BAC INTERNATIONAL BANK, INC.
AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2017

(With Independent Auditors' Report Thereon)

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Table of Contents

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder
BAC International Bank, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of BAC International Bank, Inc. and Subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated statements of income, 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements.

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG

Panama, Republic of Panama.
February 21, 2018

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

Consolidated Statement of Financial Position

December 31, 2017

(In U.S. dollars)

Assets	Note	2017	2016
Cash and cash equivalents		659,062,587	545,071,729
Securities purchased under resale agreements	4, 7	18,457,658	71,358,013
Deposits due from banks:			
Demand		2,552,370,926	2,374,474,948
Time deposits		727,870,292	398,606,048
Total deposits in banks		3,280,241,218	2,773,080,996
Total cash, cash equivalents and deposits in banks	6	3,957,761,463	3,389,510,738
Investments and other assets at fair value	4, 8	1,627,644,043	1,322,607,099
Loans at fair value	4	12,904,978	15,400,337
Loans at amortized cost	4, 9	15,468,792,223	14,256,357,962
Less:			
Allowance for loan losses	10	(234,671,959)	(195,360,480)
Unearned interest		(1,957,761)	(2,577,581)
Unearned commissions, net		(50,557,475)	(50,384,109)
Loans at amortized cost, net		15,181,605,028	14,008,035,792
Assets classified as held for sale	28	4,176,992	60,589,657
Property, furniture, equipment and improvements, net	11	345,796,463	354,779,795
Acceptances outstanding		2,419,446	31,923,582
Accumulated interest receivable		114,738,560	104,982,339
Other accounts receivable		270,243,022	238,507,166
Goodwill and intangible assets	12	377,983,787	388,859,920
Deferred income tax	24	16,622,960	11,042,033
Other assets	13	106,205,076	121,312,768
Total assets		22,018,101,818	20,047,551,226

The consolidated statement of financial position must be read in conjunction with the notes which are part of the consolidated financial statements.

Liabilities and Equity	Note	2017	2016
Liabilities:			
Deposits:			
Demand		5,461,865,525	4,858,900,069
Savings		2,856,517,855	2,593,004,442
Time deposits		6,623,283,159	5,731,181,379
Total deposits	14	14,941,666,539	13,183,085,890
Liabilities classified as held for sale	28	1,268,802	30,855,988
Securities sold under repurchase agreements		61,979,642	91,021,291
Financial obligations	15	3,175,524,010	3,189,627,634
Other financial obligations	16	394,083,465	427,130,463
Acceptances outstanding		2,419,446	31,923,582
Accumulated interest payable		90,223,994	73,068,825
Income tax payable		49,548,831	57,099,159
Deferred income tax	24	75,173,722	47,491,212
Other liabilities	17	597,787,521	542,903,654
Total liabilities		19,389,675,972	17,674,207,698
Equity:			
Common stock	18	834,708,000	834,708,000
Additional paid in capital		140,897,488	140,897,488
Treasury stock		(5,171,221)	(5,164,872)
Retained earnings		1,685,557,052	1,340,573,712
Voluntary capital reserves		0	54,253,667
Regulatory reserves		224,991,079	223,464,042
Other comprehensive losses	19	(252,765,111)	(215,662,977)
Total shareholder equity of the controlling Company		2,628,217,287	2,373,069,060
Non-controlling interest		208,559	274,468
Total equity		2,628,425,846	2,373,343,528
Commitments and contingencies	25		
Total liabilities and equity		22,018,101,818	20,047,551,226

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

Consolidated Statement of Income

For the year ended December 31, 2017

(In U.S. dollars)

	Note	2017	2016
Interest and commissions income:			
Deposits in banks		22,104,869	16,752,614
Investments		57,285,713	50,220,119
Loans		1,622,287,866	1,485,653,101
Total interest and commissions income		1,701,678,448	1,552,625,834
Interest expense:			
Deposits		389,465,567	328,907,122
Financial obligations		132,534,728	126,865,540
Other financial obligations		28,173,641	26,227,665
Securities sold under repurchase agreements		3,534,500	1,822,984
Total interest expense		553,708,436	483,823,311
Interest and commissions income, net		1,147,970,012	1,068,802,523
Provision for loan losses	10	309,173,232	244,841,043
Impairment of fixed assets	11	0	5,541,567
Impairment of foreclosed assets	13	8,360,389	5,614,369
Provision for receivables impairment		308,657	39,941
Interest and commissions income, net after provisions		830,127,734	812,765,603
Other income:			
Gains on financial instruments, net	20	5,089,502	3,820,018
Service fees		425,539,277	398,024,948
Commissions and other fees, net		177,123,675	155,905,098
Gain on foreign currency exchange, net		113,761,135	109,170,078
Other income	21	42,942,787	40,373,702
Total other income, net		764,456,376	707,293,844
General and administrative expenses:			
Salaries and employee benefits	22	502,518,934	498,697,355
Depreciation and amortization	11, 12, 13	81,792,489	74,423,198
Administrative		56,950,956	55,075,062
Occupancy and related		67,854,162	66,508,299
Other expenses	23	349,010,315	325,140,311
Total general and administrative expenses		1,058,126,856	1,019,844,225
Income before income tax and discontinued operations		536,457,254	500,215,222
Less: Income tax	24	155,044,959	134,202,172
Net income from continued operations		381,412,295	366,013,050
Discontinued operations			
Loss from discounted operations, net of income tax	28	(5,456,427)	(20,807,973)
Net income		375,955,868	345,205,077
Net income attributable to:			
Controlling interest		375,922,560	345,160,949
Non-controlling interest		33,308	44,128
		375,955,868	345,205,077

The consolidated statement of income must be read in conjunction with the notes which are part of the consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017

(In U.S. dollars)

	2017	2016
Net income	375,955,868	345,205,077
Other comprehensive (losses) income:		
Items that are or can be reclassified to the consolidated income statement		
Foreign currency translation	(33,110,396)	(47,170,129)
Foreign currency translation reversal related to assets classified as held for sale	0	4,180,941
Change in fair value of cash flows hedging	0	392,067
Valuation of available for sale securities:		
Net amount transferred to income statement	(1,780,620)	(4,048,799)
Net change in fair value	(1,258,788)	1,023,535
Employee benefits plan - changes in actuarial effect	(965,967)	0
Other comprehensive losses	(37,115,771)	(45,622,385)
Comprehensive income	338,840,097	299,582,692
Comprehensive income attributable to:		
Controlling interest	338,820,426	299,550,773
Non-controlling interest	19,671	31,919
	338,840,097	299,582,692

The consolidated statement of comprehensive income must be read in conjunction with the notes which are part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

(In U.S. dollars)

	Attributable to controlling interest of the Bank									
	Common stock	Additional paid in capital	Treasury stock	Retained earnings	Voluntary capital reserve	Regulatory reserves	Other comprehensive losses	Total controlling interest	Non-controlling interest	Total
Balance as of December 31, 2015	834,708,000	140,897,488	(5,158,138)	1,205,881,772	54,253,667	179,252,779	(170,052,801)	2,239,782,767	243,693	2,240,026,460
Net income	0	0	0	345,160,949	0	0	0	345,160,949	44,128	345,205,077
Other comprehensive (losses) income										
Foreign currency translation	0	0	0	0	0	0	(47,157,857)	(47,157,857)	(12,272)	(47,170,129)
Foreign currency translation reversal related to assets classified as held for sale	0	0	0	0	0	0	4,180,941	4,180,941	0	4,180,941
Change in fair value of cash flow hedges	0	0	0	0	0	0	392,067	392,067	0	392,067
Valuation of available for sale securities:										
Net amount transferred to income statement	0	0	0	0	0	0	(4,048,799)	(4,048,799)	0	(4,048,799)
Net change in fair value	0	0	0	0	0	0	1,023,472	1,023,472	63	1,023,535
Total other comprehensive income (losses)	0	0	0	0	0	0	(45,610,176)	(45,610,176)	(12,209)	(45,622,385)
Total comprehensive income (losses)	0	0	0	345,160,949	0	0	(45,610,176)	299,550,773	31,919	299,582,692
Other changes in equity										
Regulatory reserves	0	0	0	(44,211,263)	0	44,211,263	0	0	0	0
Transactions with the Bank's owners										
Transactions between the Bank and non-controlling interest										
Purchase of non-controlling interest	0	0	(6,734)	0	0	0	0	(6,734)	0	(6,734)
Complementary tax	0	0	0	1,327,254	0	0	0	1,327,254	0	1,327,254
Contributions and distributions:										
Dividends	0	0	0	(167,585,000)	0	0	0	(167,585,000)	(1,144)	(167,586,144)
Total transactions with the Bank's owners	0	0	(6,734)	(166,257,746)	0	0	0	(166,264,480)	(1,144)	(166,265,624)
Balance as of December 31, 2016	834,708,000	140,897,488	(5,164,872)	1,340,573,712	54,253,667	223,464,042	(215,662,977)	2,373,069,060	274,468	2,373,343,528
Net Income	0	0	0	375,922,560	0	0	0	375,922,560	33,308	375,955,868
Other comprehensive (losses) income										
Foreign currency translation	0	0	0	0	0	0	(33,096,746)	(33,096,746)	(13,650)	(33,110,396)
Valuation of available for sale securities:										
Net amount transferred to income statement	0	0	0	0	0	0	(1,780,620)	(1,780,620)	0	(1,780,620)
Net change in fair value	0	0	0	0	0	0	(1,258,812)	(1,258,812)	24	(1,258,788)
Employee benefits plan - changes in actuarial effect	0	0	0	0	0	0	(965,956)	(965,956)	(11)	(965,967)
Total other comprehensive income (losses)	0	0	0	0	0	0	(37,102,134)	(37,102,134)	(13,637)	(37,115,771)
Total comprehensive income (losess)	0	0	0	375,922,560	0	0	(37,102,134)	338,820,426	19,671	338,840,097
Other changes in equity										
Reverse of voluntary capital reserve	0	0	0	54,253,667	(54,253,667)	0	0	0	0	0
Regulatory reserves	0	0	0	(1,527,037)	0	1,527,037	0	0	(14)	(14)
Transactions with the Bank's owners										
Transactions between the Bank and non-controlling interest										
Purchase of non-controlling interest	0	0	(6,349)	0	0	0	0	(6,349)	(74,575)	(80,924)
Complementary tax	0	0	0	(469,850)	0	0	0	(469,850)	0	(469,850)
Contributions and distributions:										
Dividends	0	0	0	(83,196,000)	0	0	0	(83,196,000)	(10,991)	(83,206,991)
Total transactions with the Bank's owners	0	0	(6,349)	(83,665,850)	0	0	0	(83,672,199)	(85,566)	(83,757,765)
Balance as of December 31, 2017	834,708,000	140,897,488	(5,171,221)	1,685,557,052	0	224,991,079	(252,765,111)	2,628,217,287	208,559	2,628,425,846

The consolidated statement of changes in equity must be read in conjunction with the notes which are part of the consolidated financial statements.

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(In U.S. dollars)

	Note	2017	2016
Cash flows from operating activities:			
Net income		375,955,868	345,205,077
Adjustments to reconcile net income and cash of the operating activities:			
Provision for loan losses	10	309,173,232	244,841,043
Impairment of fixed assets		0	5,541,567
Impairment of foreclosed assets		8,360,389	5,614,369
Provision for receivables impairment		308,657	39,941
Depreciation and amortization	11,12,13	81,792,489	74,423,198
(Release) provision for unfunded commitments		(45,448)	3,123
Interest and commissions income, net		(1,147,970,012)	(1,068,802,523)
Gain on financial instruments, net	20	(5,089,502)	(3,820,018)
Loss on sale and disposal of property and equipment, intangible assets, net		2,297,608	4,445,498
Net gain on sale of other assets held for sale		(151,645)	0
Net gain on sale of foreclosed assets		(3,928,320)	(4,269,795)
Dividends earned on investments in securities		(1,152,027)	(1,171,822)
Income tax expense		155,044,959	134,202,172
Changes in operating assets and liabilities:			
Deposits with original maturities of 90 days or more		29,664,537	(17,843,616)
Investments and other assets at fair value		27,594	(3,951,538)
Loans		(1,598,241,966)	(1,669,361,661)
Other accounts receivable		(64,131,424)	(55,518,160)
Other assets		(6,604,425)	35,028,695
Other assets held for sale		2,404,209	0
Deposits from costumers		1,899,826,802	1,096,511,539
Securities sold under repurchase agreements		(19,063,525)	37,724,099
Other liabilities		77,384,705	149,437,852
Discontinued operations		42,321,517	3,591,647
Cash generated by operations:			
Interest received		1,669,393,834	1,533,105,141
Interest paid		(536,432,310)	(476,237,439)
Dividends received		1,152,027	1,171,822
Income tax paid		(130,010,234)	(121,324,814)
Net cash provided by operating activities		1,142,287,589	248,585,397
Cash flows from investing activities:			
Proceeds from sale of available for sale securities	8	142,906,711	450,600,344
Redemptions, maturities and prepayments of available for sale securities		873,636,143	909,486,550
Purchase of available for sale securities		(1,338,533,740)	(1,452,463,626)
Purchase of property and equipment	11	(57,530,782)	(63,981,970)
Proceeds from sale of property and equipment		629,157	1,054,432
Acquisition of intangible assets		(12,681,875)	(20,431,986)
Proceeds from sale of foreclosed assets	13	17,696,179	27,578,170
Discontinued operations, net of cash		1,101,982	(9,328,697)
Net cash used in investing activities		(372,776,225)	(157,486,783)
Cash flows from financing activities:			
Proceeds from other financial obligations		205,463,712	172,566,663
Payment of other financial obligations		(242,649,404)	(134,316,627)
Proceeds from financial obligations		1,893,152,941	2,146,642,145
Payment of financial obligations		(1,878,078,489)	(2,014,427,301)
Dividends		(83,206,991)	(167,586,144)
Discontinued operations, net cash		(18,238,362)	0
Acquisition of non-controlling interest		(80,924)	(6,734)
Net cash (used in) provided by financing activities		(123,637,517)	2,872,002
Effect of exchange rate fluctuation on cash held		(47,271,793)	(76,012,269)
Effect of exchange rate fluctuation on discontinued operations		(426,727)	2,663,317
Net increase in cash and cash equivalents		598,175,327	20,621,664
Cash and cash equivalents at beginning of year		3,323,418,974	3,302,797,310
Cash and cash equivalents at end of year	6	3,921,594,301	3,323,418,974

The consolidated statement of cash flows must be read in conjunction with the notes which are part of the consolidated financial statements.

Table of Contents to the Notes to the Consolidated Financial Statements

(1) Organization

BAC International Bank, Inc. was incorporated as a bank and holding bank on August 25, 1995, in Panama City, Republic of Panama. BAC International Bank, Inc. is owned in a 90.53% by BAC International Corporation (BIC), 9.46% by Leasing Bogotá, S. A. – Panamá and 0.01% by other shareholders. BIC is an indirect subsidiary of Leasing Bogota, S. A. – Panama (the Parent Company). Leasing Bogotá, S. A., - Panama is wholly owned by Banco de Bogota S. A., an authorized bank in the Republic of Colombia, which is a subsidiary of Grupo Aval Acciones y Valores, S. A.

BAC International Bank, Inc. (the Parent Bank) provides, directly and through its wholly owned subsidiaries, Credomatic International Corporation and Subsidiaries (CIC), BAC International Bank (Grand Cayman), BAC Bahamas Bank Ltd., Rudas Hill Financial, Inc. and Subsidiary, Premier Asset Management, Inc. and BAC Valores (Panama), Inc., (collectivelly, the "Bank") a wide variety of financial services to individuals and institutions, principally in Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama.

In December 2017, authorization was received from the Superintendency of Banks of the Republic of Panama to merge the operations of the subsidiaries of BAC Leasing, Inc. and Credomatic de Panamá, S.A. with BAC International Bank, Inc. (the Parent Bank). As of the date of the merger, all the assets, liabilities, rights, obligations and liabilities of the merged entities are incorporated into the surviving entity (the Parent Bank); therefore, they cease to exist as legal entities. This merger follows an operating approach, which has no effect on the figures in the consolidated financial statements.

The banking operations in the Republic of Panama are regulated and supervised by the Superintendency of Banks of the Republic of Panama, according to provisions established by Law Decree No. 52, dated April 30, 2008, that adopts the single text of Law Decree No.9 of February 26, 1998, as amended by Legislative Decree No.2 of February 22, 2008, which establishes the banking regime of the Republic of Panama and creates the Superintendency of Banks and the rules that govern it.

(2) Basis of Preparation of the Financial Statements

(a) Compliance with International Financial Reporting Standards ("IFRSs")

The consolidated financial statements have been prepared in conformity with IFRSs issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Bank´s Board of Directors on February 19, 2018.

(2) Basis of Preparation of the Financial Statements, continued

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following accounts in the consolidated statement of financial position.

- Investments and other assets at fair value;
- Loans at fair value;
- Assets classified as held for sale; and
- Foreclosed assets, recognized at fair value less cost to sell.

Initially, the Bank recognizes loans, receivables and deposits as of the date they are settled.

(c) Functional and presentation currency

The items included in the accounts of each of the Bank's subsidiaries are measured using the currency of the main economic environment where the entity operates ("functional currency"). The Bank's consolidated financial statements are presented in U.S.A. dollars, which is also Bank's functional currency. Information presented in U.S.A. dollars is expressed in units, unless otherwise stated.

(d) Use of estimates and judgments

Preparation of the consolidated 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, revenues and expenses. Final results may differ from these estimates. These also require the Bank's management to apply its judgment when applying the Bank's accounting policies.

The information on the most significant areas of estimation of uncertainty and critical judgments in applying the accounting policies that have the most important effect on the amounts recognized in the consolidated financial statements is disclosed in Note 5.

(3) Summary of Significant Accounting Policies

The accounting policies explained below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities.

(a) Basis of consolidation

Subsidiaries

The subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to or has rights to variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee.

To determine the control, the potential voting rights that are currently executable or convertible are considered. The subsidiaries' financial statements are included in the consolidated financial statements from the date on which the control begins, and until the control ceases.

(3) Summary of Significant Accounting Policies, continued

Balances and Transactions Eliminated in the Consolidation

Intragroup transactions, balances, revenue and expenses in transactions between subsidiaries are eliminated. Losses and gains that arise from intragroup transactions that are recognized as assets or liabilities are also eliminated.

Changes in the ownership of the subsidiaries that do not result in a change of control

Transactions with non-controlling interest that do not result in a loss of control are accounted for as equity transactions; that is, as transactions with the owners. Any difference between the carrying value of the interest and the amount of the transaction is recorded as an adjustment in retained earnings.

Disposal of subsidiaries

When the Bank ceases to have control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the consolidated statement of income. Any retained interest in the former subsidiary is measured at fair value when control is lost.

(b) Transactions and balances in foreign currencies

Assets and liabilities maintained in foreign currency are converted to the functional currency at the exchange rate in effect on the reporting date. Gains or losses resulting from the conversion of foreign currency are reflected in other revenues or other expense accounts in the consolidated statement of income.

Goodwill and adjustments to fair value resulting from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and, consequently, are converted at the exchange rates in effect on each period closing date.

Subsidiaries of the Bank

The financial position and results of all of the Bank's subsidiaries that have a functional currency different from the Bank's functional currency are converted into the presentation currency as follows:

- Assets and liabilities: at the exchange rate at the period closing date.
- Revenues and expenses: at the average exchange rate.
- Equity accounts: at the historical exchange rate.

The resulting conversion adjustment is carried directly to a separate account in the “Equity” section, under "other comprehensive loss".

(3) Summary of Significant Accounting Policies, continued

(c) Financial assets and liabilities

Classification

Financial assets are classified on the date of initial recognition, based on the nature and purpose of the financial asset's acquisition. The classifications conducted by the Bank are as follows:

Agreements for repurchase and resale of securities

Securities purchased under resale agreements and those sold under repurchase agreements are accounted for as secured financing transactions and are recorded at the amount at which the securities were acquired or sold plus accumulated interest. The Bank has a policy of taking possession of the securities purchased under resale agreements. The Bank assesses the market value of the securities purchased and sold and obtains or releases the counterparties' guarantees when is adequate.

Investments in securities

Investments in securities are classified into one of the following categories based on Management's intention to generate gains from the fluctuations in the instrument's price, or to sell them eventually.

- Investments and other assets at fair value through profit or loss

  This category includes investments in securities acquired with the purpose of generating gains in the short term from fluctuations in the instrument's price, and derivative financial instruments. These financial instruments are presented at fair value and changes in fair value are presented in the consolidated statement of income.

  Further detail of derivative financial instruments is included in accounting policy “g”.

- Investments available for sale

  This category includes those investments in securities acquired with the intention of holding them for an indefinite term. These financial instruments are presented as follows:

  - At fair value, and valued at quoted market prices. In case that a market price is not available, fair value is estimated using the market price of a similar instrument. In cases where significant valuation assumptions are not directly observable in the market, the instruments are valued using the best information available to estimate fair value. Changes in the fair value are recognized in the consolidated statement of comprehensive income. These can be sold after authorization from the Bank's Assets and Liabilities Committee (ALICO) to meet liquidity needs or to make a profit or reduce losses in case of impairment.

  - At historic cost, in case the instruments of equity, when they do not have a quoted price in an active market, and their fair value cannot be measured fairly. Such financial instruments consist of interest in entities over which the Bank does not exercise significant influence or control.

(3) Summary of Significant Accounting Policies, continued

Impairment of available for sale securities

The Bank assesses at each reporting date whether there is objective evidence of impairment of investments available for sale. An impairment is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "event causing the loss"), and the event (or events) that causes the loss has an impact on the estimated future cash flows of investments available for sale, which can be estimated reliably.

Among the evidence of impairment loss may include indications that the issuers are experiencing significant financial difficulty, default or delinquency in payment of interest or principal, the likelihood that enter a state of bankruptcy or in any other financial reorganization and when observable data indicate a likely decline in valuation of estimated future cash flows, such as changes in the payment terms or in economic conditions that causes default.

