BANCO LA HIPOTECARIA, S. A.
AND SUBSIDIARIES
(Panamá, República de Panamá)

Consolited Financial Statements

September 30, 2019

(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, 2019, 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 theBank, 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, 2019 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, 2019
Panama, Republic of Panama

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

Consolidated Statement of Financial Position

September 30, 2019

(Stated in Balboas)

Assets	**Note**	**2019**	**2018**
Cash and cash equivalents		173,453	350,656
Deposits in banks:			
Demand deposits in local banks		19,316,859	30,673,537
Demand deposits in foreign banks		6,178,642	6,039,906
Savings deposits in local banks		787,060	1,098,281
Savings deposits in foreign banks		1,345,336	958,288
Total deposits in banks		27,627,897	38,770,012
Total of cash, cash equivalents and deposits in banks at amortized cost	7	27,801,350	39,120,668
Investment in securities	8	99,093,275	68,069,658
Allowance for investment securities	8	(439)	(877)
Investment securities, net		99,092,836	68,068,781
Loans	9	674,082,925	688,536,501
Accrued interest receivable		1,447,575	1,635,088
Allowance for loan losses	9	(668,985)	(603,038)
Loans at amortized cost		674,861,515	689,568,551
Furniture, equipment and improvements, net	10	2,865,999	2,933,309
Accounts and interest receivable	11	2,625,491	2,292,536
Accounts receivable - related parties		0	30,000
Tax credit	32	14,997,019	8,097,687
Deferred tax	26	1,025,237	1,032,623
Rigth of use	29	3,566,604	0
Other assets	12	4,073,791	2,921,412
Total assets		830,909,842	814,065,567

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	2019	2018
Liabilities:			
Deposits from customers:			
Savings deposits - local	6	1,307,459	1,038,387
Savings deposits - foreign	6	2,166,099	557,914
Time deposits - local	6	184,170,964	180,882,818
Time deposits - foreign	6	70,212,863	57,264,547
Accrued interest payable		1,488,962	1,533,175
Total deposits from customers		259,346,347	241,276,841
Negotiable commercial papers	13	108,857,724	90,688,165
Negotiable commercial notes	14	108,523,777	113,118,210
Covered bonds	15	40,165,070	10,431,427
Ordinary bonds	16	5,179,347	8,832,345
Investment certificates	17	34,797,424	15,893,531
Other negotiable debts	18	21,329,219	18,997,888
Borrowed funds	19	167,466,549	237,023,005
Income tax payable	26	401,542	982,678
Leases liabilities	29	3,685,800	
Other liabilities	20	7,531,552	5,901,582
Total liabilities		757,284,351	743,145,672
Equity:			
Common shares	21	15,000,000	15,000,000
Additional paid-in capital		25,025,329	25,025,329
Treasury shares	21	(727,000)	(727,000)
Capital reserve		1,800,000	1,800,000
Fair value reserve		2,806,825	1,569,569
Currency translation reserve		(7,868,704)	(6,455,494)
Regulatory reserves		8,148,128	7,883,553
Retained earnings		28,507,059	25,977,166
		72,691,637	70,073,123
Non-controlling interest		933,854	846,772
Total equity		73,625,491	70,919,895
Commitments and contingencies	28		
Total liabilities and equity		830,909,842	814,065,567

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

Consolidated Statement of Income

Period ended September 30, 2019

(Stated in Balboas)

	Note	2019	2018
Interest and commission income:			
Interest on:			
Loans		33,607,608	31,900,575
Investment securities		2,737,665	1,683,728
Deposits in banks		136,287	97,313
		36,481,560	33,681,616
Commisions on loan granting		2,234,130	2,018,335
Total interest and commission income		38,715,690	35,699,951
Interest and commision expense:			
Deposits		8,995,220	7,778,081
Borrowed funds		16,861,776	15,170,146
Commissions	24	1,014,956	601,581
Total interest and commision expense		26,871,952	23,549,808
Net interest and commision income		11,843,738	12,150,143
Provision for loan losses		619,369	770,751
Provision for credit losses on securities at amortized cost		(439)	0
Provision for credit losses on securities at FVOCI		(110,373)	59,352
Net interest and commission income, after provisions		11,335,181	11,320,040
Income from banking services, commissions and others, net:			
Management and servicing commisions earned	23	4,899,974	4,212,149
Net gain on securities		680,885	1,195,338
Othe income	6, 23	1,467,811	1,982,214
Other commissions incurred	23	(515,126)	(462,122)
Total income from banking services and others, net		6,533,544	6,927,579
General and administrative expenses			
Salaries and other personnel benefits	6, 25	6,942,048	6,878,324
Depreciation and amortization	10	683,364	636,410
Professional and legal fees		966,531	1,278,736
Taxes		1,639,612	1,592,991
Other expenses	6, 25	3,737,491	3,154,806
Total general and administrative expenses		13,969,046	13,541,267
Net income before income tax		3,899,679	4,706,352
Income tax	26	981,778	1,268,069
Net income		2,917,901	3,438,283
Income attributable to:			
Controlling interest		2,881,835	2,116,227
Non-controlling interest		36,066	21,579
		2,917,901	2,137,806
Earnings per share:			
Basic earnings per share		204.43	240.96
Diluted earnings per share		204.43	240.96

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

Consolidated Statement of Comprehensive Income

Period ended September 30, 2019

(Stated in Balboas)

	2019	2018
Net income	2,917,901	3,439,283
Other comprehensive income:		
Items that are or may be reclassified subsequently to the statement of income:		
Fair value reserve:		
Fair value of loan portfolio acquired:		
Amortization	(865,667)	(59,505)
Valuation of debt securities		
Reclassified to the statement of income	(27,659)	(168,656)
Net change in fair value	1,455,775	(351,608)
Provision for credit losses on debt securities	(114,731)	59,713
Foreign currency translation differences for foreign operations	288,411	4,999
Total other comprehensive income	736,129	(515,057)
Total comprehensive income	3,654,030	2,924,226
Comprehensive income attributable to:		
Controlling interest	2,585,245	2,902,459
Non-controlling interest	32,844	21,579
Total comprehensive income	2,618,089	2,924,038

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, 2019

(Stated in Balboas)

	Attributable to the controlling interest											
					Fair value reserve			Regulatory reserves				
	Common shares	Treasury shares	Additional paid-in capital	Capital reserve	Credit losses reserves on securities	Fair value reserve	Currency translation reserve	Dynamic provision	Specific provision in excess	Retained earnings	Non-controlling interest	Total equity
Balance at December 31, 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 0	891,891	70,587,911
Adjustment on initial application of IFRS 9					119,147	(113,401)				(108,650)		(102,904)
Net income	0	0	0	0	0	0	0	0	0	3,417,704	21,579	3,439,283
Other comprehensive income (loss)												0
Fair value reserve:												
Fair value of loan portfolio acquired, net	0	0	0	0	0	(59,505)	0	0	0	0	0	(59,505)
Net change in fair value of securities AFS	0	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	0	0	0	0	0	0	0
	0	0	0	0	0	0	4,811	0	0	0	188	4,999
Total other comprehensive income (loss)	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												
Constitutions 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:												
Decrease in additional paid-in capital	0	0	0	0	0	0	0	0	0	0	0	0
Treasury shares	0	0	(1,274,671)									(1,274,671)
Complementary tax	0	(727,000)	0	0	0	0	0	0	0	0	0	(727,000)
Non-controlling interest	0	0	0	0	0	0	0	0	0	(94,357)	0	0
Total of contributions and distributions	0	(727,000)	(1,274,671)	0	0	0	0	0	0	(94,357)	0	(2,001,671)
Balance at September 30, 2018	15,000,000	(727,000)	25,025,329	1,800,000	59,713	1,159,077	(4,635,213)	6,863,256	1,011,306	24,945,983	913,658	71,510,466
Balance at December 31, 2018	15,000,000	(727,000)	25,025,329	1,800,000	263,676	1,305,893	(6,455,494)	6,914,770	968,783	25,977,166 0	846,772	70,919,895
Adjustment on initial application of IFRS 16	0	0	0	0	0	0	0	0	0	0	0	0
Balance at January 1, 2019	15,000,000	(727,000)	25,025,329	1,800,000	263,676	1,305,893	(6,455,494)	6,914,770	968,783	25,977,166	846,772	70,919,895
Net income	0	0	0	0	0	0	0	0	0	2,881,835	36,066	2,917,901
Other comprehensive income (loss)												
Fair value reserve:												
Amortization of fair value of loan portfolio acquired	0	0	0	0	0	(885,502)	0	0	0	0	0	(885,502)
Net change in fair value of securities	0	0	0	0	0	2,233,132	0	0	0	0	0	2,233,132
Provision for credit losses on securities	0	0	0	0	(110,374)	0	0	0	0	0	0	(110,374)
Foreign currency translation differences for foreign operations	0	0	0	0	0	0	(1,413,210)	0	0	0	51,016	(1,362,194)
Total other comprehensive income (loss)	0	0	0	0	(110,374)	1,347,630	(1,413,210)	0	0	0	51,016	(124,938)
Total comprehensive income	0	0	0	0	(110,374)	1,347,630	(1,413,210)	0	0	2,881,835	87,082	2,792,963
Other changes in equity												
Constitutions of reserves	0	0	0	0	0	0	0	0	264,575	(264,575)	0	0
Transactions with the shareholders of the Bank:												
Contributions, distributions and change in participations:												
Complementary tax	0	0	0	0	0	0	0	0	0	(87,367)	0	(87,367)
Total of contributions and distributions	0	0	0	0	0	0	0	0	0	(87,367)	0	(87,367)
Balance at September 30, 2019	15,000,000	(727,000)	25,025,329	1,800,000	153,302	2,653,523	(7,868,704)	6,914,770	1,233,358	28,507,059	933,854	73,625,491

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, 2019

(Stated in Balboas)

