Financial Statements of

BAC BAHAMAS BANK LIMITED

Year ended December 31, 2017

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Financial Statements

Year ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of BAC Bahamas Bank Limited

Opinion

We have audited the financial statements of BAC Bahamas Bank Limited (the "Bank"), which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

April 23, 2018

BAC BAHAMAS BANK LIMITED

Statement of Financial Position

December 31, 2017, with corresponding figures for 2016
(Expressed in United States dollars)

		2017	2016
ASSETS			
Cash and cash equivalents (notes 6 and 7)	$	74.048.570	68.000.285
Loans to customers, net (notes 6 and 8)		3.320.117	14.351.502
Accrued interest receivable (note 6)		14.200	35.584
Furniture and equipment		4.059	6.445
Other receivables and assets (note 6)		24.088	31.736
Total Assets	$	77.411.034	82.425.552
LIABILITIES AND EQUITY			
Liabilities:			
Demand deposits from customers (notes 6 and 9)	$	33.176.667	33.416.267
Time deposits from customers (notes 6 and 10)		19.721.752	25.582.419
Accrued interest payable (note 6)		131.025	115.957
Other liabilities (note 6)		29.418	113.165
		53.058.862	59.227.808
Equity:			
Share capital (note 11)		18.000.000	18.000.000
Reserve for losses on loans (note 15)		308.812	308.812
Retained earnings		6.043.360	4.888.932
		24.352.172	23.197.744
Contingencies and commitments (note 16)			
Total liabilities and equity	$	77.411.034	82.425.552

The accompanying notes are an integral part of these financial statements.

The financial statements were approved on behalf of the Board of Directors on April 23, 2018 by the following:

Director

Director

BAC BAHAMAS BANK LIMITED

Statement of Comprehensive Income

Year ended December 31, 2017, with corresponding figures for 2016
(Expressed in United States dollars)

	2017	2016
Net interest income:		
Interest income on cash and cash equivalents (note 6)	$ 2,239,998	2,079,007
Interest income on loans (note 6)	411,777	426,922
Interest expense (note 6)	(757,325)	(900,267)
Net interest income	1,894,450	1,605,662
Net commission income:		
Commission income	11,195	12,205
Commission expense	(14,109)	(11,158)
Net commision income	(2,914)	1,047
Other operating (expense) income:		
Other income (note 6)	79,592	63,189
General and administrative (notes 6 and 12)	(817,880)	(833,409)
Reversal of (provision for) loan losses (note 8)	1,180	(27,252)
	(737,108)	(797,472)
Net income and total comprehensive income for the year	$ 1,154,428	809,237

The accompanying notes are an integral part of these financial statements.

BAC BAHAMAS BANK LIMITED

Statement of Changes in Equity

Year ended December 31, 2017, with corresponding figures for 2016
(Expressed in United States dollars)

	Number of shares	Share capital	Reserve for losses on loans	Retained earnings	Total
Balance at December 31, 2015	18,000,000	$ 18,000,000	5,988	4,382,519	22,388,507
Net income and total comprehensive income for the year	0	0	0	809,237	809,237
Transfer from retained earnings to reserve for loans losses (note 15)	0	0	302,824	(302,824)	0
Balance at December 31, 2016	18,000,000	18,000,000	308,812	4,888,932	23,197,744
Net income and total comprehensive income for the year	0	0	0	1,154,428	1,154,428
Balance at December 31, 2017	18,000,000	$ 18,000,000	308,812	6,043,360	24,352,172

The accompanying notes are an integral part of these financial statements.

BAC BAHAMAS BANK LIMITED

Statement of Cash Flows

Year ended December 31, 2017 with corresponding figures for 2016
(Expressed in United States dollars)

		2017	2016
Cash flows from operating activities:			
Net income	$	1,154,428	809,237
Adjustments for:			
(Reversal) provision for loan losses		(1,180)	27,252
Depreciation		2,386	2,899
Net interest income		(1,894,450)	(1,605,662)
		(738,816)	(766,274)
Changes in operating assets and liabilities:			
Loans to customers		11,032,565	(13,979,954)
Other receivables and assets		7,648	(5,300)
Demand deposits		(239,600)	19,418,772
Time deposits		(5,860,667)	5,648,457
Other liabilities		(83,747)	64,197
		4,117,383	10,379,898
Interest received		2,673,159	2,470,887
Interest paid		(742,257)	(937,314)
Net cash provided by operating activities		6,048,285	11,913,471
Increase in cash and cash equivalents during the year		6,048,285	11,913,471
Cash and cash equivalents at beginning of year		68,000,285	56,086,814
Cash and cash equivalents at end of year	$	74,048,570	68,000,285

The accompanying notes are an integral part of these financial statements.

1. Reporting entity

BAC Bahamas Bank Limited ("the Bank") was incorporated under the laws of The Commonwealth of The Bahamas on August 13, 1992 and was granted a banking license on March 16, 1992 by The Central Bank of The Bahamas. The Bank's registered office is located at Norfolk House, Frederick Streets, Nassau, Bahamas.

The Bank is a wholly owned subsidiary of BAC International Bank, Inc. (the Parent Company), a bank incorporated in the Republic of Panama. The Parent Company is ultimately owned by Grupo Aval Acciones y Valores S.A., a company incorporated in Colombia.

The Bank is primarily involved in corporate and investment banking.

A substantial portion of the Bank´s business is with the related parties. A significant amount of the Bank´s cash and cash equivalents are held with related parties and the Bank´s revenue is primarily from the interest income on such cash and cash equivalents (see note 6). Accordingly, the Bank is economically dependent on these related parties and is exposed to a significant credit risk in respect of the related parties' balances at the reporting date.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

The Bank initially recognizes loans, accounts receivable and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

(c) Functional and presentation currency

These financial statements are presented in United States dollars ($), which is also the Bank's functional currency.

(d) Use of estimates and judgments

Preparation of financial statements requires the Bank's management to make judgments, estimates and assumptions affecting the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Final results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

2. Basis of preparation, continued

(d) Use of estimates and judgments, continued

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are disclosed in the following notes:

- Fair value measurement (note 3(d)(iv) and 14)
- Impairment (note 3(d)(vii), 3(h) and 5)
- Allowance for loan losses (note 3(f) and 5)

3. Significant accounting policies

The accounting policies explained below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Assets and liabilities in foreign currencies are translated at prevailing exchange rates at the reporting date. Transactions in foreign currencies during the year are translated at exchange rates in effect on the date of the transaction. Differences arising from such translations are presented as other operating income or other expenses in the statement of comprehensive income.