If there is any objective evidence of impairment for financial assets available for sale, the cumulative loss is reversed from equity and recognized in the consolidated statement of income.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase is objectively related to an event occurred after the impairment loss recognized in profit or loss, the impairment loss will be reversed through the consolidated statement of income. Any subsequent recovery in the fair value of an equity instrument will be recognized in the consolidated statement of comprehensive income.

Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest method, except when there are financial liabilities measured at fair value through profit or loss.

Recognition, disposal and measurement

The Bank regularly recognizes the purchase or sale of financial instruments on the date of each negotiation, which is the date on which the Bank commits to buy or sell a financial instrument. Financial assets and liabilities are initially recognized at fair value.

Transaction costs are attributed to expenses in the consolidated statement of income when incurred for financial assets and liabilities at fair value with changes in the consolidated statement of income, and they are recorded as part of the initial value of the instrument for assets and liabilities at amortized cost and available for sale securities. Transaction costs are incremental costs incurred to acquire assets or sell financial liabilities. These include fees, commissions and other concepts paid to agents, brokers, advisors and intermediaries, rates established by regulatory agencies and stock markets, as well as taxes and other rights.

Financial assets are derecognized from the consolidated statement of financial position when the payments derived from it were received, the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all of the risks and benefits derived from their ownership.

(3) Summary of Significant Accounting Policies, continued

After initial recognition, all financial assets and financial liabilities classified at amortized cost are measured based on the effective interest method. Interests accrued are recorded in the interest income or expense account.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(d) Loans

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets and are originated when funds are provided to a debtor in the form of a loan. Loans are presented at their outstanding principal value, less unearned interest and commissions (when applicable) and the allowance for loans losses, except for those loans for which the fair value option was chosen. Unearned interest and commissions are recognized as income during the life of the loan using the effective interest method.

For purposes of creating an allowance, products are classified into: corporate, small and medium enterprise (SME), vehicles, credit card, personal, mortgage, leases or debt and guarantee commitments, as defined below.

Corporate and SME

Corporate clients and SMEs are defined, in general terms, as entities registered (for example corporations, limited liability companies, limited stock companies) and sole proprietors or self-employed partiers using credit lines for business purposes. Corporate clients and SMEs should be segmented into three separate categories, as detailed below. Client segmentation in these categories is based on sales and credit exposure of the client with the Bank. The total consolidated credit exposure with the client will only appear in one category.

- Small company - legal entities or other entities that employ commercial products or financing assets for commercial use where the credit exposure is less than or equal to $350,000 and annual sales are below $1 million.

- Medium company - legal entities or other entities that employ commercial products or financing assets for commercial use where the consolidated credit exposure is higher than $350,000 but less than or equal to $1 million, and annual sales are less than or equal to $10 million.

- Corporate company - legal entities or other entities that employ commercial products or financing assets for commercial use where the credit exposure is higher than $1 million and annual sales are over $10 million.

The portfolio should be classified based on the original amount approved.

(3) Summary of Significant Accounting Policies, continued

Vehicles

There is an agreed amortization calendar to pay for the entire original loan; there are no more disbursements without additional contract and the main objective is to grant financing for the purchase of vehicles, whether new or used.

Credit card

There is a credit limit up to which the client may disburse without the need for additional contracts, and the balance owed at the end of the cycle is used to assess a minimum payment.

Personal

There is an agreed amortization calendar to pay for the entire original loan; there are no more disbursements without an additional contract and the main objective is to grant financing to individuals for a variety of purposes.

Mortgage

Mortgage product for the purpose of providing financing for the purchase of real estate (family homes) secured through a mortgage on residential property provided by the borrower. There is an agreed amortization calendar to pay for the entire original loan; there are no more disbursements without an additional contract.

Leases

Financing mechanism for the acquisition of assets through a contract. The lessor agrees to temporarily transfer the use of an asset to the other party, called a lessee. The lessee is under the obligation to make a payment for the use of the asset. This definition covers both financial leases and operating leases.

Debt commitments and guarantees

Letters of credit, financial guarantees and contractual commitments to disburse loans. The off balance sheet commitments are subject to individual reviews and are analyzed and segregated by risk according to the client's internal risk rating.

(e) Allowance for impairment of financial assets

The Bank assesses at each consolidated reporting date whether there is any objective evidence that a financial asset or group of financial assets could be impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and the event (or events) that causes the loss has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of loss due to impairment can include indications that the debtors or a group of debtors is experiencing important financial difficulties, non-payment or delays in payments of the interest or principal, the likelihood that they will enter bankruptcy or any other financial reorganization situation, and when observable data indicate that there is a reduced subject to valuation in future estimated cash flows, such as changes in the payment conditions or in the economic conditions that are correlated to non-payment.

(3) Summary of Significant Accounting Policies, continued

Once a financial asset or group of similar financial assets has been impaired, financial income is recognized using the interest rate used to discount the future cash flows, in order to measure the impairment in value through the original effective interest rate.

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

Loans assessed collectively

The allowance for the homogeneous loans portfolio is established based on joint assessments of the segmented portfolio, generally by product type. Models of losses incurred are used for these segments that consider various factors, including, without being limited to, historic losses, noncompliance or foreclose of assets, quantified based on experience, delinquency, economic conditions and credit scores. These models of losses incurred in consumption products are updated periodically to include information that reflects current economic conditions.

The allowance for loans losses represents the best estimate of losses inherent in the credit portfolio. The method to calculate losses incurred depends on the size, type and risk characteristics of the products.

Assumptions, estimates and underlying assessments used to quantify losses are continuously updated, at least each quarter, to reflect current conditions.

Allowance model for homogeneous loans (SMEs, vehicles, personal, credit cards, mortgage and leases)

Loans of a homogeneous nature (for example, with similar risk profiles and amounts) are grouped and assessed collectively for impairment (delinquency levels).

Different models are used to determine the allowance for losses in homogeneous loan groups: the progression rate model (SMEs, credit cards, vehicles, personal and leases) and the recovery of guarantees model (mortgage).

The progression rate model that is used to calculate allowance levels is based on the percentage observed historically for the portfolios in each delinquency range, with a weighted average for various months (per product) in each delinquency level until it is reflected as a loss in the portfolio.

The methodology to reserve mortgages is based on two components:

- Loss rate incurred, which is the rate observed at which the account will tend to progress for each range, until reaching 180 days past due.

- Recovery rate of a loan once it falls into default.

The allowance for impaired restructured loans is calculated using the present value of future expected flows discounted at the effective interest rate of the loan before the restructuring.

(3) Summary of Significant Accounting Policies, continued

Loans assessed individually

Remaining corporate portfolios are assessed individually and are separated into two sub-categories: impaired and not impaired. The sub-standard rating was defined as impaired.

Allowance Model of Corporate Loans with Impairment

Commercial loans exceeding $1,000,000 with a Sub-standard or higher risk rating are subject to individual impairment assessments based on cash flows. For loans with Sub-standard, Doubtful or Loss risk rating less than or equal to $1,000,000, an observed historical recovery rate is applied.

If a corporate loan, exceeding $1,000,000, is determined to be impaired, the impairment amount must be determined individually, based on one of the following methodologies: present value of future expected cash flows discounted at the original effective interest rate, market value of the loan, or the fair value of the collateral.

For the category of loans and receivables, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (regardless of future credit losses that have not been incurred) discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is recognized in the allowance for loan losses. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Allowance Model of Individually Significant without Impairment

Each corporate client is assessed individually on a regular basis (at least annually) and a risk category is assigned, associated to a level of allowance for loan losses. The allowance level for risk ratings Satisfactory and Special Mention is calculated based on the historic information of the impairment incurred but not identified.

Impairment reversal

If in a subsequent period the amount of the impairment loss reduces, and the reduction can be objectively attributed to an event that occurred after the impairment was recognized (as an improvement in the debtor's credit quality), the impairment reversal previously recognized will be recorded in the allowance for loan losses.

Restructured loans

Restructured loans are those to which the Bank has made them a permanent concession due to impairment in the financial condition of the debtor. These loans once restructured will remain with the risk rating assigned to the debtor at the time of its restructuring, when the debtor show improvement on its financial condition for an extended period of time subsequent to the restructuring, the risk rating may be modified without losing it restructured status.

(3) Summary of Significant Accounting Policies, continued

Impaired loans acquired

When acquiring impaired debt, the expected losses are included in the estimate of cash flows when the effective interest rate is calculated; therefore, estimated cash flows are determined based on expected cash flows after the deduction of losses incurred in loans, and not based on loan contractual flows.

The re-estimating of expected cash flows is conducted both individually (corporate) and collectively (SMEs, vehicles, personal, credit cards, mortgage and leases). When impaired loans are acquired resulting from a business combination, interest income and impairment allowances of the acquire differ in the acquiror's consolidated financial statements. Therefore, consolidation adjustments may be required until the loans acquired with impairment were derecognized. Modifications in expected cash flows are generally presented in interest income, unless there is evidence of subsequent impairment, in such cases modifications are generally recognized in the allowance for loan losses.

Allowance for losses in loans and off-balance sheet commitments

The allowance for loan losses and the reserve for off-balance sheet commitments are those amounts that Management deems adequate to cover inherent losses from existing loans and off-balance sheet commitments, respectively, as of the reporting date.

The Bank has developed policies and procedures that reflect a credit risk assessment considering all information available, to determine whether the allowance for loans losses and the reserve for off-balance sheet commitments are adequate. When appropriate, this assessment includes a monitoring of quantitative and qualitative trends, including changes in delinquency levels on in the classification of the operation as sub-standard or a lower level.

In carrying out this assessment, the Bank depends on the history of each portfolio to determine the loss and uses its judgment to assess credit risk. Increases in the allowance for loan losses in loans are estimated based on a variety of factors, including without being limited to, an analytical review of the experience in losses in loans regarding the loans' outstanding balance, a continuous review of problematic loans, the general quality of the loans portfolio and the adequacy of guarantees, the results of the reviews of regulatory bodies, assessments by independent experts, and management's judgment of the impact of current economic conditions on the present loan portfolio.

(f) Foreclosed assets

Assets acquired or awarded in the settlement of a loan are held for sale, and are initially recognized at the lower of the balance of the loan and fair value less selling costs as of the award date, establishing a new cost basis. After the award, management conducts periodic assessments and assets are recognized at the lower of carrying value or fair value less costs to sell. Operating revenues and expenses originated and changes in the provision for the valuation of those assets are included in other operating expenses. Costs related to the maintenance of these properties are included as expenses when incurred.

(3) Summary of Significant Accounting Policies, continued

(g) Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date in which the derivatives contract was subscribed. After initial recognition, they are measured again at fair value; attributable transaction costs are recognized in income when incurred.

When the Bank conducts a hedge accounting, it documents the existing relationship between hedging instruments and the hedged items, as well as its risk management objectives and the strategy to execute the hedge transaction. The Bank also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives used in the hedging transactions are highly effective in offsetting the changes in fair value or in the cash flows of the hedged items.

After initial recognition, derivative financial instruments are measured at fair value, and changes are recorded according to the type of hedge used, as described below:

Cash flow hedges

When a derivative instrument is designated as a cash flow hedge, the effective portion of the changes in fair value is recognized in other comprehensive income, and presented in the hedge reserve. Any ineffective portion of the changes in the fair value of the derivative is recognized in the consolidated statement of income.

The amount accumulated in equity is maintained in other comprehensive income and is reclassified to the consolidated statement of income in the same period that the hedged item affects income.

If the hedged instrument no longer meets the criteria for hedge accounting, expires or is sold, or is terminated or exercised, or the designation is revoked, this hedge is prospectively discontinued. If the expected transaction is no longer expected to occur, the balance recorded in equity is immediately reclassified to the consolidated statement of income.

Derivatives not designated for hedge accounting

Derivative instruments that are not linked to a hedge strategy are classified as assets or liabilities at fair value and recorded in the consolidated statement of financial position at fair value. Changes in the valuation of these derivative instruments are recorded in the consolidated statement of income.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and

(3) Summary of Significant Accounting Policies, continued

- The received instrument is not measured at fair value with changes in fair value recognized in profit or loss.

When an embedded derivative is susceptible to separate from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the entire hybrid contract is valuated at its fair value. All embedded derivatives are presented jointly with its host contracts even though were valuated separately when conditions met. Subsequent changes in fair value of derivative instruments are recorded in the consolidated statement of income.

(h) Recognition of the most significant income and expenses

Interest income and expenses

Interest income and expenses are recognized in the consolidated statement of income using the effective interest method. The effective interest rate is the discount rate that equals exactly the estimated cash flows receivable or payable throughout the expected life of the financial instrument or when appropriate (in a shorter period) with the net carrying value of the financial asset or liability. To calculate the effective interest rate, the Bank will estimate cash flows considering all of the contractual conditions of the financial instrument, but not considering future credit losses.

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

Fees and commissions

Fees and commissions that are part of the effective interest rate in a financial asset or liability instrument are included in the measurement of the effective interest rate.

Other revenues from fees and commissions, including services fees, asset management, sales commissions, loan syndication, among others, are recognized when the corresponding services are provided. When a loan commitment is not expected to be disbursed in the short term, the corresponding fees for this commitment are recognized on a straight-line basis over the commitment's term.

Annual credit card memberships, net of direct card-origination incremental costs, are deferred and amortized by applying the straight-line method during a term of one year. Commissions charged to affiliated commercial establishments are determined based on the amount and type of purchase by the cardholder, and are recognized when invoiced.

Other fees and commissions received mainly relating to fees for transactions and services are recognized as income when they are received.

(3) Summary of Significant Accounting Policies, continued

Loyalty programs

The Bank offers loyalty programs that allow cardholders to earn points that can be redeemed for a variety of awards, including cash, trips and products at a discount. The points are recognized as a separately identifiable component of the initial transaction of credit card consumption income, distributing the fair value of the consideration received between the fair value of the points for the client and the residual value of the consideration received.

The estimated fair value of loyalty programs is recorded as a reduction in credit card fees, and those points redeemed and recognized as charges for services in other income of the consolidated statement of income. The Bank recognizes the points based on the earned points expected to be redeemed and the fair value of the point to be redeemed. The points to be redeemed are estimated based on the history of redemption, card product type, account transaction activity and past performance of the cards.

(i) Cash and cash equivalents

The Bank considers all highly liquid investments with maturities of 90 days or less as cash equivalents. Cash and cash equivalents consist of cash, demand deposits at banks, certain securities and deposits that generate interests, with original maturities of 90 days or less.

(j) Property, furniture and equipment and depreciation method used

Property, furniture, equipment and improvements are presented at cost, less accumulated depreciation and amortization.

The cost of renewals and improvements is capitalized when they increase the asset's useful life; while repairs and maintenance that do not extend the useful life or improve the asset are charged to profit or loss during the period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The Bank depreciates amounts with a charge to the period's profit or loss with a credit to the accumulated depreciation account. Land is not depreciated. The estimated useful lives of assets are:

Category	Years/Base
Buildings	20 - 50
Furniture and equipment	5 - 10
Vehicles	5
Aircraft	Hours flown
Computers	3 - 5
Leasehold improvements	3 - 5

Leasehold improvements are amortized during the lower of the estimated useful life or the term of the lease contract.

(3) Summary of Significant Accounting Policies, continued

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is immediately reduced to its recoverable value if the carrying amount of the asset is greater than the estimated recoverable value. The recoverable amount is the highest between the fair value of the asset less the cost of selling and its value in use.

(k) Business combinations and goodwill

The Bank follows the acquisition method to account for the acquisition of subsidiaries. The Bank considers that the acquisition date is the date on which control is obtained and it legally transfers the consideration for assets acquired and liabilities assumed. The cost of an acquisition is measured through the fair value of the consideration paid. The fair value of the consideration transferred by the Bank in a business combination is calculated as the sum of the fair value on the acquisition date of the assets transferred to the Bank, deferred considerations and contingent considerations, including options, issued by the Bank. The Bank recognizes fair values on the date of acquisition of any preexisting investment in the subsidiary and the contingent consideration as part of the consideration transferred in exchange for the acquisition.

In general, all identifiable assets acquired (including intangible assets) and liabilities assumed (including contingent liabilities) are measured at fair value on the acquisition date. The Bank records identifiable intangible assets regardless of whether the assets have been already recognized by the acquirer prior to the business combination. Non-controlling interests are recorded for the proportional part of fair value of the identifiable assets and liabilities, unless stated otherwise. When the Bank has the corresponding option to settle the purchase of a non-controlling interest through the issue of its own ordinary shares, no financial liability is recorded.

Any excess in the cost of acquisition over the interest in net fair value of the identifiable assets acquired and the liabilities assumed by the Bank is recorded as goodwill. If the cost of the acquisition is lower than the fair value of the interest in the identifiable assets acquired and liabilities assumed by the Bank, the resulting gain is recognized immediately in other revenue, in the consolidated statement of income. During the measurement period (which is a term of one year from the date of the acquisition), the Bank can, retrospectively, adjust the amounts recognized on the date of acquisition to reflect new information obtained on events and circumstances that existed at that date.

After initial recognition of goodwill in a business combination, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized, but impairment tests are conducted each year, and when circumstances indicate that carrying amounts may be impaired.

For impairment tests purposes, goodwill acquired in a business combination is, on the acquisition date, assigned to each of the cash-generating unit groups (CGUs) expected to benefit from the combination. The CGUs to which goodwill is assigned will be disaggregated so impairment testing level reflects the lowest level to which the goodwill is controlled for purposes of internal management.

(3) Summary of Significant Accounting Policies, continued

An impairment loss will be recognized if the carrying amount of the CGU plus the goodwill allocated to it, is higher than its recoverable amount, in which case the allocated goodwill will be reduced, and any remaining impairment would be applied to other CGUs' assets.

(l) Intangible assets

Intangible assets represent identifiable non-monetary assets, and are acquired separately or through a business combination or are generated internally. The Bank's intangible assets are mainly comprised of relations with the depositors, relations with credit card clients, relations with affiliated businesses, technological programs and trade names.

Cash-generating units to which goodwill has been attributed are periodically assessed for impairment. This assessment is carried out at least annually, or whenever there is evidence of impairment.

The amortization expense of intangible assets is presented in the consolidated statement of income as depreciation and amortization expenses.

Trade names are non-amortizable intangible assets.

(m) Income tax

Tax expense for the year includes current and deferred taxes. Taxes are recognized in profit or loss, except to the extent that they refer to items recognized directly in equity.

The current tax expense is calculated based on the laws enacted on the balance sheet date in the countries where the parent company and its subsidiaries operate, and where they generate positive taxable bases. The Bank's Management periodically assesses the positions assumed in tax returns regarding situations in which applicable tax regulation is subject to interpretation, and when necessary, recognizes provisions for the amounts expected to be paid to the tax authorities.

Deferred taxes are recognized for the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recorded if they arise from the initial recognition of goodwill; deferred taxes are not recognized if they arise from an asset or liability in a transaction, other than a business combination, that at the time of the transaction does not affect the accounting results nor taxable income or loss. Deferred tax is determined using tax rates (and laws) enacted on the balance sheet date and expected to be applicable when the corresponding deferred tax asset is realized or the liability is settled.

(3) Summary of Significant Accounting Policies, continued

Deferred taxes are recognized over temporary differences that arise from investments in subsidiaries and associates, except for those deferred tax liabilities for which the Bank can control the date on which the temporary differences will be reversed, and it is likely that they will not be reversed in the foreseeable future. Deferred tax assets are recognized in deductible temporary differences that arise from investments in subsidiaries only to the extent that it is likely that the temporary differences will be reversed in the future, and there is a sufficient future taxable income against which the temporary differences can be used.

Deferred tax assets and deferred tax liabilities are set off only if there is a legally recognized right to offset the current tax assets with the current tax liabilities and when the deferred tax assets and deferred tax liabilities are derived from income tax corresponding to the same tax authority, and the authority allows the Bank to pay or received a single amount that settle the existing net balance.

(n) Employee benefits

The Bank is subject to the labor laws in each country where it operates. The Bank provisioned an employment benefit when such benefit is related to employee services already rendered, the employee has earned the right to receive the benefit, the benefit payment is probable and the amount of such benefit can be estimated.

(o) Trust Contracts and Securities Management

Trust contracts and custody of securities are not considered part of the Bank, and accordingly, such securities and related revenue are not included in these consolidated financial statements. It is the obligation of the Bank to manage and safeguard the assets under contract and independently of their equity.

The Bank charges a fee for the management of trust contracts and custody of securities, which is paid according to agreements between the parties. These fees are recognized as income according to the terms of the contracts either monthly, quarterly or annually on an accrual base.

(p) Fair value option

The Bank may choose to measure some of its financial instruments at fair value, if they meets the criteria to eliminate or significantly reduce the volatility introduced in the results as a result of different measurements related financial instruments (accounting mismatch). Under these criteria, the Bank’s management adopted the policy of designating a portion of the mortgage portfolio at fair value; covering the risk exposure generated by the growing trend of rates by acquiring derivative financial instruments.

(q) Fair value estimates

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).

(3) Summary of Significant Accounting Policies, continued

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.

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 market information.

(r) Transactions between entities under common control

Transfers of assets between entities under common control, including transactions with intermediate holding companies, are initially recorded at book value of the Bank transferring the assets at the date of transfer. If the carrying amount of the assets and liabilities transferred differs from historical cost of the Parent Bank of entities under common control, then the bank receiving the assets and liabilities will recognize them at the historical cost of the Parent Bank.

(s) Assets and liabilities classified as held for sale

The disposal group of assets and liabilities, expected to be recovered through sale rather than continued operation, are classified as held for sale. Immediately before the initial classification as held for sale, the carrying amounts of the assets and liabilities or disposal group of assets or liabilities are measured at fair value. Subsequent to this measurement, assets held for sale are recognized at the lower of the book value, and fair value less costs to sell. An impairment loss will be recognized by initial or subsequent reductions in the group of assets and liabilities. Impairment losses in the initial and subsequent classification of assets and liabilities held for sale are recognized in the consolidated statement of income.

