days range
C2 - 151 to 180 days range
D - Greater than 180 days range

Construction of the term of probability of default (PD) of the credit portfolio

<u>*Instrument treatment approach*</u>
Given the homogeneity of the profiles of borrowers in the Bank's credit portfolios, in order to determine the credit deterioration of the instruments that constitute them, it was established that in a general manner, with 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 has identified that its instruments present similar risk profiles in relation to the amount of exposure, interest rate, guarantees or other factors within the group to which they belong.

For this purpose, dispersion statistics (volatility) of the values of said profiles were determined around average values. Until the closing date of this preliminary document, no instruments of the loan portfolio were identified to be treated individually.

Consequently, the convenience of grouping the financial instruments that make up the Bank's credit portfolios by country and by segments according to their guarantee was determined.

Consequently, two (2) segments were defined per country:

(4) Financial Risk Management, continued

a) Mortgage loans with mortgage guarantee and personal loans with mortgage guarantee-CLMG;

b) Personal loans without Mortgage Guarantee-CLNMG
The adoption of this instrument grouping criterion derives, not only from the risk sharing requirement, but also 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.

In the case of the CLMG, the rate of loss includes in the calculation the value of recoveries derived from the execution of mortgages and deed in lieu, which explains the importance of its disaggregation with respect to another type of recoveries that do not present this quality of guarantees. In the specific case of the CLMG, the main risk factor they share is, in addition to the volatility of the value of the mortgaged property, the moral hazard, as the houses financed by the Bank are residential type for the use of low and middle income families. The LGD of the CLNMG segment will be determined through the recoveries which process is described below in the corresponding section in this document.

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

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 ratings of each instrument that makes up each portfolio segment of each country will be used, which will be available in historical series of five (5) years for each instrument. With this database, the rating (risk category) of an instrument is compared monthly at the end of a given month, with the category of that same instrument for the same months of different time horizons (1, 2, 3 or more years).

Through the process described, "pairs" of categories corresponding to a historical period of five years will be formed within each segment. Each "pair" represents the risk rating 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). Arranging matrix pairs and calculating the frequencies of their occurrence, we obtain the conditional probability of migration between the current category of risk of the instrument and the category of non-compliance for different time horizons.

(4) Financial Risk Management, continued

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 the passage of time.

General approach for determining non-compliance and rebutting of assumptions.

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

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

To define default in each segment of each country, the different transitions of delinquency shown by the credits according to delinquency ranges have been analyzed.

As a first approach to the identification of the level of non-compliance, defaults (by days of arrears) of each operation in each segment (Mortgage Loan and Personal Credit) was included, taking as a basis the historical series of each one, for 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 delay of payment or 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 horizontal lines of the tables show the probabilities that an instrument reaches a certain default according to the range of delay of payment or delinquency at the beginning of the period in a horizon of 1 year. The accumulated percentages of arrears in which the instruments of the segment fall within a horizon of 12 months, after the beginning month of the count, are shown in the columns to the right.

The values allow, in each segment, to determine the range of delay in which it is estimated that the default would occur from a percentage considered as acceptance limit. Based on this information, the Bank has decided that the default would be established from 180 days for the segments of financial instruments with mortgage

(4) Financial Risk Management, continued

guarantee 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 Probability of Non-compliance or real rate of default. These elements may include the incorporation of credit behavioral scoring, the incorporation of credit bureau scores and / or collective elements associated with economic situations.

Modified 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 current or potential customer credit deterioration. 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.

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

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

Definition of deterioration
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 behind in personal loans and more than 180 days in mortgage loans.
- Significant changes in credit risk indicators as a result 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;

In assessing whether a debtor is in default, the Bank considers indicators that are:
- qualitative - breaches of contractual clauses.
- quantitative - default status and non-payment of another obligation of the same debtor to the Bank; and based on data developed internally

(4) Financial Risk Management, continued

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.

Incorporation of prospective information
The incorporation into the calculation process of Expected Losses in the Bank of prospective aspects 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 flow of payment of the instruments.

In the Central American region and especially in the countries where the Bank operates, statistics on macroeconomic factors are provided almost exclusively by government 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, established that those that complied with at least one series of profiles that would make them suitable for this type of measurement would be used, as: a) that are available regularly; 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 (IPC)
b) Unemployment
c) Social security contributors
d) Gross Domestic Product
e) Imae / Ivae
f) TRM
g) Bank's past due portfolio
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 incorporating 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 available, consists of three steps:

The Multiple Correlation and Explanation coefficients were calculated between the historical series of the annual percentage variations of the value of the Past Due

(4) Financial Risk Management, continued

Portfolio of Banco La Hipotecaria (taken as a dependent variable), and the historical series of the values of the interannual variations of GDP, IMAE, 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.

Once the existence of an acceptable degree of association between these variables was determined, we 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.

Finally, the results were compared with those corresponding to the existing correlation between the past due loans of the Bank 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 (IVAE).

Measurement of estimated credit losses

The key inputs in the measurement of credit losses are the structure terms of the following variables:

- Probability of non-compliance or 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.

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 Markov Chains, through which the probability is calculated that an instrument, which is at a certain moment in a certain risk category,

(4) Financial Risk Management, continued

migrates to another within a certain time horizon. Mathematically, it is expressed as the probability that an event A will occur, given another event B. In the Bank's calculation process, the probability will be determined that an instrument that at the reporting date presents a certain rating, will default in a time horizon.

The Bank estimates the LGD parameters based on the history of recovery rates of the claims against the impaired debtors or counterparts. The LGD models consider the structure, the guarantee, the age of the claim, the counterpart industry and the recovery costs of any guarantee that is integral to the financial asset. For mortgage loan, LTV ratios are a key parameter for determining LGD.

Estimation of the LGD

The calculation of the LGD is implemented for each segment identified in each country, and it requires comparing the amounts recovered in each of those against the unpaid 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 has been terminated by the management, either by the total recovery of the amounts owed or due to justified withdrawal from collection process according to approved credit management policies. The final objective of the calculation is to establish the percentage of recoveries over the value of unfulfilled exposures. The following are definitions relevant to the calculation of LGD in the Bank.

LGD of Mortgage operations that have gone through judicial process and / or deed in lieu

For the calculation, a database called Historical Recoveries was used. In this, all the operations where the Bank has received the asset have been registered, either by means of deed in lieu or repossessed via judicial process (real estate owned). In this report is recorded when the loan starts the process and the repossessed asset is received until it is sold, or is placed again in the figure of a credit to another customer. It also takes into account the legal expenses and repairs that brought us the recovery of that good. This will allow calculating the PD of operations received as deed in lieu or via judicial process.

LGD of operations that reached more than 90 days for personal loans, which were canceled or written off

For this case, the personal loan operations that reach the number of days in arrears indicated above and that ended up canceled or in the default portfolio are averaged, that is, the recoveries of the personal loans that were written off are obtained and also those of the personnel that having reached the point of default were canceled. Then the average of both LGD is obtained and averaged to obtain the LGD of the Personal segment. In the case of personal loans, due to their nature, legal recovery expenses are not incurred.

(4) Financial Risk Management, continued

Mortgage LGD for the Colombian operation

For the mortgage portfolio of Colombia, the bank does not have historical data on recoveries of residential mortgage loans that allow estimating the LGD. Therefore, to obtain the LGD we took into account figures related to the increase of property value in Colombia, the current housing deficit, and the LTV of the loan disbursements and of the average LTV of the portfolio.

Exposure at Default (EAD)

EAD represents the expected exposure in case of non-compliance. 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 results 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. In order 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, said balances are discounted at the annual effective rate.