(b) Interest

Interest income and expense are recognized as part of profit or loss in the statement of comprehensive income using the effective interest rate method. This method uses a rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortized cost on an effective interest rate method.

(c) Fees and commission

Fees and commission income that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including service commissions are recognized as the related services are provided.

Deferred loan fees, if any, are amortized over the period of the loan using the effective interest rate method.

3. Significant accounting policies, continued

(d) Financial instruments

(i) Classification

Financial instruments include financial assets and financial liabilities.

In classifying financial assets in each of the categories described below, the Bank has determined that it meets the description or criteria set out in the accounting policies.

The Bank has not designated any financial instruments as "fair value through profit or loss".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank has classified loans to customers, accrued interest receivable and other receivables as loans and receivables.

The Bank considers due from banks with original maturities of three months or less that are subject to insignificant risks of changes in their fair value and are used by the Bank in the management of its short-term commitments, to be cash and cash equivalents.

Financial liabilities include demand and time deposits from customers, accrued interest payable and other liabilities.

(ii) Recognition

The Bank initially recognizes loans to customers and demand and time deposits from customers, on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date which is when the Bank becomes a party to the contractual provisions of the instrument.

(iii) Measurement

Financial instruments are measured initially at fair value plus, in the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss and available-for-sale investments are expensed immediately, while on other financial instruments they are amortized.

3. Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement, continued

Subsequent to initial recognition, financial assets classified as loans and receivables are carried at amortized cost using the effective interest rate method, less impairment losses, if any. Financial liabilities are carried at amortized cost.

(iv) Fair value measurement

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

When applicable, the Bank measures the 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. When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all 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 – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at 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 that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at 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 supported wholly by observable market data or transaction is closed out.

3. Significant accounting policies, continued

(d) Financial instruments, continued

(v) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

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

Transactions whereby the Bank transfers assets recognized on its statement of financial position, but retains either significantly all risks and rewards of the transferred assets or a portion of them are not derecognized from the statement of financial position.

The Bank also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

(vi) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle 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 by IFRS or for gains and losses arising from similar transactions.

(vii) Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the absence of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the Bank.

3. Significant accounting policies, continued

(d) Financial instruments, continued

(vii) Identification and measurement of impairment, continued

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rates. Impairment losses are recognized in the statement of comprehensive income and reflected in an allowance account against loans to customers. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount on an impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances with banks and highly liquid financial assets, which are subject to insignificant risk of changes in their fair value, and used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(f) Loans receivable

As described in note 3(d)(i), loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active marked and that the Bank does not intend to sell immediately or in the near term.

Loans receivable are stated at their outstanding unpaid principal balances adjusted for unearned income, when applicable, and are presented net of specific and general allowances for collectability.

Carrying amount of loans that are identified as being impaired are reviewed on a regular basis to reduce these loans to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans to their estimated recoverable amounts at the reporting date. The expected cash flows for portfolios of similar assets are estimated based on a previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the statement of comprehensive income. Once a loan is determined to be uncollectible, all necessary legal procedures have been completed, and the final loss has been quantified, the loan is written off.

3. Significant accounting policies, continued

(g) Furniture and equipment

Furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of furniture and equipment.

The estimated useful lives for the current and corresponding periods are as follows:

- Equipment 3 - 5 years
- Fixtures and fittings 5 - 10 years

Depreciation methods and useful lives are reassessed at the reporting date.

Expenditure for maintenance and repairs are charged against income. At the time of disposal or retirement of assets, the cost and related accumulated depreciation are eliminated, and any resulting profit or loss is reflected in the statement of comprehensive income.

(h) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Related parties

(a) A person or a close member of that person´s family is related to the Bank if that person:

(i) has control or joint control over the Bank;

(ii) has significant influence over the Bank; or

(iii) is a member of the key management personal of the Bank or of a parent of the Bank.

3. Significant accounting policies, continued

(i) Related parties, continued

(b) An entity is related to the Bank if any of the following conditions applies:

(i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or associate or joint venture of a member of a group of which the other entity is a member)

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(vi) The entity is controlled or jointly controlled by a person identified in (i)(a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(c) A related party transaction is a transfer of resources, services or obligations between the Bank and related party, regardless of whether a price is charged.

(j) New standards and interpretations not yet adopted

There are a number of standards and interpretations which were not effective as of the reporting date and have not been adopted in preparing of these financial statements. The most significant ones which may impact the Bank's financial statements are described below:

(i) IFRS 9 "Financial Instruments"

In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standards 9 (IFRS 9) "Financial Instruments" that must be applied for fiscal years starting on or as of January 1, 2018. This standard replaces International Accounting Standard 39 (IAS 39).

Based on evaluations as of December 31, 2017, the total estimated adjustment for adoption of IFRS 9 on January 1, 2018 in the opening equity of the Bank is an approximate decrease of $37,000 related to the impairment of financial assets.

The foregoing evaluation is preliminary because not all transition work has been completed. The current impact of adopting IFRS 9 may change because:

- IFRS 9 requires that the Bank revises its internal accounting processes and controls and these revisions have not been completed yet;

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

- Although parallel testing has been done on the systems during the second semester of 2017, changes to the systems and associated controls implemented have not been operational for a longer period of time;
- The Bank has not completed the assessment and testing of controls for new technology systems and changes in their control environment;
- The Bank is fine-tuning and completing its models to calculate provisions for the impairment model for expected losses; and,
- New accounting policies, assumptions and opinions are subject to change until the Bank prepares its first interim financial statements as of March 31, 2018, that includes the initial application adjustments.

Implementation strategy

The Bank's IFRS 9 implementation process was overseen by a committee established by the Parent Company, that includes representatives from the areas of risk, finance, operations and information technology (IT) functions. This committee met frequently during the year 2017, to evaluate the key assumptions, made decisions and monitored the progress of implementation at all levels of the Bank, including the assessment of the need for resources.

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

Classification and Measurement - Financial Assets

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

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

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

1. The asset is kept within a business model to collect contractual cash flows; and,
2. The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the outstanding balance.