	Note	2019	2018
Operating activities:			
Net income		2,917,901	3,439,283
Adjustment to reconcile net income and cash from operating activities:			
Provision for loan losses		619,369	770,751
Provision for losses on investment securities		(110,812)	59,352
Unrealized gain on investment securities at fair value		(653,227)	(943,171)
Net gain gain on sale of investment securities		(27,659)	0
Depreciation and amortization		683,364	636,410
Gain on sale of foreclosed assets		39,159	0
Interest income, net		(10,624,564)	(10,733,389)
Income tax expense		981,778	1,268,069
Changes in operating assets and liabilities:			
Loans		13,202,165	(69,023,338)
Accounts receivable		(505,381)	(223,566)
Accounts receivable - related parties		30,000	(30,035)
Sale of tax credits		2,610,601	0
Accrual of tax credits		(9,509,933)	3,221,927
Other assets		(4,750,755)	(1,755,345)
Time deposits from customers		16,192,249	16,359,906
Saving deposits from customers		1,877,257	291,211
Other liabilities		4,487,418	4,431,407
Cash generated from operations:			
Interest received		36,653,985	33,978,926
Interest paid		(26,275,833)	(23,258,092)
Income tax paid		(315,725)	(551,581)
Cash flows from operating activities		27,521,357	(42,061,275)
Investment activities:			
Purchase of investment securities		(40,168,332)	(12,493,004)
Sale of investment securities at FVOCI		10,591,553	11,545,912
Redemption of investment securities		1,467,180	2,348,166
Purchase of furniture and equipments		(618,017)	(786,327)
Cash flows from investment activities		(28,727,616)	614,747
Financing activities:			
Proceeds from borrowed funds		61,000,000	70,272,907
Payment of borrowed funds		(130,556,456)	(49,407,197)
Proceeds from issuance of negotiable commercial papers		95,853,000	79,901,789
Redemption of negotiable commercial papers		(77,683,441)	(79,003,000)
Proceeds from issuance of negotiable commercial notes		40,165,567	37,842,841
Redemption of negotiable commercial notes		(44,760,000)	(25,474,000)
Proceeds from issuance of investment certificates		26,493,000	9,955,372
Redemption of investment certificates		(7,589,107)	(8,750,000)
Proceeds from issuance of negotiable debts		20,662,000	20,910,483
Redemption of negotiable debts		(18,330,669)	(11,138,000)
Redemption of ordinary bonds		(3,652,998)	(3,516,937)
Proceeds from issuance of covered bonds		29,733,643	0
Additional paid-in capital		0	(1,274,671)
Common shares		0	(727,000)
Non-controlling interest		51,016	188
Complementary tax		(87,367)	(94,357)
Cash flows from financing activities		(8,701,812)	39,498,418
Effect of exchange rate fluctuations on cash and cash equivalents held		(1,411,247)	14,804
Net increase (decrease) in cash and cash cash equivalents		(9,908,071)	(1,948,110)
Cash and cash equivalents at the beginning of the year		39,120,668	27,534,184
Cash and cash equivalents at the end of the year	7	27,801,350	25,600,878

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. (formerly, La Hipotecaria, S. A.), was incorporated on November 7, 1996 under the law of companies of the Republic of Panama. According to Resolution S. B. P. No. 127-2010 of June 4, 2010, the Superintendence of Banks of Panama granted a General Banking License to start operations as a Bank on June 7, 2010, which allows it to provide banking services, indistinctly, in Panama or abroad, and conduct any other activity authorized by the Superintendence.

Banco La Hipotecaria, S. A. is a private bank whose shareholder is La Hipotecaria (Holding), Inc. a company incorporated under the laws of the British Virgin Islands whose main shareholder is Grupo Assa, S. A. in 69.01% (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	
			2019	2018
La Hipotecaria Compañia de Financiamiento, S. A.	Grant residential mortgage loans, manage residential mortgage loans in the Republic of Colombia.	Colombia	94.99%	94.99%
La Hipotecaria, S. A. de C. V.	Grant residential and personal mortgage loans, manage residential and personal mortgage loans in the Republic of El Salvador.	El Salvador	99.98%	99.98%

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

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

(2) Basis of Preparation

(a) Statement of Compliance

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Audit Committee of the Bank reviewed and authorized the issuance of these consolidated financial statements on October 28, 2019.

(2) Basis of Preparation, continued

(b) Basis of Measurement

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

Item	Basis of Measurement
Financial instruments at fair value through profit or loss (FVTPL)	Fair value
Investments in securities measured at fair value through other comprehensive income (FVOCI)	Fair value

(c) Functional and Presentation Currency

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

(3) Summary of Significant Accounting Policies

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

(a) Base of Consolidation

(a.1) Subsidiaries

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

(3) Summary of Significant Accounting Policies, continued

(a.2) Structured Entities

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

(a.3) Non-controlling Interests

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

(a.4) Loss of Control

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

(a.5) Transactions Eliminated on Consolidation

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

(a.6) Funds Administration

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

(b) Foreign Currency

(b.1) Foreign Currency Transactions

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences arising on translation are generally recognized in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of equity instruments measured at fair value through other comprehensive income

(3) Summary of Significant Accounting Policies, continued

(b.2) Foreign Operations

The functional currency of the subsidiary in Colombia is the Colombian peso (COP), and the functional currency of the subsidiary in El Salvador is the U.S. Dollar (U.S. Dollar).

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

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

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

(c) Financial Assets and Liabilities

(c.1) Recognition

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

(c.2) Classification

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as the consideration of the time value of money and the credit risk associated with the amount of the principal amount outstanding during a particular period of time and for other basic lending risk and costs (i.e. liquidity risk and administrative costs), as well as profit margin.

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

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

Reclassification

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

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

Financial assets

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

(c.4) Modification of financial assets

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

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

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

(d) Fair Value Measurement

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

(e) Impairment

Policy applicable from January 1, 2018

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

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

No impairment loss is recognized on equity instruments.

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

(f) Cash and Cash Equivalents

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

(g) Trading Assets and Liabilities

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

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

(h) Loans

Loans are non-derivative financial assets with fixed determinable payments that are not quoted in the active market, and are generally originated by providing funds to debtors and the Bank does not intend to sell immediately or in the near term.

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

(i) Allowance for Expected Credit Loss

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

(j) Investment securities

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

- Debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL; these are at fair value with changes recognized immediately in profit or loss;
- Debt securities measured at FVOCI.

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

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

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

(3) Summary of Significant Accounting Policies, continued

(k) Furniture, Equipment and Improvements

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

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

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

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

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

(l) Assets Classified as Held for Sale

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

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

(3) Summary of Significant Accounting Policies, continued

(m) Deposits, Borrowed Funds and Debt Securities Issued

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

(n) Share Based Payments

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

(o) Employee Benefits

(o.1) Termination benefits

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

(o.2) Benefic Short-term Employee Benefits

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

(p) Earnings per Share

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

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

(q) Segment Reporting

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

(3) Summary of Significant Accounting Policies, continued

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

Effective interest rate

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

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

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

(3) Summary of Significant Accounting Policies, continued

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

Presentation

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

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

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

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

(s) Fees and Commission

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

(t) *Trusts Operations*
Assets held on trusts or in function of the trustee are not considered part of the Bank and therefore, those assets and its corresponding income are not included in the consolidated financial statements presented. It is a Bank's obligation to manage the resources of the trusts in conformity with the contracts and independent of its equity.

(4) Summary of Significant Accounting Policies, continued

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) Assets and Liabilities for lease

The Bank has initially adopted IFRS 16 - Leases since January 1, 2019.

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under the requirements of IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 have been disclosed separately in case they are different from those under IFRS 16 and the impact of the change has been disclosed in Note 35.

(3) Summary of Significant Accounting Policies, continued

Policy applicable from January 1, 2019

At the beginning of a contract, the Bank evaluates whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank evaluates whether:

- the contract involves the use of an identified asset - this can be explicitly or implicitly specified and must be physically different or substantially represent the entire capacity of a physically different asset. If the supplier has a substantial substitution right, then the asset is not identified;
- The Bank has the right to obtain substantially all the economic benefits of the use of the asset during the entire period of use;
- The Bank has the right to direct the use of the asset. The bank has this right when it has the most relevant decision-making rights to change how and for what purpose the asset is used. In exceptional cases where the decision on how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if:

• The Bank has the right to operate the asset; or
• The Bank designated the asset in a manner that predetermines how and for what purpose it will be used.

This policy applies to contracts concluded or modified as of January 1, 2019.

At the beginning or in the reassessment of a contract that contains a lease component, the Bank assigns consideration in the contract to each lease component based on their relative independent prices. However, for the leases of land and buildings in which it is a lessee, the Company has chosen not to separate the non-lease components from the contract and account for them in a single lease component together with the components that do qualify.

As a lessee - Under IFRS 16

The Bank recognizes a right to use asset and a lease liability on the start date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payment made on or before the start date, plus the initial direct costs incurred and an estimate of the costs for dismantle and eliminate the underlying asset or to restore the underlying asset or the site where it is located, less the lease incentives received.

(3) Summary of Significant Accounting Policies, continued

The right-of-use asset is subsequently depreciated using the straight-line method from the start date until the end of the useful life of the asset by right of use or at the end of the lease term. The estimated useful life of the assets by right of use is determined on the same basis as that of the furniture, equipment and improvements. In addition, the right-of-use asset is periodically reduced by impairment losses, if applicable, and adjusted for certain new measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid on the start date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the incremental indebtedness rate from The Bank. The Bank uses its incremental interest rate as a discount rate.

Lease payments included in the measurement of the lease liability include the following:

• Fixed payments, including fixed payments in substance;
• Variable lease payments that depend on an index or rate, initially measured using the index or rate on the start date;
• Amounts expected to be paid under a residual value guarantee; and
• The exercise price under a purchase option that the Bank is reasonably sure to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option and fines for the early termination of a lease unless the Bank is reasonably sure not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is measured again when there is a change in future lease payments that arise from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be paid under a residual value guarantee, or if The Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is measured again in this way, an adjustment is made corresponding to the carrying amount of the asset by right of use or is recorded in profit or loss if the carrying amount of the asset by right of use has been reduced to zero.

The Bank presents the right-of-use assets that do not meet the definition of investment properties in accordance with IAS 40, under the heading of 'net for use rights, net' in the consolidated statement of financial position.

(3) Summary of Significant Accounting Policies, continued

Short term leases and leases of low value assets.
The Bank has chosen not to recognize the right-of-use assets and liabilities for leases for short-term leases of computer equipment that have a lease term of 12 months or less and leases of low-value assets. The Bank recognizes the lease payments associated with these leases as an expense in a straight line during the term of the lease, in the consolidated statement of income.