Clusters are 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:

(4) Financial Risk Management, continued

	Loans		Investments in Securities	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Concentration by Sector:				
Mortgage banking	606,927,882	547,171,611	43,907,069	44,029,545
Personal banking	56,717,809	47,926,495	0	0
Other sectors	0	0	14,525,303	15,483,014
	663,645,691	595,098,106	58,432,372	59,512,559
Geographic:				
Panama	480,974,504	435,069,985	44,125,706	44,283,233
El Salvador	126,126,256	111,726,941	0	0
Colombia	56,544,931	48,301,180	4,909,010	5,364,951
United States of America	0	0	9,397,656	9,864,375
	663,645,691	595,098,106	58,432,372	59,512,559

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

(4) Financial Risk Management, continued

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

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

Exposure to Liquidity Risk

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

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

	2018	2017
At September 30	62.31%	59.25%
Average of the year	56.30%	87.14%
Maximum of the year	75.77%	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 (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial Liabilities:						
Saving deposits	1,281,695	(1,281,695)	(1,281,695)	0	0	0
Time deposits	223,915,399	(263,054,297)	(126,053,841)	(137,000,456)	0	0
Negotiable commercial papers	83,830,014	(85,685,855)	(85,685,855)	0	0	0
Negotiable commercial notes	108,678,272	(115,429,750)	(47,687,992)	(67,741,758)	0	0
Ordinary bonds	10,793,292	(12,098,981)	(547,160)	(11,551,821)	0	0
Investment certificates	14,805,372	(15,949,746)	(8,000,312)	(7,949,434)	0	0
Other negotiable debts	23,612,530	(24,100,210)	(24,100,210)	0	0	0
Borrowed funds	208,013,244	(227,338,622)	(65,887,460)	(124,084,928)	(37,366,234)	0
Total financial liabilities	674,929,818	(744,939,156)	(359,244,525)	(348,328,397)	(37,366,234)	0
Financial Assets:						
Cash						
Demand deposits	304,938	304,938	304,938	0	0	0
Investment securities	25,295,940	25,295,940	25,295,940	0	0	0
Loans	58,432,372	107,840,496	2,323,408	11,702,941	17,979,320	75,834,827
Total financial assets	663,645,691	1,301,723,554	64,669,277	251,907,447	291,954,052	693,192,778
Commitments and contingencies						
Loan commitments	0	(71,282,618)	(71,282,618)	0	0	0

(4) Financial Risk Management, continued

2017	Carrying amount	Gross nominal (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial Liabilities:						
Saving deposits	923,276	(923,276)	(923,276)	0	0	0
Time deposits	207,555,493	(222,571,814)	(103,518,484)	(119,053,330)	0	0
Negotiable commercial papers	82,931,225	(84,302,996)	(84,302,996)	0	0	0
Negotiable commercial notes	96,309,431	(98,446,601)	(33,152,509)	(65,294,092)	0	0
Ordinary bonds	14,310,229	(16,583,965)	(725,449)	(15,858,516)	0	0
Investment certificates	13,600,000	(14,534,160)	(6,173,639)	(8,630,521)	0	0
Other negotiable debts	13,840,047	(13,880,549)	(13,880,549)	0	0	0
Borrowed funds	187,147,534	(208,045,893)	(35,143,214)	(152,708,564)	(20,194,115)	0
Total financial liabilities	616,617,235	(659,289,254)	(277,820,116)	(361,275,023)	(20,194,115)	0
Financial Assets:						
Cash	337,800	337,800	337,800	0	0	0
Demand deposits	29,093,301	29,093,301	29,093,301	0	0	0
Investment securities	59,477,544	109,513,433	2,785,384	11,556,148	15,730,586	79,441,315
Loans	595,098,106	1,168,695,681	57,578,383	224,700,562	260,412,642	626,004,094
Total financial assets	684,006,751	1,307,640,215	89,794,868	236,256,710	276,143,228	705,445,409
Commitments and contingencies						
Loan commitments	0	(77,155,573)	(77,155,573)	0	0	0

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

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

	2018	**2017**
Financial Liabilities:		
Time deposits	106,052,467	106,568,404
Borrowed funds	143,998,446	153,842,987
Negotiable commercial notes	62,401,000	63,902,000
Ordinary bonds	10,793,292	14,310,229
Investment certificates	7,230,000	7,600,000

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 installments and interest payments which are not listed in the table above.

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

(4) Financial Risk Management, continued

2018	Pledged as Collateral	Available as Collateral	Total
Cash and cash equivalent	0	25,600,878	25,600,878
Investment securities	0	58,431,849	58,431,849
Loans, net	198,762,938	464,214,625	662,977,563
Non-financial assets	0	16,621,856	16,621,856
	198,762,938	564,869,208	763,632,146

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

(c) Market Risk:

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

Market Risk Management:

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

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

Exchange Rate Risk

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

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

(4) Financial Risk Management, continued

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

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

Colombian Pesos	2018	2017
Assets		
Cash and cash equivalent	3,309,493	4,802,534
Loans, net	56,393,971	48,301,180
Other assets	7,015,888	7,067,252
Total assets	66,719,352	60,170,966
Liabilities		
Time deposits	30,652,776	19,159,683
Ordinary bonds	10,793,292	14,310,229
Borrowed funds	728,982	2,770,331
Other liabilities	748,836	634,166
Total liabilities	42,923,886	36,874,409
Net position	23,795,466	23,296,557

Interest Rate Risk

Interest rate risk is the financial exposure (net margin and equity market value) of the Bank 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:

(4) Financial Risk Management, continued

	Increase of 25 bp	Decrease of 25 bp	Increase of 50 bp	Decrease of 50 bp
Sensitivity of projected net interest income				
2018	79,536	(79,536)	159,073	(159,073)
2017	86,075	(88,357)	173,905	(169,569)
Sensitivity of projected net equity				
2018	(1,131,470)	1,131,470	(2,262,941)	2,262,941
2017	(1,217,299)	1,217,299	(2,434,599)	2,434,599

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

2018	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Demand deposits	14,748,575	0	0	0	14,748,575
Time deposits	0	0	0	0	0
Investment in securities at FVOCI	16,612,247	0	12,916,235	9,180,673	38,709,155
Investments held to maturity	0	0	219,159	0	219,159
Investments in securities at FVTLP	1,390,432	471,330	0	17,642,296	19,504,058
Loans	663,645,691	0	0	0	663,645,691
Total de activos	696,396,945	471,330	13,135,394	26,822,969	736,826,638
Liabilities:					
Saving deposits	1,281,695	0	0	0	1,281,695
Time deposits	112,261,215	107,407,350	0	0	219,668,565
Borrowed funds	208,013,244	0	0	0	208,013,244
Issued debt	145,090,544	86,953,142	0	0	232,043,686
Total liabilities	466,646,698	194,360,492	0	0	661,007,190
Interest rate sensitivity, net	229,750,247	(193,889,162)	13,135,394	26,822,969	75,819,448

(4) Financial Risk Management, continued

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

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 financial instruments classified at FVOCI or securities at FVTPL. To mitigate the price risk in equity or debt instruments, the Bank diversifies its portfolio according to the established limits.

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

The model of Operative Risk Management covers as principal points:

- Identification and evaluation of the risks.
- Report of events of losses and incidents.
- Definition of mitigating actions.

(4) Financial Risk Management, continued

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

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

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

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

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

(e) Capital Management:

One of the policies of the Bank 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.

Based in the Agreements No. 1-2015 and its amendments and No. 3-2016, issued by the Superintendence of Banks of Panama, as of September 30, 2018, the Bank held a regulatory capital position that is comprised as follows:

(4) Financial Risk Management, continued

	2018	2017
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid in capital	25,025,329	26,300,000
Less: Treasury Shares	(727,000)	0
Capital reserves	1,800,000	1,800,000
Other items of comprehensive income (1)		
Gain in available for sale securities	(61,831)	571,834
Adjust for translation of foreign currency	(4,635,213)	(4,640,024)
Retained earnings	24,837,333	21,932,674
Non-controlling interests	913,658	891,891
Less: Deferred tax	(1,094,502)	(987,891)
Total Primary Ordinary Capital	61,057,774	60,868,484
Dynamic provision	6,863,256	6,863,256
Total Regulatory Capital	67,921,030	67,731,740
Total of Risk weighed assets	467,178,438	429,296,001

	Minimum requested		
Ratios:			
Capital Adequacy ratio	8.00%	14.54%	15.78%
Primary Ordinary Capital Ratio	3.75%	13.07%	14.18%
Primary Capital Ratio	5.25%	13.07%	14.18%

(1) Excludes the fair value of the portfolio acquired

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

The management of the Bank 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.

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

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

(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 review its financial assets on the date of each consolidated statement of financial position to determine whether the credit risk of a financial instrument has increased significantly since its initial recognition.