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

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

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

2. The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the current outstanding balance.

All assets not classified as measured at amortized cost or at fair value through OCI as described above, are measured at fair value through profit or loss.

In addition, in the initial recognition, the Bank may irrevocably designate a financial asset that meets the measurement requirements at AC or FVOCI to be measured at FVPL, if doing so eliminates or significantly reduces an accounting mismatch that may occur if not done. Presently, the Bank does not anticipate using this option.

A financial asset is classified in one of the referenced categories at the time of its initial recognition.

Business Model Assessment

The Bank will assess the objectives of the business models that hold the financial instruments in a portfolio to better represent how the business is managed and how the management information is reported. The information considered will include:

- The policies and objectives for each portfolio of financial instruments and the operations of these policies in practice. These include, whether management's strategy is to collect cash flows from contractual interest and principal repayments or from the sale of financial assets;
- How they are evaluated or reported to key management personnel of the Bank on portfolio performance;
- The risks that affect the performance of the business models (and the financial assets held within) and the way those risks are managed;
- How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and,
- The frequency, value and timing of sales in prior fiscal years, the reasons for those sales and exceptions about future sales activity. However, the information on sales activity cannot be considered in isolation, but rather as part of an evaluation of how the Bank's objectives established for managing financial assets is achieved and how cash flows are realized.

Financial assets held or managed for trading and where their performance is evaluated on a fair value basis, are measured at FVPL because these are not held to cover contractual cash flows or to obtain contractual cash flows and to sell these financial assets.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

Assessment if contractual cash flows are solely payments of principal and interest

For purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as compensation for the time value of money, credit risk associated with holding the current principal for a period of time or for other risks from loan agreements and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

When evaluating whether contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes an assessment to determine whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows in such a way that it does not meet this condition. In making this assessment the Bank considers:

- Contingent events that change the amount and timing of cash flows;
- Hedging conditions;
- Prepayment and extension terms;
- Terms that limit the Bank in achieving cash flows for specific assets (e.g. unfunded asset agreements); and,
- Terms that change the considerations on the value of money over time, for example periodic revision of interest rates.

Interest rates on certain consumer and business loans are based on variable interest rates established at the discretion of the Bank. Variable interest rates are generally established in accordance with the practices of the market where the Bank operates, plus certain additional discretionary basis points. In these cases, the Bank will assess whether the discretionary feature is consistent with the solely principal and interest criteria considering a number of factors that include whether:

- Debtors can prepay the loans without significant penalties;
- Competitive market factors indicate that interest rates are consistent between banks; and,
- Any regulatory protection standard in favor of customers requiring banks to treat customers reasonably.

All fixed rate consumer and corporate loans contain a prepayment condition.

A prepayment feature is consistent with the solely principal and interest criteria, if the prepayment amount substantially represents unpaid amounts of principal and interest on the amount of outstanding principal, which may include fair compensation for early termination of the contract.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

In addition, a prepayment feature is consistent with these criteria, if a financial asset is acquired or originates from a premium or discount to the contractual par amount and the prepayment amount substantially represents the contractual par amount, plus accrued, but unpaid, contractual interest (which may include fair compensation for early termination) and the fair value of the prepayment feature is insignificant in the initial recognition.

Assessment of the impact of the preliminary classification of financial assets

Based on a high level preliminary assessment of possible changes in classification and measurement of financial assets held as of December 31, 2017, the Bank has estimated that by the adoption of IFRS 9 on January 1, 2018, there is no impact to equity as loans and accounts receivable currently classified as loans and measured at amortized cost under IAS 39, will continue to measurement at amortized cost under IFRS 9.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model of IAS 39, replacing it with an 'expected credit losses model' (ECL). This new model requires the application of considerable judgment regarding how changes in economic factors impact on ECL, which is determined on a weighted average basis.

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

- Debt instruments;
- Other accounts receivable;
- Loans portfolio;
- Issued financially secured contracts; and
- Commitments for issued loans.

IFRS 9 requires a provision for impairment of financial assets at AC and FVOCI in an amount equal to the expected impairment losses in a period of twelve months after the end date of financial statements or during the remaining life of the loan. Expected losses during the remaining life of the loan are the losses expected from all possible impairment events during the expected life of the financial instrument, while expected losses in a twelve-month period are the portion of expected losses arising from impairment events that are possible during the twelve months following the date of the report.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

Under IFRS 9, reserves for losses are recognized in an amount equal to the ECL during the life of the asset, except in the following cases, in which the amount recognized is equal to ECL for the 12 months following the measurement date:

- Investments in debt instruments determined to represent low credit risk at the reporting date; and
- Other financial instruments (different from short term accounts receivable) on which the credit risk has not increased significantly since initial recognition.

Impairment requirements under IFRS 9 are complex and require estimated judgments and significant assumptions by management, particularly in the following areas:

- Assess whether the credit risk has increased significant from initial recognition; and,
- Incorporate prospective information in the measurement of expected impairment losses.

Measuring ECL

ECL is the estimated weighted probability of credit losses measured as follows:

- Financial assets with no credit impairment at the reporting date: the present value of all contractual cash payments in arrears (for example the difference between Bank cash flow debt in accordance with the contract and cash flows that the Bank expects to receive);
- Impaired financial assets to the reporting date: the difference between the book value and the present value of estimated future cash flows;
- Outstanding loan commitments: the present value of the difference between contractual cash flows owed to the Bank in the event it enforces the commitment and cash flows that the Bank expects to receive; and,
- Financially secured contracts: expected payments to reimburse the holder minus any amount the Bank expects to recover.

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

Definition of Impairment

Under IFRS 9, the Bank will consider a financial asset to be impaired when:

- There is little probability that the debtor will fully pay its credit obligations to the Bank, without recourse for the Bank to take such actions as enforcing the guarantees (if any); or

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

- The debtor is more than 90-days past-due on any material credit obligation.

If the debtor is impaired when it's evaluated, the Bank will consider indicators such as:

- Qualitative (e.g. noncompliance with contractual clauses);
- Quantitative (e.g. arrears or non-payment of another obligation from the same issuer to the Bank); and,
- Based on data developed internally and obtained from external sources.

Inputs used in the assessment of whether financial instruments are impaired and their importance may vary over time to reflect changes in circumstances.

Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk of a financial instrument has increased significantly since initial recognition, the Bank will consider relevant fair, sustainable information available at no cost or disproportionate effort, including information and quantitative and qualitative analyses based on historical experience and expert evaluation of Bank's credit department, including information with future projections.