Policy applicable before January 1, 2019
For contracts concluded before January 1, 2019, the Bank determined whether the agreement was or contained a lease based on the assessment of whether:

- compliance with the agreement depended on the use of a specific asset or assets; and
- the agreement had transmitted the right to use the asset. An agreement conveyed the right to use the asset if one of the following requirements was met:
• the buyer had the capacity or the right to operate the asset while obtaining or controlling more than an insignificant amount of production;
• the buyer had the ability or the right to control physical access to the asset while obtaining or controlling more than an insignificant amount of production; or
• the facts and circumstances indicated that it was remote for other parties to take more than an insignificant amount of production, and the unit price was not fixed per unit of production nor equal to the current market price per unit of production.

As a tenant - Under IAS 17
In the comparative period, as a lessee, the Bank classified leases that transfer substantially all the risks and rewards of ownership as financial leases. When this was the case, the leased assets were initially measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. The minimum lease payments were payments during the lease term that the lessee had to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the consolidated statement of financial position of the Corporation. Payments made under operating leases were recognized in the consolidated statement of income in a linear manner during the term of the lease. The lease incentives received were recognized as an integral part of the total lease expense, during the term of the lease.

(3) Summary of Significant Accounting Policies, continued

(x) Comparative Information

Some figures for the year 2018 included in certain notes to the interim consolidated financial statements were reclassified to standardize their presentation with that of the interim consolidated financial statements for 2019, as a result of the application of the new accounting standards adopted by the Bank. These reclassifications seek to better describe the nature of the Bank's balances and transactions, and are for amounts that are not considered of relative importance for the interim consolidated financial statements as of September 30, 2018. The summary of the reclassifications made follows:

Consolidated Statement of Income	As of September 30, 2018		
	Previously reported	Reclassification	Reclassied
Commission Income	6,231,484	(4,213,149)	2,018,335
Commission expenses	(1,063,703)	462,122	(601,581)
Other income from banking and other services, net	3,177,552	3,751,027	6,928,579
Total	8,345,333	0	8,345,333

For income statements, the main reclassification corresponds to commissions on loan products that were reclassified to other income, since they are not part of the effective interest method.

These reclassifications have no impact on total assets, total liabilities, net income, or total cash flows from investment, operation or financing activities for the period ended September 30, 2018.

(4) Financial Risk Management

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

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

4) Financial Risk Management

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

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

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

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

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

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

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

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

7. To oversight the promotion of a culture of risk management.

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

   The Bank's current risk grade framework for the segments of its loan portfolio, consists of eight classifications based on delinquency, reflecting the different.

(4) Financial Risk Management, continued

degrees of the risk of default. These grades are associated or related to the different delinquency levels presented by the loan instrument. While the Bank adopts the inclusion of a behavioral "scoring", the grades will be based on delinquency levels.

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

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

(a) Credit Risk:

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

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

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

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

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

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

(5) Financial Risk Management, continued

<u>*Credit quality analysis*</u>

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

	2019				2018
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total	Total
Loans					
Normal or low-fair risk	644,023,103	0	0	644,023,103	660,946,313
Watch-list	19,960,222	0	0	19,960,222	18,306,095
Substandard	0	2,383,706	514,424	2,898,130	2,836,005
Doubtful	0	1,385,458	584,090	1,969,547	1,983,784
Loss	0	0	5,231,923	5,231,923	4,464,304
Gross amount	663,983,325	3,769,164	6,330,436	674,082,925	688,536,501
Accrued interest receivable	1,447,575	0	0	1,447,575	1,635,088
Allowance for impairment loss	(228,733)	(103,500)	(336,752)	(668,985)	(603,038)
Carrying value, net	665,20,167	3,665,664	5,993,684	674,861,515	689,568,551
Investment securities at AC					
Normal or low-fair risk	219,808	0	0	219,808	219,321
Gross amount	219,808	0	0	219,808	219,321
Allowance for impairment loss	(439)	0	0	(439)	(877)
Carrying value, net	219,369	0	0	219,369	218,444
Investment securities at FVOCI					
Normal or low-fair risk	74,793,648	0	0	74,793,648	48,531,447
Promissory notes					
Normal or low-fair risk	63,407,223	0	0	63,407,223	59,484,283

At September 30, 2019, the Bank performed the credit quality analysis over its off-balance accounts, resulting in a classification of 'normal' for the total of its promissory notes.

Deposits placed with banks

At September 30, 2019, the Bank held deposits placed with banks for B/.27,627,897 (2018: B/.38,770,012). These deposits are held with financial institutions that are rated at least BBB- y BBB+, based on Fitch Ratings Inc., Moodys, and Standard & Poors.

(4) Financial Risk Management, continued

Collateral held and other credit enhancements
The Bank holds collateral and other credit enhancements against certain of its credit exposures, as security for their collection. The following table sets out the principal types of collateral held against different types of financial assets.

	% of exposure that is subject to collateral requirement		
	2019	**2018**	**Type of colateral held**
Loans	89%	92%	Properties
Investment securities	83%	77%	Mortgage loans

Residential mortgage loans
The tables below stratify credit exposures from residential mortgage loans by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination.

LTV ranges	2019	2018
Non credit-impaired loans		
0-20%	1,773,116	3,385,889
20-40%	11,827,287	20,285,283
40-60%	38,448,151	52,251,992
60-80%	223,266,533	210,280,677
80-100%	327,244,278	342,332,354
Total	602,559,365	628,536,195

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

(4) Financial Risk Management, continued

Assets obtained by taking possession of collateral

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

	2019	2018
Properties	224,904	271,138

Amounts arising from ECL

Significant increase in credit risk

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

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

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

Degree of credit risk for the credit portfolio

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

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

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

(4) Financial Risk Management, continued

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

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

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

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

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

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

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

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

(4) Financial Risk Management, continued

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

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

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

b) Personal loans without guarantee (LWOG).

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

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

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

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

(4) Financial Risk Management, continued

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

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

General approach for determining default and refutation of presumptions

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

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

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

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

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

(4) Financial Risk Management, continued

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

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

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

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

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

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

Impairment definition
The Bank considers that a financial asset is impaired when:

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

(4) Financial Risk Management, continued

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

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

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

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

Incorporation of forward-looking information

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

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

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

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

(4) Financial Risk Management, continued

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

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

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

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

As a result of the application of the methodology exposed in historical series corresponding to annual periods between 2013 and 2018, the following variables were identified by country and segment:

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

Measurement of estimated credit losses (ECL)

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

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

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

(4) Financial Risk Management, continued

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

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

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

<u>PD of operations that reached more than 90 days for personal loans, which were canceled or recognized as a loss</u>
For this case, personal loan operations that reach the number of days in arrears indicated above and which ended up canceled or in the portfolio at loss are taken into consideration, that is, the recoveries of the personal loans that were recognized as a loss and also those of personal loans who having reached the point of default were canceled. Then the average of both PD is obtained and averaged to obtain the PD of the 'Personal Loans Segment'. In the case of personal loans, due to their nature, legal recovery expenses are not incurred.

(4) Financial Risk Management, continued

Mortgage PD for the Colombian operations

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

Exposure at Default (EAD)

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

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

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

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

(4) Financial Risk Management, continued

Concentration of Credit Risk

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

	Loans		Investment securities	
	2019	2018	2019	2018
Concentration by:				
Sector:				
Mortgage banking	602,559,365	628,536,195	62,097,419	43,761,562
Personal banking	71,523,560	60,000,306	0	0
Other sectors	0	0	36,995,856	24,308,096
Interest receivable	1,447,575	1,635,088	0	0
	675,530,500	690,171,589	99,093,275	68,069,658
Geographic:				
Panama	496,548,139	501,180,800	62,317,226	43,980,883
El Salvador	109,923,958	130,887,518	0	0
Colombia	67,610,828	56,468,183	4,370,149	4,122,175
United States of America	0	0	32,405,900	19,966,600
Interest receivable	1,447,575	1,635,088	0	0
	675,530,500	690,171,589	99,093,275	68,069,658

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

(b) *Liquidity Risk:*

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

Funding Liquidity Risk:

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

Market Liquidity Risk:

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

Liquidity Risk Management:

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

(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%:

	2019	2018
At September 30	95.16%	82.60%
Average of the year	92.08%	57.17%
Maximum of the year	119.35%	82.60%
Minimum of the year	69.55%	40.13%

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

2019	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More tan 10 years
Financial Liabilities:						
Saving deposits	3,473,558	(3,473,558)	(3,473,558)	0	0	0
Time deposits	255,872,789	(272,370,089)	(126,365,514)	(146,004,575)	0	0
Negotiable commercial papers	108,857,724	(110,889,604)	(110,889,604)	0	0	0
Negotiable commercial notes	108,523,777	(114,899,299)	(54,723,153)	(60,176,146)	0	0
Covered bonds	40,165,070	(50,057,583)	(2,292,583)	(47,765,000)	0	0
Ordinary bonds	5,179,347	(5,543,340)	(263,283)	(5,280,057)	0	0
Investment certificates	34,797,424	(41,754,893)	(9,523,933)	(32,230,960)	0	0
Other negotiable debts	21,329,219	(22,068,519)	(22,068,519)	0	0	0
Borrowed funds	167,466,549	(182,261,502)	(93,723,710)	(53,799,296)	(34,738,496)	0
Total finacial liabilites	745,665,457	(803,318,387)	(423,323,857)	(345,256,034)	(34,738,496)	0
Financial Assets:						
Cash	173,454	173,454	173,454	0	0	0
Deposits in banks	27,801,350	27,801,350	27,801,350	0	0	0
Investment securities	99,092,836	175,112,190	5,956,183	20,983,272	70,881,446	77,291,289
Loans	674,861,515	1,132,711,490	57,128,547	229,590,776	245,274,293	600,717,874
Total financial assets	801,929,155	1,335,798,484	91,059,534	250,574,048	316,155,739	678,009,163
Commitments and contingencies						
Loan commitments	0	(63,407,223)	(63,407,223)	0	0	0

(4) Financial Risk Management, continued

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

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

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

	2019	2018
Financial assets:		
Loans	673,611,201	687,441,500
Investment Securities	97,288,142	63,947,484
Financial liabilities:		
Time deposits	131,824,837	105,423,014
Borrowed funds	75,692,497	152,649,925
Negotiable commercial notes	55,598,000	58,337,000
Covered bonds	41,000,000	11,000,000
Ordinary bonds	5,179,347	8,784,024
Investment certificates	25,607,000	8,280,000

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

(4) Financial Risk Management, continued

The table below shows the Bank's financial assets recognize in the consolidated statement of financial position that had been pledged as collateral for liabilities.