(c) *Income tax*

The Bank is subject to income taxes under the jurisdictions of the Republic of Panama, Colombia, and El Salvador. Significant estimates are required in determining the provision for income taxes. Estimates are made through a tax projection to determine the provision for income taxes and the liabilities resulting from said estimation are recognized. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income taxes and deferred taxes in the period in which such determination was made.

(d) *Non-consolidated structured entities*

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

(6) Balances and Transactions with Related Parties

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

	2018	**2017**
Assets:		
Demand deposits	58,485	117,026
Account receivable related parties	30,035	0
Liabilities:		
Savings deposits	783,706	681,277
Time deposits	5,882,860	5,989,191
Accrued interest	0	0
Account payable related parties	0	0
Other income (expeses):		
Interest expense on deposits	(195,408)	(222,459)
Short-term benefits to executives	(793,970)	(775,498)

Transactions with Directors and Executives

As of September 30, 2018, the Bank has paid fees for B/.29,445 (2017: B/.28,200) to Directors that attend the meetings of the Board of Directors and Committees.

The Bank has paid salaries and other benefits such as life insurance, bonus, and salaries in species to the executives for B/.793,970 (2017: B/.775,498).

(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 effects	304,938	337,800
Demand deposits	21,940,641	22,468,538
Saving deposits	3,355,299	4,727,846
Time deposits	0	0
Cash and cash equivalents in the consolidated statement of cash flows	25,600,878	27,534,184

(8) Investment in Securities

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

	September 30, 2018	December 31, 2017
Investments in securities at FVOCI	38,709,155	0
Investments in securities at FVTPL	19,504,058	15,136,846
Investments at amortized cost	219,159	0
Investments available for sale	0	43,933,581
Investments held to maturity	0	442,132
Total investments in securities	58,432,372	59,512,559
Reserves for investments at amortized cost	(523)	0
	58,431,849	59,512,559

Invesments in securities at FVOCI

These securities are detailed as follows:

September 30, 2018			
Mortgage Bonds	Republic of Colombia Treasury Bonds	United States of America Treasury Bonds	Total
25,792,920	3,518,579	9,397,656	38,709,155
25,792,920	3,518,579	9,397,656	38,709,155

The Bank made sales of investments in securities at FVOCI of B/.11,404,951, these sales generated a gain of B/.168,656.

Changes to the allowance for ECL related to investment in securities at FVOCI are detailed as follows:

	2018			
	ECL next 12 months	ECL during life time (not impaired – collective assessment)	ECL during life time (impaired – individual assessment)	Total
At January 1st	23,191	95,956	0	119,147
Remeasurement net of allowance for losses	19,088	40,625	0	59,713
Purchase of new financial assets	20,216	0	0	20,216
Disposal of Financial instruments during the period	(20,216)	0	0	(20,216)
At the end of period	42,279	136,581	0	178,860

(8) Investment in Securities, continued

Allowance for ECL mentioned above is not recognized in the consolidated statement of financial position because the carrying amount of the investment in debt instruments at FVOCI for $38,709,155 (2017:$43,963,581) is its fair value.

Investment in Securities at Fair Value through Profit or Loss - FVTPL

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

	Maturiry	September 30 2018	December 31 2017
Residual interest of eighth trust	December 2036	2,437,949	2,573,532
Residual interest of ninth trust	December 2022	471,330	573,964
Residual interest of tenth trust	September 2039	5,623,899	5,107,150
Residual interest of eleventh trust	October 2041	2,940,262	2,725,621
Residual interest of twelfth trust	November 2042	1,646,597	1,574,304
Residual interest of thirteenth trust	December 2045	1,419,490	1,219,529
Mortgage bond eleventh trust	October 2041	1,848,614	0
Mortgage bond twelfth trust	November 2042	785,238	0
Mortgage bond thirteenth trust	December 2045	940,247	0
Agricultural development securities	July 2019	856,350	180,373
Time deposit certificate	February 2018	0	1,182,373
Mutual funds	At call	534.082	0
Total		19.504.058	15.136.846

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

Securities at amortized cost

The Bank maintains bonds of the Republic of Panama with a nominal value of B/.225,000, which are recorded at amortized cost of B/.219,159 (2017: B/.218,673) with a fair value of B/.303,570 (2017: B/.327,645). These bonds have an interest rate of 8.875% (2017: 8.875%) and maturity date on December 31, 2027. These bonds are held in the Banco Nacional de Panama and are at the disposition of the Superintendence of Banks of Panama, in order to guarantee proper compliance with the fiduciary obligations of the Bank. Similarly the Bank maintain Colombian agricultural development securities (TDA and TDB) with a carrying amount of B/.0.00 (2017: B/.223,459) a fair value of B/.0.00 (2017: B/.223.459).

(8) Investment in Securities, continued

Securities at amortized cost per issuer are detailed below:

September 30, 2018		
Republic of Panama Bonds	Colombian Agricultural Development Securities	Total
219,159	0	219,159
219,159	0	219,159

The movement of the allowance for expected credit losses related to investments in securities at amortized cost is detailed below.

	2018			
	ECL Next 12 months	ECL During life time (not impaired – collective assessment)	ECL during life time (impaired – individual assessment))	Total
At January 1st	884	0	0	884
Remeasurement net of allowance for losses	(113)	0	0	(113)
Purchase of new financial assets	547	0	0	547
Disposal of Financial instruments during the period	(795)	0	0	(795)
At the end of period	523	0	0	523

Securities Available-for-Sale

The investments in securities available for sale are detailed as follows:

December 31, 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

The Bank maintains an investment in shares in the amount of $ 0 (2017: $ 35,015), to which the Bank could not reliably calculate fair value.

As of September 30, 2017, the Bank sold investments registered as available for sale for $ 1,972,163, generating a gain of $ 542,163.

Securities Held to Maturity

Investments in securities held to maturity are detailed as follows:

(8) Investment in Securities, continued

	December 31, 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
Local loans:		
Personal	38,790,828	35,268,757
Residential mortgages	442,183,676	399,801,228
Total local loans	480,974,504	435,069,985
Foreign loans:		
Personal	17,926,981	12,657,738
Residential mortgages	164,744,206	147,370,383
Total foreign loans	182,671,187	160,028,121
Total loans	663,645,691	595,098,106

The movements of the allowance for expected credit loan losses are detailed as follows. The comparative amounts for 2017 represent the allowance for credit losses and reflect the measurement basis according to IAS 39:

	2018				
	ECL next 12 months	ECL during life time (not impaired – collective assessment)	ECL during life time (impaired – individual assessment)	Total	December 31,2017
As January 1st, 2018	134,341	81,847	239,478	455,666	300,664
- Transfer to expected credit losses during the next 12 months	379,580	(188,622)	(190,958)	0	0
- Transfer to expected credit losses during life time- not impaired	(102,949)	217,029	(114,080)	0	0
- Transfer to expected credit losses during life time- impaired	(2,310)	(220,125)	222,435	0	0
- Remeasurement net of the allowance for credit losses	(235,653)	234,710	408,414	407,471	512,648
- Origination of new financial assets	30,016	0	0	30,016	0
- Financial instruments that have been written off during the period	(31,979)	(4,162)	(117,137)	(153,278)	0
Written off	0	0	(71,747)	(71,747)	(499,687)
As June 30, 2018	171,046	120,677	376,405	668,128	313,625

(8) Investment in Securities, continued

In June and September 2015, the Bank purchased the residential mortgage portfolio from the Sixth and Seventh Mortgage Loan Bonds with a fair value of $ 4,517,878 and $ 4,773,715, respectively. The difference between the amount paid and the fair value of these purchases was $ 1,325,034 and was recorded in the fair value reserve account in the consolidated statement of changes in equity. The amount pending amortization to date is B / .1,107,507 (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:					
At the beginning of the year	776,290	2,996,040	399,691	1,974,438	6,146,459
Purchases	25,271	350,185	233,323	177,548	786,327
Sales and disposals	(7,973)	0	0	0	(7,973)
At the end of the year	793,588	3,346,225	633,014	2,151,986	6,924,813
Accumulated depreciation:					
At the beginning of the year	553,078	2,270,510	324,870	767,337	3,915,795
Expense for the year	89,080	320,325	59,454	167,551	636,410
Sales and disposals	(7,973)	0	0	0	(7,973)
Adjustment for conversion	(15,292)	25,285	0	0	9,993
At the end of the year	618,893	2,616,120	384,324	934,888	4,554,225
Net balances	174,695	730,105	248,690	1,217,098	2,370,588

