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Unibank, S.A. and Subsidiary

Consolidated Financial Statements for the year ended December 31, 2017 and the Independent Auditors' Report as at March 6, 2018

Unibank, S.A. and Subsidiary

Independent Auditors' Report and Consolidated Financial Statements for 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Unibank, S.A. and Subsidiary

We have audited the accompanying consolidated financial statements of **Unibank, S.A. and Subsidiary** ("the Bank") which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 financial position of **Unibank, S.A. and Subsidiary** as at December 31, 2017, and its financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Auditing Standards (IASs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank in accordance to the IESBA Ethics Code for Professional Accountants (IESBA Code) as well as other ethical requirements that are relevant for our audit of the consolidated financial statements in Panama, and we have fulfilled our other ethical responsibilities according to these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Provisions for loans	How our audit addressed the key audit matter
Loans for an amount of B/.388 million, which represent 67% of the total assets are financial instruments subject to credit risk. The allowance for possible loan losses is considered a key audit matter due to the magnitude of the balance of loans on the consolidated financial statements taken as a whole and of the significant judgments and estimates required to determine the amount of the allowance for possible loan losses.	We have tested the design and implementation of key controls for the allowance for possible loan losses. For a sample of identified loans with individual impairment, we assessed models and Management's assumptions related to the determination of the provision for impairment. Our work included the calculation of the provision amount.

The identification of impairment events and the determination of impairment expense require the application of significant judgments by Management, in particular, the estimated amount of expected cash flows.

There is a risk that Management will recognize an impairment event which did not happen or that it does not identify an impairment event so the impairment expense reported may not be correct.

The policy for loans and advanced payments to customers is described in Notes 3.6 and 3.11 of the consolidated financial statements.

For the collective reserve, we evaluated the information received in the impairment model considering the different segments of the portfolio with similar characteristics and risks, information of historical losses, current economic conditions and our knowledge of the business discussed with Management. We checked the mechanics of the impairment model.

Disclosures related to the impairment of loans are considered appropriate and comprehensive in the consolidated financial statements.

Valuation of securities available for sale

Investment securities available for sale held were for an amount of B/.108 million, which represent 18% of the total assets as at December 31, 2017. Significant judgments are required by Management in determining their fair value. We have identified the valuation of securities available for sale as a key audit matter due to the associated judgments in determining fair value. The Bank uses external pricing providers to obtain most of its market prices, as well as applying internal valuation models to value investments, when there is no market price available from an external pricing provider.

The accounting policy for securities available for sale is included in Note 3.6 of the consolidated financial statements.

We have tested the design and implementation of key controls for the valuation of securities available for sale.

We have used our experts to perform independent valuation tests of the securities available for sale classified as Level 1 and 2 by comparing the prices used by the Bank and the prices obtained in observable market information. For a sample of investments classified as Level 3, we have evaluated the models used by Management and the significant assumptions and inputs used. We checked the mechanics of the impairment model.

Other information

Management is responsible for the other information. Other information comprises information included in the Annual Update Report for the Superintendency of the Securities Market of Panama, but does not include the consolidated financial statements and the auditors' report on the same. The Annual Update Report is expected to be available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion regarding the same.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears materially misstated.

When we read the Annual Update Report, if we conclude that there is a material misstatement contained therein, we are required to report the matter to those in charge of corporate governance and the Bank must address the matter and prepare a modified Annual Update Report to be forwarded to the Superintendency of the Securities Market of Panama.

Management's Responsibilities and of those in care of governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 in charge of corporate governance are responsible for overseeing the Bank's financial reporting process.

Auditor's 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 auditor's 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 the International Auditing Standards 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 the International Auditing Standards, 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.

- We 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 auditor's 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 and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those in charge of corporate governance with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and when applicable, the related safeguards.

From the matters communicated with those in charge of corporate governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that the matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

The engagement partner on the audit resulting in this independent auditors' report is Diana Mosquera.

(Signed by Deloitte)

March 6, 2018
Panama, Republic of Panama

Unibank, S.A. and Subsidiary
Consolidated statement of financial position
For the year ended December 31, 2017
(In balboas)

	Notes	2017	2016
Assets			
Cash and cash equivalents	8	62,485,299	133,317,235
Securities available for sale, net	9	108,350,244	118,707,493
Securities held to maturity, net	10	2,500,000	-
Loans, net	7,11	386,910,489	315,520,270
Property, equipment and improvements, net	13	3,296,257	3,646,895
Investments in associates	12	2,152,847	2,284,693
Other assets	7,15	13,573,987	14,336,295
Assets held for sale	14	-	2,639,646
Total assets		579,269,123	590,452,527
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	7	475,434,567	459,111,000
Borrowings received	17	18,966,110	57,371,340
Marketable securities	18	4,492,477	5,816,587
Other liabilities	7,16	17,124,148	9,511,528
Total liabilities		516,017,302	531,810,455
Shareholders' equity			
Common shares	19	60,000,000	60,000,000
Regulatory reserves	24	5,239,093	3,905,322
Net changes in securities available for sale		(2,000,879)	(3,527,175)
Accumulated profit (deficit)		13,607	(1,736,075)
Total shareholders' equity		63,251,821	58,642,072
Total liabilities and shareholders' equity		579,269,123	590,452,527

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

Unibank, S.A. and Subsidiary
Consolidated statement of profit or loss
For the year ended December 31, 2017
(In balboas)

	Notes	2017	2016
Interest income	7	29,739,361	28,727,093
Interest expenses	7	(18,780,675)	(17,816,595)
Net interest income		10,958,686	10,910,498
Commission income	20	2,427,341	2,126,960
Commission expenses	21	(132,415)	(167,193)
Net commission income		2,294,926	1,959,767
Net interest and commission income		13,253,612	12,870,265
Other income:			
Realized gain on investment securities	9	1,882,375	2,340,628
Other income	20	589,537	930,361
Total other income		2,471,912	3,270,989
Net financial income		15,725,524	16,141,254
Provisions:			
Provision for loans	11	(1,428,998)	(2,220,862)
Provision for impaired investments	9	(219,528)	(640,318)
Provision for foreclosed assets		(59,707)	-
Provision for assets held for sale		(829,941)	(439,941)
Total provisions		(2,538,174)	(3,301,121)
General and Administrative expenses:			
Personnel expenses	7	(5,671,234)	(5,623,411)
Professional fees and services		(616,621)	(596,161)
Operating leases' expenses	7,22	(810,861)	(832,603)
Depreciation and amortization	13,15	(838,680)	(704,670)
Other expenses	21	(2,589,411)	(2,541,121)
Total general and administrative expenses		(10,526,807)	(10,297,966)
Profit for the year before equity interest in associate		2,660,543	2,542,167
Equity interest in associate	12	552,167	460,689
Profit for the year before income tax		3,212,710	3,002,856
Income tax expense		(188,964)	(191,210)
Profit for the year		3,023,746	2,811,646