2019	Pledged as Collateral	Available as Collateral	Total
Cash and cash equivalent	0	27,801,350	27,801,350
Investment securities	0	99,092,836	99,092,836
Loans, net	147,745,782	527,115,733	674,861,515
Interest receivable on loans	0	1,447,575	1,447,575
Non-financial assets	0	27,706,566	27,706,566
	147,745,782	683,164,060	830,909,842

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

(c) *Market Risk:*

It is the risk that the value of a financial asset is reduced as a result of changes in interest rates, in monetary exchange rates, stock prices and other financial variables, as well as the reaction of market participants to political and economic events. These elements cause that the Bank is subject to latent losses as to potential profit. The objective of the Bank's market risk management is to manage and control market risk exposures within the acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

Market Risk Management:

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

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

Foreign Exchange Risk:

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

(4) Financial Risk Management, continued

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

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

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

	2019	2018
Assets		
Cash and cash equivalents	3,544,881	3,112,829
Investment	4,370,149	4,122,175
Loans, net	67,817,895	56,370,232
Other assets	2,208,360	2,111,138
Total assets	77,941,285	65,716,374
Liabilites		
Time deposits	49,594,193	32,135,960
Ordinary bonds	5,179,347	8,784,024
Borrowed funds	977,052	2,154,012
Other liabilities	440,681	604,500
Total liabilities	56,191,273	43,678,496
Net position	21,750,012	22,037,878

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

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

(4) Financial Risk Management, continued

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:

	25pb de incremento	25pb de disminución	50pb de incremento	50pb de disminución
Sensitivity at admission projected net interest				
2019				
September 30	1,080,376	(1,080,376)	2,160,756	(2,160,756)
Period average	1,087,870	(1,087,870)	2,175,741	(2,175,741)
Period maximum	1,140,624	(1,140,624)	2,281,249	(2,281,249)
Period minimum	1,035,116	(1,035,116)	2,070,233	(2,070,233)
2018				
December 31	1,028,784	(1,028,784)	2,057,568	(2,057,568)
Period average	324,780	(324,780)	629,677	(629,677)
Period maximum	1,028,784	(1,028,784)	2,057,568	(2,057,568)
Period minimum	69,381	(69,381)	138,763	(138,763)
Sensitivity in projected net equity of interest				
2019				
September 30	(1,724,204)	1,724,204	(3,448,408)	3,448,408
Period average	(1,809,512)	1,809,512	(3,619,023)	3,619,023
Period maximum	(1,843,449)	1,843,449	(3,686,898)	3,686,898
Perido minimum	(1,724,204)	1,724,204	(3,448,408)	3,448,408
2018				
December 31	(1,212,648)	1,212,648	(2,425,297)	2,425,297
Period average	(1,158,636)	1,158,636	(2,317,272)	2,317,272
Period maximum	(1,212,636)	1,212,636	(2,425,297)	2,425,297
Period minimum	(1,131,470)	1,131,470	(2,262,941)	2,262,941

(4) Financial Risk Management, continued

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

2019	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Deposits in Banks	17,260,722	0	0	0	17,260,722
Investments at FVOCI	15,892,800	2,565,015	32,405,900	23,929,933	74,793,648
Investments at amortized cost	0	0	0	219,808	219,808
Investments at FVTPL	1,805,133	0	0	22,274,686	24,079,819
Loans	674,082,925	0	0	0	674,082,925
Total assets	709,041,580	2,565,015.	32,405,900	46,424,427	790,436,922
Liabilities:					
Saving deposits	3,473,558	0	0	0	3,473,558
Time deposits	122,724,080	131,659,747	0	0	254,383,827
Borrowed funds	167,466,549	0	0	0	167,466,549
Issued debt	192,314,943	126,237,618	0	0	318,552,561
Total liabilities	485,979,130	257,897,365	0	0	743,876,495
Interest rate sensivity, net	223,062,450	(255,332,350)	32,405,900	46,424,427	46,560,427

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

(4) Financial Risk Management, continued

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

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

The Bank is exposed to price risk of equity instruments classified as at FVOCI (2018: FVOCI) or securities at FVTPL. To mitigate the price risk in equity or debt instruments, the Bank diversifies its portfolio according to the established

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

The model of Operative Risk Management covers as principal points:

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

(4) Financial Risk Management, continued

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

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

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

The Internal Audit Department verifies and validates the compliance of the defined policies and methodologies and that these go according to the existing regulation; the results obtained in this review are presented to the Audit Committee.

(e) Capital Management:

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

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

(4) Financial Risk Management, continued

Based in the Agreements No.1-2015 and its amendments and No. 3-2016, issued by the Superintendence of Banks of Panama, as of September 30, 2019, the Bank held a regulatory capital position that is comprised as follows:

	2019	2018
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,025,329	25,025,329
Treasury shares	(727,000)	(727,000)
Capital reserves	1,800,000	1,800,000
Other items of comprehensive income (1)		
Gains on securities and ECL reserve for investments	2,451,353	481,897
Adjustment for translation of foreign currency	(7,864,766)	(6,455,494)
Retained earnings	28,507,059	25,977,166
Non-controlling interest	933,854	846,772
Less: deferred tax	(1,025,238)	(1,032,623)
Total Primary Ordinary Capital	64,100,591	60,916,047
Dynamic provision	6,914,771	6,914,741
Total Regulatory Capital	71,015,362	67,830,788
Total of Risk-Weighted Assets	497,020,362	473,630,658

Ratios:	Minimum Required	2019	2018
Capital Adequacy Ratio	8.00%	14.29%	14.32%
Primary Ordinary Capital Ratio	4.50%	12.90%	12.86%
Primary Capital Ratio	6.00%	12.90%	12.86%
Leverage Ratio	3.00%	7.82%	7.54%

(1) Excludes the fair value of the portfolio acquired

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

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

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

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

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

(a) *Classification of financial assets*

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

(b) *Impairment of financial instruments*

The Bank reviews its financial assets at each reporting date to determine whether the credit risk on the financial asset has increased significantly since the initial recognition.

(c) *Income tax*

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

(d) *Non-consolidated structured entities*

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

(6) Balances and Transactions with Related Parties

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

	2019	2018
Assets:		
Demand deposits	1,790,049	170,753
Accounts receivable	0	30,000
Liabilities:		
Saving deposits	1,734,132	777,528
Time deposits	5,210,986	5,951,143
Other income (expenses):		
Interest expense on deposits	(231,073)	(195,408)
Short-term benefits to executives	(952,497)	(793,970)

Transactions with Directors and Executives

As of September 30, 2019, the Bank has paid fees for B/.28,190 (2018: B/.29,445) to Directors that attend the meetings of the Board of Directors and Committees.

The Bank has paid salaries and other benefits including life insurance, bonus, and salaries in species to the executives for B/.952,497 (2018: B/.793,970).

(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:

	2019	2018
Cash and cash equivalents	173,453	350,656
Demand deposits	25,495,501	36,713,443
Saving accounts	2,132,396	2,056,569
Cash and cash equivalents in the consolidated statement of cash flows	27,801,350	39,120,668

(8) Investment in Securities

Investment securities are classified as follows:

	2019	2018
Securities at fair value through other comprehensive income (FVOCI)	74,793,648	48,531,447
Securities at fair value through profit or loss (FVTPL)	24,079,819	19,318,890
Securities at amortized cost	219,808	219,321
	99,093,275	68,069,658
Allowance for investment securities at amortized cost	(439)	(877)
Total investment securities, net	99,092,836	68,068,781

Securities at Fair Value through Other Comprehensive Income (FVOCI)

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

2019			
Mortgage bonds	Republic of Colombia treasury bonds	United States of America treasury bonds	Total
39,822,732	2,565,016	32,405,900	74,793,648
39,822,732	2,565,016	32,405,900	74,793,648

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

During 2019, the Bank realized sales of securities at FVOCI for B/.10,591,553 (2018: B/.12,334,438) generating a net gain for B/.27,659. (2018:168,656)

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

	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL (not credit-impaired / collectively assessed)	Lifetime ECL (credit-impaired / individually assessed)	2019	2018
Balance at January 1	68,613	195,063	0	263,676	119,147
- Net remeasurement of loss allowance	(24,180)	(99,117)	0	(123,297)	125,929
- New financial assets purchased	12,890	0	0	12,890	38,816
- Financial assets that have been derecognized	0	0	0	0	(20,216)
Balance At September 30	57,323	95,946	0	153,269	263,676

The loss allowance for ECL related to securities at FVOCI is not recognized in the consolidated statement of financial position because their carrying amount of B/.74,793,648 (2018:48,531,447) corresponds to their fair value.

(8) Investment in Securities, continued

Securities at Fair Value through Profit or Loss (FVTPL)

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

	Maturity	2019	2018
Residual interest of the Eighth Trust	December 2036	2,327,970	2,448,374
Residual interest of the Ninth Trust	December 2022	464,466	402,445
Residual interest of the Tenth Trust	September 2039	5,946,746	5,802,118
Residual interest of the Eleventh Trust	October 2041	3,257,205	3,035,701
Residual interest of the Twelfth Trust	November 2042	1,782,655	1,682,934
Residual interest of the Thirteenth Trust	December 2045	1,581,828	1,459,813
Residual interest of the Fourtheen Trust	February 2049	553,806	0
Residual interest of the Fithteen Trust	February 2049	665,206	0
Eleventh Trust bond	October 2041	1,845,621	0
Twelfth Trust bond	November 2042	804,009	0
Thirteenth Trust bond	December 2045	927,060	1,848,129
Fourteen Trust bond	September 2046	1,292,211	784,892
Fifteen Trust bond	July 2047	825,903	927,893
Agricultural development securities	July 2020	1,275,815	0
Mutual funds	At demand	529,318	33,137
Total		24,079,819	19,318,890

The trust's residual interests were determined by discounting the future cash flows in commissions and incentives that the Bank will receive as trustee. At the time of creation of these trusts, the realization of values was estimated in 30 years for the Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteen and Fiteen Mortgage Bonds Trusts: (maturing in 2022, 2036, 2039, 2041, 2042, 2045 and 2047 respectively).