The Bank expects to identify whether there is a significant increase in the credit risk exposure by comparing:

- The probability of default (PD) during the remaining life of a financial instrument at the reporting date; with
- The PD during the remaining life, which was estimated at initial recognition of the financial instrument.

The assessment of whether the credit risk has increased significantly from initial recognition of a financial asset requires identification of the initial recognition date of the instrument. For purposes of rotating credit (credit cards, among others), the date when the credit was first delivered may be a long time ago. Changes in the contractual terms of a financial asset may also impact this assessment, as discussed below.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

Grading by Credit Risk Categories

The Bank will assign a credit risk grade to each exposure based on a variety of data that are determined to predict the PD and applying the judgment of a credit expert. The Bank expects to use these grades to identify significant increases in credit risk under IFRS 9. Credit risk grading is defined using qualitative and quantitative factors indicative of the risk of losses. These factors may vary depending on the type of exposure and the type of borrower.

Credit risk grading is defined and calibrated so that the risk of losses increases exponentially as the credit risk is impaired and so that, for example, the difference in the risk of losses between grades 1 and 2 is less than the difference between the credit risk between grades 2 and 3.

Each exposure will be given a credit risk grade upon initial recognition based on information available on the debtor. Exposures will be subject to continuous monitoring, that may result in movement of an exposure to a different credit risk grade.

Generating the Structure of the PD term

It is expected that the credit risk grading is the main input to determine the structure of the PD term for the different exposures. The Bank has the intention of obtaining performance and loss information on the credit risk exposures analyzed by jurisdiction or region, type of product and debtor, as well as by credit risk grade.

For some portfolios, information purchased from external credit reference agencies may also be used.

The Bank will use statistical models to analyze the data compiled and generate estimates of the probability of impairment during the remaining life of the exposures and how these probabilities of impairment change over time.

This analyses includes identification and calibration of relationships between changes in impairment rates and key macroeconomic factors, as well as in-depth analysis of certain impairment risk factors (for example loans charge-offs). For the majority of loans, key economic factors will probably include growth in gross domestic product, changes in interest rates on the market and unemployment.

For exposures in specific industries and/or regions, the analysis may be extended to products impacted by real estate prices.

The approach used by the Bank to prepare prospective economic information within its assessment is indicated below.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

Determine if the credit risk has increased significantly

The Bank has established a general framework that incorporates quantitative and qualitative information to determine if the credit risk of a financial asset has significantly increased since its initial recognition.

The initial framework is aligned with the internal process of the Bank for credit risk management.

The criteria to determine whether the credit risk has increased significantly will vary by portfolio and will include limits based on noncompliance.

The Bank will evaluate whether the credit risk of a particular exposure has increased significantly since initial recognition if, based on the Bank's qualitative modeling, the expected probability of impairment during the remaining life will increase significantly from initial recognition. In determining the credit risk increase, the expected impairment losses in the remaining life is adjusted by changes in expiration dates.

Under certain circumstances, using the judgment of credit experts, and based on relevant historical information, the Bank may determine that an exposure has had a significant increase in credit risk, if particular qualitative factors indicate this and those factors may not be completely captured by periodic quantitative analyses. The Bank will assume that a significant credit risk occurs no later than when the asset is in arrears for more than 30 days.

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

- The criteria can identify significant increases in credit risk before an exposure becomes impaired;
- The criteria are inconsistent with the time when the asset is more than 30 days past the due date;
- The average time to identify a significant increase in credit risk and noncompliance appear to be reasonable;
- Exposures are not generally transferred directly from the ECL in the twelve months following the impairment of a group of loans;
- There is no unjustified volatility in the provision for impairment of transfers between groups with the probability of expected losses in the twelve months following the reporting date and the probability of expected losses in the remaining life of the loans.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

Modified Financial Assets

The contractual terms of the loans may be modified for a number of reasons, including changes in market conditions, client retention and other factors unrelated to an actual or potential impairment of the client's loan.

When the terms of a financial asset are modified under IFRS 9 and the modification does not result in the removal of the asset from the balance sheet, the determination of whether the credit risk has significantly increased reflects comparisons of:

- The PD during the remaining life on the date of the reporting date based on the terms modified, with
- The PD on the estimated remaining life based on the date of initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximize the opportunities to collect and to minimize the risk of noncompliance. Under the Bank's renegotiation policies, customers in financial difficulties are given concessions that generally involve a reduction in interest rate, extension of the payment term, reductions in the balances due or a combination of these.

For financial assets modified as part of the Bank's renegotiation policies, the estimation of the PD will reflect whether the modifications have improved or restored the ability of the Bank to collect principal and interest and the prior experience of the Bank in similar actions.

As part of the process, the Bank will evaluate the debtor's payment compliance as compared to the modified terms of the debt and will consider several performance indicators for the group of debtors modified.

Generally, restructuring indicators are a relevant factor on increased credit risk. Therefore, a restructured debtor must demonstrate a consistent payment behavior over a period of time before no longer being considered as an impaired loan or that the PD has decreased in such a way that the provision may be reversed and the loan measured for impairment over a term of twelve months after the closing date of the report.

Inputs in Measuring ECL

Key inputs in measuring ECL are usually the structure of the terms of the following variables:

- Probability of default (PD)
- Losses given default (LGD)
- Exposure at default (EAD)

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

The foregoing parameters will be derived from internal statistical models and other historical information. These models will be adjusted to reflect prospective information as described below:

Estimated PDs at a certain date, which will be calculated based on statistical classification and evaluation models using grading tools adjusted to the different counterpart categories and exposures. These statistical models will be based on data compiled internally comprising both qualitative and quantitative factors. If a counterpart or exposure migrates between different grades, then this will result in a change in the estimated PD. PDs will be estimated considering contractual terms on expiration of exposures and estimated prepayment rates.

LGD is the magnitude of probable losses in the event of noncompliance. The Bank will estimate the parameters of the LGD based on historical loss recovery rates against the noncomplying parties. LGD models will consider the structure, collateral and the priority of the lost debt, the industry of the counterpart and the recovery costs of any collateral integrated into the financial asset. For loans secured by real property, indices related to the value of the security as compared to the loan (Loan to value, "LTV"), will probably be parameters used in the determination of the LGD. LGD estimates will be calibrated using different economic scenarios and for loans secured by real estate, variations in price indices for these assets. These loans will be calculated on the bases of discounted cash flows using the effective interest rate of the loan.