(3) Summary of Significant Accounting Policies, continued

(t) Discontinued operations

A discontinued operation is a component of the Bank that has been sold or otherwise disposed of, or has been classified as held for sale, and (i) represents a significant and independent line of business or a geographical area of operation, or (ii) is part of a single coordinated plan to sell or dispose of a significant and independent line of business or a geographical area of operation. Classification as a discontinued operation occurs when the operation is sold or when it meets the criteria to be classified as held for sale, if it occurs earlier. When an operation is classified as discontinued, the consolidated statement of incomes and comprehensive income are modified as if the operation had been discontinued since the beginning of the comparative year.

(u) Reclassifications

Certain amounts in the consolidated financial statements of 2016 have been reclassified to conform to the consolidated financial statements of 2017 presentation, specifically in the consolidated statement of cash flows.

(v) New International Financial Reporting Standards (IFRS) not yet adopted

As of the date of the consolidated financial statements there were IFRS that were still not applied when preparing them.

- **IFRS 9 "Financial Instruments"**

  In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standards No. 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 No. 39 (IAS 39).

  Based on assessments as of December 31, 2017, the total estimated adjustment, net of taxes, for adoption of IFRS 9 in the initial consolidated equity of the Bank is an approximate decrease between $146 million and $153 million, as a result of:

  - An approximate increase between $180 thousand and $190 thousand referring to classification and measurement of financial assets;

  - An approximate decrease between $200 million and $210 million related to the impairment of financial assets; and,

  - An approximate increase between $54 million and $57 million related to the impact in deferred taxes.

  The foregoing assessment 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) Summary of Significant Accounting Policies, 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 to March 31, 2018, that includes the initial application date.

Implementation strategy

The Bank's IFRS 9 implementation process is governed by a committee 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, make decisions and monitor 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 these 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.

(3) Summary of Significant Accounting Policies, continued

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

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.

During the initial recognition of investments in equity instruments not traded, the Bank may elect to irrevocably register subsequent changes in fair value as part of other comprehensive profit and loss. This election must be made on an instrument by instrument basis.

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. For now, the Bank will not use this option.

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

Under IFRS 9, an embedded derivative where the main contract is a financial contract covered under IFRS 9 is not separated and instead the hybrid financial instrument is jointly assessed for classification.

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 each subsidiary manages the business and how management information is reported. The information considered included:

- The policies and objectives stated for each portfolio of financial assets and the operation of these policies in practice. These include, whether management’s strategy is to collect income from contractual interest. Hold a profile of specific interest performance or coordinate the duration of the financial assets with the liabilities being financed or the expected outgoing cash or through cash flows from the sale of assets;

- How they are evaluated or reported to key management personnel of the Bank on portfolio performance;

(3) Summary of Significant Accounting Policies, continued

- 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 assessment of how the Bank 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.

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 and credit risk associated with holding the current principal for a period of time and for other basic risk 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 payment of principal and interest, the Bank considered 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 considered:

- Contingent events that will the 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.

(3) Summary of Significant Accounting Policies, continued

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 each of the countries where the Bank operates, plus certain additional discretionary 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 insure that interest rates are consistent between banks; and,
- Any regulatory protection standard in favor of customers in the country 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.

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, preliminary impacts are as follows:

- Financial instruments classified and measured at FVPL under IAS 39, will maintain its measurement under IFRS 9;
- Financial instruments classified as available for sale under IAS 39, will maintain its measurement under IFRS 9, and only the classification will be changed from “available for sale” to “FVOCI”;
- Investments in equity classified as FVOCI under IAS 39 will maintain this measurement under IFRS 9;
- Loans and accounts receivable classified as loan portfolio and measured at amortized cost under IAS 39, will keep this measurement under IFRS 9;

(3) Summary of Significant Accounting Policies, continued

- Loans classified as loan portfolio and measured at fair value through profit or loss under IAS 39, will be measured at AC under IFRS 9, because its business model is only to collect contractual cash flows.

The Bank has estimated that by the adoption of IFRS 9 on January 1, 2018, the equity's impact of these changes, in classification of gross taxes, is an approximate increase between $180 thousand and $190 thousand.

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 and equity instruments;
- Lease payments receivable;
- 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 resulting from impairment events that are possible during the twelve months following the date of the report.

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 to 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.

(3) Summary of Significant Accounting Policies, continued

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 to 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

- The debtor is more than 90-days past-due on any material credit obligation. Overdrafts are considered in arrears once the client has exceeded the recommended limit, or the recommended limit is less than the outstanding balance.

(3) Summary of Significant Accounting Policies, continued

- For fixed income financial instruments, the following concepts, among others, are included:
  - Downgrade on the issuer's credit risk rating;
  - Contractual payments are not made on the due date or in the term period stipulated;
  - There is a virtual certainty of default;
  - Issuer is likely to go bankrupt or a bankruptcy petition is filed or similar action;
  - The financial asset stops trading in an active market given its financial difficulties.

If when the debtor is evaluated, it is in impair, 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 in impairment 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 assessment of the Bank's credit, including information with future projection.

The Bank expects to identify if a significant increase in the credit risk has occurred to exposure by comparing between:

- The probability of default (PD) during the remaining life of financial instrument at the closing date; with
- The PD during the remaining life at this point in time, which was estimated at initial recognition of exposure.

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, overdrafts, 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) Summary of Significant Accounting Policies, 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 grade 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 displacement 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 hos these probabilities of impairment change over time.

These analyses include 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 regarding real estate prices.

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

Determine if the credit risk has increased significantly

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

(3) Summary of Significant Accounting Policies, continued

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 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.

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. As a limit and as required by IFRS 9, 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 the 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 and the probability of expected losses in the remaining life of the loans.

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.

(3) Summary of Significant Accounting Policies, continued

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 balance sheet 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 PI 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 terms of the following variables:

- Probability of default (PD)

- Losses given default (LGD)

- Exposure at default (EAD)

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:

(3) Summary of Significant Accounting Policies, continued

Estimated PDs at a certain date, which will be calculated based on statistical classification and assessment 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 at 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) Summary of Significant Accounting Policies, continued

For consumer overdrafts, 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 assets 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
- 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 the IFRS 9, the Bank will incorporate information with projection of future conditions in both, the assessment 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.

The external information may include economic data and publication of projections by government committees, monetary authorities (mainly in the countries where the Bank operates), supranational organizations (such as OECD and the International Monetary Fund), academic projections, private sector, and credit risk rating agencies.

(3) Summary of Significant Accounting Policies, continued

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 between $203 million and $213 million. New impairment requirements will have a greater impact on impairment provisions for unsecured loan products with longer expected life, such as overdrafts and credit cards.

Disclosures

IFRS 9 contains extensive new disclosure requirements, particularity for hedge accounting, 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 that includes the IFRS 9.

Impact on capital planning

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

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 on 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 unappropriated retained earnings in equity as of January 1, 2018.

(3) Summary of Significant Accounting Policies, continued

- **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 and income from construction contracts through the application of the following stages:

  1. Identification of the contract with the customer

  2. Identification off 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, particularly when assigning income from construction contracts and operation of state assets in concession contracts.

  The preliminary high-level assessment made by the Bank indicates that the implementation of IFRS 15 will not have a material impact on the Bank’s income corresponding to the above referenced operations.

- **IFRS 16 “Leases”**
  IFRS 16 was issued by IASB in 2016 with an effective application date for entities of January 1, 2019, with early application permitted.

  IFRS 16 replaces existing lease reporting guidelines, including IAS 17 Leases. IFRIC 4 determination of whether a contract contains leases. SIC 15 incentives related to operating leases and SIC 27 Evaluating the Substance of Transactions in the Legal form of a Lease.

(3) Summary of Significant Accounting Policies, continued

IFRS 16 introduces a single accounting reporting model for lease contracts in the statement of financial position for lessees. A lessee recognizes an asset for right of use representing the right to use the asset under lease and a liability for the lease representing its obligation to make lease payments. There are optional exemptions for short term leases or leases for very low value goods. The accounting treatment of lease contracts for lessors remains similar to current accounting standards where the lessor classifies lease contracts as financial or operating leases.

The Bank has begun an assessment of the potential impact on consolidated financial statements, to date the most significant impact identified has been the recognition of a new asset and a liability in the operating lease contract, particularly for properties used for functioning offices. In addition, the kinds of expenses corresponding to operating lease contracts as the lessee will change with IFRS 16, from lease expenses to charges for depreciation of the right to use the asset and financial expenses in lease liabilities. To date the Bank has not calculated any preliminary impact from the adoption of this new standard, but it is not expected to have a significant impact on consolidated financial statements and it is not expected to adopt this standard in advance.

(4) Risk Management

Risk management is a fundamental part of the Bank. It has an infrastructure to comprehensively manage risks, in order to ensure a responsible and sustainable growth in time, to maintain the confidence of its stakeholders, and to assure with reasonable certainty the fulfillment of its short, medium and long term goals, through a balance between meeting objectives and taking risks, in line with the corporate strategy.

The Bank is exposed to the following risks from financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk

For the management of these risks, an organizational framework based on current regulations in the region on risk management has been defined. This framework includes policies, procedures and a human and technical infrastructure to identify, analyze and assess risks, as well as to set adequate limits and controls, monitor risk management and comply with defined limits. These policies and risk management systems are periodically reviewed, updated and reported to the respective committees, to ensure they reflect changes in market conditions, products and services offered.

Through its management procedures and standards, the Bank aims to develop a disciplined and constructive control environment where all employees understand their roles and duties.

The periodic oversight and management of risks is conducted through the following corporate governance bodies, established both regionally and in the countries where the Bank operates: Committee of Comprehensive Risk Management, Assets and Liabilities Committee (ALICO), Compliance Committee, Credit Committee, and Audit Committee.

(4) Risk Management, continued

(a) Credit Risk

This is the risk of financial loss faced by the Bank when a client or counterparty fails to meet their contractual obligations, and is mainly originated from deposits, investments in securities and loans receivable.

To mitigate credit risk, risk management policies establish processes and controls to follow for the approval of loans or credit facilities. The Bank structures acceptable credit risk levels by setting limits on the amount of risk that is assumed in relation to one borrower, or group of borrowers, and geographic segment. These credits are constantly controlled and subject to periodic review.

Exposure to credit risk is managed through a periodic analysis of the borrowers' or potential borrowers' capacity to pay principal and interest. Exposure to credit risk is also mitigated in part through collateral, corporate and personal guarantees.

Credit is managed through policies that have been clearly defined by the Board of Directors, and are reviewed and modified periodically based on changes and expectations in the market where the Bank operates, regulations and other factors considered while preparing these policies.

The Bank uses a series of credit reports to assess its portfolio's performance, provision requirements and especially to anticipate events that could affect its debtor’s condition in the future.

The Bank has a regional guideline on investments that defines the general profile for the investment portfolio, and establishes two large maximum levels to control the investments' exposure: a limit on country risk and on issuer risk. The country risk limits are set based on an internal qualification scale, and are measured as percentages of the Bank's equity or as absolute amounts. The guideline includes approval schemes and attributions for new limits or increases on existing limits.

Compliance with this guideline is monitored on a daily basis through the Investment Portfolio Management and Control Module (MACCI from Spanish), an internal tool to document the entire investment process, including new approvals, limit increases or decreases, purchases and sales, and also to control exposures by issuer and the use of assigned quotas.

The Board of Directors has delegated the responsibility of managing credit risk to the Credit Committee and Assets and Liabilities Committee (ALICO); both periodically monitor the financial condition of the respective debtors and issuers that represent a credit risk for the Bank.

Information on the portfolio's quality

Quality of the portfolio of bank deposits and securities under resale agreements

The Bank maintains deposits in banks for $3,280,241,218, as of December 31, 2017 (2016: $2,773,080,996). Deposits are maintained at central banks and other financial institutions, most of which have between A to CCC+ risk ratings, based on Standard & Poor’s, Fitch Ratings, Inc. and/or Moody's. Of total deposits, excluding deposits in central banks, as of December 31, 2017, approximately $206 million did not have a risk rating (2016: $202 million).

(4) Risk Management, continued

Securities under resale agreements are mostly classified based on the ratings assigned by Standard & Poor's or Fitch Ratings, Inc. Their position is summarized together with that of investments in securities.

As of December 31, 2017, all securities under resale agreements and bank deposits are up to date on the payment of principal and interest.

Quality of the investments and other assets at fair value

The Bank segregates the investment portfolio into investments and other assets at fair value though profit or loss, and available for sale investments. As of December 31, 2017 investments and other assets at fair value amounted to $1,627,644,043 (2016: $1,322,607,099).

- Investments and other assets at fair value through profit or loss

  Investments and other assets at fair value through profit or loss are classified entirely according to the ratings assigned by Standard & Poor's, in the BB+ and BB-, for $48,769,062 as of December 31, 2017 (2016: $32,665,199) of which there are government bonds for $34,249,898 (2016: $32,614,699); derivative financial instruments for $525,443 (2016: $50,500); mutual funds for $5,501,439 (2016; $0) and common shares for $8,492,282 (2016: $0).

  The following table shows the analysis of the counterparty's credit exposures as a result of operations with derivative financial instruments. The Bank's derivative operations are generally secured by cash. All of the Bank's derivative financial instruments are negotiated in over-the-counter markets. See Note 26 for further discussion of derivative financial instruments.

	2017		2016	
	Notional Value	Fair Value	Notional value	Fair value
Assets	0	0	10,514,286	50,500
Liabilities	0	0	1,171,428	2,321

- Available for sale securities

  As of December 31, 2017, available for sale securities at fair value amounted to $1,573,902,609 (2016: $1,280,898,403).

  As of December 31, 2017, investments in securities and other assets at fair value corresponding to shares in the amount of $13,464,654 (2016: $9,043,497) are excluded from the following risk management analyzes. Further detail of investments in securities and other assets at fair value that correspond to shares can be found in Note 8.

As of December 31, 2017, investments in securities and other assets measured at fair value amounted to $1,614,179,389 (2016: $1,313,563,602).

(4) Risk Management, continued

The credit quality of liquidity instruments and financial instruments is monitored according to the international risk rating of the issuer provided by Standard & Poor's; the following table summarizes such categories:

	2017		2016	
	Securities purchased under resale agreements	Investments in securities and other assets at fair value	Securities purchased under resale agreements	Investments in securities and other assets at fair value
Governments and agencies				
AA+	0	218,470	0	218,346
BBB	232,688	128,026,218	2,500,212	139,004,060
BB+ or less	5,802,264	949,532,593	18,895,704	712,123,187
Not rated	2,734,335	57,294	8,042,219	8,720,959
Total governments and agencies	8,769,287	1,077,834,575	29,438,135	860,066,552
Corporate				
A+	0	0	0	50,500
A	0	39,609,965	0	0
A-	0	234,168,928	0	12,181,119
BBB+	0	175,705,824	0	301,781,853
BBB	0	1,084,281	0	15,648,533
BBB-	0	20,011,960	0	22,666,265
BB+ or less	0	44,543,811	31,343,850	67,714,531
Not rated	9,688,371	21,220,045	10,576,028	33,454,249
Total Corporate	9,688,371	536,344,814	41,919,878	453,497,050
Total instruments	18,457,658	1,614,179,389	71,358,013	1,313,563,602

Investments available for sale at December 31, 2017 are current and do not reflect impairment (2016: current and do not reflect impairment).

Quality of the loans portfolio

- Corporate

  They are assessed on a quarterly basis, based on quantitative (financial statements) and qualitative elements (economic sector, management, market share, etc.) to issue a risk rating that allows segregating the portfolio into Satisfactory, Special Mention and Impaired (Sub-standard, Doubtful, Loss). These last ones have a high risk and may have a high likelihood of default or total loss, thus their reserve is estimated individually.

  Below are the definitions of the risk ratings for the corporate portfolio:

  - Satisfactory:
    "Satisfactory risk" loans are divided into additional categories, mainly based on the borrower's financial health, and their capacity to service debt costs.

  - Special mention:
    The Bank's definition of a watch list account is that where we consider the possibility of future concern in the event that a specific event or events occur, or if a certain trend is not reversed.

(4) Risk Management, continued

- Sub-standard:
  A loan with well-defined credit weaknesses that have continued for some time, that constitute an inadequate credit risk, with a potential exposure and weaknesses that could reflect negatively if they are not reviewed or corrected.

  Credit weaknesses are defined when the client is not capable of facing their current debt entirely because of problems in solvency and payment capacity. This is determined through an analysis of the financial statements, plus a qualitative analysis of the credit area that knows the client and their environment.

  In terms of time, the Bank readjusts the risk category once impairment is detected, since this allows taking immediate corrective actions.

- Doubtful:
  A credit with sufficiently well-defined weaknesses, where eventual full settlement is questionable, based on existing data, conditions and values, even when there are certain factors that could improve the credit's status.

  Full recovery of the debt in its entirety is very questionable, given the advanced level of impairment in the client's financial condition. This is the step prior to loss.

- Loss:
  Credits classified as loss will be considered uncollectible and of such scarce value that their continuation as assets is not justified.

  This classification does not mean that the credit lacks of a recovery value, but that it is not very practical or desirable to delay the settlement of this asset, which basically lacks value, even when a partial recovery may be achieved in the future.

- Personal and SME banking
  The credit quality of the personal loan, mortgage loan and SME loan portfolio is monitored based on the evolution of a series of primary portfolio quality indicators such as: delinquency status, percentage of impaired portfolio and composition by loan to value (LTV) index level for loans with a real guarantee (the LTV measures the loan's carrying amount as a percentage of the value of the property securing the loan, this indicator is updated each month).

  In credit cards, the historic delinquency behavior and payments are the factors used to monitor the portfolio's quality.

  Since this is one of the most relevant products, its risk rating is updated each month.

(4) Risk Management, continued

The following table presents balances receivable in the loans portfolio according to its risk category:

	2017		2016	
	Loans	Debt commitments and guarantees	Loans	Debt commitments and guarantees
Loans at fair value				
Current (up to 30 days)	12,254,030	0	14,354,172	0
31 to 90 days	264,361	0	482,775	0
91 to 120 days	0	0	140,853	0
181 to 365 days	220,488	0	422,537	0
More than 365 days	166,099	0	0	0
Net carrying amount, loans at fair value	12,904,978	0	15,400,337	0
Loans at amortized cost				
Corporate [(1)]				
Satisfactory	5,545,143,352	553,609,934	5,140,320,002	492,962,776
Special mention	118,583,639	1,574,136	54,154,777	1,027,885
Sub-standard	32,989,239	65,287	33,849,661	571
Doubtful	14,690,984	3,953	7,779,222	0
Loss	5,541,369	0	8,206,127	0
Gross amount	5,716,948,583	555,253,310	5,244,309,789	493,991,232
Allowance for impairment	(39,579,122)	(174,403)	(28,528,682)	(156,684)
Net carrying amount	5,677,369,461	555,078,907	5,215,781,107	493,834,548
Personal Banking and SMEs				
Current (up to 30 days)	9,404,550,893	51,643,895	8,715,447,195	60,682,167
31 to 90 days	184,546,590	0	154,387,933	0
91 to 120 days	54,351,947	0	46,888,636	0
121 to 180 days	63,206,144	0	58,446,312	0
181 to 365 days	27,487,003	0	21,756,087	0
More than 365 days	17,701,063	0	15,122,010	0
Gross amount	9,751,843,640	51,643,895	9,012,048,173	60,682,167
Allowance for impairment	(195,092,837)	(10,306)	(166,831,798)	(11,926)
Net carrying amount	9,556,750,803	51,633,589	8,845,216,375	60,670,241
Unearned interests	(1,957,761)	0	(2,577,581)	0
Unearned commissions, net	(50,557,475)	0	(50,384,109)	0
Net carrying amount, loans at amortized cost	15,181,605,028	606,712,496	14,008,035,792	554,504,789

(1) Includes leases, net of interests from corporate clients.

The factors that the Bank has considered to determine the impairment in its loan portfolio are detailed below:

- Impairment on loans
  Management determines whether there is objective evidence of impairment in loans based on the following criteria established by the Bank:
  - Breach of contract in the payment of principal or interest;
  - Difficulties experienced in cash flows by the borrower;
  - Failure to comply with the terms and conditions agreed;
  - Initiation of bankruptcy proceedings;
  - Impairment in the competitive position of the borrower; and
  - Impairment in the value of collateral.

- Past due but not impaired
  Loans and investments with a delinquency of less than 90 days in arrears, which do not qualify as individually significant with a sub-standard risk rating or worse, and that have not been renegotiated, are considered delinquent but not impaired, without losses incurred.

(4) Risk Management, continued

- Restructured loans
  They are loans where, due to difficulties in the debtor's ability to pay, a variation in the original loan terms (term, payment plan and guarantees) have been formally documented.

- Charge offs
  Each month, the Bank reviews its impaired portfolio to identify those debts that deserve to be charge off due to the uncollectibility of the balance and up to the amount at which collaterals do not cover it. For consumer loans, unsecured credit cards and SMEs, charge off are carried out depending on the extent of delinquency. In the case of mortgage, secured consumer loans and SMEs, the charge off is carried out depending on the extent of delinquency and the estimated amount for which collaterals do not cover the carrying amount of the loan.