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

Unibank, S.A. and Subsidiary

Consolidated statement of comprehensive income

For the year ended December 31, 2017

(In balboas)

	Note	2017	2016
Profit for the year		3,023,746	2,811,646
Other comprehensive income:			
Items that can be reclassified later to profit or loss:			
Net changes in valuation of securities available for sale	9	1,526,296	(3,558,793)
Amortization charged to profit or loss		-	2,072,544
Other comprehensive income for the year		1,526,296	(1,486,249)
Total comprehensive income for the year		4,550,042	1,325,397

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

Unibank, S.A. and Subsidiary

Consolidated statement of changes in equity
For the year ended December 31, 2017
(In balboas)

	Note	Common shares	Net changes in securities available for sale	Regulatory reserves	Accumulated (deficit) profit	Total
Balance as at December 31, 2015		60,000,000	(2,040,926)	3,914,318	(4,556,717)	57,316,675
Profit for the year		-	-	-	2,811,646	2,811,646
Other comprehensive income for the year:						
Net changes in securities available for sale during the year		-	(3,558,793)	-	-	(3,558,793)
Amortization charged to profit or loss		-	2,072,544	-	-	2,072,544
Total other comprehensive income		-	(1,486,249)	-	2,811,646	1,325,397
Other equity transactions:						
Increase in dynamic reserve		-	-	116	(116)	-
Increase in regulatory reserve on foreclosed assets		-	-	(9,112)	9,112	-
Balance as at December 31, 2016		60,000,000	(3,527,175)	3,905,322	(1,736,075)	58,642,072
Profit for the year		-	-	-	3,023,746	3,023,746
Other comprehensive income for the year:						
Net changes in securities available for sale during the year	9	-	1,526,296	-	-	1,526,296
Total other comprehensive income		-	1,526,296	-	3,023,746	4,550,042
Other equity transactions:						
Increase in dynamic reserve		-	-	1,254,111	(1,254,111)	-
Increase in regulatory reserve on foreclosed assets		-	-	79,660	(19,953)	59,707
Balance as at December 31, 2017		60,000,000	(2,000,879)	5,239,093	13,607	63,251,821

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

Unibank, S.A. and Subsidiary
Consolidated statement of cash flows
For the year ended December 31, 2017
(In balboas)

	Notes	2017	2,016
Cash flows from operating activities:			
Net profit		3,023,746	2,811,646
Adjustments for reconciliation of net profit and cash			
from operating activities:			
Provision for losses on uncollectible loans	11	1,428,998	2,220,862
Provision for investment securities and assets held for sale	9, 14	1,049,469	1,080,259
Provision for foreclosed assets		61,084	-
Depreciation	13	388,254	360,698
Amortization of intangible assets	15	450,426	343,972
Gain on sale of fixed assets		-	(473,651)
Gain on sale of assets available for sale		(90,295)	-
Write-offs in intangible assets	15	-	142,596
Current income tax		-	662,407
Deferred tax		(188,964)	(471,197)
Gain on sale of investments, net	9	(1,882,375)	(2,340,628)
Amortization of premiums and discounts	9,10	431,206	166,146
Equity interest in associate	12	(552,167)	(460,689)
Dividends received net of tax from associate	12	684,012	-
Interest and commission income		(29,739,361)	(28,727,093)
Interest expenses		18,780,675	17,816,595
Changes in operating assets and liabilities:			
Timed deposits with contractual maturities greater than 90 days	8	422,800	2,895,000
Unearned discounted loans and commissions		(72,819,216)	(900,283)
Other assets		1,296,050	(3,044,845)
Customer deposits		16,323,567	17,849,520
Other liabilities		7,931,687	4,023
Cash generated by operating activities:			
Income tax paid		-	(6,324)
Interest received		29,327,677	29,023,695
Interest paid		(19,101,120)	(17,632,499)
Net cash (used in) generated by operating activities		(42,773,847)	21,320,210
Cash flows from investment activities:			
Acquisition of securities available for sale	9	(132,882,623)	(111,900,675)
Proceeds from the sale and redemption of securities available for sale	9	145,997,809	99,930,821
Acquisition of securities held to maturity	10	(2,500,000)	(6,374,575)
Proceed from the sale and redemption securities held to maturity	10	-	8,213,990
Proceeds from the sale of non-current assets		1,900,000	-
Sale and write-offs of fixed assets	13	-	1,330,535
Purchases and additions to furniture, equipment and improvements	13	(37,616)	(174,564)
Purchase of intangible assets	15	(383,519)	(1,354,664)
Net cash generated by (used in) investment activities		12,094,051	(10,329,132)
Cash flows from financing activities:			
Acquisition of marketable securities		7,000,890	6,325,000
Proceeds from the payment of marketable securities		(8,325,000)	(6,997,792)
(Decrease) increase on borrowings and securities sold under repurchase agreements, net		(38,405,230)	15,803,130
Net cash (used in) generated by financing activities		(39,729,340)	15,130,338
Net (decrease) increase in cash and cash equivalents		(70,409,136)	26,121,416
Cash and cash equivalents at the beginning of the year		132,394,435	106,273,019
Cash and cash equivalents at year-end	8	61,985,299	132,394,435
Non-monetary transactions:			
Reclassification of investment securities held to maturity	9,10	-	102,840,382

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

1. General information

Unibank S.A., was organized and incorporated under Panamanian law, and was granted a General Banking License by Resolution No.163-2010 of July 19, 2010 from the Superintendency of Banks of Panama (hereinafter the "Superintendency of Banks"). The General Banking License allows conducting of banking business, anywhere in the Republic of Panama, as well as to perform transactions that are completed or take effect abroad, and undertaking such other activities authorized by the Superintendency of Banks.

Unibank, S.A. is supervised by the Superintendency of Banks under Decree Law No. 9 of February 26, 1998, and relevant regulations, as amended by Decree Law No. 2 of February 22, 2008. The Superintendency of Banks has all the faculties to monitor, regulate and inspect banking operations.

Unibank, S.A. provides directly and through its subsidiary, financial services, corporate banking, personal banking and private banking in addition to other financial services; these activities are subject to supervision by regulatory authorities.

Unibank, S.A. and its subsidiary, Uni Leasing, Inc., is hereinafter called the Bank.

The Bank owns 100% of the issued shares of Bienes Raíces Uni, S.A., whose operations have not yet started; it is registered under the laws of the Republic of Panama, at the Public Registry under No.790241 of the business section, Document No. 2303503 of December 21, 2012.