EAD represents expected exposure in the event of noncompliance. The Bank will derive the EAD from the current exposure of the counterpart and potential changes in the current amount permitted under the terms of the contract, including amortization and prepayments. The EAD of a financial asset will be the gross value at the time of noncompliance. For loan commitments and financial security, the EAD considers the amount removed, as well as potential future amounts that may be removed or collected under the contract, which are estimated based on historical issues and projected prospective information. For some financial assets, the Bank will determine the EAD by modeling a range of possible results of exposures as several points over time using scenarios and statistical techniques. As described above and subject to using a maximum PD of twelve months for which credit risk has increased significantly, the Bank will measure the EAD considering the risk of noncompliance during the maximum contractual period (including options to extend the customer's debt) on which there is an exposure to credit risk, even if, for purposes of risk management, the Bank considers a longer period of time.

The maximum contractual period is extended to the date on which the Bank has the right to require payment of a loan or terminate a loan commitment or security given.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

For consumer credit card balances and certain corporate revolving credit that includes both a loan and a component of the customer's commission not to withdraw the loan, the Bank will measure EADs over a longer period than the maximum contractual period, if the contractual ability of the Bank to demand payments and pay off the commitment not withdrawn does not limit the Bank's exposure to credit losses for the contractual period of the contract. These facilities do not have a fixed term or a collection structure and are managed on a collective basis. The Bank may cancel them effective immediately, but this contractual right is forced in the normal management of the Bank's day to day manager, rather only when the Bank finds that there has been increased credit risk for each loan. This longer period of time will be estimated taking into account the actions for the management of credit risk that the Bank expects to take and that mitigate the EAD. These measures include a reduction in limits and cancellation of loan contracts.

Where parameter modeling is performed on a collective basis, the financial instruments will be pooled on the basis of shared risk characteristics that include:

- Type of instrument;
- Credit risk rating;
- Guarantees;
- Date of initial recognition;
- Remaining expiration term;
- Industry; and
- Geographical location of the debtor.

The above pooling will be subject to regular review to ensure that the exposure of a particular group remains appropriately uniform.

Projection of Future Conditions

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

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

The external information may include economic data and publication of projections by government committees, monetary authorities, supranational organizations (such as The Organisation for Economic Co-operation and Development and the International Monetary Fund), academic projections, private sector, and credit risk rating agencies.

The base case is expected to represent the most probable outcome consistent with the information used by the Bank for other purposes and strategical planning and the budget. Other scenarios will represent a more optimistic or pessimistic outcome. In addition, the Bank will plan periodic stress testing to calibrate the determination of these other representative scenarios.

The Bank is in the process of identifying and documenting key guidelines for credit risk and credit losses for each portfolio of financial instruments, using an analysis of historical data to estimate the relationship between macro-economic variables, credit risk and credit losses.

Preliminary Assessment of the Impact of the Change in the loss provisions model due to Impairment of Financial Instruments

The most significant impact to the Bank from the implementation of IFRS 9 is expected to result in new impairment requirements. Impairment losses will increase and become more volatile for financial assets within the scope of IFRS 9 impairment models.

The Bank has estimated that as a result of adopting IFRS 9 as of January 1, 2018, the increase in impairment allowances for financial assets will be approximately $37,000. New impairment requirements will have a greater impact on impairment provisions for unsecured loan products with longer expected life, such as credit cards. As mentioned earlier, the expected impact is based on an initial management assessment and may change upon completion of the final assessment

Disclosures

IFRS 9 contains extensive new disclosure requirements, particularity for credit risk and allowances for expected credit losses. The Bank is in the process of performing an analysis to identify data gaps in current processes and plans to implement the changes in the system and the controls it believes will be necessary to capture the required data, before the issuance of the first financial statement where IFRS 9 is adopted.

Impact on capital planning

The main impact on regulatory capital of the Bank arises from the new requirements for the impairment of IFRS 9, which is affected through retained earnings.

3. Significant accounting policies, continued

(j) New standards and interpretations not yet adopted, continued

(i) IFRS 9 "Financial Instruments", continued

Transition

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

The Bank will not re-state comparative information in preceding periods with respect to changes in classification and measurement (including impairment). The differences in the amounts of financial assets resulting from the adoption of IFRS 9 will be recognized in retained earnings in equity as of January 1, 2018.

(ii) IFRS 15 "Revenue from Regular Activities from Contracts with Customers"

In July 2014, IASB issued IFRS 15 "Revenue from Regular Activities from Contracts with Customers", which replaces several earlier standards, but particularly IAS 11"Construction Contracts" and IAS 18 "Revenue from Regular Activities". This new standard with mandatory application as of January 1, 2018, requires that revenue from regular activities with customers other than those originating from financial instruments and financial lease agreements will be recognized with specific reporting standard. IFRS 15 establishes that revenue be recognized in such a way that it reflects the transfer of control of goods and services pledged to customers in exchange for an amount that expresses the compensation to which the Bank expects to have a right. Under this new premise, the Bank recognizes income from regular activities, other than financial yield such as: fees for bank services, sale of goods and services for other reasons through the application of the following stages:

1. Identification of the contract with the customer.
2. Identification of performance obligations of the contract.
3. Determination of the transaction price.
4. Assignment of the transaction price with the performance obligations.
5. Recognition of income to the extent that the Bank satisfies its performance obligations to each customer.

In accordance with the above, the main changes that apply to the Bank in determining other income different from financial yield and income from lease contracts, correspond to the reassessment made of the assignment of the transaction price based on fair value of the different services or on costs plus profit margin, instead of using a residual value method.

The preliminary high-level assessment made by the Bank indicates that the implementation of IFRS 15 will have no material impact on the Bank's income corresponding to the above referenced operations.

4. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee ("ALCO"), and Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to regulatory and internal limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank aims to develop a disciplined and constructive control environment through trainings, established procedures, and manuals, in which all employees understand their roles and responsibilities.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

This following section provides information of the Bank's exposure to risk and describes the methods used by management to control risks. The most significant types of financial risk to which the Bank is exposed are credit, liquidity, and price risk. Market risk includes currency risk, interest rate risk and price risk.