Securities at Amortized Cost

As of September 30, 2019, the Bank's portfolio of securities at amortized cost is composed of Republic of Panama sovereign bonds with a nominal value of B/.225,000, and an amortized cost of B/.318,173, and which fair value amounts to B/.318,173 at period end. These sovereign bonds have an interest rate of 8.875% and maturity on December 31, 2027. These bonds are held in the National Bank of Panama at the disposal of the Superintendence of Banks of Panama, to guarantee the adequate fulfillment of the Bank's fiduciary obligations. The amortized cost of these sovereign bonds is detailed as follows:

(8) Investment in Securities, continued

2019		
Republic of Panama bonds	Allowance for losses	Total
219,808	(439)	219,369
219,808	(439)	219,369

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

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

	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL (not credit-impaired / collectively assessed)	Lifetime ECL (credit-impaired / individually assessed)	2019	2018
Balance at January 1	877	0	0	877	884
- Net remeasurement of loss allowance	(438)	0	0	(438)	475
- New financial assets purchased	0	0	0	0	547
- Financial assets that have been derecognized	0	0	0	0	(1,029)
Balance at June, 30	439	0	0	439	877

(9) Loans, Net

The composition of the loans portfolio is summarized as follows:

	2019	2018
Domestic loans:		
Personal	45,091,960	39,766,830
Residential mortgages	451,456,179	461,413,970
Total domestic loans	496,548,139	501,180,800
Foreign loans:		
Personal	26,431,600	20,233,476
Residential mortgages	151,103,186	167,122,225
Total foreign loans	177,534,786	187,355,701
Total loans	674,082,925	688,536,501

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for ECL related to the loan portfolio.

	2019				
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL (not credit-impaired / collectively assessed)	Lifetime ECL (credit-impaired / individually assessed)	Total	December 31, 2018
Balance at January 1	146,786	77,617	378,635	603,038	455,666
- Transfer to Stage 1	369,543	(215,803)	(153,740)	0	0
- Transfer to Stage 2	(118,968)	328,856	(209,888)	0	0
- Transfer to Stage 3	(4,032)	(349,351)	353,383	0	0
- Net reamesurement of loss allowance	(243,187)	288,128	661,827	706,768	1,117,231
- New financial assets originated	122,805	298	692	123,795	42,045
- Financial instruments that have been derecognized	(44,214)	(26,245)	(140,733)	(211,192)	(270,935)
- Write-offs	0	0	(553,424)	(553,424)	(740,969)
Balance At September30	228,733	103,500	336,752	668,985	603,038

In June and September 2015, the Bank purchased residential mortgage loan portfolios from the Sixth and Seventh Trusts of Mortgage Loans Bonds, which had a fair value of B/.4,517,878 and B/.4,773,715, respectively. The difference between the amount paid and the fair value of these purchased loans of B/.1,325,034, was recorded in the fair value reserve account presented in the consolidated statement of changes in equity. As of September 30, 2019, the outstanding amount is of B/.202,170 (2018: B/.1,087,672)

(10) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

2019	Furniture	Office equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at January 1	873,886	3,451,310	681,410	2,603,774	7,610,380
Purchases	50,738	415,310	41,631	98,846	606,525
Sales and disposals	(41,986)	(95,101)	(175,739)	(10,218)	(323,044)
Balance At September30, 2019	882,638	3,771,519	547,302	2,692,402	7,893,861
Accumulated depreciation:					
Balance at January 1	632,720	2,631,259	405,010	1,008,182	4,677,171
Depreciation for the year	84,363	310,626	62,042	226,333	683,364
Sales and disposals	(41,986)	(95,101)	(175,739)	(10,218)	(323,044)
Balance At September30, 2019	675,097	2,846,784	291,313	1,224,297	5,037,491
Effect of movement of exchange rates	(4,729)	(12,055)	0	7,155	(9,629)
Carrying amount balance at June 30, 2019	212,270	936,790	255,989	1,460,950	2,865,999

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

(11) Accounts and interest receivable

The accounts receivable and interest receivables are detailed as follows:

	2019	2018
Accounts receivable:		
Clients	1,436,780	1,337,818
Employees	15,528	31,206
Insurance	47,811	47,093
Others	481,546	592,531
	1,981,665	2,008,648
Interest receivable:		
On investment securities at fair value	643,826	283,888
Total	2,625,491	2,292,536

(12) Other assets

The other assets are detailed as follows:

	2019	2018
Guarantee deposits	33,070	56,326
Trust license	25,000	25,000
Employee severance fund	757,287	694,160
Other prepaids	1,571,451	1,220,366
Advances for assets purchase	68,386	94,635
Assets in award process	1,146,846	731,787
Foreclosed assets	224,905	271,138
Other	246,846	559,787
Total	1,146,846	2,921,412

(13) Negotiable Commercial Papers

The Bank has six (2018: six) rotating programs of negotiable commercial papers up to B/.200,000,000 (2018: B/.200,000,000), authorized by the Superintendence of the Securities Market of Panama, which are backed up by the general credit of the Bank. Of these rotating programs, one for the amount of B/.10,000,000, is backed by Grupo ASSA, S. A. Actually, no paper has been issued under this program.

2019

Tipo	Tasa de interés	Vencimiento	Valor
Serie CDV	3.6250%	Octuber,19	500,000
Serie CDW	3.6250%	Octuber,19	3,000,000
Serie BDC	4.0000%	Octuber,19	2,123,000
Serie R	4.1250%	November,19	4,140,000
Serie CDX	3.6250%	November,19	2,000,000
Serie S	4.1250%	December,19	2,450,000
Serie CDQ	4.1250%	December,19	1,775,000
Serie T	4.1250%	December,19	1,500,000
Serie U	4.1250%	December,19	2,000,000
Serie CEA	4.1250%	December,19	5,000,000
Serie CDR	4.0000%	January,20	1,000,000
Serie CDS	4.0000%	January,20	2,014,000
Serie CDT	4.0000%	January,20	1,000,000
Serie V	4.1250%	January,20	2,301,000
Serie CDU	4.0000%	February,20	4,897,000
Serie W	4.1250%	February,20	2,167,000
Serie X	4.1250%	February,20	2,183,000
Serie Y	4.1250%	February,20	2,500,000
Serie Z	4.1250%	March,20	1,179,000
Serie DDG	4.1250%	March,20	700,000
Serie AA	4.1250%	March,20	900,000
Serie DCX	4.1250%	March,20	3,997,000
Serie DCY	4.1250%	April, 20	1,891,000
Serie DCZ	4.1250%	April, 20	2,000,000
Serie DDA	4.1250%	April, 20	1,169,000
Serie DDB	4.1250%	April, 20	1,300,000
Serie DDC	4.1250%	May,20	1,936,000
Serie DDD	4.1250%	May,20	1,000,000
Serie DDE	4.1250%	May,20	2,064,000
Serie DDF	4.1250%	May,20	1,980,000
Serie CDY	4.1250%	June,20	3,999,000
Serie CDZ	4.1250%	June,20	3,000,000
Serie CEB	4.1250%	June,20	3,500,000
Sserie DDH	4.1250%	June,20	1,865,000
Serie DDI	4.1250%	July,20	2,135,000
Serie DDJ	4.1250%	July,20	1,000,000
Serie DDK	4.1250%	July,20	5,000,000
Serie DDL	4.1250%	July,20	1,000,000
Serie BDG	4.1250%	August,20	1,000,000
Serie BDH	4.1250%	August,20	1,629,000
Serie BDI	4.1250%	August,20	5,410,000
Serie BDJ	4.1250%	August,20	1,590,000
Serie BDK	4.1250%	August,20	1,606,000
Serie DDM	4.1250%	September,20	1,100,000
Serie BDL	4.1250%	September,20	2,770,000
Serie CED	4.1250%	September,20	2,150,000
Serie AB	4.1250%	September,20	2,000,000
Serie DDN	4.1250%	September,20	1,005,000
Serie DDO	4.1250%	September,20	650,000
Serie AC	4.1250%	September,20	3,334,000
			108,409,000
Interest Payable			615,766
Less issuance costs			(167,042)
			108,857,724

(13) Negotiable Commercial Papers, continued

2018

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

As of September 30, 2019 and 2018, the Bank has complied with the payment terms of principal and interest for its negotiable commercial papers.

(14) Negotiable Commercial Notes

The Bank has four (2018: three) programs of negotiable commercial notes totaling B/.240,000,000 (2018: B/.190,000,000) which has been authorized by the Securities Market Superintendence of Panama. The placements of the first issuance by B/.40,000,000 are guaranteed by the general credit of the Bank and a trust guarantee of loan mortgages, and additionally, a solidary surety of Grupo ASSA, S. A. that would cover any difference between the proceeds from the sale of the mortgage loans and the outstanding amounts.