2017	Mobiliario	Equipo de oficina	Equipo rodante	Mejoras a la propiedad	Total
Cost:					
At the beginning of the year	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)
Adjustment for conversion					
Adjustment and reclassification					
At the end of the year	0	0	0	0	0
Cost:	(17,180)	25,477	0	0	8,297
At the beginning of the year	759,110	3,021,517	399,691	1,974,438	6,154,756
Accumulated depreciation:					
At the beginning of the year	506,329	1,893,130	264,988	608,239	3,272,686
Expense for the year	101,336	441,048	59,882	159,098	761,364
Sales and disposals	(84,055)	(77,755)	0	0	(161,810)
Adjustment for conversion	473	16,628	0	0	17,101
Adjustment for origination	11,815	22,936	0	0	34,751
At the end of the year	535,898	2,295,987	324,870	767,337	3,924,092
Net balances	223,212	725,530	74,821	1,207,101	2,230,664

(11) Accounts and Interests Receivable

The following is a detail of accounts and interests receivable:

	2018	2017
Accounts receivable:		
Clients	1,334,373	1,199,257
Employees	29,235	16,188
Insurance	21,691	652,184
Others	559,286	59,456
	1,944,585	1,927,085
Interests receivable:		
Loans	1,436,375	1,477,991
Bonds	220,945	270,573
	1,657,320	1,748,564
	3,601,905	3,675,649

(12) Other Assets

The other assets are detailed as follows:

	2018	2017
Guarantee deposits	65,253	57,303
Bond of trust license	25,000	25,000
Severance fund	677,663	616,887
Various prepaid	2,023,246	840,133
Advance to assets purchase	540,866	312,616
Foreclosed assets	253,636	234,239
Other	681,993	532,677
Total	4,267,657	2,618,923

(13) Negotiable Commercial Papers

The Bank is authorized by the Superintendence of the Securities Market of Panama six (2017: five) rotating programs up to B/.200,000,000 (December 31, 2017: 150,000,000) in negotiable commercial papers which are backed up by the general credit of the Bank. Of these programs, two for the amount of B/.10,000,000 are backed by Grupo ASSA, S. A. as solidary Surety. At this date those two programs has no papers issued.

		2018	
Tipo	**Tasa de interés**	**Vencimiento**	**Valor**
Series A	3.8750%	October-18	300,000
Series B	3.8750%	October-18	2,000,000
Series C	3.8750%	November-18	4,390,000
Series D	3.8750%	December-18	2,450,000
Series E	3.8750%	December-18	1,775,000
Series CDO	3.2500%	December-19	3,000,000
Series F	3.8750%	December-18	3,000,000
Series G	3.8750%	January-19	2,000,000
Series H	3.8750%	January-19	1,000,000
Series I	3.8750%	January-19	2,014,000
Series J	3.8750%	January-19	2,306,000
Series K	3.8750%	February -19	5,283,000
Series L	3.8750%	February -19	2,854,000
Series M	3.8750%	February -19	2,584,000
Series N	3.8750%	February -19	2,500,000
Series P	3.8750%	March-19	1,185,000
Series Q	3.8750%	March-19	858,000
Series DCI	4.0000%	March-19	3,890,000
Series DCJ	4.0000%	April-19	1,864,000
Series DCK	4.0000%	April-19	2,000,000
Series DCL	4.0000%	April-19	959,000
Series DCM	4.0000%	April-19	1,210,000
Series DCN	4.0000%	April-19	1,300,000
Series DCO	4.0000%	May-19	1,936,000
Series DCP	4.0000%	May-19	1,000,000
Series DCQ	4.0000%	May-19	2,064,000
Series CDK	4.0000%	May-19	1,980,000
Series CDL	4.0000%	June-19	4,000,000
Series CDM	4.0000%	June-19	2,000,000
Series CDN	4.0000%	June-19	1,000,000
Series DCR	4.0000%	July-19	1,865,000
Series DCS	4.0000%	July-19	2,135,000
Series DCT	4.0000%	July-19	979,000
Series BCU	4.0000%	August-19	1,000,000
Series BCV	4.0000%	August-19	1,629,000
Series BCW	4.0000%	August-19	5,410,000
Series BCX	4.0000%	August-19	1,590,000
Series BCY	4.0000%	September-19	1,606,000
Series BCZ	4.0000%	September-19	2,770,000
Series BDA	4.0000%	September-19	255,000
			83,941,000
Less issuance costs			(110,986)
			83,830,014

(13) Negotiable Commercial Papers, continued

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

As of September 30, 2018 and 2017, there have been no defaults in the payment of principal and interest in relation to negotiable commercial securities.

(14) Negotiable Commercial Notes

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

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		Amount
SERIES S	4.00%	January-18	0	2,060,000
SERIES D	4.00%	February-18	0	355,000
SERIES I	4.25%	April-18	0	2,880,000
SERIES H	4.25%	April -18	0	2,996,000
SERIES K	4.25%	April -18	0	4,991,000
SERIES J	5.00%	May-18	0	2,661,000
SERIES L	4.25%	May-18	0	780,000
SERIES M	4.25%	May-18	0	1,000,000
SERIES Q	4.25%	May-18	0	5,000,000
SERIES R	4.25%	May-18	0	1,000,000
SERIES N	4.25%	May-18	0	75,000
SERIE O	4.25%	June-18	0	952,000
SERIE P	4.25%	June-18	0	2,870,000
SERIES R	4.25%	July-18	0	2,000,000
SERIES Y	4.25%	November-18	2,999,000	2,999,000
SERIES AB	4.50%	January-19	3,451,000	3,451,000
SERIES A	4.50%	January-19	2,500,000	2,500,000
SERIES C	4.50%	January-19	2,000,000	2,000,000
SERIES Z	4.25%	Febrery-19	2,000,000	2,000,000
SERIES V	4.38%	Febrery-19	4,239,000	4,239,000
SERIES AB	4.25%	March-19	3,090,000	3,090,000
SERIES AD	4.25%	March-19	2,250,000	2,250,000
SERIES M	4.25%	March-19	2,150,000	2,150,000
SERIES N	4.25%	Aprril-19	500,000	500,000
SERIES AE	4.25%	April-19	1,000,000	1,000,000
SERIES AF	4.25%	May-19	2,469,000	2,469,000
SERIES AG	4.25%	June-19	2,000,000	2,000,000
SERIES AH	4.25%	July-19	1,500,000	1,500,000
SERIES AO	4.00%	July-19	4,000,000	0
SERIES AJ	4.25%	July-19	3,000,000	3,000,000
SERIES AS	4.00%	August-19	355,000	0
SERIES U	4.50%	August-19	1,250,000	1,250,000
SERIES AT	4.00%	August-19	622,000	0
SERIES AV	4.00%	September-19	1,464,000	0
SERIES AK	4.25%	September-19	720,000	720,000
SERIES AA	4.50%	September-19	3,000,000	3,000,000
SERIES W	4.50%	October-19	1,990,000	1,990,000
SERIES AL	4.50%	October-20	1,000,000	1,000,000
SERIES AM	4.50%	November-20	5,000,000	5,000,000
SERIES AN	4.50%	December-20	2,000,000	2,000,000
SERIES AC	4.50%	March-20	2,000,000	0
SERIES AQ	4.25%	January-20	1,378,000	0
SERIES AU	4.25%	March -20	1,500,000	1,500,000
SERIESAW	4.25%	March -20	1,710,000	0
SERIES BD	4.50%	March -20	1,100,000	0
SERIES BK	4.13%	March -20	420,000	0
SERIES AY	4.25%	April-20	1,155,000	0
SERIES AZ	4.25%	April-20	2,300,000	0
SERIES BA	4.25%	May-20	2,250,000	0
SERIES BB	4.25%	May-20	780,000	0
SERIES BC	4.25%	May-20	3,900,000	0
SERIES BE	4.25%	June-20	849,000	0
SERIES BF	4.25%	June-20	2,870,000	0
SERIES BG	4.25%	June-20	530,000	0
SERIES BH	4.25%	July-20	2,000,000	0
SERIES AP	4.38%	July-20	960,000	0
SERIES T	4.50%	July-20	1,800,000	1,800,000
SERIES BI	4.25%	August-20	4,000,000	0
SERIES BJ	4.25%	September-20	425,000	0
SERIES AR	4.50%	February-21	2,000,000	0
SERIES AA	4.50%	February -21	1,761,000	1,761,000
SERIES E	5.00%	February -21	7,017,000	7,017,000
SERIES K	5.00%	February -21	4,991,000	0
SERIES AI	4.75%	July-21	1,200,000	1,200,000
SERIES U	5.00%	September-21	1,858,000	1,858,000
SERIES X	5.00%	November-21	1,657,000	1,657,000
			108,960,000	96,521,000
		Less issuance costs	(281,728)	(211,569)
			108,678,272	96,309,431

(14) Negotiable Commercial Notes, continued

As of September 30, 2018 and 2017, there have been no defaults in the payment of principal and interest in relation to negotiable commercial notes.