(4) Risk Management, continued

The following table presents the impaired and non-impaired loan portfolio based on risk category:

	2017		2016	
	Loans	Debt commitments and guarantees	Loans	Debt commitments and guarantees
Loans at fair value				
Current and non-impaired portfolio				
Current (up to 30 days)	12,254,030	0	14,354,172	0
Portfolio with 30 to 90 days in arrears but not impaired				
31 to 90 days	264,361	0	482,775	0
Impaired portfolio				
91 to 120 days	0	0	140,853	0
181 to 365 days	220,488	0	422,537	0
More than 365 days	166,099	0	0	0
Net carrying amount, loans at fair value	12,904,978	0	15,400,337	0
Loans at amortized cost				
Corporate				
Current and non-impaired portfolio				
Satisfactory	5,529,175,457	553,278,859	5,123,765,705	491,125,838
Special mention	110,434,182	1,574,136	45,370,033	897,706
Total	5,639,609,639	554,852,995	5,169,135,738	492,023,544
Portfolio with 31 to 90 days in arrears but not impaired				
Satisfactory	2,188,749	0	5,271,842	0
Special mention	678,240	0	494,054	0
Total	2,866,989	0	5,765,896	0
Impaired individual portfolio				
Sub-standard	25,318,316	0	30,616,437	0
Doubtful	6,304,111	0	6,642,283	0
Loss	2,336,513	0	6,969,108	0
Total	33,958,940	0	44,227,828	0
Impaired collective portfolio (1)				
Satisfactory (2)	13,779,146	331,075	11,282,455	1,836,938
Special mention (2)	7,471,217	0	8,290,689	130,750
Sub-standard	7,670,923	65,287	3,233,224	0
Doubtful	8,386,873	3,953	1,136,940	0
Loss	3,204,856	0	1,237,019	0
Total	40,513,015	400,315	25,180,327	1,967,688
Total Corporate	5,716,948,583	555,253,310	5,244,309,789	493,991,232
Allowance for impairment				
Individual	(3,596,043)	0	(4,678,675)	0
Collective	(35,983,079)	(174,403)	(23,850,007)	(156,684)
Total allowance for impairment, corporate loans	(39,579,122)	(174,403)	(28,528,682)	(156,684)
Personal banking and SMEs (1)				
Current and non-impaired portfolio				
Current (up to 30 days)	9,262,269,412	51,573,301	8,596,446,253	60,590,967
Portfolio with 31 to 90 days in arrears but not impaired				
31 to 60 days	107,821,332	0	91,864,376	0
61 to 90 days	63,285,217	0	51,524,327	0
Total	171,106,549	0	143,388,703	0
Impaired portfolio (1)				
1 to 30 days	142,281,481	70,594	119,000,943	91,200
31 to 90 days	13,440,041	0	10,999,230	0
91 to 120 days	54,351,947	0	46,888,636	0
121 to 180 days	63,206,144	0	58,446,312	0
181 to 365 days	27,487,003	0	21,756,087	0
More than 365 days	17,701,063	0	15,122,009	0
Total	318,467,679	70,594	272,213,217	91,200
Total Personal Banking and SMEs	9,751,843,640	51,643,895	9,012,048,173	60,682,167
Allowance for impairment, personal banking and SMEs	(195,092,837)	(10,306)	(166,831,798)	(11,926)
Unearned interests	(1,957,761)	0	(2,577,581)	0
Unearned commissions, net	(50,557,475)	0	(50,384,109)	0
Net carrying amount, loans at amortized cost	15,181,605,028	606,712,496	14,008,035,792	554,504,789

(1) Includes restructured loans.
(2) Includes transactions that are current and are presented on this category, by Administration's policies, until they meet the requirements to qualify as non-impaired.

(4) Risk Management, continued

The following table presents the restructured loan portfolio:

	2017 Loans	2017 Debt commitments and guarantees	2016 Loans	2016 Debt commitments and guarantees
Restructured loans				
Current restructured loans	195,871,584	0	153,991,105	132,855
90 days past due restructured loans	17,601,914	0	17,495,181	0
Allowance for impairment, restructured loans	(29,488,284)	0	(21,715,642)	(811)
Restructured loans, net	183,985,214	0	149,770,644	132,044

The following is an analysis of the gross and net amounts (of allowance for impairment) of loans and debt commitments and guarantees individually and collectively impaired:

	2017				2016			
	Loans		Debt commitments and guarantees		Loans		Debt commitments and guarantees	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Impaired loans								
Corporate								
Individually assessed loans								
Sub-standard	25,318,316	22,577,527	0	0	30,616,437	27,160,596	0	0
Doubtful	6,304,111	5,448,857	0	0	6,642,283	4,795,907	0	0
Loss	2,336,513	2,336,513	0	0	6,969,108	4,441,334	0	0
Total	33,958,940	30,362,897	0	0	44,227,828	36,397,837	0	0
Collectively assessed loans (1)								
Satisfactory (2)	13,779,146	13,687,784	331,075	329,108	11,282,455	11,205,479	1,836,938	1,836,388
Special mention (2)	7,471,217	7,009,496	0	0	8,290,689	7,778,324	130,750	129,939
Sub-standard	7,670,923	5,361,403	65,287	45,321	3,233,224	2,223,563	0	0
Doubtful	8,386,873	6,136,806	3,953	2,464	1,136,940	708,768	0	0
Loss	3,204,856	0	0	334	1,237,019	690,860	0	0
Total	40,513,015	32,195,489	400,315	377,227	25,180,327	22,606,994	1,967,688	1,966,327
Personal Banking and SMEs								
Collectively impaired portfolio (1)								
0 to 30 days	142,281,481	124,376,666	70,594	70,581	119,000,943	105,473,372	91,200	91,182
31 to 90 days	13,440,041	10,828,444	0	0	10,999,230	8,795,157	0	0
91 to 120 days	54,351,947	27,724,661	0	0	46,888,636	23,707,193	0	0
121 to 180 days	63,206,144	23,730,741	0	0	58,446,312	20,742,222	0	0
181 to 365 days	27,487,003	15,727,445	0	0	21,756,087	12,200,392	0	0
More than 365 days	17,701,063	17,558,092	0	0	15,122,009	12,377,775	0	0
Total	318,467,679	219,946,049	70,594	70,581	272,213,217	183,296,111	91,200	91,182
Total impaired loans	392,939,634	282,504,435	470,909	447,808	341,621,372	242,300,942	2,058,888	2,057,509

(1) Includes restructured loans.
(2) Includes transactions that are current and are presented on this category, by Administration's policies, until they meet the requirements to qualify as unimpaired.

(4) Risk Management, continued

Guarantees and other improvements to reduce credit risk and its financial effect

The Bank maintains guarantees and other improvements to reduce credit risk to ensure the payment of their financial assets exposed to credit risk. The table below shows the main types of guarantees taken with respect to different types of financial assets.

	2017					
	Mortgage	Pledge	Certificates of deposits	Investments in securities	Unsecured	Total
Securities under resale agreements	0	0	0	18,457,658	0	18,457,658
Investments in securities and other assets at fair value	0	0	0	0	1,614,179,389	1,614,179,389
Loans at fair value	12,904,978	0	0	0	0	12,904,978
Loans at amortized cost						
Corporate						
Corporate	2,356,792,487	429,753,860	224,403,135	0	2,575,774,497	5,586,723,979
Corporate leases, net	0	130,224,604	0	0	0	130,224,604
Total corporate	2,356,792,487	559,978,464	224,403,135	0	2,575,774,497	5,716,948,583
Personal Banking and SMEs						
SMEs						
SMEs loans	383,145,231	0	22,340,485	0	266,298,707	671,784,423
SMEs leases, net	0	100,632,620	0	0	0	100,632,620
Total SMEs	383,145,231	100,632,620	22,340,485	0	266,298,707	772,417,043
Vehicles	0	920,938,340	0	0	0	920,938,340
Credit cards	0	0	0	0	2,779,230,212	2,779,230,212
Personal	367,892,357	0	45,313,102	0	1,659,325,042	2,072,530,501
Mortgage	3,140,291,831	0	0	0	0	3,140,291,831
Personal leases, net of interest	0	66,435,713	0	0	0	66,435,713
Total personal banking and SMEs	3,891,329,419	1,088,006,673	67,653,587	0	4,704,853,961	9,751,843,640
Total loans at amortized cost	6,248,121,906	1,647,985,137	292,056,722	0	7,280,628,458	15,468,792,223
Commitments and guarantees	47,797,256	2,323,410	30,188,718	0	526,587,821	606,897,205

	2016					
	Mortgage	Pledge	Certificates of deposits	Investments in securities	Unsecured	Total
Securities under resale agreements	0	0	0	71,358,013	0	71,358,013
Investments in securities and other assets at fair value	0	0	0	0	1,313,563,602	1,313,563,602
Loans at fair value	15,400,337	0	0	0	0	15,400,337
Loans at amortized cost						
Corporate						
Corporate	2,289,088,251	406,188,071	213,685,005	0	2,204,506,290	5,113,467,617
Corporate leases, net	0	130,842,172	0	0	0	130,842,172
Total corporate	2,289,088,251	537,030,243	213,685,005	0	2,204,506,290	5,244,309,789
Personal Banking and SMEs						
SMEs						
SMEs loans	326,136,931	0	19,524,155	0	221,885,697	567,546,783
SMEs leases, net	0	88,916,097	0	0	0	88,916,097
Total SMEs	326,136,931	88,916,097	19,524,155	0	221,885,697	656,462,880
Vehicles	0	843,084,502	0	0	0	843,084,502
Credit cards	0	0	0	0	2,500,581,208	2,500,581,208
Personal	312,408,522	0	47,094,818	0	1,625,512,801	1,985,016,141
Mortgage	2,967,354,292	0	0	0	0	2,967,354,292
Personal leases, net of interest	0	59,549,150	0	0	0	59,549,150
Total personal banking and SMEs	3,605,899,745	991,549,749	66,618,973	0	4,347,979,706	9,012,048,173
Total loans at amortized cost	5,894,987,996	1,528,579,992	280,303,978	0	6,552,485,996	14,256,357,962
Commitments and guarantees	59,427,243	1,214,600	18,933,358	0	475,098,198	554,673,399

(4) Risk Management, continued

The following are the non-financial assets that the Bank seized as collaterals to secure collection during the year.

	2017	2016
Property	13,829,889	14,242,811
Furniture and equipment	1,251,996	1,575,011
Other	140,538	327,288
Total	15,222,423	16,145,110

The Bank's policy is to perform the sale of these assets to cover the balances due. In general, using non-financial assets for its operations, is not a Bank's policy.

Residential mortgage loans

The following table shows the index of loans from the mortgage portfolio to the value of collaterals. LTV is calculated as a percentage of the gross amount of the loan in relation to the value of collaterals. The gross amount of the loan excludes any loss impairment. The value of collaterals for mortgages is based on the original value of the guarantee as of the date of disbursement and generally is not updated.

	2017		2016	
LTV Ratio	**Loans**	**Debt commitments and guarantees**	**Loans**	**Debt commitments and guarantees**
Less than 50%	634,633,961	3,086,047	575,625,220	4,125,999
51-70%	1,113,917,549	10,238,026	1,002,746,326	12,594,232
71-80%	1,055,861,877	16,586,154	953,626,504	19,911,080
81-90%	308,556,445	11,077,835	381,052,472	12,593,995
91-100%	21,106,582	2,089,107	46,399,987	3,438,566
More than 100%	6,215,417	217,175	7,903,783	88,102
Total	3,140,291,831	43,294,344	2,967,354,292	52,751,974

(4) Risk Management, continued

Concentration of credit risk

The Bank follow-up the concentration of credit risk by sector and geographic location. The geographic location of loans and deposits in banks is based on the location of the debtor. In regards to investments, they are based on the location of the issuer. The analysis of the concentration of credit risks as of the date of the consolidated financial statements is as follows:

	2017					
	Loans at fair value	Loans at amortized cost	Commitments and guarantees	Securities under repurchase agreements	Deposits in banks	Investments in securities and other assets at fair value
Concentration by sector:						
Government	0	0	0	8,769,287	2,161,364,040	1,077,834,574
Corporate						
Trade	0	1,719,316,006	79,034,309	0	0	0
Services	0	1,119,965,456	110,854,137	4,013,090	0	0
Food industry	0	876,203,464	32,695,028	0	0	0
Real estate	0	823,223,209	58,926,908	0	0	1,546,546
General industry	0	604,462,516	62,295,819	0	0	0
Agriculture	0	444,736,824	6,229,690	0	0	0
Construction	0	169,205,616	60,209,183	0	0	9,271,846
Hotels and restaurants	0	269,365,170	859,061	0	0	0
Financial	0	239,124,014	133,144,483	5,675,281	1,118,877,178	525,526,423
Telecommunications	0	71,332,954	5,999,201	0	0	0
Transportation	0	152,430,397	13,355,043	0	0	0
Personal banking	12,904,978	8,979,426,597	43,294,343	0	0	0
Total concentration by sector	12,904,978	15,468,792,223	606,897,205	18,457,658	3,280,241,218	1,614,179,389
Geographic location:						
Costa Rica	12,904,978	4,324,436,168	202,247,711	5,802,264	879,446,624	433,664,125
Panama	0	3,810,450,720	215,137,360	7,655,394	74,978,628	141,461,159
Guatemala	0	2,750,806,128	30,995,527	5,000,000	400,376,888	311,370,456
Honduras	0	1,672,620,046	37,162,897	0	347,153,011	175,287,191
El Salvador	0	1,597,716,576	87,070,106	0	456,637,875	31,738,392
Nicaragua	0	1,312,762,585	34,283,604	0	218,769,348	49,856,874
North America	0	0	0	0	860,513,500	439,703,616
South America	0	0	0	0	0	31,097,576
Europe	0	0	0	0	27,348,591	0
Other	0	0	0	0	15,016,753	0
Total concentration by geographic location	12,904,978	15,468,792,223	606,897,205	18,457,658	3,280,241,218	1,614,179,389

(4) Risk Management, continued

	2016					
	Loans at fair value	Loans at amortized cost	Commitments and guarantees	Securities under repurchase agreements	Deposits in banks	Investments in securities and other assets at fair value
Concentration by sector:						
Government	0	0	0	29,438,135	1,804,414,403	860,066,552
Corporate						
Trade	0	1,548,477,551	118,324,062	0	0	0
Services	0	999,318,339	106,533,782	2,080,589	0	0
Food industry	0	856,147,134	41,561,027	0	0	0
Real estate	0	736,559,299	13,552,376	0	0	8,186,461
General industry	0	499,318,892	58,779,326	0	0	0
Agriculture	0	422,545,154	9,869,864	0	0	0
Construction	0	134,785,579	49,363,642	0	0	4,169,112
Hotels and restaurants	0	226,915,957	576,370	0	0	602,753
Financial	0	229,829,517	75,000,087	39,839,289	968,666,593	438,862,724
Telecommunications	0	102,593,508	12,830,355	0	0	1,676,000
Transportation	0	144,281,739	15,530,532	0	0	0
Personal banking	15,400,337	8,355,585,293	52,751,976	0	0	0
Total concentration by sector	15,400,337	14,256,357,962	554,673,399	71,358,013	2,773,080,996	1,313,563,602
Geographic location:						
Costa Rica	15,400,337	3,937,525,537	201,875,382	18,895,704	801,104,846	357,224,109
Panama	0	3,604,169,060	203,305,103	16,638,782	87,254,617	168,115,454
Guatemala	0	2,533,807,698	24,772,171	35,823,527	323,742,839	191,167,653
Honduras	0	1,506,472,031	39,841,913	0	305,902,586	137,848,189
El Salvador	0	1,443,388,503	75,649,378	0	370,129,285	28,634,705
Nicaragua	0	1,230,995,133	9,229,452	0	199,790,507	40,927,504
North America	0	0	0	0	646,361,458	309,196,425
South America	0	0	0	0	0	80,396,657
Europe	0	0	0	0	23,774,419	0
Other	0	0	0	0	15,020,439	52,906
Total concentration by geographic location	15,400,337	14,256,357,962	554,673,399	71,358,013	2,773,080,996	1,313,563,602

(b) Liquidity Risk

Liquidity risk is defined as the contingency of not being able to comply fully, in a timely and efficient manner, the expected and unexpected cash flows, current and future, without affecting the course of daily operations or the financial condition of the entity. This contingency (liquidity risk) is evidenced in the lack of liquid assets available for that and/or the need to assume unusual funding costs.

The liquidity management conducted by the Bank seeks to meet its obligations of (i) withdrawals of deposits by its customers, (ii) repayment of the service of its debts of institutional funding according to maturity and the payment scheme scheduled, and (iii) compliance with the credit demand and investment funds according to the requirements. In this regard, the Bank has constant control over its short term liabilities and assets. The liquidity of the Bank is carefully managed and adjusted daily based on the estimated flow of liquidity in a contingent and expected scenario.

The Bank's best practices in liquidity management meet at minimum with the policies and guidelines issued by Senior Management and/or Regional and Local Board of Directors; the regulators of each country in which it operates and the contractual obligations. These best practices are primarily defensive, in the sense of seeking to maintain appropriate levels of liquidity at all times. In addition, the Bank has implemented the internal liquidity requirements that force us to keep excesses on regulatory requirements.

(4) Risk Management, continued

Specifically, the Bank's liquidity risk is managed through the calculation of liquidity coverage indicators in the short term, net of obligations and requirements, and in normal and stressful situations, as well as a stress model of liquidity based on the cash flow, which considers the activity of assets and liabilities in a time horizon of up to one year, under a variety of scenarios, which include both normal market conditions and more severe conditions. In addition, the Bank seeks to maintain a term matching, which enables it to meet its financial obligations over time.

As in the market risk, Senior Management engages actively in liquidity risk management through regional and local Assets and Liabilities Committee (ALICO) and Comprehensive Risk Management; thus giving greater support to the strategic decision-making process. The liquidity risk assumed by the Bank is in line with the structure, complexity, size and nature of its operation, while always respecting the local regulations, the regional guidelines and the guidelines issued by Senior Management and/or Regional and Local Board of Directors.

Insofar as the entire Bank, the obligation of properly documenting the periodic assessment of measurement indicators and compliance with regional guidelines and local regulations is established; as well as ensuring that reports related to liquidity risk to be remitted to the different internal and external instances (including the regulator) are adequate in terms of content, quality of information, generation, transmission and validation according to the requirements set forth in the respective standards.

The following table shows the results of the ratios for high-quality liquidity coverage with respect to the outflow of deposits under normal and stressful conditions, calculated based on internal policies, reported as of the reporting date and during the year:

	% of Liquidity	
	2017	2016
As of year end	36.0	28.0
Maximum	39.0	31.3
Average	32.0	28.4
Minimum	28.0	24.9

As of December 31, 2017 and December 31, 2016, the banking operations of the Bank comply with the liquidity requirements established by the regulators.

(4) Risk Management, continued

Quantitative information

The following table details the undiscounted cash flows of financial liabilities and financial assets, unrecognized loan commitments and disbursements due to financial derivatives in contractual maturity groups from the remaining period from the date of the consolidated statement of financial position:

	2017						
Amounts in thousands	Carrying Amount	Total nominal gross amount inflows /(outflows)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Liabilities							
Demand deposits	5,461,865	(5,461,865)	(5,461,865)	0	0	0	0
Savings deposits	2,856,518	(2,856,518)	(2,856,518)	0	0	0	0
Time deposits	6,623,283	(7,033,401)	(744,016)	(1,219,150)	(3,149,600)	(1,400,362)	(520,273)
Securities sold under repurchase agreements	61,980	(62,196)	(55,292)	(6,904)	0	0	0
Financial obligations	3,175,524	(3,457,484)	(191,202)	(392,574)	(1,392,177)	(1,248,958)	(232,573)
Other financial obligations	394,083	(417,752)	(18,153)	(50,187)	(100,872)	(248,540)	0
Sub-total liabilities	18,573,253	(19,289,216)	(9,327,046)	(1,668,815)	(4,642,649)	(2,897,860)	(752,846)
Debt commitments	0	(101,243)	(3,145)	(41,528)	(56,570)	0	0
Total liabilities	18,573,253	(19,390,459)	(9,330,191)	(1,710,343)	(4,699,219)	(2,897,860)	(752,846)
Assets							
Cash and cash equivalents	659,063	659,063	659,063	0	0	0	0
Securities purchased under resale agreements	18,458	18,477	14,131	4,346	0	0	0
Deposits due from banks	3,280,241	3,280,534	3,252,826	7,098	20,610	0	0
Investments at fair value through profit or loss (1)	48,244	51,103	7,535	4,868	9,502	20,706	8,492
Investments available for sale at fair value (2)	1,573,903	1,690,583	72,306	155,581	433,164	1,018,483	11,049
Loans at fair value	12,905	21,477	231	231	1,040	5,518	14,457
Loans at amortized cost, gross	15,468,792	19,768,316	1,712,202	2,512,252	3,060,173	5,830,039	6,653,650
Total assets	21,061,606	25,489,553	5,718,294	2,684,376	3,524,489	6,874,746	6,687,648

(1) Derivative instruments are excluded.
(2) Investments carried at cost are excluded.

(5) Risk Management, continued

Amounts in thousands	2016 Carrying Amount	Total nominal gross amount inflows /(outflows)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Liabilities							
Demand deposits	4,858,900	(4,858,900)	(4,858,900)	0	0	0	0
Savings deposits	2,593,004	(2,593,004)	(2,593,004)	0	0	0	0
Time deposits	5,731,181	(5,958,712)	(723,297)	(1,170,153)	(2,560,238)	(1,466,933)	(38,091)
Securities sold under repurchase agreements	91,021	(91,164)	(91,164)	0	0	0	0
Financial obligations	3,189,628	(3,491,437)	(116,414)	(275,978)	(1,227,373)	(1,602,015)	(269,657)
Other financial obligations	427,130	(452,840)	(26,082)	(41,316)	(174,606)	(210,836)	0
Sub-total liabilities	16,890,864	(17,446,057)	(8,408,861)	(1,487,447)	(3,962,217)	(3,279,784)	(307,748)
Debt commitments	0	(86,288)	0	0	(40,032)	(46,256)	0
Total liabilities	16,890,864	(17,532,345)	(8,408,861)	(1,487,447)	(4,002,249)	(3,326,040)	(307,748)
Derivative instruments, liabilities:							
Interest rate swaps	2	(2)	0	(1)	(1)	0	0
Assets							
Cash and cash equivalents	545,072	545,072	545,072	0	0	0	0
Securities purchased under resale agreements	71,358	71,443	60,202	11,241	0	0	0
Deposits due from banks	2,773,081	2,773,501	2,720,496	18,869	34,136	0	0
Investments at fair value through profit or loss (1)	32,615	34,974	5	2,081	8,286	24,133	469
Investments available for sale at fair value (2)	1,280,898	1,370,785	54,263	94,689	398,015	785,259	38,559
Loans at fair value	15,400	23,097	118	237	1,066	5,688	15,988
Loans at amortized cost, gross	14,256,358	19,006,671	2,295,488	2,686,158	2,350,806	5,572,987	6,101,232
Total assets	18,974,782	23,825,543	5,675,644	2,813,275	2,792,309	6,388,067	6,156,248
Derivative instruments, assets:							
Interest rate cap	51	51	0	0	0	51	0

(1) Derivative instruments are excluded.
(2) Investments carried at cost are excluded.