The placements of the other three programs of B/.50,000,000; 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

Tipo	Tasa de interés	Vencimiento	2019	2018
SERIE AB	4.50%	Januery,19	0	3,451,000
SERIE A	4.50%	January,19	0	2,500,000
SERIE C	4.50%	January,19	0	2,000,000
SERIE Z	4.25%	February,19	0	2,000,000
SERIE V	4.38%	February,19	0	4,239,000
SERIE AB	4.25%	March,19	0	3,090,000
SERIE AD	4.25%	March,19	0	2,250,000
SERIE M	4.25%	March,19	0	2,150,000
SERIE N	4.25%	March,19	0	500,000
SERIE AE	4.25%	April,19	0	1,000,000
SERIE AF	4.25%	May,19	0	2,469,000
SERIE AG	4.25%	June,19	0	2,000,000
SERIE AH	4.25%	July,19	0	1,500,000
SERIE AO	4.00%	July,19	0	4,000,000
SERIE AI	4.75%	July,19	0	1,200,000
SERIE AJ	4.25%	July,19	0	3,000,000
SERIE AS	4.00%	August,19	0	355,000
SERIE U	4.50%	August,19	0	1,250,000
SERIE AT	4.00%	August,19	0	622,000
SERIE AK	4.25%	September,19	0	3,000,000
SERIE AV	4.00%	September,19	0	1,464,000
SERIE AA	4.50%	September,19	0	720,000
SERIE W	4.50%	Octubre,19	1,990,000	1,990,000
SERIE AQ	4.25%	January,20	2,000,000	2,000,000
SERIE AU	4.25%	March,20	1,378,000	1,378,000
SERIE AC	4.50%	March,20	1,500,000	1,500,000
SERIE AW	4.25%	March,20	1,710,000	1,710,000
SERIE BD	4.50%	March,20	1,100,000	1,100,000
SERIE BK	4.13%	March,20	800,000	435,000
SERIE AY	4.25%	April, 20	1,155,000	1,155,000
SERIE AZ	4.25%	April, 20	2,300,000	2,300,000
SERIE BA	4.25%	May,20	2,250,000	2,250,000
SERIE BB	4.25%	May,20	780,000	780,000
SERIE BC	4.25%	May,20	3,900,000	3,900,000
SERIE BE	4.25%	June,20	849,000	849,000
SERIE BF	4.25%	June,20	2,870,000	2,870,000
SERIE X	4.38%	June,20	4,000,000	4,000,000
SERIE BG	4.25%	June,20	870,000	530,000
SERIE Z	4.50%	June,20	2,500,000	0
SERIE BH	4.25%	July,20	2,000,000	2,000,000
SERIE AP	4.38%	July,20	960,000	960,000
SERIE T	4.50%	July,20	1,800,000	1,800,000
SERIE BI	4.25%	August,20	4,000,000	4,000,000
SERIE BJ	4.25%	September,20	1,047,000	547,000
SERIE BP	4.25%	September,20	1,837,000	0
SERIE AL	4.50%	October,20	1,000,000	1,000,000
SERIE W	4.38%	November,20	2,000,000	2,000,000
SERIE BL	4.38%	November,20	1,699,000	989,000
SERIE AM	4.50%	November,20	5,000,000	5,000,000
SERIE AN	4.50%	December,20	2,000,000	2,000,000
SERIE AE	4.50%	January,21	3,940,000	0
SERIE AR	4.50%	February,21	2,000,000	2,000,000
SERIE BT	4.50%	February,21	355,000	0
SERIE BU	4.25%	February,21	622,000	0
SERIE AA	4.38%	February,21	1,761,000	1,761,000
SERIE AA	4.50%	February,21	39,000	0
SERIE E	5.00%	February,21	7,017,000	7,017,000
	Sub - total pass		71,029,000	104,581,000

(14) Negotiable Commercial Notes, continued

Tipo	Tasa de interés	Vencimiento	2019	2018
	Sub-Total coming		71,029,000	104,581,000
SERIE BV	4.25%	March,21	1,404,000	0
SERIE BO	4.38%	March,21	1,290,000	0
SERIE AC	4.38%	March,21	2,000,000	0
SERIE K	5.00%	April,21	4,991,000	4,991,000
SERIE BQ	4.38%	May,21	2,466,000	0
SERIE AD	4.50%	July,21	1,500,000	0
SERIE AI	4.75%	July,21	1,200,000	0
SERIE BS	4.25%	July,21	3,000,000	0
SERIE U	5.00%	September,21	1,858,000	1,858,000
SERIE BW	4.38%	September,21	2,363,000	0
SERIE X	5.00%	November,21	1,657,000	0
SERIE Y	4.50%	January,22	3,145,000	1,657,000
SERIE BM	4.25%	January,22	2,397,000	0
SERIE BN	4.25%	January,22	500,000	0
SERIE BR	4.25%	June,22	2,000,000	0
SERIE AF	4.68%	August,22	2,540,000	0
SERIE AG	4.68%	August,22	500,000	0
SERIE AH	4.68%	September,22	720,000	0
SERIE AB	4.75%	March,23	2,000,000	0
			108,560,000	113,087,000
		Interest payable	218,016	243,974
		Less issuance costs	(254,239)	(212,764)
			108,523,777	113,118,210

As of September 30, 2019 and 2018, the Bank has complied with the payment terms of principal and interest for its negotiable commercial notes.

(15) Covered Bonds

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

As of September 30, 2019, the Bank has issued covered medium-term bonds, net of commissions, amounting to B/.40,165,070(2018: B/.10,431,427), at an interest rate of 4.75% and 5.5% for 3.5 and 5 years term.

The covered bonds are guaranteed with mortgage loans portfolio amounting to B/.51,250,000 (2018: B/.13,750,000).

As of September 30, 2019, the Bank has complied with the payment terms of principal and interest for its covered bonds.

(16) Ordinary Bonds

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

As of September 30, 2019, this Colombian subsidiary has issued medium-term ordinary bonds for B/.5,179,347 (2018: B/.8,832,345) at an interest rate of 10.05% (2018: 10.05%) for of 5 years term, maturing on December 10, 2020.

The ordinary covered are guaranteed with a Panamanian mortgage loans portfolio amounting to B/.8,395,073 (2018: B/.11,029,181).

(16) Ordinary Bonds, continued

As of September 30, 2019 and 2018, the Bank has complied with the payment terms of principal and interest for its ordinary bonds.

(17) Investment Certificates

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

Type	Interest rate	Maturity	2019	2018
Tranche 9	6.25%	June 2019	0	3,000,000
Tranche 11	6.25%	August 2019	0	3,000,000
Tranche 12	6.25%	August 2019	0	1,600,000
Tranche 2	5.25%	February, 2020	3,000,000	3,000,000
Tranche 1	5.50%	June 2020	2,200,000	2,200,000
Tranche 5	5.25%	April, 2020	550,000	0
Tranche 6	5.38%	May 2020	1,416,000	0
Tranche 3	5.50%	August 2020	2,000,000	1,980,000
Tranche 7	5.75%	November 2020	1,500,000	100,000
Tranche 4	6.00%	September 2021	1,000,000	1,000,000
Tranche 8	5.75%	March 2021	1,407,000	0
Tranche 9	6.50%	February 2024	700,000	0
Tranche 10	6.50%	April, 2024	4,500,000	0
Tranche 11	6.50%	May, 2024	4,500,000	0
Tranche 12	6.30%	May, 2024	5,000,000	0
Tranche 13	6.50%	May, 2024	2,000,000	0
Tranche 14	6.50%	June, 2024	2,500,000	1,000,000
			34,773,000	15,880,000
		Interest payable	79,170	33,342
		Less issuance costs	(54,746)	(19,811)
			34,797,424	15,893,531

As of September 30, 2019 and 2018, the Bank has complied with the payment terms of principal and interest for its investment certificates.

(18) Other Negotiable Debts

The Bank has one (2018: one) revolving plan of negotiable debt (stock market paper) up to B/.35,000,000 (B/.35,000,000), which was authorized by the Superintendence of Securities of El Salvador.

2019

Type	Interest rate	Maturity	Amount
Tranche 44	5.00%	October 2019	1,000,000
Tranche 46	5.00%	November 2019	1,200,000
Tranche 48	5.50%	March, 2020	3,000,000
Tranche 49	5.50%	April, 2020	500,000
Tranche 50	5.50%	May 2020	1,000,000
Tranche 51	5.50%	May 2020	1,050,000
Tranche 53	5.50%	June 2020	3,000,000
Tranche 52	5.50%	June 2020	1,000,000
Tranche 54	5.50%	August 2020	5,000,000
Tranche 55	5.50%	September 2020	3,000,000
Tranche 56	5.50%	September 2020	1,500,000
			21,250,000
			125,091
			(45,87)
			21,329,219

(18) Other Negotiable Debts, continued

2018

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

As of September 30, 2019 and 2018, the Bank has complied with the payment terms of principal and interest for its negotiable debt.

(19) Borrowed Funds

The borrowed funds are summarized as follows

	2019	2018
Line of credit for working capital for B/.5,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	2,000,000	4,900,825
Line of credit for working capital for B/.30,000,000, with maturity in the year 2021 and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	8,608,125	10,329,750
Line of credit for working capital for B/.6,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	5,000,000	1,700,000
Line of credit for working capital for B/.5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	4,750,000	5,000,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin.	7,800,000	7,800,000
Line of credit for working capital for B/.5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin	0	3,000,000
Line of credit for working capital for B/.20,000,000, with maturity in the year 2020, renewable at the parties' option and an annual fixed interest rate, backed by a portfolio of residential mortgage loans.	15,500,000	19,000,000
Line of credit for working capital for B/.17,000,000, with maturity in the year 2019, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	9,000,000	13,500,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	3,500,000	7,000,000
Line of credit for working capital for B/.13,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	3,692,308	6,692,307
Sub - total going to next page	59,850,433	78,922,882

(19) Borrowed Funds, continued

	2019	2018
Sub - total coming from previous page	59,850,433	78,922,882
Line of credit for working capital for B/.25,000,000, with maturity in the year 2019, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	0	25,000,000
Line of credit for working capital for B/.25,000,000, with maturity in the year 2019, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	11,283,333	14,066,667
Line of credit for working capital for B/.30,000,000, with maturity in the year 2020 and fixed interest rate.	30,000,000	40,000,000
Line of credit for working capital for B/.15,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	10,250,000	14,900,000
Line of credit for working capital for B/.25,000,000, with maturity in the year 2022, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	10,714,288	14,285,716
Line of credit for working capital for B/.32,000,000, with maturity in the year 2026, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	26,857,143	29,714,285
Line of credit for working capital for B/.17,000,000, with maturity in the year 2020, and an annual Libor interest rate plus a margin.	17,000,000	17,000,000
Revolving line of credit for working capital up to approximately B/.6,200,000 (COP 20 thousand millions), with maturity in the year 2020, renewable at the parties' option and an annual interest rate DTF plus a margin.	686,018	1,538,580
Revolving line of credit for working capital up to approximately B/.3,700,000 (COP 12 thousand millions), with maturity in the year 2020, renewable at the parties' option and an annual interest rate DTF plus a margin.	288,849	615,432
Sub-total	166,930,064	236,043,562
Interest payable	995,813	1,676,018
Less issuance costs	(459,328)	(696,575)
Total borrowed funds	167,466,549	237,023,005

As of September 30, 2019 and 2018, the Bank has complied with the payment terms of principal and interest for its borrowings.