(15) Ordinary Bonds

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

As of September 30, 2018, the subsidiary in Colombia has issued medium-term ordinary bonds by B/.10,793,292 (2017: B/.14,310,229) at a rate of 10.05% (2017: 10.05%) for 5 years term, its maturity are December 10, 2020.

As of September 30, 2018 and 2017, there have been no defaults in the payment of principal and interest in relation to ordinary bonds.

(16) Investment Certificates

The Bank is authorized by the Superintendence of Securities Market of El Salvador for two issuances of B/.80,000,000 in Investments Certificates (IC). These programs do not have a specific guarantee.

Type	Interest rate	Maturity	2018	2017
Tranche 7	6.00%	June-18	0	2,000,000
Tranche 8	6.00%	June -18	0	2,000,000
Tranche 9	6.25%	June -19	3,000,000	3,000,000
Tranche 10	6.25%	July -18	2,000,000	2,000,000
Tranche 11	6.25%	August-19	3,000,000	3,000,000
Tranche 12	6.25%	August-19	1,600,000	1,600,000
Tranche 2	5.25%	febrero-20	3,000,000	0
Tranche 1	5.50%	junio-20	2,200,000	0
Tranche 3	5.50%	agosto-20	1,030,000	0
Tranche 4	6.00%	septiembre-21	1,000,000	0
			14,830,000	13,600,000
	Less issuance costs		(24,628)	(0)
			14,805,372	13,600,000

As of September 30, 2018 and 2017, there have been no defaults in the payment of principal and interest in investment certificates.

(17) Other Negotiable Debts

The Bank was authorized by the Superintendence of Securities of El Salvador for one revolving plan of up to B/.35,000,000 of Negotiable Debt (stock market paper). This program do not have a specific guarantee.

2018

Type	Interest Rate	Maturity	Amount
Tranche 25	4.2500%	Octuber-18	2,000,000
Tranche 26	4.2500%	Octuber-18	300,000
Tranche 27	4.2500%	Octuber-18	1,000,000
Tranche 28	4.2500%	November-18	3,000,000
Tranche 35	5.0000%	November-18	1,000,000
Tranche 40	5.0000%	diciembre-18	729,000
Tranche 29	5.0000%	February-19	1,000,000
Tranche 30	5.0000%	February-19	1,000,000
Tranche 31	5.0000%	March-19	2,000,000
Tranche 32	5.0000%	March-19	1,000,000
Tranche 33	5.0000%	March-19	1,000,000
Tranche 34	5.0000%	March-19	3,000,000
Tranche 36	5.0000%	May-19	1,000,000
Tranche 37	5.0000%	May-19	1,000,000
Tranche 38	5.0000%	May-19	1,000,000
Tranche 39	5.0000%	June-19	1,653,000
Tranche 41	5.0000%	June-19	1,000,000
Tranche 42	5.0000%	August-19	865,000
Tranche 43	5.0000%	September-19	95,000
			23,642,000
Less issuance costs			(29,470)
			23,612,530

2017

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

As of September 30, 2018 and 2017, there have been no defaults in the payment of principal and interest in other negotiable debts.

(18) Borrowed Funds

Borrowed funds are summarized as follows:

	2018	2017
Line of credit for working capital for B/.5,000,000, with maturity the year 2020 renewable at the parties' option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	5,000,000	1,500,000
Line of credit for working capital for B/.30,000,000, with maturity the year 2021 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	12,051,375	13,773,000
Revolving line of credit for working capital for B/.6,000,000, with maturity the year 2020 renewable at the parties option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	3,000,000	0
Line of credit for working capital for B/.5,000,000, with maturity the year 2020, renewable at the parties' option and fixed annual interest rate 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 the year 2019 renewable at the parties option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	5,500,000	8,000,000
Revolving line of credit for working capital for B/.20,000,000, with maturity the year 2020 renewable at the parties option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	20,000,000	12,500,000
Line of credit for working capital for B/.12,000,000, with maturity the year 2019 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	6,100,000	1,450,000
Line of credit for working capital for B/.10,000,000, with maturity the year 2018 and annual Libor interest rate plus a margin backed by a portfolio of residential mortgage loans.	5,000,000	0
Line of credit for working capital for B/.13,000,000, with maturity the year 2021 renewable at the parties option and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	7,692,307	9,923,077
Sub - total going to next page	69,343,682	47,146,077

(18) Borrowed Funds, continued

	2018	2017
Sub - total coming from previous page	69,343,682	47,146,077
Line of credit for working capital for B/.25,000,000, with maturity the year 2019 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	25,000,000	25,000,000
Line of credit for working capital for B/.25,000,000, with maturity the year 2019 and annual Libor interest rate plus a margin backed by a portfolio of residential mortgage loans.	16,850,000	19,633,333
Line of credit for working capital for B/.30,000,000, with maturity the year 2020 and fixed rate.	30,000,000	40,000,000
Line of credit for working capital for B/.15,000,000, with maturity the year 2021 and fixed rate annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	5,216,667	2,616,666
Line of credit for working capital for B/.25,000,000, with maturity the year 2022 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	14,285,716	17,857,143
Line of credit for working capital for B/.32,000,000, with maturity the year 2024 and annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	30,285,714	16,000,000
Line of credit for working capital for B/.17,000,000, with maturity the year 2020 and annual Libor interest rate plus a margin.	17,000,000	17,000,000
Line of credit for working capital for B/.4,000,000 (COP 12 thousand millions), with maturity the year 2019 renewable at the parties´ option and annual interest rate DTF plus a margin.	56,075	1,429,848
Revolving line of credit for working capital up to approximately B/.4,000,000 (COP 12 thousand millions), with maturity the year 2019 renewable at the parties' option and annual interest rate DTF plus a margin.	672,907	1,340,483
Total	208,710,761	188,023,550
Less issuance costs	(697,517)	(876,016)
Total of borrowed funds	208,013,244	187,147,534

As at September 30, 2017 and 2017, there is no defaults in the payment of capital and interest in relation to the borrowings.

(19) Other Liabilities

The other liabilities are detailed as follows:

	2018	2017
Accrued interest payable of deposits, borrowed funds and other obligations	3,495,605	3,532,444
Allowance for employee benefits and other benefits	1,243,628	831,344
Cashier's checks	1,960,832	1,179,951
Others	9,316,831	5,863,854
	16,016,896	11,407,593

(20) Capital and Reserves

The composition of common shares is detailed as follows:

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

Reserves

Nature and purpose of reserves:

Capital Reserve

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

Fair Value Reserve

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

Currency Conversion Reserve

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

Dynamic Provision

Is constituted according to prudential criteria on all credit facilities that lack specific provision allocated, i.e. on credit facilities classified in the Normal category, as defined in the Agreement No. 004-2013 issued by the Superintendence of Banks of Panama. It corresponds to an equity

(20) Capital and Reserves, continued

account presented under the heading of regulatory reserve in the statement of changes in equity and appropriates retained earnings.