The liquidity of the Bank is measured and monitored on a daily basis by the treasury of each country. In addition, the Bank maintains appropriate levels of cash in vaults, deposits in banks and short-term deposits which constitutes the Bank's basis of liquidity reserves. The composition of liquidity is shown in the following table:

	2017	2016
Cash and cash equivalents	659,062,587	545,071,729
Securities bought under resale agreements	18,457,658	71,358,013
Deposits in central banks	2,105,957,980	1,934,351,580
Deposits due from banks maturing in less than 90 days	1,138,116,076	772,637,652
Deposits due from banks greater than 90 days	36,167,162	66,091,764
Total cash, cash equivalents and deposits in banks	3,957,761,463	3,389,510,738
Not committed sovereign debt instruments	955,567,642	691,138,801
Other credit lines available (1)	1,568,439,632	1,317,755,747
Total liquidity reserve	6,481,768,737	5,398,405,286

(1) Amounts not disbursed as of the reporting date.

The available credit lines are for use in normal business scenarios. They may have restricted use in stressful situations.

(4) Risk Management, continued

The following table shows the availability of the Bank's financial assets to support the future financing:

2017	**Restricted**		**Not restricted**		
	As collateral	**Other (1)**	**Available as collateral**	**Other (2)**	**Total**
Cash and cash equivalents	0	0	0	659,062,587	659,062,587
Securities purchased under resale agreements	0	18,457,658	0	0	18,457,658
Deposits due from banks	3,162,078	1,912,152,134	198,864,249	1,166,062,757	3,280,241,218
Investments in securities and other assets at fair value	69,405,507	52,861,426	1,395,051,023	110,326,087	1,627,644,043
Loans at fair value	0	0	0	12,904,978	12,904,978
Loans at amortized cost, net	431,360,073	0	0	14,750,244,955	15,181,605,028
Non-financial assets	0	0	0	1,238,186,306	1,238,186,306
Total assets	503,927,658	1,983,471,218	1,593,915,272	17,936,787,670	22,018,101,818

(1) It represents uncommitted assets, but whose use the Bank considers is restricted its use to guarantee financing, for legal or other reasons. Restricted deposits in banks comprise the legal reserve required by the different jurisdictions in which the Bank operates, and can be used according to the regulation of each country.
(2) It represents assets that are not restricted for use as collateral, but which the Bank would not consider as available guarantee financing in the normal course of business.

2016	**Restricted**		**Not restricted**		
	As collateral	**Other (1)**	**Available as collateral**	**Other (2)**	**Total**
Cash and cash equivalents	0	0	0	545,071,729	545,071,729
Securities purchased under resale agreements	0	71,358,013	0	0	71,358,013
Deposits due from banks	2,808,466	1,776,272,475	84,228,608	909,771,447	2,773,080,996
Investments in securities and other assets at fair value	168,927,751	0	1,000,064,377	153,614,971	1,322,607,099
Loans at fair value	0	0	0	15,400,337	15,400,337
Loans at amortized cost, net	448,093,071	0	0	13,559,942,721	14,008,035,792
Non-financial assets	0	58,337,093	0	1,253,660,167	1,311,997,260
Total assets	619,829,288	1,905,967,581	1,084,292,985	16,437,461,372	20,047,551,226

(1) It represents uncommitted assets, but whose use the Bank considers is restricted its use to guarantee financing, for legal or other reasons. Restricted deposits in banks comprise the legal reserve required by the different jurisdictions in which the Bank operates, and can be used according to the regulation of each country.
(2) It represents assets that are not restricted for use as collateral, but which the Bank would not consider as available guarantee financing in the normal course of business.

(c) Market risk

Market risks are those that may result in losses as a result of adverse price movements in the financial markets where positions are maintained. It comprises the following risks:

- Interest rate risk: is the possibility of an economic loss due to adverse variations in interest rates.

- Exchange rate risk: is the possibility of an economic loss due to adverse variations in the exchange rate.

The main objectives of the Bank's corporate governance structure include supervising the performance of the management team in each country, ensuring the proper functioning of the internal control system, monitoring the exposure to risks and managing them effectively. For such purpose, management engages actively in market risk management through the regional and local Assets and Liabilities Committees (ALICO) and the Comprehensive Risk Management Committee; thus giving greater support to the strategic decision-making process.

Market risks assumed by the Bank are in line with the structure, complexity, size and nature of its operation, while always respecting the local regulations, the regional guidelines and the guidelines issued by management and/or regional and local board of directors.

(4) Risk Management, continued

The Bank establishes the requirement of properly documenting the periodic assessment of measurement indicators and compliance with regional guidelines and local regulations, as well as ensuring that reports related to market risk to be remitted to the different internal and external instances (including the regulator) are adequate in terms of the content, quality of information, generation, transmission and validation according to the requirements set forth in the respective standards.

For the measurement, control and management of market risk, the Bank uses the indicators required by the regulator of each country as well as another set of indicators established in the internal regional guideline, which are calculated by country and in a consolidated manner based on internal sources of information.

Exchange risk is measured through the determination of the equity percentage that is not dollarized (also known as monetary position). The main objective of the policy is to establish that the difference between assets denominated in US dollars and liabilities denominated in US dollars is at least equal to equity, which is equivalent to having a 100% dollarized equity. However, due to regulatory restrictions applicable in each country that limit the position in US dollars, the consolidated monetary position may be below this desirable limit.

Quantitative information

The Bank maintains operations in the consolidated statement of financial position, agreed in local currency other than US dollars, which are listed below:

2017 *Amounts in millions*	**Mexican pesos**	**Quetzales**	**Lempiras**	**Cordobas**	**Colones**	**Total**
Cash, cash equivalents and deposits in banks	0	326	278	116	494	1,214
Investments in securities	0	195	164	50	230	639
Loans, net	0	1,462	1,201	115	1,526	4,304
Assets classified as held for sale	4	0	0	0	0	4
Total assets	4	1,983	1,643	281	2,250	6,161
Deposits	0	1,495	1,214	279	1,937	4,925
Obligations	0	296	174		118	588
Liabilities classified as held for sale	1	0	0	0	0	1
Total liabilities	1	1,791	1,388	279	2,055	5,514
Contingencies	0	0	22	0	68	90
Exchange risk exposure	3	192	277	2	263	737

(4) Risk Management, continued

2016 *Amounts in millions*	Mexican pesos	Quetzales	Lempiras	Cordobas	Colones	Total
Cash, cash equivalents and deposits in banks	0	269	238	100	454	1,061
Investments in securities	0	179	126	41	206	552
Loans, net	0	1,344	1,060	116	1,363	3,883
Assets classified as held for sale	54	0	0	0	0	54
Total assets	54	1,792	1,424	257	2,023	5,550
Deposits	0	1,340	1,016	256	1,708	4,320
Obligations	0	232	155	0	154	541
Liabilities classified as held for sale	23	0	0	0	0	23
Total liabilities	23	1,572	1,171	256	1,862	4,884
Contingencies	0	0	23	1	79	103
Forward exchange contracts (note 26)	(33)	0	0	0	0	(33)
Exchange risk exposure	(2)	220	276	2	240	736

Below, the summary exposure of the Bank's consolidated statement of financial position to interest rate risk. Assets and liabilities are included in the table at their carrying amount, classified by categories of time considering the next rate review date or the maturity date, as applicable:

2017	Without exposure	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Cash and cash equivalents	659,062,587	0	0	0	659,062,587
Securities purchased under resale agreements	0	18,457,658	0	0	18,457,658
Deposits due from banks	1,599,975,820	1,680,265,398	0	0	3,280,241,218
Investments in securities and other assets	5,497,814	651,531,355	967,954,474	2,660,400	1,627,644,043
Loans at fair value	0	12,904,978	0	0	12,904,978
Loans at amortized cost, gross	0	14,316,446,756	1,030,899,202	121,446,265	15,468,792,223
Total assets	2,264,536,221	16,679,606,145	1,998,853,676	124,106,665	21,067,102,707
Deposits	979,141,413	12,274,255,836	1,311,265,535	377,003,755	14,941,666,539
Institutional funding	0	2,383,657,497	1,018,415,495	229,514,125	3,631,587,117
Total liabilities	979,141,413	14,657,913,333	2,329,681,030	606,517,880	18,573,253,656
Exposure to interest rate risk	1,285,394,808	2,021,692,812	(330,827,354)	(482,411,215)	2,493,849,051

2016	Without exposure	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Cash and cash equivalents	545,071,729	0	0	0	545,071,729
Securities purchased under resale agreements	0	71,358,013	0	0	71,358,013
Deposits due from banks	1,508,557,003	1,264,523,993	0	0	2,773,080,996
Investments in securities and other assets	9,093,997	524,535,937	758,258,642	30,718,523	1,322,607,099
Loans at fair value	0	15,400,337	0	0	15,400,337
Loans at amortized cost, gross	0	13,288,531,550	857,054,404	110,772,008	14,256,357,962
Total assets	2,062,722,729	15,164,349,830	1,615,313,046	141,490,531	18,983,876,136
Deposits	918,985,180	10,839,057,795	1,389,749,994	35,292,921	13,183,085,890
Institutional funding	0	2,338,439,440	1,133,911,293	235,428,655	3,707,779,388
Total liabilities	918,985,180	13,177,497,235	2,523,661,287	270,721,576	16,890,865,278
Exposure to interest rate risk	1,143,737,549	1,986,852,595	(908,348,241)	(129,231,045)	2,093,010,858

Based on the above, the Bank calculates the total exposure of the consolidated statement of financial position to interest rate risk. The Bank states that the interest rate risk should be measured for each currency in which assets and liabilities are maintained.

(4) Risk Management, continued

Interest rate risk is analyzed based on the gap analysis, in order to approximate the change in equity of the Bank's consolidated statement of financial position and in the net income from interest from eventual changes in market interest rates. The economic value of an instrument involves an assessment of the current value of its expected net cash flows, discounted to reflect market rates. By extension, the economic value of a financial entity can be seen as the present value of expected net cash flows from the entity, defined as expected cash flows from assets less expected cash flows from liabilities. In this sense, the perspective of economic value reflects a view of the sensitivity of the financial entity net value to interest rate fluctuations.

The estimate of the impact of variations in interest rates is conducted under a scenario of increase or decrease of 100 basis points in assets and liabilities at the different terms (parallel movement of the curve). The following table presents a summary of the impact on the Bank's economic value and on the net interest income applying these variations:

	Increase of 100 bps (1)	Decrease of 100 bps (1)
Impact on equity to interest rate movements		
2017	(58,421,926)	58,421,926
Average for the year	(63,011,283)	63,011,283
Maximum for the year	(70,905,886)	70,905,886
Minimum for the year	(41,672,729)	41,672,729
2016	(41,484,498)	41,484,498
Average for the year	(58,237,271)	58,237,271
Maximum for the year	(66,751,867)	66,751,867
Minimum for the year	(37,261,561)	37,261,561
Impact on net income from interests		
2017	49,134,684	(49,134,684)
Average for the year	47,428,040	(47,428,040)
Maximum for the year	50,234,583	(50,234,583)
Minimum for the year	43,821,001	(43,821,001)
2016	46,157,686	(46,157,686)
Average for the year	42,558,332	(42,558,332)
Maximum for the year	46,157,686	(46,157,686)
Minimum for the year	38,891,454	(38,891,454)

(1) According to the nature of the instruments on demand, the sensitivity of annual income and expenses to a decrease or increase in rates for currencies with rates below 1% is measured using a variation of 25 basis points.

(d) Operational risk

The Bank has established a minimum framework for operational risk management within its companies, which is intended to provide general guidelines to ensure the identification, assessment, control, monitoring and reporting of operational risks and materialized events that may affect the organization with the objective of ensuring the proper management, mitigation or reduction of the managed risks and contributing to provide a reasonable assurance with respect to the achievement of organizational objectives.

(4) Risk Management, continued

The operational risk management model considers best practices issued by the Basel Committee on Banking Supervision and by COSO (Committee of Sponsoring Organizations of the Treadway Commission). In addition, it complies with the regulatory requirements of the region, which have been defined by the regulators of the countries where the Bank operates.

Based on the above, operational risk is defined as the possibility that the events resulting from personnel, information technologies or inadequate or failed internal processes, or produced by external causes, generate negative impacts that go against the objectives. By its nature, it is present in all of the organization's activities.

The priority of the Bank is, therefore, identifying and managing the major risk factors, regardless of whether they can produce monetary losses. The measurement also contributes to the establishment of priorities in the management of operational risk.

The operational risk management system is properly documented in the Operational Risk Guideline and Manual. It is a continuous process with several stages:

- Measurement of the perspective of control environment
- Identification and assessment of operational risks
- Treatment and mitigation of operational risks
- Risk monitoring and review
- Registration and accounting of losses due to operational risk incidents

Additionally, the Bank has policies formally established for the management of information security, business continuity, fraud prevention and code of ethics that support the proper management of operational risks in the organization.

At the regional level and in all countries where the Bank operates, there is an operational risk management unit that monitors, advises and assesses the management conducted by the Administration with regard to operational risks. In addition, there is a specialized operational risk committee (OR Committee) composed of senior management. The OR Committee reports to the Comprehensive Risk Management Committee, monitors management and ensures that identified operational risks are kept at accepted levels by the organization.

Compliance with the Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit, which reports the results to the Internal Audit Committee of each entity where the Bank operates.

(5) Critical Accounting Estimates and Judgments in the Implementation of 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.

Loan Impairment Losses

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 consolidated statement of 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, 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 credit risk similar characteristics and objective evidence of impairment.

Fair Value of Financial Instruments

Fair value of financial instruments that are not quoted on active markets are determined using valuation techniques. When valuation techniques (for example, models) are used to determine the fair values, they are validated and reviewed periodically by qualified independent personnel from the field that created them. All models are evaluated and adjusted before use, and the models are calibrated to ensure that the results reflect current information and comparative market prices. To the extent possible, models only use observable information; however, areas such as credit risk (own and by the counterparty), volatilities and correlations require estimates prepared by the management.

Impairment of Financial Investments Available for Sale

The Bank determines that investments in equity instruments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination as significant or prolonged requires judgment.

In addition, in debt instruments the impairment may be appropriate when there is evidence of impairment in the financial health of the issuer, industry or sector performance, changes in technology, and operational and financial cash flows.

Goodwill Impairment

The Bank will determine whether goodwill is impaired annually or when there is indication of possible impairment.

This requires an estimate of the value in use of CGUs to which the goodwill value is attributed. The estimate of the value in use requires management to consider the expected cash flows from CGUs and also the selection of an appropriate discount rate to calculate the current value of such cash flows.

(5) Critical Accounting Estimates and Judgments in the Implementation of Accounting Policies, continued

Fair Value of Derivative Instruments

Fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. All models are evaluated and adjusted before use, and the models are calibrated to ensure that the results reflect current information and comparative market prices.

To the extent possible, models only use observable information; however, areas such as credit risk (own and by the counterparty), volatilities and correlations require estimates by Management. Changes in assumptions about these factors may affect the reported fair value of financial instruments.

Income Tax

The Bank uses the asset and liability method to record income tax. Under this method, the deferred tax assets and liabilities are recognized by the estimates of future tax consequences attributable to temporary differences between the amounts of assets and liabilities in the consolidated financial statements and their respective tax bases and due to accumulated tax losses. The deferred tax assets and liabilities are valued using the enacted tax rates that are expected to be applied to the tax revenue for the years in which they are expected to be recovered or temporary differences are settled. The effect on deferred tax assets and liabilities by a change in tax rates is recognized in the operation results in the year in which the change occurs.

Management regularly assesses the realization of deferred tax assets for it recognition. Management evaluates whether it is more likely than not that a portion or all deferred tax assets are not realizable.

(6) Cash, Cash Equivalents and Deposits

Cash and cash equivalents are listed below for reconciliation purposes with the consolidated statement of cash flow:

	2017	2016
Cash and cash equivalents	659,062,587	545,071,729
Securities purchased under resale agreements	18,457,658	71,358,013
Deposits in central banks	2,105,957,980	1,934,351,580
Deposits in banks and deposits due in less than 90 days	1,138,116,076	772,637,652
Cash and cash equivalents in the cash flow statement	3,921,594,301	3,323,418,974
Deposits in banks greater than 90 days and pledged	36,167,162	66,091,764
Total cash, cash equivalents and deposits in banks	3,957,761,463	3,389,510,738

During 2016, the Bank reclassified cash and cash effects for $119,336 and deposits in banks for $9,658,633 to assets classified as held for sale.

(7) Securities Purchased Under Resale Agreements

As of December 31, 2017, securities purchased under resale agreements amounted to $18,457,658 (2016: $71,358,013), which had maturity dates in January and February, 2018 (2016: January 2017) and an interest rate between 2.1% and 3.3% (2016: between 1.6% and 3.9%). These securities were guaranteed with local government bonds and corporate bonds, which amounted to $20,296,505 (2016: $74,186,967).

(8) Investments and Other Assets at Fair Value

As of December 31, 2017, investments and other assets at fair value amounted on $1,627,644,043 (2016: $1,322,607,099) are summarized as follows:

(a) *Investments and other assets at fair value through profit or loss*

The portfolio of investments in securities at fair value through profit or loss is detailed as follows:

	2017	2016
Government bonds	34,249,898	32,614,699
Derivative financial instruments (Note 26)	525,443	50,500
Mutual funds	5,501,439	0
Common Stocks	8,492,282	0
	48,769,062	32,665,199

The Bank made sales of the securities portfolio at fair value through profit or loss for a total of $8,282,702 (2016: $146,616). Net gains (losses) in securities at fair value with changes in profit or loss in the consolidated statement of income amounted to $3,432,755 (2016: ($205,510)), which include unrealized gains (losses) in securities at fair value with changes in profit or loss of $3,290,334 (2016: ($204,404)).

As of December 31, 2017 securities at fair value through profit or loss with a carrying amount of $17,193,741 (2016: $16,675,916) are used as collateral for repurchase agreements.

(b) *Investment in securities available for sale*

The portfolio of investments in securities available for sale is detailed as follows:

	2017	2016
Governments bonds		
United States of America	220,234	220,348
Other governments	1,043,364,442	827,231,504
	1,043,584,676	827,451,852
Corporate bonds	530,317,933	440,721,405
Mutual funds and capital stock	4,972,372	21,768,643
	1,578,874,981	1,289,941,900

The Bank made sales of the portfolio of securities available for sale at fair value for a total of $142,906,711 (2016: $450,600,344). These sales generate a net gain of $1,815,775 (2016: $4,282,196).

(8) Investments and Other Assets at Fair Value, continued

As of December 31, 2017, the Bank holds capital stock for an amount of $4,972,372 (2016: $9,043,497), which are held at cost as its fair value could not be reliably determined. The Bank conducts annual reviews to validate that the value of these investments had not incurred in a permanent impairment for which investment value may need to be adjusted. Capital stock held at cost does not have an active market and the Bank considers keeping them in their books.

The Bank had redemptions, maturities and prepayments for securities available for sale for $873,636,143 (2016: $909,486,550).

(9) Loans

A breakdown of the loan portfolio by type is as follows:

	2017	2016
Loans at amortized cost		
Corporate		
Corporate loans	5,586,723,979	5,113,467,617
Corporate leases, net (1)	130,224,604	130,842,172
Total corporate loans	5,716,948,583	5,244,309,789
Personal Banking and SMEs		
SMEs		
SMEs loans	671,784,423	567,546,783
SMES leases, net (1)	100,632,620	88,916,097
Total SMEs	772,417,043	656,462,880
Vehicles	920,938,340	843,084,502
Credit cards	2,779,230,212	2,500,581,208
Personals	2,072,530,501	1,985,016,141
Mortgages	3,140,291,831	2,967,354,292
Personal leases, net (1)	66,435,713	59,549,150
Total Personal Banking and SMEs	9,751,843,640	9,012,048,173
Total loans at amortized cost	15,468,792,223	14,256,357,962
(1) Total leases, net of unearned interest	297,292,937	279,307,419

The net value of the financial leases receivable is presented below:

	2017	2016
Minimum lease payments receivable	340,489,116	317,405,362
Less: Unearned interest	43,196,179	38,097,943
Minimum lease payments receivable, net	297,292,937	279,307,419
Less: allowance for loss in leases	2,623,648	1,512,218
Less: net deferred commissions	4,358,796	3,964,536
Net value of investment in finance leases	290,310,493	273,830,665

(9) Loans, continued

The following table summarizes the minimum lease payments receivable as of December 31, 2017:

Year ended December 31,	
2018	81,878,706
2019	73,131,694
2020	59,334,597
2021	42,376,350
2022 and thereafter	40,571,590
	297,292,937

During 2016, the Bank reclassified loans, net of allowance, to assets classified as held for sale for $44,146,511.