(20) Other Liabilities

The other liabilities are detailed as follows:

	2019	2018
Reserve for employee benefits and other remunerations	1,253,220	936,817
Cashier's check	2,162,870	1,504,008
Others	4,115,462	3,460,757
Total	7,531,552	5,901,582

(21) Capital and Reserves

The composition of common shares is detailed as follows:

	2019	2018
Authorized shares with nominal value of B/.1,000	15,000	15,000
Shares issued and paid on January 1st	15,000	15,000
Treasury shares	(727)	(727)
Shares at the end of the period	14,273	14,273
Carrying amount of the shares at the end of the period	14,273,000	14,273,000

On September 30, 2019, the Bank no repurchased common shares to its parent company (2018: 727). With this transaction, the Bank registered these shares in treasury, leaving the amount of outstanding common shares at 14,273 (2018: 14,273).

Reserves

Nature and purpose of reserves:

Capital Reserve

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

Fair Value Reserve

Comprises the cumulative net change in the fair value of financial assets at FVOCI (2017: available-for-sale), until the assets is derecognized, redeemed, or impaired. In addition, it includes the net amount of the fair value of an acquired loan portfolio, which will be amortized during the remaining life of the loans or until their cancellation.

Currency Conversion Reserve

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

Regulatory Reserves

Dynamic Provision

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

(21) Capital and Reserves, continued

Specific Provision in Excess

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

(22) Earnings per share

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

i. Income attributable to common shareholders:

	2019	2018
Net income for the year	2,917,901	3,439,283
Net income attributable to common shareholders	2,917,901	3,439,283

ii. Weighted-average number of common shares:

	2019	2018
Issued shares at January 1st	15,000	15,000
Treasury shares	(727)	0
Weighted-average of common shares	14,273	14,273

The calculation of basic and diluted EPS is as follows:

	2019	2019
Net income attributable to share sholders	2,917,901	3,439,283
Weighted-average number of basic and diluted common shares	14,273	14,273
Basic and diluted EPS	204.44	240.96

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(23) Service Commissions, Net and Other Income

The service commissions and other income are detailed as follows:

	2019	2018
Management and servicing commisions earned:		
Trust management	1,468,706	1,140,866
Collection management	1,719,614	1,869,253
Insurance management	217,950	294,828
Others	1,493,704	908,202
	4,899,974	4,213,149
Other income:		
Gain in the sale of tax credit	39,159	575,594
Trusts	0	2,991
Insurance	118,355	115,057
Gain in the sale of foreclosed assets	36,031	77,733
Other	1,274,266	1,210,839
	1,467,811	1,982,214
Other commisions	(515,126)	(462,122)

(24) Commission expense

The commission expense is detailed as follows:

	2019	2018
Commission expense incurred on:		
Negotiable commercial papers, investment certificates and other negotiable debt	261,290	146,391
Negotiable commercial notes and covered bonds	309,354	112,430
Lines of credit	444,312	342,760
	1,014,956	601,581

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

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

	2019	2018
Salaries and other personnel benefits:		
Wages,	4,207,653	4,119,420
Representation expenses	769,967	736,533
Bonuses	295,469	412,223
Social security costs	611,047	599,518
Severance costs	252,161	252,598
Travel, per diem and fuel	127,899	112,381
Other	677,852	645,651
	6,942,048	6,878,324
Other operating expenses:		
Rent	39,179	576,125
Depreciation	490,721	0
Advertising	660,498	563,484
Equipment maintenance	769,963	606,886
Office supplies	77,749	88,366
Utilities expense	228,343	278,940
Bank charges	119,265	120,886
Other	1,351,773	920,119
	3,737,491	3,154,806

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

Share Purchase Option Plan

In 2019, 2014 and 2012, the Board of Directors of La Hipotecaria (Holding), Inc. approved plans to grant share purchase options to executives of the Bank for 1,805 options with a unit fair value of B/.11.501, 15,200 options with a unit fair value of B/.8,591 and 19,290, respectively, and with an exercise maturity in 10 years for both plans. As of September 30, 2019, there are 31,296 options outstanding (2018: 29,491), no options have been cancelled (2018: 0) and no options has been exercised. These options has a weighted-average price of exercise of B/.38.94 (2018: 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 2019 the Bank registered expense for options issuance of B/.9,998 (2018: B/.0).

(26) Income Taxes

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

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

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

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

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

	Colombia	El Salvador
Current rates	33%	30%

(26) Income Taxes, continued

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

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

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

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

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

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

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

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

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

The total income tax expense as At September30, 2019 is detailed as follows:

	2019	2018
Current tax expense	1,000,807	1,331,086
Deferred tax temporary differences	(19,029)	(63,017)
Total income tax expense	981,778	1,268,069

(26) Income Taxes, continued

The effective tax rate is detailed as follows:

	2019	2018
Net income before tax	3,899,679	4,707,352
Income tax expense	981,778	1,268,069
Effective tax rate	25.18%	26.94%

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:

	2019		2018	
	Temporary differences	Deferred tax	Temporary differences	Deferred tax
Deferred tax assets				
Allowance for ECL	668,985	159,743	517,168	140,785
Operating losses carried forward(1)	2,630,552	865,494	2,805,050	953,717
	3,299,537	1,025,237	3,322,218	1,094,502

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

The movement in deferred tax balances is as follows:

	2019	2018
Balance at January 1st	1,032,623	987,891
Adjustment on initial application of IFRS 9	0	40,020
	1,032,623	1,027,910
Allowance for ECL (2017: loan losses)	(4,798)	63,017
Operating losses carried forward	(2,588)	3,574
Balance at December 31	1,025,237	1,094,502

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

	2019	2018
Net income before taxes	3,899,679	4,707,352
Calculation of "expected" income tax expense	974,920	1,176,838
Non-deductible expenses	924,815	547,329
Income and expense from foreign and exempt sources, net	(838,680)	(600,951)
Change for temporary differences	(19,029)	(63,017)
Difference in foreign tax rates	(60,248)	207,870
Total income tax expense	981,778	1,268,069

(26) Income Taxes, continued

As of September 30, 2019, the Bank has not recognized a liability for deferred income tax of approximately B/.614,892 (2018: B/.584,988) for the retained earnings of its operations abroad, as the Bank considers that approximately B/.11,682,689 (2018: B/.11,699,756) of these earnings will be reinvested indefinitely.

(27) Trusts Under Management

As of September 30, 2019, the Bank maintains fiduciary contracts under its management at the risk of the customer amounting to B/.278,370,132 (2018: B/.198,053,932). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Bank. See note 32, for participations in non-consolidated structures entities.

(28) Commitments and Contingencies

As At September 30, 2019, there is an ongoing claim filed against the Bank's subsidiary in El Salvador by the Consumer Defender Office. The Bank's management and its legal counsel do not expect that the outcome of this process will have a material adverse effect on the consolidated financial position of the Bank.

In the normal course of business, the Bank held financial instruments without-balance sheet risk to cover the financial needs of its customers. As of September 30, 2019, the Bank has issued promise letters for B/.63,407,223 (2018: B/.59,484,283).

(29) Leases

As of September 30, 2019, the Bank maintains real estate leases mainly for its bank branch and loan centers, which do not meet the definition of investment properties of IAS 40.

Lease contracts have a term of no more than 1, 5 to 10 years and some include an option to renew the lease for an additional period of the same duration after the end of the term of the contract.

Asset by right of use

As of September 30, 2019, the Bank manintains real estate leases primarily for its bank branch loan centers. Lease contracts have a term of no more than 1, 5 to 10 years and some include an option to renew the lease for an additional period of the same duration after the end of the term of the contract.

	2019 (Not Audited)
Balance at January 1, 2019	4,071,043
Additions	0
Depreciation of the period	(490,721)
Currency conversión effect	(13,719)
Balance as of September 30, 2019	3,566,604

(29) Leases, continued

As of September 30, 2019, the Bank has recognized depreciation expenses for the right-of-use assets for $ 490,721, as part of the other expenses in the consolidated statement of income (see Note 25).

Lease liabilities
As of September 30, 2019, the Bank's lease liabilities amount to $ 3,685,800 and its maturity analysis is as follows:

	2019
Up to 1 year	0
From 1 to 3 years	692,562
From 3 to 5 years	0
More than 5 years	2,993,238
	3,685,800

As of September 30, 2019, the Bank has recognized interest expenses on its lease liabilities for $ 172,764, as part of its financial costs (interest on financing) in the consolidated statement of income.

Additionally, as of September 30, 2019, the Bank has recognized expenses related to leases evaluated as 'short term' and 'low value assets' for $ 39,179 as part of the lease expenses in the consolidated statement of income
(see Note 25).

(30) 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.

(30) 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.

(30) Fair value of Financial Instruments, continued

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

		Fair value			
2019	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:					
Financial assets measured at fair value:					
Securities at FVOCI	74,793,648	32,405,900	2,565,016	39,822,732	74,793,648
Securities at FVTPL	24,079,819		1,275,815	22,804,004	24,079,819
Financial assets not measured at fair value:					
Loans	674,861,515	0	0	671,150,821	671,150,821
Securities at amortized cost	219,808	0	323,033	0	323,033
Liabilities:					
Financial assets not measured at fair value:					
Time deposits from customers	259,346,347	0	0	256,439,946	256,439,946
Negotiable commercial papers	108,857,724	0	0	106,031,096	106,031,096
Negotiable commercial notes	108,523,777	0	0	102,850,342	102,850,342
Covered bonds	40,165,070	0	0	41,319,781	41,319,781
Ordinary bonds	5,179,347	0	0	5,179,347	5,179,347
Investment certificates	34,797,424	0	0	34,771,782	34,771,782
Other negotiable debt	21,329,219	0	0	21,249,301	21,249,301
Borrowed funds	167,466,549	0	0	167,241,165	167,241,165

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

As of September 30, 2019, there were not transfers of fair value hierarchy on securities at FVOCI and securities at FVTPL.