Specific Provision in Excess

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

(21) Income per Share

The calculation of basic income per share is based on net income attributable to common shareholders by the weighted average number of common shares outstanding.

Attributable income to common shareholders:

	2018	2017
Net income for the year	3,439,283	3,683,558
Attributable net income to the common shareholders	3,439,283	3,683,558

Weighted average of common shares:

	2018	2017
Issued shares at January 1st	15,000	15,000
Weighted average of common shares	14,273	15,000

Net income attributable to common stockholders is as follows:

	2018	2017
Attributable income to common shareholders	3,439,283	3,683,558
Weighted average of common shares (basics)	14,273	15,000
Income per share basic and diluted	240.96	245.57

(22) Service Commissions, Net and Other Income

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

	2018	2017
Commissions for administration and management:		
Trusts administration	1,140,866	1,102,617
Management collection	1,869,253	1,496,436
Insurance management	294,828	461,204
Others	908,202	1,131,049
	4,213,149	4,191,306
Other income:		
Income on sale of tax credit	575,594	218,372
Trusts	2,991	1,002,690
Insurance	115,057	100,318
Sale of foreclosed assets	77,733	86,833
Other income	1,210,839	856,481
	1,982,214	2,264,694

(23) Commission Expenses

The detail of commission expenses are detailed as follows:

	2018	2017
Commissions expenses:		
NCP commissions	146,391	449,970
NCN commissions	112,430	277,274
Line of credit commissions	342,760	328,866
Other commissions	462,122	140,012
	1,063,703	1,196,122

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

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

	2018	20187
Salaries and other personnel expenses:		
Wages, thirteenth month and vacations	4,119,420	3,884,991
Representation expenses	736,533	662,158
Bonuses	412,223	601,000
Social security costs	599,518	548,127
Severance costs	252,598	160,439
Travel, allowances and fuel	112,381	124,433
Others	645,651	545,125
	6,878,324	6,526,273

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

	2017	2016
Other operational expenses:		
Rent	576,125	463,386
Advertising	563,484	523,334
Equipment maintenance	606,886	581,090
Office supplies	88,366	91,246
Utilities expenses	278,940	212,663
Bank charges	120,886	64,508
Other expenses	920,119	1,103,082
	3,154,806	3,039,309

Options Plan of Purchase of Shares
In 2014 and 2012, the Board of La Hipotecaria (Holding), Inc. approved plans to grant options to executives of the Bank for 15,200 options with a unit fair value of B/.8.591 and 19,290 options with a unit fair value of B/.3.694, respectively, with exercise maturity in 10 years for each plan. As of September 30, 2018, there are 29,491 options outstanding (2017: 29,491), has not been cancelled options (2017: 0) and at the reporting date no options has been exercised. These options has a weighted-average 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).

(25) Income Tax

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

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

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

(25) Income Tax, continued

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

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

	Colombia	El Salvador
Current rates	34%	30%

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

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

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

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

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

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

The total expense on income tax as at September 30, 2018 is detailed is follows:

	2018	2017
Estimated income tax	1,331,086	1,315,248
Deferred tax temporary differences	(63,017)	(429,662)
Total income tax costs	1,268,069	885,586

(25) Income Tax, continued

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

	2018	2017
Profit before income taxes	4,707,352	4,569,144
Income tax expense	1,268,069	885,586
Effective rate of income tax	26.94%	19.38%

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 loan losses	517,168	140,785	299,600	75,758
Operative losses carry forward (1)	2,805,050	953,717	2,718,144	924,169
	3,322,218	1,094,502	3,017,744	999,927

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

Deferred tax movement is as follows:

	2018	2017
Beginning Balance	987,891	554,811
Adjustment under IFRS 9	40,020	0
Balance as of January 1st, 2018	1,027,910	554,811
Provision for loan losses	63,017	(12,497)
Operative losses carry forward	3,574	457,613
Deferred tax at period end	1,094,502	999,927

The conciliation between financial income before income tax and net income tax as at September 30, 2018, is a follows:

	2018	2017
Net financial income before income tax	4,707,352	4,569,144
Calculation of "expected" income tax expense	1,176,838	1,142,286
Non-deductible expenses	547,329	721,504
Income and expense from foreign and exempt sources, net	(600,951)	(767,326)
Change for temporary differences	(63,017)	(429,662)
Difference in foreign tax rates	207,870	218,785
Total income tax	1,268,069	885,586

(25) Income Tax, continued

As of September 30, 2018, the Bank has not recognized a liability for deferred income tax of approximately B/.531,510 (2017: B/.497,503) for the retained earnings of its operations abroad, due to the Bank considers that approximately B/.10,630,206 (2017: B/.9,950,063) of its earnings will be reinvested indefinitely.

(26) Trusts under Management

The Bank held in trust management contracts at customer risk amounted to B/.203,127,644 (2017: B/.225,153,486). Considering the nature of these services, management believes that there are not significant risks for the Bank.

(27) Commitments and Contingencies

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

Year	Amount
2,019	736,800
2,020	736,800
2,021	736,800
2,022	736,800
2,023	736,800

As of September 30, 2018, there is an ongoing complaint filed against the subsidiary of El Salvador by the Consumer Advocacy. The Bank's management and its legal counsel believe it is not expected that the result of this process have a material adverse effect on the financial position of the Bank.

In the normal course of business, the Bank held financial instruments without-balance sheet risk to cover the financial needs of its customers. As of September 30, 2018, the Bank has issued promise letters for B/.71,282,618 (2016: B/.77,155,573).

(28) Fair value of financial instruments

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

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

(28) 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.

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.

(28) Fair Value of Financial Instruments, continued

2018	Carrying amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
Financial assets at fair value:					
Securities – FVOCI	38,709,155	9,397,656	3,518,579	25,792,920	38,709,155
Securities – FVTPL	19,504,058	0	856,350	18,647,708	19,504,058
Financial assets not measured at fair value:					
Loans	663,645,691	0	0	687,035,349	687,035,349
Assets - AC	219,159	0	219,159	0	219,159
Liabilities:					
Financial liabilities not measured at fair value:					
Deposits from customer - time	223,915,399	0	0	226,974,766	226,974,766
Negotiable commercial paper	83,830,014	0	0	82,255,759	82,255,759
Negotiable commercial notes	108,678,272	0	0	109,206,934	109,206,934
Ordinary bonds	10,793,292	0	0	10,793,292	10,793,292
Investment certificate	14,805,372	0	0	14,773,201	14,773,201
Other negotiable debt	23,612,530	0	0	23,640,259	23,640,259
Borrowed funds	208,013,244	0	0	207,744,192	207,744,192

2017	Carrying amount	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Securities available for sale	43,898,566	9,864,375	3,767,239	30,266,952	43,898,566
Securities at fair value through profit or loss	15,136,846	0	1,362,746	13,774,100	15,136,846
Financial assets not measured at fair value:					
Loans	595,098,106	0	0	655,644,039	655,644,039
Securities held to maturity	442,132	0	442,132	0	442,132
Liabilities:					
Financial liabilities not measured at fair value:					
Deposits from customers – time	207,555,493	0	0	197,975,512	197,975,512
Negotiable commercial paper	82,931,225	0	0	81,688,132	81,688,132
Negotiable commercial notes	96,309,431	0	0	96,746,641	96,746,641
Ordinary bonds	14,310,229	0	0	14,310,229	14,310,229
Investment certificate	13,600,000	0	0	13,593,290	13,593,290
Other negotiable debt	13,840,047	0	0	13,851,192	13,851,192
Borrowed funds	187,147,534	0	0	182,123,169	182,123,169

As of September 30, 2018, there were not transfers of fair value hierarchy on securities at FVOCI and securities at FVFPL.