The Bank owns 100% of the issued and outstanding shares of Uni Leasing, Inc., which was organized and incorporated under Panamanian business law, and was granted license by Resolution No. 393 of September 15, 2011, to conduct leasing transactions. The leasing operations in Panama are regulated by the Department of Financial Institutions of the Ministry of Trade and Industry in accordance with Law No. 7 of July 10, 1990.

The Bank is a wholly-owned subsidiary of Uni B & T Holding, Inc., a company registered under the laws of the Republic of Panama, at the Public Registry under No.682912 of the business section, Document No.1712451 dated January 15, 2010.

In September 2014, the Bank, acquired 50% of the equity shares of Invertis Securities, S.A., a company incorporated in the Republic of Panama by Public Deed N°11,653 of December 12, 2012. Invertis Securities S.A. has been established to engage, within and from the Republic of Panama in the business of securities as a brokerage firm according to local regulations.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 Accounting pronouncements issued recently and applicable in future periods.

IFRS 9 – Financial Instruments

In July 2014, the IASB published the final version of this standard completing the project to replace IAS 39 – Financial instruments: Recognition and measurement, introducing, mainly, new criteria for the classification and subsequent measurement of financial assets and liabilities, impairment requirements related to accounting for expected losses and hedge accounting. The application of the final version of this IFRS will be effective as of January 1, 2018.

- Classification and measurement: IFRS 9 establishes the categories of amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) to classify financial assets based on the entity's business model used for managing such assets and the characteristics of flows arising from them. The last category has been introduced for specific simple debt instruments and for equity instruments that the entity irrevocably assumes in order to present their changes through other comprehensive income from the moment of initial recognition.

  Classification of financial liabilities and their subsequent measurement has remained unchanged in relation to IAS 39, except for those liabilities designated at fair value through profit or loss for which it stipulates the method for accounting for changes in own credit risk through other comprehensive income.

The following table summarizes the key items of the consolidated statement of financial position of the Bank that represent financial assets and their classification under IFRS 9, 2013, and indicates their expected classifications once the Bank implements IFRS 9, 2014:

	Current classification before January 1, 2018 with IFRS 9, 2013			**Classification after January 1, 2018 with adoption of IFRS 9, 2014**		
Assets	CA*	FVPL**	FVTOCI***	CA*	FVPL**	FVTOCII***
Cash and cash equivalents		X			X	
Credit portfolio and financial leasing	X			X		
Debt titles	X	X		X	X	X
Equity investments		X			X	
Investments in associates and joint ventures at fair value			X			X

*AC = Amortized Cost
**FVTPL = Fair Value Through Profit or Loss
***FVTOCI = Fair Value Through Other Comprehensive Income

- Impairment: IFRS 9 proposes significant changes in the assessment of the impairment of financial instruments and, therefore, their associated risks. It proposes the definition of a model that identifies a Significant Increase in Credit Risk (SICR) in an instrument prior to the identification of Objective Evidence of Impairment (OEI).

  Along this line, the Bank established quantitative and qualitative criteria through which it is possible to identify significant increases in the credit risk of an instrument. Although quantitative criteria are used as key identification criteria, qualitative criteria have been developed in cases where it is not possible to apply or measure the stated quantitative criteria to specific portfolios.

The requirements related to impairment apply to financial assets measured at amortized cost and fair value through other comprehensive income (FVTOCI) whose business model has as an objective the receipt of contractual cash flows and/or the sale (likewise for accounts receivable from leasings, loan commitments and financial guarantees). The concept of loss recognition evolves from an incurred loss model to an expected loss model, which gives allowances for instruments a prospective nature based on future behavior expectations.

The Bank, in accordance with IFRS 9, will estimate the Expected Credit Loss (ECL) based on the present value of the difference between contractual cash flows and expected cash flows of the instrument (in the special case of products such as loan commitments, the Bank will associate the expectation of materialization of the commitment within the expected cash flows). The ECL amount will be updated on each date of presentation to reflect changes in portfolio credit risk from the moment of initial recognition.

Likewise, it proposes a more detailed distinction and valuation of the credit loss coherent with the inherent credit risk of the instruments. In this way, the evaluation of the credit risk profile of the instrument will determine the classification of an instrument at a given stage and, therefore, a specific ECL estimation model.

Stage 1. Financial instruments whose credit quality has not been significantly impaired since their initial recognition or that have a low credit risk profile at the end of the reporting period. The ECL will be recognized over a 12-month term and the interest income over the gross carrying value of the asset.

Stage 2. Financial instruments that have been significantly impaired since their initial recognition (except if they have a low credit risk profile at the end of the reporting period) but that do not show objective evidence of a loss, breach or impairment event. The ECL will be recognized over the life of the asset and interest income will be calculated over the gross carrying value of the asset.

Stage 3. Instruments that show objective evidence of impairment in the reporting period. The ECL will be recognized over the life of the asset and interest income will be calculated over the net carrying value of the asset.

The Bank, through the methodological implementation plan, made the necessary adjustments to IFRS 9, including the changes required to the method for calculating reserves such that it meets the impairment and expected loss requirements established by the international standard as of January 1, 2018.

During 2017, the risk parameters of probability of default (PD) for 12 months and PD for a lifetime were created, along with their respective adaptations and modifications (point-in-time nature, application and inclusion of the prospective criterion, last minute assumptions, among others). The Bank, aware that the complexity of the estimation requirements of a PD for a lifetime of operations, dedicated specific resources for the study, creation and implementation of this criterion considering issues involving models, data inputs, modeling parameters, among others. The Brach also developed the necessary adaptations to the LGD and EAD parameters. The main differences in parameters and attributes used in the methods for calculating the reserves for the Bank, under the application of the guidelines of IFRS 9 or IAS 39, are as follows:

Model	IAS 39	IFRS 9
ECL Expected credit loss	**Group evaluation Model** · **Healthy Portfolio:** PD $_{12}$ * LGD * EAD · **Impaired Portfolio:** LGD * EAD	**Model with sophisticated approach with the following components:** · Stage 1: PD $_{12}$ * LGD * EAD · Stage 2: PD $_{life}$ * LGD * EAD · Stage 3: LGD · EAD
PD Probability of default	**PD 12 months:** "Throughout the cycle" approach **Information**: 48 months of history **Models:** (impairment rate per activity with technical deviation) **LIP Factor:** It is expected that the allowance will be adjusted at the time of the default **Homogeneous groups**: Segment/activity/internal rating	**PD 12 months:** "Point in Time" approach **Information:** 50 months of history **Models:** Transition matrix and Lost Given Default **PD Lifetime:** expected movements in risk over the duration of an exposure **Information:** 50 months of history **Models**: survival curve **Homogeneous groups:** segment / product / internal rating
LGD	**Recovery model**: through a technical deviation: that multiples the impairment rate **Information:** 48 months of history part of payment	**Recovery model**: depending on the segmentation and product, the costs incurred directly for its recovery and, in the absence of a minimum history, 5% **Information:** 50 months of history **Recovery %**: estimated as the sum of cash flows received from operations discounted at the rate of the obligation at the date of analysis over the total exposure at the time of default, includes guarantees receives as part of the payment
EAD	**Renewable products**: EAD **Other products:** amortized cost	**Renewable products:** CCF (Credit Conversion Factor) Other products: amortized cost **Loans Stage 2:** Exposure below amortized cost estimated at the end of each future year
Definition of default	- Delinquent over 90 days, impaired mortgage portfolio delinquent over 120 days. - Write-off	- Default standard assumption applied when over **90 days**, except in the mortgage portfolio over 120 days - Write-off