(Expressed in United States dollars)

4. Financial risk management, continued

(b) Credit risk

Management of credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank's maximum credit risk exposure is shown below:

		2017	**2016**
Cash and cash equivalents	$	74,048,570	68,000,285
Loans to customers, net		3,320,117	14,351,502
Accrued interest receivable		14,200	35,584
Other receivables and assets		24,088	31,736
	$	77,406,975	82,419,107

The Board of Directors has delegated responsibility for the management of credit risk to the Parent Company's Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers.

  Larger facilities require approval by the Head of the Credit Committee or the Board of Directors, as appropriate.

- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographic areas and industries (for loans to customers).

(Expressed in United States dollars)

4. Financial risk management, continued

(b) Credit risk, continued

- Developing and maintaining the Bank's risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of nine grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank's management of credit risk.
- Each business unit is required to implement credit policies and procedures, with credit approval authorities from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risk in its portfolios, including those subjects to central approval. Regular audits of business units and credit processes are undertaken by the Parent Company´s Internal Audit department.

Exposure to credit risk of loans to customers is shown below.

		2017	**2016**
Grade 1 Low Risk		0	0
Grade 2 Fair Risk		0	5,000,000
Grade 3 Fair Risk		50,258	5,057,599
Grade 4 Average Risk		0	4,322,076
Grade 5 Watch List		3,296,852	0
Grade 6 Marginal		0	0
Grade 7 Substandard		0	0
Grade 8 Doubtful		0	0
Grade 9 Impaired		0	0
Gross amount		3,347,110	14,379,675
Allowance for impairment		(26,993)	(28,173)
Total carrying amount	$	3,320,117	14,351,502

4. Financial risk management, continued

(b) Credit risk, continued

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans not subject to individual assessment for impairment.

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans agreements. These loans are graded 7 to 9 in the Bank's internal credit risk grading system. At December 2017 and 2016, there are no grade 7 to 9 loans.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. At December 2017 and 2016, there are no loans with renegotiated terms.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Credit Committee determines that the carrying value of the loan is not recoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer meet the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Collateral

The Bank holds collateral in respect of loans and advances in the form of cash mortgages over property, chattel mortgages and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At December 31, 2017, an estimate of the fair value of collateral held for mortgages and chattel mortgages in respect of financial assets was $3,296,852 (2016: $4,322,076).

Concentration of credit risk

The Bank monitors concentration of credit risk by geographic location. As of December 31, 2017, there was concentration of credit risk in respect of loans to customers in Panama amounting to $3,320,117 (2016: $14,351,502). Concentration by location of loans to customers is measured based on the location of the costumers holding the asset, which has a high correlation with the location of the borrower.

4. Financial risk management, continued

(b) Credit risk, continued

As of December 31, 2017, there was concentration of credit risk in respect of cash and cash equivalents with related parties amounting to $70,714,761 (2016: $64,388,310). The credit risk exposure arising from these balances held with related parties is managed at the group level.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a borrower to honor its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from risk committees.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Liquidity risk exposures are measured by liquidity ratio limits established by the ALCO.

The Parent Company's Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The liquidity position is monitored on a daily basis and regular liquidity stress testing is conducted under scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the ALCO. Weekly reports cover the liquidity position of local and foreign currency. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the ALCO.

(Expressed in United States dollars)

4. Financial risk management, continued

(c) Liquidity risk, continued

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the maturity-wise analysis, volatility measurements and stress testing. For this purpose, net liquid assets are considered to include cash and cash equivalents for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month, including any statistical analysis of assets and liabilities that may not have a defined maturity.

The following table shows the undiscounted cash flows on the Bank's financial liabilities and assets on the basis of their earliest possible contractual maturity.

	Carrying amount	Gross Nominal (outflow) - inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
December 31, 2017							
Liabilities							
Demand deposits from customers	$ 33,176,667	(33,176,667)	(33,176,667)	0	0	0	0
Time deposits from customers	19,721,752	(20,365,960)	(1,039,429)	(4,110,165)	(6,166,306)	(9,050,060)	0
Total liabilities	$ 52,898,419	(53,542,627)	(34,216,096)	(4,110,165)	(6,166,306)	(9,050,060)	0
Assets							
Cash and cash equivalents	$ 74,048,570	74,048,570	74,048,570	0	0	0	0
Loans (Gross)	3,347,110	3,532,773	190,961	190,961	859,323	2,291,528	0
Total assets	$ 77,395,680	77,581,343	74,239,531	190,961	859,323	2,291,528	0
December 31, 2016							
Liabilities							
Demand deposits from customers	$ 33,416,267	(33,416,267)	(33,416,267)	0	0	0	0
Time deposits from customers	25,582,419	(26,274,360)	(3,772,417)	(6,272,491)	(9,072,523)	(7,040,127)	(116,802)
Total liabilities	$ 58,998,686	(59,690,627)	(37,188,684)	(6,272,491)	(9,072,523)	(7,040,127)	(116,802)
Assets							
Cash and cash equivalents	$ 68,000,285	68,000,285	68,000,285	0	0	0	0
Loans (Gross)	14,379,675	14,763,611	6,770,055	3,597,709	899,150	3,496,697	0
Total assets	$ 82,379,960	82,763,896	74,770,340	3,597,709	899,150	3,496,697	0

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. Overall authority for market risk is vested in the ALCO. Risk committees are responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day-to-day review of their implementation.

4. Financial risk management, continued

(d) Market risk, continued

Management of market risks

Exposure to currency risk:

The Bank conducts all of its transactions denominated in United States dollars and therefore, is not exposed to any currency risk.

Exposure to interest rate risk – non-trading portfolios:

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands, economic value of equity exposure, including positions on and off the statement of financial position. The ALCO is the monitoring body for compliance with these limits and is assisted by Parent Company's Risk Management in its day-to-day monitoring activities.

A summary of the interest rate gap position on the Bank´s financial instruments is shown below.