(10) Allowance for Loans Losses

The movement of the allowance for loans losses is shown below:

	2017	2016
Balance at beginning of the year	195,360,480	161,032,488
Provision charged to expenses	309,173,232	244,841,043
Provision from discontinued operations	0	11,606,982
Charge-offs	(349,375,611)	(283,036,037)
Recoveries	79,620,705	71,282,079
Portion reclassified to assets classified as held for sale	0	(7,790,561)
Foreign currency translation	(106,847)	(2,575,514)
Balance at year end	234,671,959	195,360,480

(11) Property, Furniture, Equipment and Improvements

Property, furniture, equipment and improvements are detailed as follows:

	2017					
	Land and buildings	Construction in progress	Vehicles	Furniture and equipment	Leasehold improvements	Total
Cost:						
As of January 1, 2017	227,612,173	7,839,912	9,166,111	348,864,170	72,231,605	665,713,971
Purchases	2,514,422	7,242,035	2,969,229	35,012,520	9,792,576	57,530,782
Sales and disposals	(1,073,051)	(134,102)	(1,908,094)	(48,548,478)	(2,341,498)	(54,005,223)
Transfers	2,834,300	(12,098,963)	0	1,314,435	7,950,228	0
Foreign currency translation	(4,653,577)	(279,131)	(149,624)	(8,161,824)	(6,232,125)	(19,476,281)
As of December 31, 2017	227,234,267	2,569,751	10,077,622	328,480,823	81,400,786	649,763,249
Accumulated depreciation:						
As of January 1, 2017	42,018,858	0	5,111,320	225,687,363	38,116,635	310,934,176
Depreciation	3,767,048	0	1,634,199	38,020,300	6,625,396	50,046,943
Sales and disposals	(1,007,178)	0	(1,481,496)	(46,641,947)	(2,212,050)	(51,342,671)
Transfers	0	0	0	(81,436)	81,436	0
Foreign currency translation	(669,448)	0	(69,193)	(4,971,563)	38,542	(5,671,662)
As of December 31, 2017	44,109,280	0	5,194,830	212,012,717	42,649,959	303,966,786
Net balance	183,124,987	2,569,751	4,882,792	116,468,106	38,750,827	345,796,463

(11) Property, Furniture, Equipment and Improvements, continued

	2016					
	Land and buildings	Construction in progress	Vehicles	Furniture and equipment	Leasehold improvements	Total
Cost:						
As of January 1, 2016	217,982,454	13,227,617	20,804,718	334,556,368	68,624,073	655,195,230
Purchases	7,041,806	13,930,624	1,925,698	38,637,009	2,787,490	64,322,627
Sales and disposals	(904,111)	(117,134)	(1,943,046)	(15,020,017)	(3,114,095)	(21,098,403)
Transfers	9,670,574	(18,307,325)	0	2,381,463	6,255,288	0
Portion reclassified to assets classified as held for sale	0	0	(11,510,260)	(3,436,141)	(841,650)	(15,788,051)
Foreign currency translation	(6,178,550)	(893,870)	(110,999)	(8,254,512)	(1,479,501)	(16,917,432)
As of December 31, 2016	227,612,173	7,839,912	9,166,111	348,864,170	72,231,605	665,713,971
Accumulated depreciation:						
As of January 1, 2016	39,240,908	0	8,367,807	210,758,794	36,605,961	294,973,470
Depreciation	4,007,402	0	1,712,938	36,778,682	5,417,852	47,916,874
Depreciation from discontinued operations	0	0	18,290	768,931	83,273	870,494
Sales and disposals	(160,505)	0	(1,268,180)	(13,543,581)	(2,303,139)	(17,275,405)
Portion reclassified to assets classified as held for sale	0	0	(3,716,129)	(3,436,141)	(841,650)	(7,993,920)
Foreign currency translation	(1,068,947)	0	(3,406)	(5,639,322)	(845,662)	(7,557,337)
As of December 31, 2016	42,018,858	0	5,111,320	225,687,363	38,116,635	310,934,176
Net balance	185,593,315	7,839,912	4,054,791	123,176,807	34,114,970	354,779,795

During 2016, the Bank reclassified on asset to assets classified as held for sale in the amount of $7,794,131, which presented an impairment of $5,541,567, for a net effect of $2,252,564.

(12) Goodwill and Intangible Assets

Changes in the carrying value of goodwill are as follows:

	2017	2016
Goodwill		
Balance at the beginning of the year	335,141,584	335,438,167
Foreign currency translation	(312,830)	(296,583)
Balance at year end	334,828,754	335,141,584

As of December 31, 2017 no impairment in the cash-generating units has been recorded. The fair value of the cash-generating units exceeds the carrying amount plus goodwill; therefore, no impairment loss was recorded.

The recoverable amounts of the CGUs of the Bank have been calculated based on their value in use. The value in use of the CGUs is determined by discounting the future cash flows expected to be generated from the continuing use of the each unit.

Calculation of value in use is based on the following basic assumptions:

	2017	2016
Discount rate	10.8%	12.8%
Terminal value (growth rate)	3%	3%

(12) Goodwill and Intangible Assets, continued

The discount rate after taxes used to discount the dividend flows reflects the specific risks relating to the CGUs and has been estimated taking into account the risk profile of each of the different markets in which the Bank operates.

A 10-year projection was carried out, considering that once this period has passed, the maturity of the businesses and the consequent stabilization of the cash flows will be achieved. Macroeconomic and business assumptions were also used for each of the countries where it operates, in order to reflect the reality that each market provides to all CGUs.

When estimating the terminal value, the normalized flow of funds has been projected in perpetuity, adjusted in accordance with the growth expectations. This projection does not exceed the average long-term growth rate for the economy in each of the countries in which the Bank operates; for this reason, an average annual long-term growth rate of 3.0% was estimated (2016: 3.0%).

The main assumptions described above may change as economic and market conditions change. The Bank estimates that the reasonably possible changes in these assumptions do not affect the recoverable amount of the CGUs or that they decrease below the CGUs carrying values.

The gross balance of the carrying amount and the accumulated amortization for each intangible asset acquired by the Bank subject to amortization as of December 31, 2017 is presented below:

	2017						
	Core deposit intangible	Credit card relationships	Merchants relationships	Customer relationships	Trade name	Software	Total
Cost:							
As of January 1, 2017	23,562,882	16,796,043	739,999	12,483,658	1,508,187	81,026,341	136,117,110
Acquisitions	0	0	0	0	0	12,681,875	12,681,875
Disposals	0	0	(230,000)	0	(383,237)	(6,995,704)	(7,608,941)
Foreign currency translation	0	(257,570)	0	(15,575)	(36,226)	(1,689,320)	(1,998,691)
As of December 31, 2017	23,562,882	16,538,473	509,999	12,468,083	1,088,724	85,023,192	139,191,353
Accumulated amortization:							
As of January 1, 2017	13,808,825	13,111,915	688,103	1,607,479	383,237	52,799,215	82,398,774
Amortization	2,524,568	1,815,758	13,394	1,278,497	0	16,726,248	22,358,465
Disposals	0	0	(230,000)	0	(383,237)	(6,731,491)	(7,344,728)
Foreign currency translation	0	(168,421)	0	(3,944)	0	(1,203,826)	(1,376,191)
As of December 31, 2017	16,333,393	14,759,252	471,497	2,882,032	0	61,590,146	96,036,320
Net balance as of December 31, 2017	7,229,489	1,779,221	38,502	9,586,051	1,088,724	23,433,046	43,155,033

(12) Goodwill and Intangible Assets, continued

	2016						
	Core deposit intangible	Credit card relationships	Merchants relationships	Customer relationships	Trade name	Software	Total
Cost:							
As of January 1, 2016	23,562,882	17,045,140	739,999	12,538,853	1,542,532	73,726,652	129,156,058
Acquisitions	0	0	0	0	0	20,642,642	20,642,642
Disposals	0	0	0	0	0	(10,574,401)	(10,574,401)
Portion reclassified to assets classified as held for sale	0	0	0	0	0	(806,977)	(806,977)
Foreign currency translation	0	(249,097)	0	(55,195)	(34,345)	(1,961,575)	(2,300,212)
As of December 31, 2016	23,562,882	16,796,043	739,999	12,483,658	1,508,187	81,026,341	136,117,110
Accumulated amortization:							
As of January 1, 2016	10,419,074	11,208,744	671,593	327,690	0	50,615,568	73,242,669
Amortization	3,389,751	2,036,104	16,510	1,281,929	383,237	12,615,600	19,723,131
Amortization from discontinued operations	0	0	0	0	0	542,989	542,989
Disposals	0	0	0	0	0	(8,897,469)	(8,897,469)
Portion reclassified to assets classified as held for sale	0	0	0	0	0	(806,977)	(806,977)
Foreign currency translation	0	(132,933)	0	(2,140)	0	(1,270,496)	(1,405,569)
As of December 31, 2016	13,808,825	13,111,915	688,103	1,607,479	383,237	52,799,215	82,398,774
Net balance as of December 31, 2016	9,754,057	3,684,128	51,896	10,876,179	1,124,950	28,227,126	53,718,336

None of the intangible assets listed in the table above have residual value.

During the years ended December 31, 2017 and 2016, no impairment losses were recognized.

(13) Other Assets

The breakdown of other assets is presented in the table below:

	2017	2016
Cards and points of sale	34,520,914	24,521,976
Foreclosed assets, net	18,337,563	22,549,361
Deferred expenses	15,291,417	26,393,914
Guarantee deposits	8,509,704	8,392,759
Advances to contractors and suppliers	6,606,660	7,505,576
Other	22,938,818	31,949,182
	106,205,076	121,312,768

As of December 31, 2017, the cards and points of sale caused an amortization expense of $9,387,081 (2016: $6,783,193) reported in the consolidated statement of income.

During 2016, the Bank reclassified other assets for $1,228,039 to assets classified as held for sale.

Foreclosed assets net provision, are detailed below:

	2017	2016
Vehicles	399,808	667,137
Real estate	26,415,914	31,766,322
Foreclosed assets, gross	26,815,722	32,433,459
Allowance	(8,478,159)	(9,884,098)
Foreclosed assets, net	18,337,563	22,549,361

The Bank made sales of foreclosed assets for an amount of $17,696,179 (2016: $27,578,170).

(13) Other Assets, continued

The movement of the allowance for foreclosed assets is shown below:

	2017	2016
Balance at the beginning of the year	9,884,098	18,258,380
Provision charged to expenses	8,360,389	5,614,369
Sales	(4,199,693)	(12,489,418)
Withdrawals	(3,713,151)	(1,404,302)
Foreign currency translation	(1,853,484)	(94,931)
Balance at year end	8,478,159	9,884,098

(14) Deposits from customers

Deposits from customers are detailed below:

	2017	2016
Retail		
Demand	1,027,627,474	1,012,426,321
Savings	1,819,012,488	2,168,069,790
Time deposits	1,374,189,320	2,154,861,428
Corporate		
Demand	4,434,238,051	3,846,473,748
Savings	1,037,505,367	424,934,652
Time deposits	5,249,093,839	3,576,319,951
	14,941,666,539	13,183,085,890

As of December 31, 2017, time deposits includes the outstanding amount of the principal issued by BIB Merchant Voucher Receivables Limited, a consolidated special purpose vehicle ("SPV"), which amounted to $350,000,000. The origination costs pending amortization from the certificates amounted to $4,726,321 as of December 31, 2017. Certificates issued by this vehicle are secured by future cash flows from merchant vouchers originating in Panama. The merchant vouchers are those generated by credit cardholders issued by third-party international financial institutions, under Visa and MasterCard credit programs, which are processed by the Bank. The certificates pay interest in January, April, July and October at a fixed interest rate of 4.08%. Amortizations to principal will begin, through Citibank N.A., in January 2021. The certificates have an average original duration of 7.0 years. As of December 31, 2017, the weighted average duration of the certificates is 6.27 years.

(15) Financial Obligations

Financial obligations are detailed below:

	2017		
	Interest rate	Maturities up to	Carrying amount
Payable in US dollars:			
Fixed rate	1.82% to 9.00%	2028	1,615,849,066
Floating rate	1.98% to 11.91%	2031	1,214,137,757
Payable in quetzales (Guatemala):			
Fixed rate	6.40% to 6.50%	2019	160,658,537
Floating rate	5.78% to 9.20%	2021	5,712,004
Payable in lempiras (Honduras):			
Fixed rate	1.00% to 15.00%	2037	128,505,838
Payable in colones (Costa Rica):			
Floating rate	6.30% to 13.32%	2031	50,660,808
			3,175,524,010

(15) Financial Obligations, continued

	2016		
	Interest rate	**Maturities up to**	**Carrying amount**
Payable in US dollars:			
Fixed rate	1.50% to 9.00%	2028	1,650,375,771
Floating rate	1.34% to 9.45%	2031	1,281,889,446
Payable in quetzales (Guatemala):			
Fixed rate	6.40% to 6.50%	2017	47,858,785
Floating rate	5.78% to 9.33%	2021	7,918,434
Payable in lempiras (Honduras):			
Fixed rate	1.00% to 15.00%	2036	128,448,757
Payable in colones (Costa Rica):			
Fixed rate	8.85% to 9.50%	2018	69,965
Floating rate	5.10% to 13.21%	2031	73,066,476
			3,189,627,634

As of December 31, 2017, the outstanding amount of the principal issued by CIC Receivables Master Trust, a consolidated special purpose vehicle, amounted to $263,625,811 (2014-A Series) (2016: $321,905,383). The origination costs pending amortization from the certificates amounted to $2,832,673 as of December 31, 2017 (2016: $3,571,631). Certificates issued by this vehicle are secured by future cash flows from merchant vouchers originating in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The merchant vouchers are those generated by credit cardholders issued by third-party international financial institutions, under Visa and MasterCard credit programs, which are processed by the Bank. The certificates pay interest in January, April, July and October at a fixed interest rate of 4.89%. Amortizations to the principal will begin in July, 2016. The certificates have an average original duration of 5.00 years. As of December 31, 2017, the weighted average duration of the certificates is 2.19 years.

As of December 31, 2017, the outstanding amount of the principal issued by CIC Central American Card Receivables Limited, a consolidated special purpose vehicle, amounted to $262,379,367 (2016: $311,839,067), comprising two programs: 1) 2013-A Series with a balance of $162,379,367 (2016: $211,839,067) and 2) 2016-A Series with a balance of a $100,000,000 (2016: $100,000,000). Origination costs pending amortization from the certificates amounted to $2,979,737 as of December 31, 2017 (2016: $3,756,013). The certificates issued for the vehicle are secured by future cash flows arising from transactions in affiliated merchants in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Transactions in affiliated merchants are those that are generated by the cardholders of credit cards issued by third-party international financial institutions, under American Express' credit programs that are processed by the Bank. The 2013-A certificates pay interest quarterly in February, May, August and November at a fixed interest rate of 4.50%. Principal Amortization to principal started to be paid to certificate holders in August 2015. The certificates have an original average duration of 4.99 years. As of December 31, 2017, the weighted average duration of the certificates is 1.66 years. The 2016-A certificates pay interest quarterly in February, May, August and November at a fixed interest rate of 3.69%. Amortizations to the principal will start in February, 2020. The certificates have an original average duration of 7.00 years. As of December 31, 2017, the weighted average duration of the certificates is 5.50 years.

(15) Financial Obligations, continued

On December 2013, BAC International Bank, Inc. signed a subordinated loan (in right of payment to all other ordinary loans) Aval Group Limited for US $180 million, which has an expiration date of March 20, 2021, for a total period of 8 years. The principal of this loan must be paid in a single payment of principal at maturity, and interest must be paid quarterly starting in March 2014, based on a fixed rate of 7.71%.

As of December 31, 2017, the outstanding amount of the principal issued by BAC San Jose DPR Funding Limited, a consolidated special purpose vehicle (here in after SPV), amounted to $161,333,332 (2016: $197,833,333) divided into two programs: 1) Series 2014-1 with a balance of $33,333,332 (2016: $45,833,333), and 2) Series 2014-2 with a balance of $128,000,000 (2016: $152,000,000). Origination costs pending amortization from the certificates amounted to $1,301,891 as of December 31, 2017 (2016: $1,705,426). The notes issued by the SPV are secured by the current and future Diversified Payment Rights denominated in US dollars, originated by a Bank's subsidiary and sold to the SPV. The Series 2014-1 notes pay interest quarterly in February, May, August and November at an interest rate of three-month U.S. Dollar LIBOR plus a margin of 2.50%. The Series 2014-1 have an original average duration of 3.60 years. As of December 31, 2017, the weighted average duration of the notes is 1.01 years. The Series 2014-2 notes pay interest in February, May, August and November at a fixed interest rate of 4.50%.The Series 2014-2 notes have an original average term of 4.60 years. As of December 31, 2017, the weighted average duration of the notes is 2.03 years.

The Bank has had no defaults of principal, interest or other contractual clauses concerning its financial obligations.

(16) Other Financial Obligations

The Bank has placed, through its subsidiaries and through the stock markets of El Salvador, Guatemala, Honduras, and Nicaragua, debt certificates with fixed and variable rates, which are described below:

	2017		2016	
Payable in:	Interest rate	Carrying amount	Interest rate	Carrying amount
US dollars	4.74% to 6.00%	219,313,294	4.25% to 6.00%	236,453,039
Quetzales	4.50% to 8.50%	129,858,852	4.50% to 8.50%	176,910,503
Lempiras	8.67% to 9.50%	44,911,319	9.04% to 10.50%	13,766,921
		394,083,465		427,130,463

The Bank has had no defaults of principal, interest or other contractual clauses concerning its other financial obligations.

(17) Other Liabilities

The breakdown of other liabilities is presented in the table below:

	2017	2016
Accounts payable to merchants	82,889,408	64,373,207
Checks issued but not cashed	79,873,185	61,893,879
Collections	76,691,557	57,467,052
Employee benefits	65,680,575	58,496,380
Money orders payable	61,677,303	44,565,014
Loyalty programs	41,681,242	41,268,619
Accounts payable to suppliers	27,324,750	60,294,400
Commissions payable	17,681,719	13,207,852
Other accounts payable	13,313,334	38,736,466
Legal contributions to state institutions	7,055,343	8,978,957
Insurance premiums	4,338,073	4,324,716
Unallocated payments to accounts receivable	2,260,722	3,588,645
Sales tax payable	1,416,303	6,545,019
Withholdings taxes collected	784,803	14,452,592
Other	115,119,204	64,710,856
	597,787,521	542,903,654

During 2016, the Bank reclassified other liabilities for $7,702,704 to liabilities classified as held for sale.

(18) Common Stock

The authorized capital in stock of the Bank is represented by 850,000 authorized stock and 834,708 issued and outstanding stock (2016: 850,000 authorized stock and 834,708 issued and outstanding stock), with a nominal value of $1,000 per share.

(19) Other Comprehensive Loss

The following table presents the components and changes in other accumulated comprehensive loss as of December 31, 2017 and 2016:

	Conversion of Operations in Foreign Currency	Unrealized Income (loss) from Securities	Derivatives for Cash Flow Hedges	Employee Benefits Plan – Change in Actuarial Effect	Total Other Accumulated Comprehensive Loss
Balance as of December 31, 2015	(170,634,465)	973,731	(392,067)	0	(170,052,801)
Other (loss) income before reclassifications	(47,157,857)	1,023,472	392,067	0	(45,742,318)
Reclassified amounts from other comprehensive loss	4,180,941	(4,048,799)	0	0	132,142
Other net comprehensive (loss) income for the year	(42,976,916)	(3,025,327)	392,067	0	(45,610,176)
Balance as of December 31, 2016	(213,611,381)	(2,051,596)	0	0	(215,662,977)
Other (loss) income before reclassifications	(33,096,746)	(1,258,812)	0	(965,956)	(35,321,514)
Reclassified amounts from other comprehensive loss and related to assets held for sale	0	(1,780,620)	0	0	(1,780,620)
Other net comprehensive loss for the year	(33,096,746)	(3,039,432)	0	(965,956)	(37,102,134)
Balance as of December 31, 2017	(246,708,127)	(5,091,028)	0	(965,956)	(252,765,111)

The following table presents the breakdown of other comprehensive (loss) income reclassified to the consolidated statement of income for the year ended December 31, 2017:

	Reclassified balance of Other Comprehensive Losses 2017	2016	Line of the Consolidated Statement of Income affected
Available for sale investments			
Unrealized net income from securities	(1,815,775)	(4,282,196)	Other income
Income tax	35,155	233,397	Income tax expense
Sub-total	(1,780,620)	(4,048,799)	
Assets held for sale	0	3,785,137	Loss on foreign currency exchange, net
Total reclassifications	(1,780,620)	(263,662)	

(20) Income from Financial Instruments, Net

Income from financial instruments, net, included in the consolidated statement of income is summarized below:

	2017	2016
Unrealized net income (loss) from securities at fair value through profit or loss	3,290,334	(204,404)
Net income from the sale of available for sale securities	1,815,775	4,282,196
Net income (loss) from the sale of securities at fair value through profit or loss	142,421	(1,106)
Loss on mortgage loans at fair value	(35,478)	(244,759)
Net fair value on derivative financial instruments	(123,550)	(11,909)
	5,089,502	3,820,018

(21) Other Income

Other income included in the consolidated statement of income is summarized below:

	2017	2016
Services to affiliates	15,803,600	14,017,508
Other non-banking commissions	8,936,402	6,407,254
Commercial recoveries	5,652,751	4,497,388
Gain on sale of foreclosed assets	3,928,320	4,269,791
Other income of associates	1,152,027	1,171,822
Non-banking commission for leasing	624,932	462,117
Rentals	618,971	427,444
Gain on sale of assets	323,600	187,124
Loan appraisals	285,699	1,270,155
Other	5,616,485	7,663,099
	42,942,787	40,373,702

(22) Salaries and Other Personnel Expenses

The breakdown of salaries and other personnel expenses is presented below:

	2017	2016
Salaries and other remuneration	327,154,657	328,461,607
Employee benefits	156,438,213	149,698,959
Compensations	13,466,084	14,658,297
Other	5,459,980	5,878,492
	502,518,934	498,697,355

(23) Other Operating Expenses

Other expense included in the consolidated statement of income is summarized below:

	2017	2016
Credit card franchises	58,087,613	48,692,383
Advertising and marketing	46,557,713	42,491,482
Other taxes	29,249,989	28,469,152
Technological and licenses maintenance	28,858,656	24,968,530
Equipment and vehicle maintenance	24,865,547	24,243,602
Armored services	16,058,779	14,777,051
Telephone service	13,464,522	13,293,374
Security services	12,207,949	12,211,439
Dedicated lines	11,900,011	11,027,789
Guarantee deposits	11,763,787	10,604,266
Bank licenses	11,200,653	10,682,277
Operational losses	8,390,288	5,631,737
Travel expenses	8,134,114	9,293,449
Office supplies	8,123,522	8,576,058
Municipal taxes and patents	6,935,563	6,064,998
Postage and courrier	4,244,512	5,043,858
Other	48,967,097	49,068,866
	349,010,315	325,140,311