	- Regulation: Banking Law, Regulatory Agreements and International Standards	- Regulation: Banking Law, Regulatory Agreements and International Standards
Individual analysis	Impaired customers with high materiality for the Bank	Impaired customers with high materiality for the Bank and classified in Stage 3
Macro-economic forecasts and prospective information	Macro adjustments based on historical data	Weighted average of the credit loss determined for each scenario, weighted by the probability of occurrence of each scenario: **Basic scenario: 60%** **Optimistic scenario: 20%** **Pessimistic scenario: 20%**
Significant Increase in Credit Risk	N/A	The assumption of the standard is applied to those in arrears greater than **30** days or based on the comparison of PD's Lifetime (level of risk) since originated

Finally, the model testing for the calculation of reserves under IFRS 9 were executed during the second quarter of 2017, resulting in approximate impact of B/.1.8M.

Impact of the transition to IFRS 9

The Branch will adopt, as of January 1, 2018, IFRS 9 issued in July 2014, which includes:

- Fair value through other comprehensive income (FVTOCI) as a new classification and subsequent measurement applicable for simple debt financial assets, in relation to IAS 39 IFRS 9 (2013);
- New impairment requirements related to accounting for expected losses, for which the requirements of IAS 39 on accounting for loan losses under the model of incurred losses were applied.

In accordance with IFRS 9.7.2, the Bank will apply the transition requirements as of January 1, 2018, and will choose not to restate the financial statements.

The overall impact of the transition to IFRS 9 in the financial statement of the Bank as at January 1, 2018, will be a decrease in net assets of approximately B/.1.8M, derived from:

- A net increase in the allowance for loan losses of the portfolio for B/.1.8M.
- An increase of B/.36.7 thousand from the reclassification of investments in debt financial instruments measured at fair value with changes in FVTOCI at amortization cost.
- An increase of B/.89 thousand from remeasurement of expected credit losses of investments measured at amortized cost and at a fair value with changes in FVTOCI.

Any adjustment arising as a result from the transition process will be recognized in retained earnings. It is expected that the retained earnings in the consolidated statement of financial position as at January 1, 2018, will decrease by B/.1.8M (before tax). The overall impacts arising from the transition to IFRS 9, issued in July 2014, are based on the best estimates as of the date of presentation of the consolidated financial statements. The information provided in this note focuses on the material elements and does not represent an exhaustive list of the expected adjustments.

IFRS 15 – Revenue from contracts with customers

In May 2014, IFRS 15 was issued, which establishes an extensive and detailed model to be used by the entities in accounting for income from contracts with customers. IFRS 15 will replace the current income recognition guidance, including IAS - 18 Revenue, IAS 11 - Construction Contracts and related interpretations on the effective date.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Guidance that is far more prescriptive has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 - Leases

IFRS 16 - *Leases* replaces IAS 17 - *Leases*. This standard eliminates the classification of leases and establishes that they should be recognized similarly to financial leases and measured at the present value of future lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 - *Revenue from contracts with customers*

3. Most significant accounting policies

3.1 Basis for preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investments available for sale and non-current assets available for sale, which are presented at their fair value.
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The consolidated financial statement have been prepared in accordance with the International Financial Reporting Standards (IFRSs). Accounting policies used in the preparation of consolidated financial statements have been applied consistently in relation to previous years.

3.2 Principle of consolidation

The consolidated financial statements include the consolidated financial statements of Unibank, S.A. and its subsidiary, Uni Leasing, Inc.

Control is obtained when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns arising from its involvement with the investee; and
- Has the ability to use its power over the investee to influence the amounts of the investor's returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to adapt their accounting policies to those used by other members of the Bank.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation.

3.3 Transactions in foreign currencies

Assets and liabilities held in foreign currencies are converted into balboas at the exchange rate in effect on the date of the consolidated statement of financial position, with the exception of those transactions with contractually agreed upon fixed rates. Transactions in foreign currencies are recorded at the exchange rates in effect on the dates of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are valued at fair value are converted to the functional currency at the exchange rate on the date on which the fair value was determined. The differences in foreign currencies arising during the conversion are recognized in gains or losses, except in the case of exchange differences arising from the reconversion of available-for-sale equity instruments, of difference in changes coming from monetary items related to the net investment in an operation abroad, or cash flow hedges of exchange rates, which are recognized directly in the consolidated statement of comprehensive income.

3.4 Functional currency

Records are carried in balboas (B/.) and the consolidated financial statements are expressed in balboas (B/.), the currency of the Republic of Panama, which is at par and freely exchangeable with the United States dollar (US$). The Republic of Panama does not issue paper currency and instead uses the US dollar (US$) as legal tender.

3.5 Investment in associate

An associate is an entity over which the Bank has significant influence. Significant influence is the power to intervene in the investee's financial and operating policy decisions, without having control or joint control.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the participation method. This investment is subject to revision to determine any impairment, provided that changes according to the circumstances indicate that the carrying value is not recoverable.

3.6 Financial assets

The financial assets that it holds are classified in the following specific categories: securities available for sale, securities held to maturity, financial loans and leases. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Securities available for sale

The securities available for sale are financial assets that are intended to be held for an indefinite period of time, which could be sold in response to liquidity needs or changes in interest rates, exchange rates or equity instruments. This portfolio has the search for a comprehensive return as an economic and financial policy.

After initial recognition, securities available for sale are measured at their fair value.

Gains or losses arising from changes in the fair value of securities available for sale are recognized directly in equity, until the financial assets have been written off or impairment is determined. At this time, the accumulated gain or loss, previously recognized in equity, is recognized in the results, with the exception of impairment losses, interest calculated using the effective interest method and gains or losses from changes in foreign currency that are recognized directly in results.

Dividends on available-for-sale equity instruments are recognized in the consolidated statement of profit or loss when the entity's right to receive payment is established.

The fair value of an investment in securities is generally determined based on the quoted market price at the date of the consolidated statement of financial position. If the quoted market price is not available, the fair value of the instrument is estimated using models for price calculations or discounted cash flow techniques.

Securities held to maturity

Securities held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities in which the Bank's Management has a positive intention and the ability to hold them until maturity.