				Days				
(Expressed in $000's)		Total	0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2017								
Assets								
Cash and cash equivalents		74,049	74,049	0	0	0	0	0
Loans (Gross)		3,347	50	0	3,297	0	0	0
Total		77,396	74,099	0	3,297	0	0	0
Liabilities								
Demand deposits		33,177	33,177	0	0	0	0	0
Time deposits		19,722	963	3,890	3,021	2,860	8,386	602
Total		52,899	34,140	3,890	3,021	2,860	8,386	602
Net interest gap	$	24,497	39,959	(3,890)	276	(2,860)	(8,386)	(602)

4. Financial risk management, continued

(d) Market risk, continued

(Expressed in $000's)		Total	Days 0-30	31-90	91-180	181-360	361-720	More than 720
December 31, 2016								
Assets								
Cash and cash equivalents		68,000	68,000	0	0	0	0	0
Loans (Gross)		14,380	5,058	5,000	4,322	0	0	0
Total		82,380	73,058	5,000	4,322	0	0	0
Liabilities								
Demand deposits		33,416	33,416	0	0	0	0	0
Time deposits		25,582	4,229	6,142	5,416	3,510	3,729	2,556
Total		58,998	37,645	6,142	5,416	3,510	3,729	2,556
Net interest gap	$	23,382	35,413	(1,142)	(1,094)	(3,510)	(3,729)	(2,556)

Cash flow sensitivity analysis for variable rate instruments:

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's variable rate assets and liabilities. An increase or decrease of 100 basis points would have increased or decreased equity and profit or loss by $98,029 (2016: $75,297). This analysis assumes that all other variables remain constant. The analysis is performed using the same assumptions used in 2016.

Fair value Sensitivity analysis for fixed rate instruments:

The Bank does not account for any fixed rate instruments at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not impact profit or loss.

(e) Operational risks

Operational risk is the risk of direct or indirect loss or damage in any form arising from a wide variety of causes associated with the Parent Company and Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

As per Basel II, operational risk management is performed as a continuous process, with several distinct components:

- risk identification & assessment,
- risk mitigation (control development & implementation),
- control self-assessment (control testing),

4. Financial risk management, continued

(e) Operational risks, continued

- risk monitoring (key risk indicators follow up),
- risk measurement (incident collection & capital calculation), and
- control environment assessment & management (control culture measurement & corrective action implementation).

The primary responsibility for operational risk management is assigned to senior management within each business unit. This responsibility is supported by the development of overall policies and a central unit (Parent Company's Operational Risk Management Department) coordinates and follows up on the business unit's performance. Status and developments are reported bi-monthly to the Operational Risk Committee, which oversees the risk management cycle. Additionally, compliance with the Bank's policies is supported by periodic reviews undertaken by the Parent Company's Internal Audit department. The results of internal audit reviews are discussed with the business unit's management and then summaries are submitted to the Audit Committee and senior management of the Bank.

(f) Capital management

The Central Bank of The Bahamas requires the Bank to maintain a minimum ratio of total capital to risk-weighted assets of 8%. The capital to risk-weighted assets ratio at December 31, 2017 was 30.27% (2016: 82.77%).

The Bank's policy is to maintain a strong capital base so as to maintain the confidence of stakeholders and to sustain future development of the business. The Bank has complied with all externally imposed capital requirements throughout the year.

There were no changes in Bank's approach to capital management during the year.

5. Critical accounting estimates and judgments in applying accounting policies

The Bank's Management is responsible for the development, selection, disclosure of policies and critical accounting estimates and their implementation in a manner consistent with the assumptions selected and related to the significant estimate uncertainties.

The Bank reviews its loan portfolio to assess the impairment at least on a quarterly basis. When determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes decisions as to whether observable information exists indicating that there is a measurable reduction in estimated future cash flows from a loan portfolio before such reduction may be identified with an individual loan in that portfolio. This evidence includes observable information indicating that an adverse change in the payment condition of borrowers in a group, or national or local economic conditions that correlate with non-compliance instances in the Bank's assets have occurred. Management determines estimates based on the experience of historical loss by assets with similar credit risk similar characteristics and objective evidence of impairment.

(Expressed in United States dollars)

6. Related party balances and transactions

Balances and transactions with related parties are shown below:

		2017		2016	
		Key personnel	**Related parties**	**Key personnel**	**Related parties**
Assets					
Cash and cash equivalents	$	0	70,714,671	0	64,388,310
Loans to customers, net		1,412	0	0	5,000,000
Accrued interest and other receivables		0	6,000	0	16,111
Liabilities					
Demand deposits from customers	$	54	27,479,918	290	26,744,389
Time deposits from customers		150,000	0	1,104,121	0
Accrued interest payable		1,385	0	2,766	0
Other liabilities		0	9,204	0	43,019
Income					
Interest income	$	0	2,465,891	0	2,278,566
Other income		0	37,824	0	37,824
Expenses					
Interest expenses	$	3,728	13,926	29,176	7,386
General and administrative		0	60,000	0	60,000

During the current year, related parties charged the Bank $60,000 (2016: $60,000) for administrative services.

During 2016, the Bank acquired certain loans from a related party at book values amounting to $17,509,635.

7. Cash and cash equivalents

The geographical distribution of cash and cash equivalents by country of the head office is as follows:

		2017	2016
Panama	$	59,555,128	59,723,758
The Cayman Islands		10,670,958	4,249,180
United States of America		3,315,756	3,590,236
Costa Rica		488,675	415,372
The Bahamas		18,053	21,739
	$	74,048,570	68,000,285

At December 31, 2017, cash and cash equivalents earned interest at rate ranging between 0.00% to 4.00% (2016: 0.00% to 4.00%) per annum.

(Expressed in United States dollars)

8. Loans to customers, net

At December 31, 2017, the loan portfolio was segmented by industry as follows:

		2017	2016
Consumer	$	50,258	57,599
Commercial		3,296,852	14,322,076
		3,347,110	14,379,675
Less allowance for loan losses		(26,993)	(28,173)
	$	3,320,117	14,351,502

At December 31, 2017 and 2016, the Bank did not have non-accrual or past due loans. At December 31, 2017, commercial loans earn interest at 4.95% (2016: ranging from 3.00% to 4.37%) per annum.

The changes in the allowance for loan losses are presented below:

		2017	2016
Balances at beginning of year	$	28,173	921
(Provision for) reversal of loan losses		(1,180)	27,252
Balance at end of year	$	26,993	28,173

9. Demand deposits from customers

At December 31, 2017 and 2016, demand deposits are from customers primarily domiciled in Central America. Demand deposits bear interest at various rates up to 0.05% (2016: 0.05%) per annum.