(28) 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 3 as of September 30, 2018 and as of December 31, 2017:

	Quantitative information Level 3 fair values		Range (weighted average)	
	Valuation technique	**Unobservable inputs**	**2018**	**2017**
Mortgage bonds	Discounted cash flows	Cumulative Default Assumptions ("SDA")	2.43% - 0.13% (0,76%)	4.48% - 0.14% (1.26%)
		Cumulative Speed Assumptions and Prepayment rate ("PSA" and "CPR")	49.11% - 19.28% (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 trust	Discounted cash flows	Cumulative Default Assumptions ("SDA")	2.43% - 0.13% (0.68%)	4.48% - 0.14% (0.84%)
		Cumulative Speed Assumptions and Prepayment rate ("PSA" and "CPR")	49.11% - 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

(28) Fair Value of Financial Instruments, continued

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

The table below presents the reconciliation as of September 30, 2018 for financial instruments categorized as Level 3 in the hierarchy of levels of fair value:

	2018	2017
Balance at the beginning of the year	44,041,052	45,752,935
Total income or (loss):	0	
In the consolidated statement of income	844,901	970,056
In the consolidated statement of comprehensive income	(4,037)	(389,310)
Purchases	4,434,263	922,246
Sales	(4,785,551)	(3,214,875)
Balance at the end of the year	44,440,628	44,041,052

(28) Fair Value of Financial Instruments, continued

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

2018

	Effect on Consolidated Statement of Income		Effect on Other Comprehensive Income (Loss)	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Investments at fair value through profit or loss	1,075,764	(827,060)	0	0
Securities at FVOCI	0	0	999,618	(875,443)
	1,075,764	(827,060)	999,618	(875,443)

2017

	Effect on Consolidated Statement of Income		Effect on Other Comprehensive Income (Loss)	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Investments at fair value through profit or loss	1,106,247	(761,940)	0	0
Securities at FVOCI	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;

(28) Fair Value of Financial Instruments, continued

- 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.

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

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

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

(29) Segment Information

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

The composition of the business segments is described as follows:

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

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

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

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

(29) Segment Information, continued

2018	Trust administration	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	27,423,346	4,408,658	1,849,612	33,681,616
Commission on management and servicing, net	1,656,592	2,363,872	192,685	0	4,213,149
Commission on loan granting	0	1,548,426	469,909	0	2,018,335
Interest and commission expense	0	(21,097,970)	(1,350,716)	(1,563,244)	(24,011,930)
Provision for loan losses	0	(777,626)	(52,477)	0	(830,103)
Gain on investments, net	0	0	0	1,195,338	1,195,338
Other income	0	1,711,062	125,688	145,464	1,982,214
Operating expenses	(1,165,179)	(9,195,465)	(2,550,797)	(629,826)	(13,541,267)
Profit by segment before tax	491,413	1,975,645	1,242,950	997,344	4,707,352
Segment assets	0	643,854,156	55,521,036	64,256,954	763,632,146
Segment liabilities	0	608,302,807	38,944,240	45,071,894	692,318,941

2017	Trust administration	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	24,271,529	2,946,697	2,412,645	29,630,871
Commission on management and servicing, net	1,517,119	2,501,080	173,107	0	4,191,306
Commission on loan granting	0	1,433,585	508,589	0	1,942,174
Interest and commission expense	0	(18,684,382)	(1,131,798)	(1,423,865)	(21,240,045)
Provision for loan losses	0	(644,808)	(122,435)	0	(767,243)
Gain on investments, net	0	0	0	1,243,234	1,243,234
Other income	0	1,992,200	120,676	151,818	2,264,694
Operating expenses	(1,092,433)	(8,621,366)	(2,391,543)	(590,505)	(12,695,847)
Profit by segment before tax	424,686	2,247,838	103,293	1,793,327	4,569,144
Segment assets	0	563,875,515	49,034,542	61,688,186	674,598,243
Segment liabilities	0	532,417,937	32,250,974	40,573,523	605,242,434

The composition of the geographic segments is described as follows:

2018	Panama	El Salvador	Colombia	Total
Interest income	22,210,497	6,878,576	4,592,543	33,681,616
Commission on management and servicing, net	3,348,197	773,851	91,101	4,213,149
Commission on loan granting	1,618,585	399,750	0	2,018,335
Interest and commission expense	(17,529,299)	(4,080,954)	(2,401,677)	(24,011,930)
Provision for loan losses	(495,122)	(214,457)	(120,524)	(830,103)
Gain on investments, net	1,026,682	0	168,656	1,195,338
Other income	1,468,871	434,734	78,609	1,982,214
Operating expenses	(9,451,334)	(2,265,104)	(1,824,829)	(13,541,267)
Profit by segment before tax	2,197,077	1,926,396	583,879	4,707,352
Segment assets	564,493,020	132,419,774	66,719,352	763,632,146
Segment liabilities	536,807,929	112,587,126	42,923,886	692,318,941

(29) Segment Information, continued

2017	Panama	El Salvador	Colombia	Total
Interest income	19,316,417	6,208,374	4,106,080	29,630,871
Commission on management and servicing, net	3,227,854	870,403	93,049	4,191,306
Commission on loan granting	1,593,511	348,663	0	1,942,174
Interest and commission expense	(15,254,390)	(3,351,454)	(2,634,201)	(21,240,045)
Provision for loan losses	(678,350)	(87,259)	(1,634)	(767,243)
Gain on investments, net	938,898	0	304,336	1,243,234
Other income	2,123,110	136,055	5,529	2,264,694
Operating expenses	(9,124,942)	(2,136,835)	(1,434,070)	(12,695,847)
Profit by segment before tax	2,142,108	1,987,947	439,089	4,569,144
Segment assets	500,880,291	117,046,254	56,671,698	674,598,243
Segment liabilities	476,220,881	95,926,658	33,094,895	605,242,434

(30) Preferential Interests on Mortgage Loans

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

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

As of September 30, 2018, the Bank recorded, net of reserve, B/.7,754,925 (2017: B/.6,211,383) 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 of September 30, 2018, the accumulated fiscal credit is included in the consolidated statement of financial position for the amount of B/.5,257,169 (2017: B/.8,479,096).

(31) Participations in Non-Consolidated Structured Entities

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

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 represents10%, 3% and 5% (2017: 10%, 3% y 5%)in three trusts.

(32) Main Applicable Laws and Regulations

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

(a) *Banking Law*

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

(b) *Trust Law*

Trust operations in Panama are regulated by the Superintendence of Banks of Panama in accordance with the legislation established in Law No. 1 of January 5, 1984, reformed by Law number twenty-one (21) of the tenth (10th) of May of two thousand seventeen (2017) of the Republic of Panama.

(c) *Securities Law*

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

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

(32) Main Applicable Laws and Regulations, continued

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

(a) *General Board Resolution SBP-GJD-0003-2013 issued by the Superintendence of Banks of Panama on July 9, 2013*

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

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

(b) *Agreement No. 003 – 2009 Dispositions on Acquired Foreclosed Assets, issued by the Superintendence of Banks of Panama on May 12, 2009*

For regulatory purposes, the Superintendence sets a term of five (5) years, effective the date of registration before the Public Registry to sell immovable goods acquired for the payment of past due credits. If after that term the Bank has not sold the property acquired, it shall conduct an independent appraisal to determine if its value has decreased, by applying in such case the provisions of IFRS.

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

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

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

(c) *Agreement No. 004-2013, "Whereby provisions on credit risk management inherent of in credit portfolio and off-balance sheet transactions are established", issued by the Superintendence of Banks of Panama on May 28, 2013.*

(32) Main Applicable Laws and Regulations, continued

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 cost of the Panamanian Bank classified according this Agreement and the specific provision:

	2018		2017	
Classification	**Balance**	**Allowance**	**Balance**	**Allowance**
Normal	470,246,436	0	429,229,393	0
Watch list	4,569,304	244,676	2,400,218	131,800
Substandard	2,727,265	369,061	1,502,959	228,404
Doubtful	1,900,991	435,609	1,306,821	344,905
Loss	1,530,508	252,024	630,594	111,779
Total	480,974,504	1,301,370	435,069,985	816,888

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

(32) Main Applicable Laws and Regulations, continued

2018	Current	Past due	Default	Total
Loans to customers	466,352,925	10,064,738	4,556,841	480,974,504

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

As of September 30,2018, 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.	1,416,926	1,416,926
La Hipotecaria C. F., S. A.	601,678	601,678
Total	6,863,256	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/.1,011,306 (2017: B/.701,268) which represents the excess of regulatory provision over the allowance for loan losses according IFRS.

(32) 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.

(33) Changes in accounting policies

Except for the changes 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.