(24) Income Taxes

Income tax expense consists of:

	2017	2016
Current	129,600,605	132,859,577
Deferred	25,444,354	1,342,595
	155,044,959	134,202,172

Income tax expense for the year ended December 31, 2017 was $155,044,959 (2016: $134,202,172), which differed from the amounts computed by applying the current statutory income tax rate to pretax consolidated earnings as a result of the following:

	2017	2016
Computed "expected" income tax expense	134,114,314	125,053,805
Increase (decrease) in income taxes resulting from:		
Nondeductible expenses	30,400,206	24,073,104
Investments in foreign subsidiaries	11,038,108	(9,834,385)
Changes in uncertain tax positions	8,116,277	6,107,728
Foreign income taxes rate differential	182,898	(811,749)
Tax incentives	(909,479)	9,012,025
Exempt and foreign source income	(27,897,365)	(19,398,356)
Income tax expense	155,044,959	134,202,172

(24) Income Taxes, continued

Temporary differences between the consolidated financial statements carrying amounts and the tax basis of assets and liabilities that give rise to the deferred tax assets and liabilities as of December 31, 2017 are as follows:

	2017					
	Balance at beginning of the year	Recognized in profit or loss	Recognized in other comprehensive income	Balance at year's end	Deferred tax assets	Deferred tax liabilities
Accrued expenses	1,725,879	(1,013,587)	413,370	1,125,662	8,483,936	(7,358,274)
Market value acquisition adjustment	1,638,152	1,196,705	0	2,834,857	4,703,146	(1,868,289)
Foreclosed assets	313,959	148,636	0	462,595	918,002	(455,407)
Unrealized net loss on securities available for sale	224,859	0	1,269,599	1,494,458	1,494,458	0
Mortgage portfolio at fair value	73,428	10,643	0	84,071	84,071	0
Deferred expenses	57,527	309,330	0	366,857	660,026	(293,169)
Investments at cost	16,903	(805)	0	16,098	16,098	0
Net loss from the sale of securities	10,841	51,473	0	62,314	62,314	0
Net operating tax loss	0	236,748	0	236,748	236,748	0
Foreign currency translation	0	(995,541)	995,541	0	0	0
Net income from the sale of securities	(74,335)	(296,548)	0	(370,883)	0	(370,883)
Unrealized net gain on securities available for sale	(1,211,466)	0	664,261	(547,205)	0	(547,205)
Origination costs and fees	(1,911,611)	136,304	0	(1,775,307)	1,308,278	(3,083,585)
Leasing	(2,364,772)	(715,702)	0	(3,080,474)	470,721	(3,551,195)
Allowance for loan losses	(4,080,046)	(14,640,253)	0	(18,720,299)	18,666,581	(37,386,880)
Investments in foreign subsidiaries, for undistributed earnings	(6,604,132)	(9,884,753)	0	(16,488,885)	0	(16,488,885)
Accrued interest receivable	(7,889,842)	(1,762,923)	0	(9,652,765)	206,520	(9,859,285)
Net premises and equipment depreciation difference	(16,374,523)	1,775,919	0	(14,598,604)	180,164	(14,778,768)
Net deferred tax assets (liabilities)	(36,449,179)	(25,444,354)	3,342,771	(58,550,762)	37,491,063	(96,041,825)
Tax compensation					(20,868,103)	20,868,103
Total					16,622,960	(75,173,722)

	2016						
	Balance at beginning of the year	Recognized in profit or loss	Recognized in other comprehensive income	Portion reclassified to assets classified held for sale	Balance at year's end	Deferred tax assets	Deferred tax liabilities
Accrued expenses	3,947,915	(1,556,252)	0	(665,784)	1,725,879	7,625,487	(5,899,608)
Market value acquisition adjustment	1,234,990	403,162	0	0	1,638,152	4,082,109	(2,443,957)
Foreclosed assets	704,934	(390,975)	0	0	313,959	943,353	(629,394)
Unrealized net loss on securities available for sale	159,112	0	65,747	0	224,859	224,859	0
Mortgage portfolio at fair value	0	73,428	0	0	73,428	73,428	0
Deferred expenses	(129,469)	186,996	0	0	57,527	278,095	(220,568)
Investments at cost	0	16,903	0	0	16,903	16,903	0
Net loss from the sale of securities	0	10,841	0	0	10,841	10,841	0
Net operating tax loss	1,755	(1,755)	0	0	0	0	0
Foreign currency translation	0	203,103	(374,947)	171,844	0	0	0
Net income from the sale of securities	0	(74,335)	0	0	(74,335)	0	(74,335)
Unrealized net gain on securities available for sale	(1,563,886)	0	352,420	0	(1,211,466)	0	(1,211,466)
Origination costs and fees	(925,038)	(1,085,849)	0	99,276	(1,911,611)	1,379,736	(3,291,347)
Leasing	(1,472,877)	(891,895)	0	0	(2,364,772)	378,254	(2,743,026)
Allowance for loan losses	(3,605,082)	(490,158)	0	15,194	(4,080,046)	12,991,765	(17,071,811)
Investments in foreign subsidiaries, for undistributed earnings	(11,391,290)	4,787,158	0	0	(6,604,132)	0	(6,604,132)
Accrued interest receivable	(7,060,161)	(829,681)	0	0	(7,889,842)	171,100	(8,060,942)
Swaps' mark to market	(41,713)	0	0	41,713	0	0	0
Net premises and equipment depreciation difference	(14,256,596)	(1,703,286)	0	(414,641)	(16,374,523)	131,937	(16,506,460)
Net deferred tax assets (liabilities)	(34,397,406)	(1,342,595)	43,220	(752,398)	(36,449,179)	28,307,867	(64,757,046)
Tax compensation						(17,265,834)	17,265,834
Total						11,042,033	(47,491,212)

The Bank's management performed offsetting of the deferred tax assets and liabilities that derive from income tax corresponding to the same tax jurisdiction in the consolidated statement of financial position.

(24) Income Taxes, continued

As of December 31, 2017, the Bank has incurred in net operating tax loss carry forwards of $12,585,207 (2016: $12,557,671), which are available to offset future taxable income of the applicable subsidiaries. The net operating losses begin to prescribe in 2029 and through 2035.

As of December 31, 2017, the Bank has not recognized a deferred income tax liability of approximately $172,368,000 for undistributed earnings from foreign subsidiaries operations, because the Bank believes that $1,359,004,000 of these profits will be reinvested for an indefinite period.

The Bank's earnings are taxed in various jurisdictions. As of December 31, 2017, the Bank had unrecognized tax positions for $23,278,528 (2016: $18,135,726). Interest expense and penalties related to income tax liabilities and recognized as part of income tax expenses for the year ended December 31, 2017 amounted to $3,766,857 (2016: $2,433,968). As of December 31, 2017, total interest and penalties expenses included in other liabilities amounted to $1,963,283 (2016: $2,405,018).

As of December 31, 2017, the Bank maintains an effective tax rate of 28.9% (2016: 26.8%).

The following are the major tax jurisdictions in which the Bank and its affiliates operate and the latest tax year subject to examination: United States of America: 2014, Guatemala: 2013, El Salvador: 2014, Honduras: 2012, Nicaragua: 2013, Costa Rica: 2012 and Panama: 2014.

(25) Off-Balance Sheet Financial Instruments and Other Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include, principally, commitments to extend credit, financial guarantees and letters of credit, the balances of which are not reflected in the accompanying consolidated balance sheets.

Letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Those letters of credit are primarily used to support trade transactions and borrowing arrangements. Generally, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

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.

(25) Off-Balance Sheet Financial Instruments and Other Commitments, continued

As of December 31, 2017 the Bank had outstanding revolving lines available to its credit card customers in each of the various countries of operation that ranged from approximately $409 million to $2,375 million (2016: from $374 million to $1,971 million). The unused portion of the total amount available in each country, aggregated approximately from $271 million to $1,482 million (2016: from $247 million to $1,302 million). While these amounts represented the available lines of credit to customers per country, 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.

Financial guarantees are used in various transactions to enhance the credit standing of the Bank's customers. They represent irrevocable assurances that the Bank will make payment in the event that the customer fails to fulfill its obligations to third parties.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. As of December 31, 2017, outstanding letters of credit and financial guarantees are as follows:

	2017	2016
Stand-by letters of credit	165,541,011	124,503,265
Commercial letters of credit	42,364,482	54,084,114
Financial guarantees	297,748,698	289,797,848
Loan commitment (1)	101,243,014	86,288,172
	606,897,205	554,673,399

(1) Include promise of payment commercial and mortgages.

The nature, terms and maximum potential amount of future payments the Bank could be required to make under the standby letters of credit and guarantees as of December 31, 2017, are detailed as follows:

	2017	2016
Up to 1 year	476,135,931	422,626,533
Over 1 year	88,396,792	77,962,752
	564,532,723	500,589,285

Generally, the Bank has resources to recover from clients the amounts paid under these guarantees; additionally, the Bank can hold cash or other collateral to cover for these guarantees. As of December 31, 2017, the assets held as collateral, that the Bank can obtain and liquidate to recover totally or partially the amounts paid under guarantees amounted to $80,309,384 (2016: $79,575,201).

Other Commitments

During 2008, the Bank entered into a sale and leaseback of $23,400,000 of an aircraft, which have been classified as an operating lease. Rental expense for the year ended December 31, 2017 of this lease was $944,359 (2016: $872,376). This contract was cancelled in 2017.

(25) Off-Balance Sheet Financial Instruments and Other Commitments, continued

The Bank also has several non-cancelable operating leases, primarily for branches and offices spaces that expire over the next ten years. These leases generally contain renewal options for years ranging from three to five years and require the Bank to pay exentory all costs such as maintenance and insurance. Rental payments include minimum rentals plus contingent rentals.

Minimum rental payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases for the year ended in December 31, 2017, amounted to $41,239,991 (2016: $39,983,609).

Minimum lease payments under operating leases for each of the next five years from December 31, 2017, are presented as follows:

Year	Amount
2018	39,531,887
2019	21,096,746
2020	18,199,905
2021	17,735,343
2022	14,913,842
Thereafter	36,868,812
	148,346,535

(26) Derivative Financial Instruments

In the normal course of business, the Bank uses derivative financial instruments from interest rates and exchange rates primarily for economic and accounting hedging purposes in managing the consolidated financial position. The Bank does not use derivative instruments for speculation.

The fair value of the derivative instruments is included in other assets and other liabilities in the consolidated statement of financial position. The net change in derivative hedging instruments is reflected in the consolidated statements of comprehensive income. The net change in non-hedging derivatives is reflected in other income for the year.

The Bank uses interest rate swaps, caps and floors to mitigate the exposure to interest rates. Additionally, the Bank uses exchange rate derivatives, which are negotiated over-the-counter ("OTC"). These contracts are executed between two counterparties negotiating specific terms in the agreement, among which is the notional amount, the exercise price and the date of expiration and settlement.

(26) Derivative financial instruments, continued

As of December 31, 2017, the Bank does not have derivative contracts outstanding. The notional amounts and estimated fair values of foreign exchange and interest rate derivative contracts outstanding at December 31, 2016 are presented in the following table. The fair values of derivative contracts are estimated utilizing internal valuation models with observable market data inputs.

2016	Remaining notional value maturities				Fair value	
	Less than 3 months	3 months to 1 year	More than 1 year	Total	Assets	Liabilities
Freestanding derivatives						
Interest rate swaps	0	1,171,428	0	1,171,428	0	2,321
Interest rate cap	0	0	10,514,286	10,514,286	50,500	0
	0	1,171,428	10,514,286	11,685,714	50,500	2,321

For freestanding derivative instruments, gains and losses due to changes in fair value are included in other income (expense) in net financial instruments.

Net losses from non-hedging derivatives reported in other income amounted $123,550 for the year ended December 31, 2017 (2016: $11,909). Accrued interest expense related to non-hedging derivatives for the year ended December 31, 2017 amounted $2,202 (2016: $15,600).

Derivative instrument contracts contemplate the risk of negotiating with institutional derivatives counterparties, and their ability to comply with contractual terms. The credit exposure of the Bank to interest rate swaps is limited to the favorable net value and the interest payment of the swaps for each counterparty.

As of December 31, 2017, the Bank has recorded embedded currency derivatives, recognized in operating lease agreements that are agreed in currencies other than the functional currency of the countries in which it operates. The following table summarizes the embedded currency derivatives:

	2017
Assets	525,443
Liabilities	604,078

(27) Disclosures on the Fair Value of Financial Instruments

The Bank established a process for determining the fair value. The fair value is primarily based on quoted market prices, when available. If market prices or quotes are not available, fair value is determined based on internally developed models that primarily use market information or other information obtained as inputs regardless of market parameters, including but not limited to yield curves, interest rates, debt prices, foreign exchange rates and credit curves. However, in situations where there is little or no market activity for the asset or liability at the measurement date, the fair value measurement reflects the Bank's own judgments about assumptions that market participants would use in setting the price of the asset or liability

(27) Disclosures on the Fair Value of Financial Instruments, continued

The judgments are developed by the Bank based on the best information available in the circumstances, including expected cash flows, discount rates adjusted for risks and the availability of observable and unobservable inputs.

The methods described above can generate fair value estimates that may not be indicative of the net realizable value or that do not reflect future values. In addition, while the Bank believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value estimates as of the reporting date.

Financial instruments at fair value

Recurring Fair Value Measurement

The following is a description of the valuation methodologies used to value instruments carried at fair value, including a general classification of such instruments according to the fair value hierarchy.

Securities

When there are market prices in an active market, securities are classified in Level 1 of the fair value hierarchy. Level 1 securities include highly liquid bonds from the government and agencies and investments in highly traded shares.

If market prices are not available for a specific security, the fair value is determined using market prices of securities with similar characteristics or discounted cash flows, and are classified in Level 2. In certain cases where there is limited activity or less transparency in determining the assumptions used in the valuation, securities are classified in Level 3 of the fair value hierarchy.

Therefore, when valuing certain debt obligations, determining fair value may require comparisons with similar instruments or default and collection rate analysis.

Loans

When the market price information is not available for a specific loan, the fair value is usually determined using discounted cash flow models that include credit margins of comparable debt instruments based on market information. Additionally, general market conditions, including prevailing margins in the market for credit and liquidity risks, assumptions about prepayment speed, default rates and loss rates are also considered in the valuation model.

The Bank chose to report certain mortgage loans at fair value, and thus apply the same accounting basis (measured at fair value through profit or loss) of derivative instruments used as economic hedge of such loans. Interest income on these loans is recorded as interest on loans, and net gains and losses from changes in fair value are presented in other income in the consolidated statement of income. As of December 31, 2017, loans amounting to $386,587, were 90 days or more past due and were not accruing interest (2016: $563,390).

During the year ended December 31, 2017, the Bank recognized $893,650 related to interest income on loans at fair value (2016: $1,026,413) and $35,478 for the net loss resulting for changes in fair value (2016: $244,759). Gains and losses are mainly attributable to changes in interest rates.

(27) Disclosures on the Fair Value of Financial Instruments, continued

Derivatives

Most derivatives used by the Bank are executed over-the-counter and are therefore valued using valuation techniques since there are no market prices available for such instruments. The valuation techniques and the key assumptions used in the models depend on the type of derivative and the nature of the underlying instrument and include the maturity period and market parameters, such as yield curves and interest rates, the spot price of the underlying instrument, volatility, credit quality of the counterparty and correlation. In addition, many models do not contain a high level of subjectivity, since the methodologies used in the models do not require significant judgments and the assumptions of the model are directly observable from quoted prices in active markets; such as the case of simple interest rates swaps.

These instruments are generally categorized in Level 2 of the fair value hierarchy.

Assets and liabilities recorded at fair value on a recurring basis, including the financial instruments for which the Bank chose the fair value option, are summarized below:

	Other significant observable assumptions (Level 2)	Significant unobservable assumptions (Level 3)	2017
Assets			
Investments and other assets at fair value through profit or loss:			
Other governments	34,249,898	0	34,249,898
Derivative financial instruments	0	525,443	525,443
Mutual funds	5,501,439	0	5,501,439
Common stocks	0	8,492,282	8,492,282
Total investments and other assets at fair value through profit or loss	39,751,337	9,017,725	48,769,062
Investments in securities available for sale:			
Bonds from governments and agencies:			
United States of America	220,234	0	220,234
Other governments	1,043,364,442	0	1,043,364,442
	1,043,584,676	0	1,043,584,676
Corporate bonds	530,317,933	0	530,317,933
Total securities available for sale	1,573,902,609	0	1,573,902,609
Loans:			
Mortgage	0	12,518,391	12,518,391
Mortgage – past due	0	386,587	386,587
Total loans	0	12,904,978	12,904,978
Total assets	1,613,653,946	21,922,703	1,635,576,649
Liabilities			
Derivative financial instruments	0	604,078	604,078
Total liabilities	0	604,078	604,078

(27) Disclosures on the Fair Value of Financial Instruments, continued

	Other significant observable assumptions (Level 2)	Significant unobservable assumptions (Level 3)	2016
Assets			
Investments and other assets at fair value through profit or loss:			
Other governments	32,614,699	0	32,614,699
Derivatives:			
Interest rate cap	50,500	0	50,500
Total investments and other assets at fair value through profit or loss	32,665,199	0	32,665,199
Investments in securities available for sale:			
Bonds from governments and agencies:			
United States of America	220,348	0	220,348
Other governments	827,231,504	0	827,231,504
	827,451,852	0	827,451,852
Corporate bonds	440,721,405	0	440,721,405
Mutual funds	12,725,146	0	12,725,146
Total securities available for sale	1,280,898,403	0	1,280,898,403
Loans:			
Mortgage	0	14,836,947	14,836,947
Mortgage – past due	0	563,390	563,390
Total loans	0	15,400,337	15,400,337
Total assets	1,313,563,602	15,400,337	1,328,963,939
Liabilities			
Derivatives financial instruments	2,321	0	2,321
Total liabilities	2,321	0	2,321

The Bank's accounting policies include the recognition of transfers between the levels of the fair value hierarchy on the date of the event or change in the circumstances that caused the transfer.

The table below includes the movement of the figures in the consolidated balance sheet (including changes in fair value) of the financial instruments classified by the Bank within Level 3 of the fair value hierarchy, for the year ended December 31, 2017. When determining whether to classify an instrument in Level 3, the decision is based on the importance of unobservable assumptions within the overall fair value measurement.

			Loans		
2017	Common Stocks	Derivative Financial Instruments	Mortgage	Mortgage Past Due	Total
Assets					
Fair value As of December 31, 2016	0	0	14,836,947	563,390	15,400,337
Total gains included in the profit or loss for the year	3,476,363	0	(35,478)	0	3,440,885
Reclassifications of investments available for sale	5,015,919	0	0	0	5,015,919
Valuation of embedded financial derivatives	0	525,443	0	0	525,443
Settlements	0	0	(2,023,943)	(435,938)	(2,459,881)
Impairment of the year	0	0	(259,135)	259,135	0
Fair value as of December 31, 2017	8,492,282	525,443	12,518,391	386,587	21,922,703
Liabilities					
Fair value As of December 31, 2016	0	0	0	0	0
Valuation of embedded financial derivatives	0	604,078	0	0	604,078
Fair value as of December 31, 2017	0	604,078	0	0	604,078
Total unrealized losses included in the profit or loss for the year	3,476,363	0	(35,478)	0	3,440,885

(27) Disclosures on the Fair Value of Financial Instruments, continued

	Loans		
2016	Mortgage	Mortgage Past Due	Total
Fair value As of December 31, 2015	17,379,905	0	17,379,905
Total unrealized losses included in the profit or loss for the year	(170,896)	(73,863)	(244,759)
Settlements	(1,734,809)	0	(1,734,809)
Impairment of the year	(637,253)	637,253	0
Fair value as of December 31, 2016	14,836,947	563,390	15,400,337
Total unrealized losses included in the profit or loss for the year	(170,896)	(73,863)	(244,759)

Non-recurring fair value measurement

The Bank has no financial assets that are measured at fair value. Some non-financial assets that are not measured at recurring fair value are subject to fair value adjustments in certain circumstances. These assets include available for sale assets (at the time of initial recognition or subsequent impairment).

The following table presents the assets recognized at fair value on a non-recurring basis that are recognized in the consolidated balance sheet for the year ended December 31, 2017, as well as the loss in the fair value of these assets, for which the fair value adjustment has been included in the consolidated statement of income:

	Significant unobservable assumptions (Level 3)		Loss of the year	
	2017	2016	2017	2016
Foreclosed assets	7,570,939	7,909,170	8,360,389	5,614,369

Fair Value of Financial Instruments, additional disclosures

The fair value of these instruments is derived, in part, from the assumptions used by management, the amount and the estimated time of the future cash flows and estimated discount rates. Different assumptions could materially affect these fair value estimates. Therefore, the net realizable value may be materially different from the estimates presented below. In addition, estimates are only indicative of the value of an individual financial instrument and should not be considered indicative of the Bank's fair value.

The following disclosures present the financial instruments whose final balance as of December 31, 2017 is not recorded at fair value in the Bank's consolidated statement of financial position.

A description of the methods and assumptions used to estimate the fair value of the main financial instruments held by the Bank is provided below:

Financial instruments with carrying amounts that approach the fair value:

Cash and cash equivalents, deposits that bear interest and clients' obligations for acceptances and acceptances outstanding are measured at book value reported in the consolidated balance sheet, which is considered a reasonable fair value estimate due to the characteristics and maturity of these instruments.

(27) Disclosures on the Fair Value of Financial Instruments, continued

Loans

Most of the Bank's loans are not recognized at fair value on a recurring basis and are not actively traded. Fair values are estimated for certain groups of similar loans based on loan type and maturity. The fair value of these loans was determined by discounting the estimated cash flows using rates that approach the rates in effect of market participants for new loans and adjusted to reflect the inherent credit risk. This fair value does not represent a current indicator of an output price. Fair values for consumer loans (including automobile and real estate financing), for which market rates for comparable loans are available, are based on discounted cash flows adjusted for prepayments. Discount rates for consumer loans are based on current market rates adjusted for credit and other risks that are applicable to a particular asset class. The fair value of credit cards is based on expected discounted cash flows. The discount rate for credit cards include only the effects of changes in interest rates since cash flows include an adjustment for credit risk.