		2017	2016
Retail customers	$	3,238,752	3,887,643
Corporate customers		29,937,915	29,528,624
	$	33,176,667	33,416,267

10. Time deposits from customers

At December 31, 2017 and 2016, the time deposits were due within one year with annual interest rates ranging between 1.25% to 5.00% (2016: 1.25% to 6.00%) and are from customers primarily domiciled in Central America.

		2017	2016
Retail customers	$	16,192,511	20,823,471
Corporate customers		3,529,241	4,758,948
	$	19,721,752	25,582,419

11. Share capital

The authorized capital of the Bank is composed of 18,000,000 shares. At December 31, 2017 and 2016, share capital is represented by 18,000,000 issued ordinary registered shares of $1.00 par value each, for a total of $18,000,000.

(Expressed in United States dollars)

12. General and administrative expenses

General and administrative expenses are shown below:

		2017	2016
Personnel	$	393,940	422,844
Corporate services		60,000	60,000
Outside services		71,144	63,961
Depreciation		2,386	2,899
Other		290,410	283,705
	$	817,880	833,409

13. Taxes

The Bank is exempt from income taxes under the laws of The Commonwealth of The Bahamas. In accordance with the current tax regulations in Panama, the Bank is exempt from the payment of income taxes on profits derived from foreign operations. In addition, profits derived from interest earned on time deposits and interest earned from Panama Government securities is also exempt from the payment of income taxes.

14. Measurement of fair values

The fair value of a financial asset or liability 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 (exit price).

The Bank conducts a fair value estimate in accordance to IFRS 13. The different hierarchy levels have been defined as follows:

- Level 1 - Quoted prices in active markets without adjustments for identical assets or liabilities that the Bank can access at the measurement date.

- Level 2 - inputs other than quoted prices included in 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 prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active and other valuation techniques where significant data inputs are directly or indirectly observable in the market.

- Level 3 - unobservable inputs for the asset or liability. This category includes all instruments where the valuation technique includes unobservable inputs and these have a significant effect on the fair value measurement. This category also includes instruments that are valued based on quoted prices for similar instruments for which we must make significant adjustments using unobservable inputs, assumptions or adjustments in which no observable or subjective data are used when there are differences between the instruments.

(Expressed in United States dollars)

14. Measurement of fair values, continued

A market is considered active if quoted prices are readily and regularly available from an exchange, financial intermediaries, a sector institution, pricing service or regulatory agency, and those prices reflect actual market transactions with sufficient frequency and volume to provide pricing information market.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) Cash and cash equivalents

The carrying amounts approximate fair value because of the short-term maturities of these instruments.

(b) Loans to customers

The fair value of loans to customers is estimated by discounting future cash flows using the interest rates offered for loans with similar characteristics.

(c) Demand and time deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting future cash flows using the rates offered for deposits with similar remaining maturities.

As of December 31, 2017 the following table sets out the fair values of Bank´s significant financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. The fair value information for the financial assets and financial liabilities whose carrying amounts approximate their fair values (such as cash and cash equivalents and demand deposit) are not included in this table.

		Level 1	Level 2	Level 3	Total fair value	Total carrying Amount
December 31, 2017						
Assets:	$					
Loans to customers, net		0	0	3,323,593	3,323,593	3,320,117
Liabilities:						
Time deposits from customers		0	0	19,687,883	19,687,883	19,721,752

		Level 1	Level 2	Level 3	Total fair value	Total carrying Amount
December 31, 2016						
Assets:	$					
Loans to customers, net		0	0	14,323,936	14,323,936	14,351,502
Liabilities:						
Time deposits from customers		0	0	25,560,380	25,560,380	25,582,419

15. Reserve for loans losses (regulatory requirements)

The Parent Company is regulated by the Superintendent of Banks of Panama ("Superintendent"). In 2013, the Superintendent issued the Agreement No. 004-2013 ("the Agreement") setting out certain requirements for the management and administration of the inherent credit risk pertaining to on and off balance sheet operations of banks in Panama.

The Agreement is applicable to the Bank as certain regulations applicable to the Parent Company are also applicable to its subsidiaries.

Among other matters, this Agreement defines the classification categories of credit facilities for the specific and dynamic provisions as well as the criteria that the policies for restructured loans, financial guarantees, and charge off operations should contain. The dynamic provisions were established by the Superintendent, as prudential regulation, in order to meet future needs of specific provisions. The Specific provision for impairment of the loan portfolio should be determined and recognized in the financial statements in accordance with the credit facilities´ classification within the risk categories currently in use and calculated based on minimum percentages weighted by each category specified in the Agreement. The Agreement also requires establishing the dynamic provision, to be determined and recognized quarterly as reserves in equity following certain calculation criteria and restrictions that will be implemented gradually.

The Agreement establishes that the dynamic reserve cannot be less than 1.25% or greater than 2.50% of risk-weighted assets related to credit facilities classified as normal. Accordingly, at December 31, 2017, the Bank, is required to establish a reserve/ provision in the amount of $308,812 (2016: $308,812), as part of equity through the appropriation of retained earnings.

Furthermore, the Central Bank of The Bahamas does not expect that general allowance for loan losses should be less than 1% of the total loan portfolio, which amounts to $33,471 (2016: $143,797).

While the Bank is required to establish and/or maintain loan losses reserves, as described above, based on management's assessment, the required total allowance for loan losses calculated in accordance with IFRS as at December 31, 2017 amounted to $26,993 (2016: $28,173). Therefore, the Bank has established a reserve of $308,812 (2016: $308,812), which is the minimum requirement of its regulators as at December 31. The difference between the minimum requirement of its regulators and the IFRS allowance for loan losses, has been recognized in the equity section of the statement of financial position by making an appropriation and transfer from retained earnings.

16. Contingencies and commitments

The Bank holds financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its customers. These financial instruments include, principally, commitments to extend credit, the balances of which are not reflected in the accompanying statement of financial position.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer. As of December 31, 2017 and 2016, the Bank had not entered into non-cancelable commitments to extend credit.

As of December 31, 2017, the Bank had outstanding revolving line of credit available to their credit card customers, which had a limit of $50,258 ($57,599 as of December 21, 3016). The unused portion of the total amount available for this line of credit was $189,842 (2016: $204,901). While these amounts represented the available line of credit to customers, the Bank has not experienced, and does not anticipate, that all of its customers will exercise their entire available lines at any given point in time. The Bank generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.