Assets held to maturity are recognized at amortized cost using the effective interest method less any impairment, with income recognized on an effective rate basis.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except: (a) those that the entity will expect to sell immediately or on a short term, which are classified as trading, and those that the entity in its initial recognition designates at fair value through profit or loss, (b) those that the entity upon initial recognition designates as available-for-sale, or (c) those for which the holder do not recover substantially all of its initial investment, unless due to credit impairment.

Loans are recognized at amortized cost using the effective interest method less any impairment, with recognized income based on the effective rate.

Financial leasing

Financial leases consist mainly of equipment and vehicle leases, which are reported as part of the loan portfolio for the present lease value. The difference between the total amount of the financial lease contract and the present value of the financial lease receivable is recognized as unearned interest, which is credited to income over the term of the lease using a method that reflects a constant periodic rate of return.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired or when the Bank has transferred financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all the risks and benefits of ownership and control continues with the asset transferred, the Bank recognizes its retained interest in the assets and liabilities related to the amounts that it might have to pay. If the Bank retains substantially all risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a liability secured by the amount received.

3.7 Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest on the assets of an entity after deducting all its liabilities. Equity instruments issued by the Bank are recorded at the amount received, net of direct issuance costs.

Liabilities of financial guarantee contracts

Financial guarantees are contracts that require an entity to pay specified payments by a third party assuming that it fails to do so, regardless of the manner in which this obligation is carried out whether by bond, financial or technical guarantee, documented credit irrevocably issued or confirmed by the entity, insurance and derived from credit.

Financial guarantees, whoever is the owner, instrument holder and other circumstance, are analyzed periodically in order to determine the credit risk to which they are exposed and, where appropriate, the needs to constitute a provision for them estimated. This is determined by applying criteria similar to those established to quantify the impairment losses experienced by debt instruments valued at their amortized cost as detailed in the impairment note of financial assets.

Financial guarantees are initially recognized in the consolidated financial statements at fair value at the date in which the guarantee was issued. Subsequent to the initial recognition, the bank liability under said guarantees is measured at the higher of the initial recognition, less the amortization calculated to recognize income from fees earned based on the straight line over the life of the guarantee and the best estimate of the disbursement required to cancel any financial obligation that arises as of the date of the consolidated statement of financial position. These estimates are determined based on the experience of similar transactions and the history of past losses, complemented by Management's judgment.

Borrowings

Borrowings are initially recognized at cost, net of costs incurred in the transaction. Subsequently, they are presented at amortized cost using the effective interest method, with interest expense recognized based on the effective rate.

Other financial liabilities

Other financial liabilities, including debts, are initially measured at cost, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expenses recognized based on the effective rate.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired.

3.8 Compensation of financial instruments

Financial assets and liabilities are subject to compensation, that is, of the presentation in the consolidated statement of financial position for their net amount, only when the subsidiaries have both the right, legally required, to offset the amounts recognized in the aforementioned instruments, such as the intention to settle the net amount, or to realize the asset and proceed to the payment of the liability simultaneously.

3.9 Interest income and expenses

Income and interest expense are recognized in the consolidated statement of profit or loss under the effective interest rate method for all interest-bearing financial instruments. The effective interest rate is the rate that exactly discounts the estimated cash flows through the estimated life of a financial instrument, or when appropriate in a shorter period, to its net carrying value. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument.

The effective interest rate method is the method used to calculate the amortized cost of a financial asset or liability and to distribute the interest income or expense over a period of time. The effective interest rate is the rate that exactly discounts the estimated cash flows through the estimated life of a financial instrument, or when appropriate in a shorter period, to its net carrying value. When calculating the effective interest rate, cash flows are estimated considering the contractual terms of the financial instrument.

3.10 Fee and commission income

Generally, fees and commissions on short-term loans, letters of credit and other banking services are recognized as cash-based income due to their short-term maturity. The income recognized under the cash method is not significantly different from the income that would be recognized under the accrual method. Fees and commissions on medium and long-term transactions are deferred and amortized as income using the effective interest rate method over the life of the loan.

3.11 Impairment of financial assets

Loans

The Bank assesses if there is objective evidence that a financial asset or group of financial assets are impaired.

A financial asset or group of financial assets is impaired and incurred in an impairment loss only if there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or financial group that can be estimated reliably.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- For economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider, is granted to the borrower.
- It becoming probable that the borrower will enter bankruptcy or another financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of the existence of an impairment of individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment.

Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. This procedure applies to all loans that are individually significant or not. If it is determined that there is no objective evidence of impairment for an individual loan, this loan is included in a group of loans with similar characteristics and are collectively evaluated to determine whether impairment exists.

The impairment loss is calculated by comparing the present value of expected future cash flows, discounted at the loan's original effective interest loan, with its current carrying value and the amount of any loss is charged as a provision for losses in the consolidated statement of profit or loss. The carrying amount of impaired loans is reduced through the use of an allowance account.

Loans collectively assessed

For purposes of a collective evaluation of impairment, loans are grouped according to similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets indicating the ability of debtors' payment of amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans that are collectively evaluated to determine if impairment exists are estimated according to contractual cash flows of the assets in the group, the historical loss experience for assets with credit risk characteristics similar to the group credit and experienced Management opinions on whether the current economy and credit conditions can change the actual level of historical inherent losses suggested.

Reversal of impairment

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment event was recognized, the previously recognized impairment loss is reversed by reducing the reserve account for loan losses. The amount of any reversal is recognized in the consolidated statement of profit or loss. When a loan is uncollectible, it is canceled against the allowance for loans. Such loans are written off after all the necessary procedures have been considered and the amount of the loss has been determined. Subsequently, recoveries of amounts previously written off are credited to the reserve.

3.12 Property, furniture, equipment and improvement

Property, furniture, equipment and improvements are stated at cost, net of accumulated depreciation and amortization. Major improvements are capitalized, while other minor repairs and maintenance, which do not increase its useful life or improve the assets, are charged to expenses as incurred.

Depreciation and amortization are charged to current operations under the straight-line method, based on the estimated useful lives of the assets:

Assets	Useful life
Property	30 years
Furniture and office equipment	5 - 7 years
Computer equipment	5 - 7 years
Property improvements	20 - 30 years

Assets that are subject to amortization are reviewed for impairment whenever changes in the circumstances indicate that carrying values are not recoverable. The carrying value of fixed assets is immediately written down to its recoverable amount, which is the higher between the fair value less cost and the value in use.

3.13 Intangible assets

Licenses and software acquired separately are stated at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortization. Depreciation is computed using the straight-line method to allocate the cost of licenses over their estimated lives of between five to ten years. The software licenses acquired are capitalized on the basis of costs incurred to acquire and are able to use the specific software.