For doubtful loans, the cash flows are discounted using a rate that takes into consideration the recovery time and a premium for the uncertainty of the flows.

The value of the guarantees is also considered. Historical prepayment rates on loans are used to adjust the cash flows. The assumptions used are expected to approach those that a market participant would use to assess these loans.

Deposits

Deposits without defined maturity such as demand deposits, "NOW" / "Money Market" and savings accounts have a fair value that is equal to the amount payable on demand as of the reporting date, i.e., their carrying amount. The fair value of term deposits is estimated using a calculation of discounted cash flows applying current interest rates to all scheduled maturities. The assumptions used for the analysis of discounted cash flows are expected to approach those that market participants would use to evaluate these deposits.

Securities sold under repurchase agreements

There are no market price quotes for these instruments; therefore, their fair value is determined using discounted cash flow techniques. Cash flows are estimated based on the contractual terms, taking into account any incorporated derivative characteristic or other factors. Expected cash flows are discounted using market rates that approach the maturity of the instrument, as well as the nature and amount of the guarantee given or received.

Borrowings

The fair value is estimated based on current interest rates for debt with similar and adjusted maturities to reflect the credit rating of the Bank and its guarantees.

Other borrowed funds

Fair value is estimated based on the market price quotes for the same issuance or similar issuances or on the current rates offered by the Bank for debts with the same terms, adjusted for credit quality.

(27) Disclosures on the Fair Value of Financial Instruments, continued

The table below describes the valuation techniques and input data used in the financial instruments' recurring fair value measurements:

Financial Instrument	Valuation Technique and Entry Data Used	Level
Corporate bonds and bonds issued by the government and agencies	Consensus prices obtained from price providers (Bloomberg). For part of these instruments the Bank applies cash flows discounted using a market rate of an instrument with a similar remaining maturity. Market prices for suppliers or local regulators in markets with lower marketability.	(2,3)
Common stocks	Discounted cash flows using a capital cost rate adjusted for size premium.	(3)
Mutual funds	Net Asset Value.	(2)
Financial instruments derived from rates	Discount of future net flows. The fixed part of the flow is determined based on the "fixed portion" of each derivative according to contractual conditions; the variable part of the flow is determined according to the LIBOR rate projected in the Bloomberg system.	(2)
Financial instruments derived from currency	Estimated net future cash flows considering the exchange rate agreed against the forward exchange rate calculated by Bloomberg.	(2)
Embedded financial derivative instruments	Functional currency cash flows Foreign currency cash flows Profitability rates Currency exchange rates	(3)

Below are described the valuation techniques and significant unobservable input data used in determining the fair value of recurring and nonrecurring assets and liabilities categorized within Level 3 of the fair value hierarchy that are recognized in the consolidated balance sheet as of December 31, 2017:

2017		Quantitative information of Level 3 fair values		
	Fair Value	Valuation Technique	Unobservable Assumptions	Range (weighted average)
Common stocks	8,492,282	Discounted cash flows	Increase annual rate	10% - 15%
Derivatives financial instruments	Assets: 525,443 Liabilities: 604,078	Discounted cash flows	Embedded exchange rate	Based on each contract
Recurring loans	12,904,978	Discounted cash flows (if there is no collateral)	Annual prepayment rate	5% - 15% (10%)
Foreclosed assets	7,570,939	Valuations adjusted for age range and cost of sales	Age ranges	Movable property: 0 to 29 months, 20% 30 to 47 months, 30%-80% after 47 months, 100% Immovable property: 0 to 5 months, 20% 6 to 11 months, 40% 12 to 23 months, 60% after 23 months, 100%

2016		Quantitative information of Level 3 fair values		
	Fair Value	Valuation Technique	Unobservable assumptions	Range (weighted average)
Recurring loans	15,400,337	Discounted cash flows (if there is no collateral)	Annual prepayment rate	5% - 15% (10%)
Foreclosed assets	7,909,170	Valuations adjusted for age range and cost of sales	Age ranges	Movable property: 0 to 29 months, 20% 30 to 47 months, 30%-80% after 47 months, 100% Immovable property: 0 to 5 months, 20% 6 to 11 months, 40% 12 to 23 months, 60% after 23 months, 100%

(27) Disclosures on the Fair Value of Financial Instruments, continued

Fair value estimates are made on a determined date in the countries where the Bank maintains operations, based on the criteria of the management; such as the original placement rate and estimated sale period. This assessment is reviewed and endorsed by the corporate unit responsible for the consolidated financial statements. These estimates are subjective by nature, involve uncertainty and elements of judgment; therefore, they can't be accurately determined. Any change in the assumptions or criteria may affect the estimates.

Significant unobservable data used in measuring the fair value of residential mortgage loans are prepayment rates, the probability of default and the severity of the loss in case of default. Significant increases (decreases) in any of these inputs in isolation would result in a fair value measurement significantly lower (higher).

The information on the fair value of financial instruments described above (which are not disclosed elsewhere in the consolidated financial statements) in the consolidated balance sheet as of December 31, 2017, is as follows:

2017	Level 2	Level 3	Fair Value	Carrying amount
Financial assets				
Cash and cash equivalents	659,062,587	0	659,062,587	659,062,587
Securities purchased under resale agreements	0	18,457,658	18,457,658	18,457,658
Deposits in banks	0	3,280,241,218	3,280,241,218	3,280,241,218
Loans, excluding financial leases	0	14,763,050,862	14,763,050,862	14,891,294,535
Acceptances outstanding	0	2,419,446	2,419,446	2,419,446
Total financial assets	659,062,587	18,064,169,184	18,723,231,771	18,851,475,444
Financial liabilities				
Deposits	8,318,383,380	6,480,363,816	14,798,747,196	14,941,666,539
Securities sold under repurchase agreements	0	61,979,642	61,979,642	61,979,642
Financial obligations	0	3,205,717,587	3,205,717,587	3,175,524,010
Other financial obligations	0	379,015,651	379,015,651	394,083,465
Acceptances outstanding	0	2,419,446	2,419,446	2,419,446
Total financial liabilities	8,318,383,380	10,129,496,142	18,447,879,522	18,575,673,102

2016	Level 2	Level 3	Fair Value	Carrying amount
Financial assets				
Cash and cash equivalents	545,071,729	0	545,071,729	545,071,729
Securities purchased under resale agreements	71,358,013	0	71,358,013	71,358,013
Deposits in banks	0	2,773,080,996	2,773,080,996	2,773,080,996
Loans, excluding financial leases	0	13,804,711,024	13,804,711,024	13,734,205,127
Acceptances outstanding	0	31,923,582	31,923,582	31,923,582
Total financial assets	616,429,742	16,609,715,602	17,226,145,344	17,155,639,447
Financial liabilities				
Deposits	7,451,904,511	5,721,604,893	13,173,509,404	13,183,085,890
Securities sold under repurchase agreements	0	91,021,291	91,021,291	91,021,291
Financial obligations	0	3,253,205,104	3,253,205,104	3,189,627,634
Other financial obligations	0	409,993,591	409,993,591	427,130,463
Acceptances outstanding	0	31,923,582	31,923,582	31,923,582
Total financial liabilities	7,451,904,511	9,507,748,461	16,959,652,972	16,922,788,860

(28) Assets and Liabilities Classified as Held for Sale

As of December 31, 2016, the Bank transferred from fixed assets to assets held for sale a net amount of $2,252,564.

On December 16, 2016, Credomatic de México S.A de C.V., an indirect subsidiary of the Bank, entered into an "Asset Purchase Agreement" with Banco Invex, S.A., a company domiciled in Mexico, for the entirety of the loans portfolio of this subsidiary. On June 23, 2017, the Bank sold the loan portfolio according to the “Asset Purchase/Sale Agreement”.

(28) Assets and Liabilities Classified as Held for Sale, continued

The following table presents this subsidiary's assets and liabilities as of December 31, 2017, which have been classified as held for sale in the consolidated statement of financial position.

	2017	2016
Assets		
Cash and cash equivalents	101	119,336
Deposits due from banks	888,740	9,658,633
Loans, net	0	44,146,511
Other assets	3,288,151	4,412,613
Total assets held for sale	4,176,992	58,337,093
Liabilities directly associated with assets classified as held for sale		
Financial obligations	0	23,153,284
Other liabilities	1,268,802	7,702,704
Total liabilities directly associated with assets classified as held for sale	1,268,802	30,855,988

The comparative results of the discontinued operations, as originally presented, have been reclassified to present them as discontinued operations in the current year.

Results of discontinued operations:

	2017	2016
Interest and commission income:		
Deposits due from banks	186,586	68,450
Loans	7,913,152	15,673,533
Total interest and commission income	8,099,738	15,741,983
Interest expense:		
Financial obligations	914,943	1,688,125
Total interest expense	914,943	1,688,125
Interest and commissions income, net	7,184,795	14,053,858
Allowance for loan losses	2,974,384	11,606,982
Interest and commissions income, net after provisions	4,210,411	2,446,876
Other income (expenses):		
Loss on financial instruments, net	(2,506,993)	(5,340,286)
Service charges	1,341,986	2,353,644
Commissions and other fees, net	1,112,310	(443,799)
Other income	1,497,135	3,522,777
Total other income, net	1,444,438	92,336
General and administrative expenses:		
Salaries and other personnel expenses	5,968,124	14,521,008
Depreciation and amortization	8,096	1,413,483
Administrative	1,171,316	470,750
Occupancy and related	641,204	851,408
Other expenses	3,322,536	5,338,138
Total general and administrative expenses	11,111,276	22,594,787
Income before income tax	(5,456,427)	(20,055,575)
Less: Income tax	0	752,398
Net income of discontinued operations	(5,456,427)	(20,807,973)

The non-recurring fair value of the group of assets and liabilities classified as held for sale have been classified as Level 3, based on the valuation made in discounting expected cash flows.

	Quantitative information of level 3 in fair values		
	Valuation technique	Unobservable assumptions	Range (weighted average)
Assets and liabilities classified as held for sale	Discounted cash flows (if there is no collateral)	Discount rate	12% - 14%

(29) Administration of Trust Contracts and Securities Custody

As of December 31, 2017, several subsidiaries of the Bank manage and keep custody of securities for a total amount of approximately $2,537,510,944 (2016: $2,316,426,880).

(30) Related Party Transactions

In the normal course of business, the Bank conducts transactions with related parties, including main executives and directors. The following table shows the balances and transactions with related parties as of December 31, 2017:

	2017		2016	
	Key Personnel and Directors	Related Parties	Key Personnel and Directors	Related Parties
Assets:				
Loans	8,542,856	61,047,922	8,585,877	44,017,261
Accumulated interest receivable and other accounts receivable	40,443	445,912	37,608	367,266
	8,583,299	61,493,834	8,623,485	44,384,527
Liabilities:				
Demand deposits	3,755,488	16,924,828	3,184,360	18,408,717
Term deposits	13,648,613	141,979,005	13,096,512	134,425,769
Financial obligations	0	180,512,535	0	200,000,000
Other financial obligations	3,500,863	5,928,789	5,296,796	4,898,667
Accumulated interest payable and other liabilities	512,515	1,590,985	133,716	1,186,798
	21,417,479	346,936,142	21,711,384	358,919,951

	2017		2016	
	Key Personnel and Directors	Related Parties	Key Personnel and Directors	Related Parties
Interest income and other income	528,962	4,727,986	585,632	3,618,533
Interest expense and other operating expenses	866,306	22,450,638	702,033	13,864,273
Key management personnel and directors benefit	19,028,999	0	18,106,484	0

(31) Litigations

To the best of management's knowledge, the Bank is not involved in any litigation or claim that is likely to cause a significant adverse effect on its business, its consolidated financial position or its consolidated financial performance.

(32) Regulatory Aspects

Banking operations of the Bank are subject to various regulatory requirements administered by governmental agencies in the countries they operate or are licensed. Failure to meet these regulatory requirements can initiate certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a material effect on the Bank’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets and certain off balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about their components, risk weightings and other factors.

As of December 31, 2017, the banking operations of the Bank meet all capital adequacy requirements in the countries where it operates, which vary from 8.00% to 12.00% and other regulatory requirements.

Main Laws and Regulations applicable to banking operations in the Republic of Panama, regulated and supervised by the Superintendency of Banks of the Republic of Panama:

- *Directors’ Board General Resolution SBP–GJD–0003-2013 issued by the Superintendency on July 9, 2013.*

(32) Regulatory Aspect, continued

This Resolution establishes that when the regulatory allowances were greater than the respective calculation determined applying IFRS, this allowance in excess would be recognized in a regulatory reserve in equity.

The Agreement No. 4-2013 "whereby provisions are set out for the management and administration of the inherent credit risk in letters of credit and off-balance operations", issued by the Superintendency of Banks of Panama on May 28, 2013.

- Among other things, 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 specific provision for impairment of the loan portfolio shall be determined and recognized in the financial statements in accordance with the credit facilities´ classification within the risk categories currently in use, based on weighted calculations and minimum percentages by category specified in the Agreement. The Agreement also requires establishing a dynamic provision, as prudential regulatory criterion, which will be determined and recognized quarterly as reserves in equity following certain calculation criteria and restrictions that will be implemented gradually.

The table below summarizes the classification of the loan portfolio at fair value, at amortized cost and loan loss reserves based on the Agreement No. 4-2013 as of December 31, 2017:

	2017					
	Satisfactory	Special Mention	Sub-standard	Doubtful	Loss	Total
Corporate loans and other loans	6,282,098,330	157,769,330	40,098,611	16,188,262	13,694,087	6,509,848,620
Consumer loans	8,610,539,576	199,519,564	65,042,356	68,523,750	28,223,335	8,971,848,581
Total	14,892,637,906	357,288,894	105,140,967	84,712,012	41,917,422	15,481,697,201
Specific reserve	0	40,318,887	32,141,808	49,452,737	13,973,638	135,887,070

	2016					
	Satisfactory	Special Mention	Sub-standard	Doubtful	Loss	Total
Corporate loans and other loans	5,761,950,078	93,842,395	38,094,697	11,957,750	13,844,582	5,919,689,502
Consumer loans	8,053,782,071	157,958,554	51,004,576	61,422,681	27,900,915	8,352,068,797
Total	13,815,732,149	251,800,949	89,099,273	73,380,431	41,745,497	14,271,758,299
Specific reserve	0	30,363,518	26,685,665	48,031,245	18,933,080	124,013,508

The Agreement No. 4-2013 defines as past due any credit facility that presents unpaid amounts, of principal, interest or contractual expense fees, with an aging of more than 30 days and up to 90 days, starting from the date agreed to receive the payments.

The Agreement No. 4-2013 defines as overdue any credit facility that its contractual payments were in default for a period over 90 days. The period initiates from the date set forth for the receipt of the payments. Operations with a single payment at maturity and overdrafts will be considered overdue when the default of payments exceed 30 days, starting from the date established for payment of the obligation.

(32) Regulatory Aspect, continued

As of December 31, 2017, the classification of the loans portfolio at fair value and at amortized cost by maturity profile based on the Agreement No. 4-2013:

	2017			
	Current	Past due	Overdue	Total
Corporate loans and other loans	6,461,489,667	11,693,538	36,665,415	6,509,848,620
Consumer loans	8,648,479,813	176,785,604	146,583,164	8,971,848,581
Total	15,109,969,480	188,479,142	183,248,579	15,481,697,201

	2016			
	Current	Past due	Overdue	Total
Corporate loans and other loans	5,865,037,989	16,016,343	38,635,170	5,919,689,502
Consumer loans	8,079,055,235	145,906,622	127,106,940	8,352,068,797
Total	13,944,093,224	161,922,965	165,742,110	14,271,758,299

Based on the Agreement No. 8-2014, recognition of interest income based on days late in paying principal and/or interest and the type of credit transaction according to the following is suspended:

a) For consumer and business loans, if overdue more than 90 days; and
b) For mortgage loans, if overdue more than 120 days.

At December 31, 2017, total loans of BAC International Bank, Inc. (Parent Bank), non-accrued status amount to $46,235,870 (2016: $42,265,432). Total interest income not recognized on these loans is $5,454,004 (2016: $4,796,819).

As of December 31, 2017, the Bank in order to comply with the indicated in Articles 36 and 38 of the Agreement No. 4-2013, established a dynamic reserve by the amount of $224,410,540 (2016: $222,778,260), as part of equity through the appropriation of retained earnings. The credit balance of this dynamic reserve is part of regulatory capital but does not replace or compensate the requirements to a minimum capital adequacy rate established by the Superintendency of Banks of Panama.

Pursuant to Agreement No. 4-2013 the dynamic reserve cannot be less than 1.25%, nor greater than 2.50% of risk-weighted assets related to credit facilities classified as normal, as follows:

	2017	2016
1.25%	162,647,581	150,791,313
2.50%	325,295,162	301,582,626

(32) Regulatory Aspect, continued

Below as the dynamic reserve consolidated level as at December 31 2017:

	2017	2016
Component 1		
Risk- weighted assets (credit facilities – normal category)	13,011,806,500	12,063,305,025
For alpha coefficient (1.50%)		
Result	195,177,097	180,949,575
Component 2		
Variation (positive) between the current quarter versus the previous risk-weighted assets	405,043,814	607,920,928
For beta coefficient (5.00%)		
Result	20,252,191	30,396,046
Less:		
Component 3		
Amount of change in the balance of specific provisions in the quarter	(7,439,512)	(14,514,976)
Gross dynamic reserve balance	207,989,776	225,860,597
Plus:		
Restricted amount according to paragraphs “a” and “b” of Article 37	16,420,764	(3,072,337)
Net dynamic reserve balance	224,410,540	222,788,260

As of December 31, 2017 and 2016, the Bank did not required additional regulatory credit reserves based on Agreement No. 4-2013.

- *Capital Management*

  The banking law indicates that general license banks must keep capital paid or allocated at least $10 million; and adequacy ratio minimum capital of 8% of their risk-weighted assets, which should include off-balance sheet operations.

Quantitative measures established by regulation to ensure capital adequacy requires the Bank to maintain minimum amounts and ratios of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets. Management believes that, as of December 31, 2017 and 2016, the Bank meets all capital-adequacy requirements to which it is subject.

The Bank presents consolidated capital funds on its weighted assets by risks of approximately 13.72%, based on Agreements No. 1-2015 and No. 3-2016 (2016: 13.40%, based on Agreement No.5-2008 and its amendments) of the Superintendency of Banks of Panama.

Agreement No. 1-2015, establishes the capital adequacy rules applicable to banks and banking groups, began to take effect on January 1, 2016 and the Agreement No. 3-2016, which establishes rules for the determination of the weighted assets by credit risks and counterparty risk, began to apply on July 1, 2016.

(32) Regulatory Aspect, continued

The Bank presents consolidated capital funds on its weighted assets based on risks, in accordance with the requirements of the Superintendency of Banks of Panama, which are detailed as follows:

Agreements No. 1-2015 and No. 3-2016	**2017**	**2016**
Ordinary Primary Capital (Pilar I)		
Common stock	834,708,000	834,708,000
Additional paid in capital	140,897,488	140,897,488
Retained earnings	1,685,557,052	1,340,573,712
Non–controlling interest	208,559	274,468
Other comprehensive losses	(251,799,155)	(215,662,977)
Less: Goodwill	(334,828,753)	(335,141,584)
Less: Intangible assets	(43,155,034)	(53,718,336)
Less: Treasury stock	(5,171,221)	(5,164,872)
Total Ordinary Primary Capital	2,026,416,936	1,706,765,899
Secondary Capital (Pilar II)		
Subordinated debt	108,000,000	144,000,000
Total Secundary Capital	108,000,000	144,000,000
Dinamic Reserve	224,410,540	222,788,260
Total Regulatory Capital Fund	2,358,827,476	2,073,554,159
Total risk weighted assets	17,196,648,865	15,476,396,478
Indicators:		
Capital Adequacy Ratio	13.72%	13.40%
Primary Capital Ratio	11.78%	11.03%

- *Liquidity Radio*
  The percentage of liquidity ratio reported by BAC International Bank, Inc. (Parent Bank) to the regulator, under the parameters of No. 4-2008 Agreement was as of December 31, 2017 64.72% (2016: 67.99%).

- *Foreclosed Assets*
  The Agreement No. 3-2009, issued by the Superintendency of Banks of Panama, by which the provisions on disposal of property are updated, sets a five (5) year period to dispose of property acquired in settlement of unpaid loans.

(32) Regulatory Aspect, continued

The foreclosed properties held for sale are recognized at the lowest between the carrying value of the unpaid loans and the estimated realization value of the properties. The Agreement establishes that the provision of foreclosed properties is progressive within a range of 10% from the first year of enrollment up to 90% in the fifth year of adjudication, by establishing an equity reserve. Below is the progressive reserve table:

Years	Minimun Reserve Percentage
First	10%
Second	20%
Third	35%
Fourth	15%
Fifth	10%

At December 31, 2017, the Bank established a provision of foreclosed properties amounting to $580,539 (2016: $675,782), as part of equity through the appropriation of retained earnings.

- *Financial Company Act*

  The operations of financial companies in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry in accordance with the laws established in the Law No. 42 of July 23, 2001.

- *Lease Acts*

  Leasing operations in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry in accordance with the laws established by the Act No. 7 July 10, 1990.

- *Securities Act*

  Stock-exchange operations in Panama are regulated by the Superintendency of Securities in accordance with the legislation established in Decree Law No.1 of July 8, 1999, reformed by Act No.67 of September 1, 2011.

  The broker firm's operations are regulated by the Agreement No. 4 2011, modified in certain aspects by the Agreements No. 8-2013 and No. 3-2015, issued by the Superintendency of Securities. The Agreements specify that broker firms must comply with capital adequacy requirements, including its amendments.