(30) Fair value of Financial Instruments, continued

The following table shows the valuation technique, the input data used, and significant unobservable inputs when measuring the fair value of the instruments classified in Level 2 and Level 3 as at September 30, 2019 and 2018:

Quantitative information Level 3 fair values

	Valuation technique	Unobservable inputs	Range (weighted-average) 2019	2018
Mortgage bonds	Discounted cash flows	Standard Default Assumptions ("SDA")	3.06% - 0.12% (1.04%)	2.15% - 0.13% (0.76%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	51.92% - 15.64% (43.42%)	48.44% - 17.50% (42.19%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 meses	12 meses
Residual interests of trusts	Discounted cash flows	Standard Default Assumptions ("SDA")	3.06% - 0.12% (0.54%)	2.15% - 0.13% (0.68%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	51.92% - 15.64% (40.44%)	48.44% - 19.28% (42.42%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 meses	12 meses
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

(30) Fair value of Financial Instruments, continued

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

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

	2019	2018
Balance at January 1	43,794,699	44,041,042
Total income or (loss):		
In the consolidated statement of profit or loss	653,227	1,125,184
In the consolidated statement of comprehensive income	275,050	(85,997)
Purchases	26,725,342	4,344,273
Liquidations	(8,821,581)	(5,629,803)
Balance at December 31	62,626,737	43,794,699

(30) 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:

	2019			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Securites at FVTPL	179,197	(76,618)	0	0
Securities at FVOCI	0	0	2,190	(6,182)
	179,197	(76,618)	2,190	(6,182)

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

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

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

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

Specific controls include:

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

(30) Fair value of Financial Instruments, continued

The Bank uses a third party as a service provider. A control to evaluate and document the evidence obtained from third parties is in place to support the conclusion according the requirements of IFRS. This review includes:

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

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

(31) Segment Information

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

The composition of the business segments is described as follows:

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

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

(31) Segment Information, continued

2019	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	27,914,524	5,693,084	2,873,952	36,481,560
Commission on loan granting	0	1,697,060	537,070	0	2,234,130
Interest and commission expense	0	(22,652,543)	(1,590,272)	(2,629,137)	(26,871,952)
Provisions for loan losses and for securities at FVOCI and at AC	0	(201,002)	(401,420)	93,865	(508,557)
Commission on management and servicing	2,115,135	2,563,842	220,997	0	4,899,974
Gain on investments, net	0	0	0	680,885	680,885
Other income net of commissions	0	803,095	56,380	93,210	952,685
General and administrative expenses	(1,201,988)	(9,485,957)	(2,631,378)	(649,723)	(13,969,046)
Segment income before tax	913,147	639,019	1,884,461	463,052	3,899,679
Segment assets	0	650,990,757	67,810,490	112,108,595	830,909,842
Segment liabilities	0	638,376,267	44,815,787	74,092,297	757,284,351

2018	Trust management	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 loan granting	1,656,592	2,363,872	192,685	0	4,213,149
Interest and commission expense	0	1,548,426	469,909	0	2,018,335
Provision for loan losses	0	(21,097,970)	(1,350,716)	(1,563,244)	(24,011,930)
Commission on management and servicing	0	(777,626)	(52,477)	0	(830,103)
Gain on investments, net	0	0	0	1,195,338	1,195,338
Other income net of commissions	0	1,711,062	125,688	145,464	1,982,214
General and aministrative expenses	(1,165,179)	(9,195,465)	(2,550,797)	(629,826)	(13,541,267)
Segment income 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

(31) Segment Information, continued

The composition of the geographic segments is described as follows:

2019	Panama	El Salvador	Colombia	Total
Interest income	24,715,754	6,283,545	5,482,261	36,481,560
Commission on loan granting	1,804,569	429,561	0	2,234,130
Interest and comisión expense	(20,271,532)	(3,920,930)	(2,679,490)	(26,871,952)
Provisions for loan losses and for securities at FVOCI and at AC	(151,335)	(159,441)	(197,781)	(508,557)
Commission on management and servicing	3,722,658	1,053,222	124,094	4,899,974
Other income net of commisions	650,745	0	30,140	680,885
Gain on investments, net	879,658	20,473	52,554	952,685
General and administrative expenses	(9,992,802)	(2,128,256)	(1,847,988)	(13,969,046)
Segment income before tax	1,357,715	1,578,174	963,790	3,899,679
Segment assets	637,665,358	115,303,199	77,941,285	830,909,842
Segment liabilities	607,411,385	93,681,693	56,191,273	757,284,351

2018	Panama	El Salvador	Colombia	Total
Interest income	22,210,497	6,878,576	4,592,543	33,681,616
Commission on loan granting	3,348,197	773,851	91,101	4,213,149
Interest and commission expense	1,618,585	399,750	0	2,018,335
Provision for loan losses	(17,529,299)	(4,080,954)	(2,401,677)	(24,011,930)
Commission on management and servicing	(495,122)	(214,457)	(120,524)	(830,103)
Gain on investments, net	1,026,682	0	168,656	1,195,338
Other income net of commissions	1,468,871	434,734	78,609	1,982,214
General and administrative expenses	(9,451,334)	(2,265,104)	(1,824,829)	(13,541,267)
Segment income 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

(32) 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 of 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.

(32) Preferential Interests on Mortgage Loans, continued

At September 30, 2019, the Bank recorded, net of reserve, B/.9,444,667 (2018: B/.7,754,925) 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/.2,610,601(2018: B/.11,256,701), which generated an income of B/.39,159 (2018: B/.575,594).

As At September 30, 2019, the accumulated fiscal credit is included in the consolidated statement of financial position for the amount of B/.14,997,019 (2018: B/.8,097,687).

(33) Participations in Non-Consolidated Structured Entities

The following table describes the types of structured entities in which the Bank holds a participation and acts as an agent thereof. (See note 27)

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

The participation maintained by the Bank in the non-consolidated structured entities represents 10%, 3% and 5% (2018: 10%, 3% y 5%) in three trusts.

During the 2019 period, the Bank has not granted financial support to the structured non-consolidated entities.

(34) 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.

(34) Main Applicable Laws and Regulations, continued

(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.

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%

(34) Main Applicable Laws and Regulations, continued

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

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

Sets forth general classification criteria for credit facilities in order to determine the specific and dynamic provisions to cover the Bank's credit risk. Additionally, this Agreement establishes certain required minimum disclosures, in line with IFRS disclosure requirements about credit risk management and administration.

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.

(34) Main Applicable Laws and Regulations, continued

The table below summarizes the loans at amortized of Banco La Hipotecaria, S. A. (Panamanian bank) classified according to this Agreement and the specific provision:

	2019		2018	
Classification	**Balance**	**Allowance**	**Balance**	**Allowance**
Normal	486,071,719	0	489,859,514	0
Watch list	4,736,937	266,834	5,055,986	240,425
Substandard	1,852,780	336,055	1,787,243	224,671
Doubtful	1,100,724	570,080	2,851,141	678,282
Loss	2,785,980	338,534	1,626,916	286,234
Total	496,548,139	1,511,503	501,180,800	1,429,612

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

2019	**Current**	**Past due**	**Default**	**Total**
Loans to customers	476,725,459	13,999,028	5,823,652	496,548,139
2018	**Current**	**Past due**	**Default**	**Total**
Loans to customers	478,974,707	17,154,687	5,051,406	501,180,800

At September 30, 2019, 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/.4,831,3693 (2018: B/.3,099,394).

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.

(34) Main Applicable Laws and Regulations, continued

The balance of dynamic provision of the Bank is as follows

	2019	**2018**
Banco La Hipotecaria, S. A.	4,844,652	4,844,652
La Hipotecaria, S. A. de C.V.	1,468,441	1,468,411
La Hipotecaria C. F., S. A.	601,678	601,678
Total	6,914,741	6,914,741

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/.1,233,357 (2018: B/.968,783) which represents the excess of regulatory provision over the allowance for loan losses according IFRS.

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

(a) *Law of the Superintendence of Corporate Obligations (formerly Business Enterprises)*
The operations of business enterprises in El Salvador are regulated by the Superintendence of Companies and Corporations, contained in Legislative Decree No.448 of 09 October 1973.

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.

(34) Main Applicable Laws and Regulations, continued

(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.

(35) Changes in accounting policies

The Bank applied IFRS 16 using a modified retrospective approach, according to which the cumulative effect of the initial application is recognized in retained earnings on January 1, 2019. Details of changes in accounting policies are described below.

Lease Definition

Previously, the Bank determined at the beginning of the contract if it was or contained a lease according to IFRIC 4. Under IFRS 16, the Bank assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3 (w) .In the transition to IFRS 16, the Bank chose to apply the practical solution to inherit the evaluation of which contracts are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not revalued as to whether they are or contain leases. Therefore, the definition of a lease under IFRS 16 was applied only for contracts entered into or modified on or after January 1, 2019.

As a tenant

As a lessee The Bank previously classified the leases as operational or financial, based on its assessment of whether or not all the risks and rewards inherent in the ownership of the asset had been substantially transferred to it. Under IFRS 16, the Bank recognizes the right-of-use assets and lease liabilities in the consolidated statement of financial position for most leases.

The Bank decided to apply the practical solution of exceptions for the recognition of short-term leases and leases of low-value assets. See Note (3w). For the rest of the leases that were classified as operating leases under IAS 17, the Bank recognized assets for use rights and lease liabilities.

(35) Changes in accounting policies, continued

- Leases classified as operating leases under IAS 17

At the transition date, lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental debt rate of The Bank as of January 1, 2019. The right-of-use assets were measured as an amount equal to the lease liability, adjusted for the amount of any advance or accumulated lease payment.

The Bank used the following practical solutions when applying IFRS 16 retroactively to leases previously classified as operating leases under IAS 17:

- Apply a single discount rate to a lease portfolio with reasonably similar characteristics.
- Exclude the initial direct costs in the measurement of the asset by right of use on the date of initial application.
- Choice of the non-application of the requirements for recognition of assets for use rights and liabilities for leases for short-term leases (under 12 months).
- Choice of non-application of the requirements for recognition of assets for use rights and liabilities for leases for low value leases.
- Use the reasoning in retrospect when determining the lease term if the contracts contained options to extend or terminate the lease.

Impact on the interim consolidated financial statements

On the date of transition to IFRS 16, the Bank recognized assets for the right to use for $ 4,071,043 and lease liabilities of $ 4,071,043, without recognizing any difference in retained earnings.

When measuring lease liabilities, the Bank discounted lease payments using its incremental debt rate. The weighted average rate applied is 6.01%.

	January 1, 2019
Operating lease commitments As of December 31, 2018	5,122,239
Discounted at the incremental debt rate as of January , 2019	(1,005,462)
– Exception of recognition for:	
- low value asset leases	(45,734)
Liabilities for leases recognized as of January1, 2019	**$4,041,043**