3.14 Foreclosed assets available for sale

Foreclosed assets available for sale are stated at the lower of the carrying amount of the unpaid loans and its estimated market value less costs to sell. Any impairment that affects the value of the foreclosed assets is adjusted against a provision that was recorded in the results of operations.

3.15 Assets held for sale

The Bank maintains assets and liabilities, which it expects to recover through a sale and not through its continued use, and are classified as held for sale. Immediately before being classified as held for sale, the assets or components of a group of assets for disposal will be re-measured in accordance with the Bank's accounting policies.

From this classification, they are recognized by the lower of their carrying amount and its fair value less sale costs. An impairment loss is recognized due to the reductions of the initial value of the assets. Impairment losses on initial and subsequent classification as held for sale are recognized in the consolidated statement of profit or loss.

3.16 Impairment of non-financial assets

At each consolidated statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss (if any). In case the asset does not generate cash flows by itself, that are independent from other assets, the Bank calculates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is decreased to its recoverable amount. Immediately an impairment loss is recognized in operating results.

3.17 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Subsequently, borrowings are recorded at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the consolidated statement of profit or loss over the financing period, using the effective interest rate method.

3.18 Securities sold under repurchase agreements

Securities sold subject to repurchase agreements are short-term financing backed securities transactions in which the Bank has the obligation to repurchase the securities sold at a future date at a specified period. The difference between the selling price and the value of future purchase is recognized as interest expense under the effective interest rate method.

3.19 Employee benefits

Panamanian labor law requires that employers create a Severance Fund to guarantee payment of seniority premiums and indemnity in cases of unjustified dismissals or resignation. For the establishment of this fund, employers have to contribute to the fund based on 1.92% of total salaries paid in the Republic of Panama and 5% of the monthly quota part of the indemnity. Payments should be deposited on a quarterly basis in a trust. Such contributions are recognized as expense in the results of operations. The Severance Fund is maintained in a private trust and it is managed by a separate entity from the Bank and its subsidiary.

3.20 Income tax

The income tax of the year comprises current tax and deferred tax. The income tax is recognized in the results of operations for the current year. The current income tax refers to the estimated payable on taxable income for the year, using the effective rate at the date of the consolidated statement of financial position.

Deferred tax is calculated based on the liability method, on temporary differences between the carrying values of assets and liabilities reported for financial purposes and the amounts used for tax purposes, using the income tax rate in force at the date of the consolidated statement of financial position. These temporary differences are estimated to be reversed in future dates.

3.21 Cash equivalents

For purposes of the consolidated statement of cash flows, cash equivalents includes cash, demand and time deposits with banks that earn interest with original maturities of three months or less as of the acquisition date of the deposit.

4. Financial risk instruments

4.1 Objectives of financial risk management

The Bank's activities are exposed to a variety of financial risks and those activities include the analysis, evaluation, acceptance and administration of certain degree of risks or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in the business. Therefore, the objective of the Bank is to achieve an appropriate balance between risk and return and minimize the potential adverse effects on the financial return of the Bank.

The activities of the Bank are mainly related with the use of financial instruments, and, as such, the consolidated statement of financial position is mainly composed of financial instruments. The Bank is therefore exposed to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational and technological risk
- Country risk
- Money laundering and financing of terrorism risk

The Board of Directors of the Bank has the responsibility to establish and overlook the policies of financial instruments risk management. In that effect, it has appointed committees in charge of the periodic management and to overlook the risks to which the Bank is exposed. The committees are the following:

- Audit Committee
- Assets and Liabilities Committee (ALCO)
- Risk Committee
- Compliance Committee
- Credit Committee
- Committee for Prevention of Money Laundering
- Technology Committee

In addition, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of the Securities Market of Panama, in relation to concentration risks, liquidity and capitalization risk, among others.

4.2 Credit risk

Credit risk is the risk of a financial loss for the Bank that may take place if a client or a counterparty of a financial instrument fails to meet their contractual obligations arising mainly on loans to clients and investment securities.

For purposes of risk management, the Bank considers and consolidates all the elements of exposure of credit risk, debtor risk, country risk, and sector or industry risk. The credit risk that originates in maintaining securities is managed independently, but informed as a component of credit risk exposure.

The respective committees appointed by the Board of Directors periodically monitor the financial condition of the debtors and issuers of negotiable instruments that involve a credit risk for the Bank. The Credit Committee consists of members of the Board of Directors, credit management staff, and representatives of the business areas. This Committee is in charge of developing the changes to credit policies, and to present them to the Bank's Board of Directors.

The Bank has established certain procedures to manage credit risk summarized as follows:

Issuance of credit policies

Credit policies are issued and revised by recommendation of any member of the Credit Committee or by the Vice-Presidents or Managers of Credit Banking, as well as by the control areas, who must suggest by written considering the following factors:

- Changes in market conditions.
- Risk factors.
- Changes in laws and regulations.
- Changes in financial conditions and credit availability.
- Other factors relevant at the moment.

All changes in policies or the issuance of new policies must be approved by the Credit Committee, who in turn submits them to the Board of Directors for approval, issuing a memorandum of instructions for subsequent disclosure and implementation.

Establishment of authorization limits

The limits for approval of credits depend on the significance of each amount related to the equity of the Bank. These limit levels are presented to the Credit Committee, who in turn submits them for the approval of the Board of Directors of the Bank.

Exposure limits

To limit exposure, maximum limits have been set out for an individual debtor or economic group based on capital funds of the Bank.

Concentration limits

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and the strategic orientation set for the loan portfolio.

The Bank has also limited its exposure in different geographical areas through the country risk policy, in which countries have been defined where the Bank is willing to have exposure based on its strategic plan; in turn, credit and investment exposure limits have been implemented in such countries based on the credit rating of each one.

Maximum limits per counterpart

With respect to exposures by counterparties, limits have been defined based on the counterparty's risk rating, as a proportion of the Bank's capital.

Impairment and provisioning policies

Each business unit is responsible for the quality and performance of credit of their portfolios as well as for control and monitoring of risks. However, through the Risk Department, which is separate from the business areas, the debtor's financial condition and ability to pay is evaluated periodically, giving primary importance to the biggest individual debtors. While the rest of the loans that are not individually significant they are being followed up through the ranks of default from their quotas, and the individual characteristics of such portfolios.

Maximum exposure to credit risk before retained guarantee or other credit enhancements

The credit risk exposure related to assets in the consolidated statement of financial position is presented below:

	Maximum exposure	
	2017	**2016**
Bank deposits	28,800,000	86,922,800
Loans	386,910,489	315,520,270
Investments:		
Securities available for sale	108,350,244	118,707,493
Securities held to maturity	2,500,000	-
Total included in balance sheet	526,560,733	521,150,563
Guarantees	471,981,165	425,244,768
Promissory payment notes	5,235,086	9,796,782
Total off-balance sheet items	477,216,251	435,041,550
Total maximum exposure	1,003,776,984	956,192,113

The table above represents the most critical scenario of credit risk exposure, without taking into account credit guarantees or other enhancements.