(33) 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 existing categories of IAS 39 as held-to-maturity, loans and accounts receivable and securities available for sale. Under IFRS 9, derivatives implicit in contracts where the receiver is a financial asset within the scope of the Standard it is not divided. In contrast, the complete hybrid instrument is evaluated for classification. See Note 3, for an explanation of how the Bank classifies 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 Company classifies 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 compared 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.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and 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.

- The following evaluations 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 on the changes and implications resulting from the adoption of IFRS 9, see Note 34.

(34) Financial Assets and Financial Liabilities

Classification of financial assets and financial liabilities

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

	Mandatory to FVTPL	Investment in securities at FVOCI	Amortized cost	Carrying amount
September 30, 2018				
Financial assets				
Cash and cash equivalent				
Deposits in banks:			25,295,940	25,295,940
Investment in securities:				
Measurement at amortized cost	0	0	219,159	219,159
Measurement at fair value	19,504,058	38,709,155	0	58,213,213
Loans at amortized cost	0	0	662,977,563	662,977,563
Total financial assets	19,504,058	38,709,155	688,492,662	746,705,875
Financial liabilities				
Deposits from customer:				
Local savings			1,002,221	1,002,221
Foreign savings			279,474	279,474
Local time			200,607,525	200,607,525
Foreign time			23,307,874	23,307,874
Negotiable commercial paper			83,830,014	83,830,014
Negotiable commercial notes			108,678,272	108,678,272
Ordinary bonds			10,793,292	10,793,292
Investment certificates			14,805,372	14,805,372
Investment certificates			23,612,530	23,612,530
Borrowed funds			208,013,244	208,013,244
Total financial liabilities			674,929,818	674,929,818

(34) Financial Assets and Financial Liabilities, continued

	Negotiable	Amortized cost	Held to maturity	Loans and accounts receivable	Available for sale	Carrying amount
December 31, 2017						
Financial assets						
Cash and cash equivalent						
Deposit in banks				27,534,184		27,534,184
Investment in securities:						
Measurement at amortized cost			442,132			442,132
Measurement at fair value	15,136,846				43,933,581	59,070,427
Loans at amortized cost				594,784,481		594,784,481
Total financial assets	15,136,846		442,132	622,318,665	43,933,581	681,831,224
Financial liabilities						
Deposits from customer:		851,096				851,096
Local savings		139,388				139,388
Foreign savings		189,621,270				189,621,270
Local time		17,934,223				17,934,223
Foreign time		851,096				851,096
Negotiable commercial paper		82,931,225				82,931,225
Negotiable commercial notes		96,309,431				96,309,431
Ordinary bonds		14,310,229				14,310,229
Investment certificates		13,600,000				13,600,000
Investment certificates		13,840,047				13,840,047
Borrowed funds		187,147,534				187,147,534
Total financial liabilities		616,684,443				616,684,443

Classification of financial assets and financial liabilities as of the date of the adoption of IFRS 9.

(34) Financial Assets and Financial Liabilities, continued

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories according to IFRS 9 for the financial assets and liabilities of the Bank as of 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 and cash equivalent				
Deposits in banks:	Loans and account receivable	Amortized cost	27,534,184	27,534,184
Investment in securities:				
Measurement at amortized cost	Investments held to maturity	Amortized cost	442,132	441,248
Measurement at fair value	Available for sale	FVOCI	43,933,581	40,323,668
Measurement at fair value	FVTPL	FVTPL	15,136,846	18,776,759
Loans at amortized cost	Loans and account receivable	Amortized cost	594,784,481	594,642,440
			681,831,224	681,831,224
Financial liabilities				
Deposits from customer:				
Local savings	Amortized cost	Amortized cost	851,096	851,096
Foreign savings	Amortized cost	Amortized cost	139,388	139,388
Local time	Amortized cost	Amortized cost	189,621,270	189,621,270
Foreign time	Amortized cost	Amortized cost	17,934,223	17,934,223
Negotiable commercial paper	Amortized cost	Amortized cost	82,931,225	82,931,225
Negotiable commercial notes	Amortized cost	Amortized cost	96,309,431	96,309,431
Ordinary bonds	Amortized cost	Amortized cost	14,310,229	14,310,229
Investment certificates	Amortized cost	Amortized cost	13,600,000	13,600,000
Other negotiable debt	Amortized cost	Amortized cost	13,840,047	13,840,047
Borrowed funds	Amortized cost	Amortized cost	187,147,534	187,147,534
Total financial liabilities			616,684,443	616,684,443

The accounting policies of the Bank on the classification of financial instruments in accordance with IFRS 9 are presented in Note 3. The application of these policies resulted in the reclassifications established in the previous table and explained below.

(34) Financial Assets and Financial Liabilities, continued

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

	December 31, 2017 IAS 39	Reclassification	Remeasurement	January 1st IFRS 9
Financial assets				
At amortized cost				
Cash and cash equivalent				
Beginning balance	27,534,184	0	0	27,534,184
Ending balance	27,534,184	0	0	27,534,184
Loans				
Beginning balance	594,784,481	0	0	594,784,481
Remeasurement	0	0	(142,041)	(142,041)
Ending balance	594,784,481	0	(142,041)	594,642,440
Investment in securities				
Beginning balance	442,132	0	0	442,132
Remeasurement	0	0	(884)	(884)
Ending balance	442,132	0	(884)	441,248
Total at amortized cost	624,657,714	0	(142,925)	624,514,789
Available for sale				
Investments in securities:				
Beginning balance	43,933,581	0	0	43,963,581
A FVOCI – debt instruments	0	(40,323,668)	0	(40,323,668)
A FVTPL	0	(3,609,913)	0	(3,609,913)
Ending balance	43,933,581	(43,933,581)	0	0
FVOCI – debt instruments				
Investments in securities:				
Beginning balance	0	0	0	0
From available for sale	0	40,323,668	0	40,323,668
Ending balance	0	40,323,668	0	40,323,668
Total FVOCI	0	40,323,668	0	40,323,668
FVTPL				
Investments in securities:				
Beginning balance	15,136,846	0	0	0
From available for sale	0	3,609,913	0	18,746,759
Ending balance	0	3,609,913	0	18,746,759
Total FVTPL	0	3,609,913	0	18,746,759
Total financial assets	683,728,141	0	(142,925)	683,585,216

(34) Financial Assets and Financial Liabilities, continued

	December 31, 2017 IAS 39	Reclassification	Remeasurement	January 1st IFRS 9
Financial liabilities				
At amortized cost				
Deposits from customer	208,545,977	0	0	208,545,977
Debt issuances	220,990,932	0	0	220,990,932
Borrowed funds				
Beginning balance	187,147,534	0	0	187,147,534
Total amortized cost	616,684,443	0	0	616,684,443

The following table analyzes the impact, net of taxes, of the transition to IFRS 9 regarding 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 on the adoption of IFRS 9 January 1st, 2018
Reserve for fair value	
Ending balance under IAS 39 (December 31, 2017)	1,738,846
Change of classification from investments available for sale to FVTPL	(113,401)
ECL recognition under IFRS 9 for investments in securities at FVOCI	119,147
Beginning balance under IFRS 9 (January 1st, 2018)	1,744,592
Retained Earnings	
Ending balance under IAS 39 (December 31, 2017)	21,932,674
Change of classification from investments available for sale to FVTPL	113,401
Deferred taxes	40,020
ECL recognition for loans under IFRS 9	(142,041)
ECL recognition for investments at FVOCI under IFRS 9	(119,147)
ECL recognition for investments at AC under IFRS 9	(883)
Beginning balance under IFRS (January 1st, 2019)	21,824,024

(34) Financial Assets and Financial Liabilities, continued

The following table is reconciled:

- Provision for closing impairment for financial assets in accordance with IAS 39.
- The initial allowance for ECL determined in accordance with IFRS 9 as of January 1st, 2018.

	December 31, 2017 IAS 39/IAC 37	Reclassification	Remeasurement	January 1st IFRS 9
Allowance for loan losses according to IAS 39 / financial assets at amortized cost according to IFRS 9.	313,625	0	142,925	456,550
Investment in securities available for sale according to IAS 39 / debt financial instruments at FVOCI according to IFRS 9.	0	0	119,147	119,147
Total	313,625	0	262,072	575,697