For the assets in the consolidated statement of financial situation, the exposures presented are based on the carrying amounts reported in the consolidated statement of financial position.

The following table analyzes the loan portfolio of the Bank that is exposed to credit risk and its corresponding assessment:

	Loans receivable	
	2017	2016
Maximum exposure		
Carrying amount	386,910,489	315,520,270
At amortized cost		
Level 1: Normal	384,201,562	312,171,741
Level 2: Special mention	3,288,051	7,608
Level 3: Subnormal	174,835	669,754
Level 4: Doubtful	-	829,943
Level 5: Uncollectible	640,009	4,977,307
Gross amount	388,304,457	318,656,353
Reserve for impairment	(1,128,475)	(2,836,452)
Unearned discounted interest and commissions	(265,493)	(299,631)
Carrying amount, net	386,910,489	315,520,270
Not delinquent or impaired		
Level 1	384,201,562	312,171,741
Level 2	3,288,051	7,608
Sub-total	387,489,613	312,179,349
Individually impaired		
Level 3	174,835	669,754
Level 4	-	829,943
Level 5	640,009	4,977,307
Sub-total	814,844	6,477,004
Reserve for impairment		
Individual	972,952	2,202,047
Collective	155,523	634,405
Total reserve for impairment	1,128,475	2,836,452

In the previous table, the major risk exposure factors and information on impaired assets has been detailed, and the assumptions used for such disclosures are as follows:

- *Impairment on loans* - The impairment on loans is determined considering the principal and interests, based on contractual terms.

- *Delinquencies with no impairment of loans* - They are considered delinquencies without impaired loans where contractually agreed payments of principal and interest are in arrears, but the Bank believes that impairment is not appropriate considering the level of guarantees available on the amounts owed to the Bank.

- *Allowance for impairment* - Allowances for impairment have been established based on estimated expected losses in the loan portfolio. The main components of this allowance are related to individual risks and the allowance for loan losses is collectively established.

- Write-off policy - Loans are charged to losses when they are determined uncollectible. This determination is taken after an analysis of financial conditions made from the time the payment obligation was not performed and when it is determined that the guarantee is not sufficient for full payment of the facility granted.

The Bank holds collaterals on loans granted to mortgage customers such as mortgages and other guarantees for said asset. The fair value estimates are based on the value of the collateral according to the loan period and are generally not updated unless the credit is impaired on an individual basis.

The fair value of guarantees and other guarantees of the loans portfolio is detailed as follow:

	2017	**2016**
Personal property	3,823,365	5,827,205
Real estate property	327,526,853	284,564,624
Pledge deposits in the same bank	126,056,756	111,667,068
Pledge guarantees	-	8,355,516
Other guarantees	14,574,191	14,830,355
Total	471,981,165	425,244,768

The following detail analyzes the securities available for sale and securities held to maturity that are exposed to credit risk and their corresponding evaluation based on the degree of qualification:

2017	**Securities available for sale**	**Securities held to maturity**	**Total**
Investment grade	56,600,846	-	56,600,846
Standard monitoring	13,353,702	-	13,353,702
Special monitoring	2,215,000	-	2,215,000
Without investment grade	36,180,696	2,500,000	38,680,696
	108,350,244	2,500,000	110,850,244

2016	Securities available for sale	Total
Investment grade	52,160,408	52,160,408
Standard monitoring	36,094,435	36,094,435
Special monitoring	2,458,468	2,458,468
Without investment grade	27,994,182	27,994,182
	118,707,493	118,707,493

In the above table, the factors of greatest risk exposure have been detailed of the securities available for sale and held to maturity.

To manage financial risk exposures of securities available for sale and securities held to maturity, the Bank uses the indicators of external qualifiers, as detailed below:

Degree of rating	External ratings
Investment grade	AAA, AA+, AA-, A+, A, BBB+, BBB, BBB-
Standard monitoring	BB+, BB, BB-, B+, B, B-
Special monitoring	CCC to C, D
No investment grade	----

Risk concentration of financial assets with credit risk disclosure

The Banks monitors the credit risk concentration by segment and geographic location. The analysis of the credit risk concentration at the date of the consolidated statement of financial position is as follows:

	Loans		Investments	
	2017	**2016**	**2017**	**2016**
Concentration by segment:				
Corporate:				
Commercial and overdrafts	295,361,571	160,911,339	42,969,000	41,542,160
Mortgage	20,808,649	90,125,090	-	-
Consumer:				
Personal and overdrafts	31,560,014	27,317,447	-	-
Mortgage	23,150,876	25,064,202	-	-
Others:				
Bank and financial entities	7,785,615	3,725,365	39,745,947	39,386,800
Petroleum and derivatives	3,997,132	3,996,077	9,694,490	12,863,270
Government entities	-	-	1,514,135	6,790,718
Power generation	5,640,600	7,516,833	16,926,672	18,124,545
Total	388,304,457	318,656,353	110,850,244	118,707,493

	Loans		Investments	
	2017	**2016**	**2017**	**2016**
Geographic concentration:				
Panama	371,290,446	303,487,602	41,190,586	34,133,450
Central America and the Caribbean	10,772,712	8,214,542	1,613,595	11,124,298
United States of America	-	-	23,332,698	9,972,500
Otros	6,241,299	6,954,209	44,713,365	63,477,245
Total	388,304,457	318,656,353	110,850,244	118,707,493

The geographical concentrations of loans are based on the debtor's location while investments are based on the issuer's domicile.

4.3 Market risk

The Bank is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and stocks, which are exposed to general market movements and specific changes in the level and volatility of market rates or prices such as interest rates, credit spread, the exchange rates and share prices.

Reports on market risks arising from marketable and non-marketable activities are presented for assessment and consideration by the Risk Committee, and then submitted to the Board of Directors for review and approval.

Marketable portfolios include positions arising from transactions occurring in the market in which the Banks act as principal with customers or with the market. Non-marketable portfolios primarily arise from the management of the Bank's interest rates and assets and liabilities of corporate banking.

As part of the market risk, the Bank is mainly exposed to interest rate risk. For these purposes, cash flow and fair value interest rate risk is understood as follows:

The interest rate risk of cash flows and the interest rate risk of fair value are the risks that future cash flows and the value of a financial instrument will fluctuate because of changes in market interest rates. Exposure to interest rate risk is reviewed by the Asset and Liability Committee (ALCO) and the Risk Committee.

Market risk management

To measure and control market risk, the Bank has limits such as net exposure by currency, by issuer, by country risk, offering size and maximum maturity periods, among others.

The following table summarizes the calculation of VaR (Value at Risk) for an investment portfolio at fair value of the Bank at the date of the consolidated financial statements:

	2017	**2016**
VaR total	1,199,126	1,712,514

At the end of December 31, 2017, to calculate the VaR or Value at Risk, the Bank uses the Parametric method to determine the variance and Co-variance of the portfolio (2016: Monte Carlo method). This method looks to randomly allocate variables and obtain different scenarios and results, using a timeline of two weeks and a confidence level of 99%.

Although the VaR model is an important tool for measuring market risk, it involves the following assumptions:

- Normal market movements (major financial crisis are excluded).
- It does not calculate the maximum loss of the portfolio.
- Some of the subsequent portfolio losses are above VaR.
- The Bank maintains its entire portfolio in securities available for sale and securities held to maturity, so the portfolio's risk is strictly credit risk.

The limitations of the VaR methodology are recognized, but are complemented with other structures of sensitivity limits, including limits to address potential concentration risks within each marketable portfolio.

Exchange rate risk

It is the risk that the value of a financial instrument will fluctuate because of changes in exchange rates of foreign currencies, and other financial variables as well as the reaction of market participants to political and economic events.

The Bank has no significant own positions in foreign currencies; it only keeps operating accounts to meet the demand of its customers.

The Bank maintains transactions of monetary financial instruments in the consolidated statement of financial position, contracted in foreign currencies, which are presented below:

2017	Euros expressed in USD	British pounds expressed in USD	Swiss francs expressed in USD	Canadian dollars expressed in USD	Total
Bank deposits	9,002,860	-	-	-	9,002,860
Other assets	1,104,770	511	(10,580)	203	1,094,904
Total assets	10,107,630	511	(10,580)	203	10,097,764
Received deposits	3,730,222	-	-	-	3,730,222
Other liabilities	6,398,574	-	-	-	6,398,574
Total liabilities	10,128,796	-	-	-	10,128,796
Net positions	(21,166)	511	(10,580)	203	(31,032)

2016	Euros expressed in USD	British pounds expressed in USD	Swiss francs expressed in USD	Canadian dollars expressed in USD	Total
Bank deposits	1,097,730	-	-	-	1,097,730
Other assets	-	467	-	190	657
Total assets	1,097,730	467	-	190	1,098,387
Received deposits	1,047,856	-	-	-	1,047,856
Other liabilities	68,444	-	10,127	-	78,571
Total liabilities	1,116,300	-	10,127	-	1,126,427
Net positions	(18,570)	467	(10,127)	190	(28,040)

The sensitivity analysis for the exchange rate risk is mainly considered for the measurement of a position within a specific currency. The analysis consists of verifying on a monthly basis how much would the position represent in the functional currency if converted from its current currency, and, as a result, the combination of exchange rate risks.

Fair value hedge of interest rate risk

The cash flow interest rate risk and the fair value interest rate risk are the risks that future cash flows and the fair value of a financial instrument will fluctuate because of changes in market interest rates.

The following table summarizes the Bank's exposure to interest rate risk. Current, delinquent and overdue loans are included for up to a year. This includes the balances of the Bank's financial instruments, classified according to the most recent date between the contractual restated dates or maturity date.

2017	Up to 1 year	1 to 3 years	3 to 5 years	More than 5 years	No maturity No sensitivity to interest rate	Total
Assets:						
Demand deposits	-	-	-	-	31,878,698	31,878,698
Time deposits in banks	28,800,000	-	-	-	-	28,800,000
Securities available for sale	12,015,000	1,000,000	7,666,115	88,565,875	-	109,246,990
Securities held to maturity	-	-	-	2,500,000	-	2,500,000
Loans	143,252,661	73,249,241	57,065,512	114,737,043	-	388,304,457
Total	184,067,661	74,249,241	64,731,627	205,802,918	31,878,698	560,730,145
Liabilities:						
Client deposits	115,112,988	85,856,870	123,266,595	123,396,852	27,801,262	475,434,567
Financings received	18,966,110	-	-	-	-	18,966,110
Marketable securities	4,492,477	-	-	-	-	4,492,477
Total	138,571,575	85,856,870	123,266,595	123,396,852	27,801,262	498,893,154
Total sensitivity to interest rate	45,496,086	(11,607,629)	(58,534,968)	82,406,066	4,077,436	61,836,991

2016	Up to 1 year	1 to 3 years	3 to 5 years	More than 5 years	No maturity No sensitivity to interest rate	Total
Assets:						
Demand deposits	-	-	-	-	44,496,728	44,496,728
Time deposits in banks	86,922,800	-	-	-	-	86,922,800
Securities available for sale	8,750,000	1,787,400	12,470,460	96,376,851	-	119,384,711
Loans	198,769,318	31,216,958	33,730,616	54,939,461	-	318,656,353
Total	294,442,118	33,004,358	46,201,076	151,316,312	44,496,728	569,460,592
Liabilities:						
Depósitos de clientes	338,045,097	92,525,707	4,535,102	-	24,005,094	459,111,000
Securities sold under repurchase agreements	57,371,340	-	-	-	-	57,371,340
Marketable securities	5,816,587	-	-	-	-	5,816,587
Total	401,233,024	92,525,707	4,535,102	-	24,005,094	522,298,927
Total sensitivity to interest rate	(106,790,906)	(59,521,349)	41,665,974	151,316,312	20,491,634	47,161,665

The Bank's Management, based on the requirements of IFRS 7, to assess the risks of interest rates and their impact on the fair value of financial assets and liabilities, performs simulations to determine the sensitivity of the financial margin rate change of interest.

The basis analysis carried out monthly by Management is to determine the impact on assets and liabilities due to increases or decreases of 100 and 200 basis points in interest rates. The following table summarizes the impact on profit or loss:

2017	Increase of 100 pb	Decrease of 100 pb	Increase of 200 pb	Decrease of 200 pb
Year average	973,573	(973,573)	1,947,145	(1,947,145)
Year maximum	1,561,072	(1,561,072)	3,122,143	(3,122,143)
Year minimum	347,020	(347,020)	694,040	(694,040)

2016	Increase of 100 pb	Decrease of 100 pb	Increase of 200 pb	Decrease of 200 pb
Year average	899,848	(899,848)	1,799,696	(1,799,696)
Year maximum	1,330,160	(1,330,160)	2,660,320	(2,660,320)
Year minimum	376,010	(376,010)	752,020	(752,020)

As at December 31, 2017, client deposits accrued annual interest rates ranging from 0.50% to 5.50% (December 31, 2016: 0.44% to 5.50%).

4.4 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet all its payment obligations related to its financial liabilities at their maturity date and to replace the funds when they are withdrawn. The consequence may be the failure to meet its repayment obligations for deposits and its loan commitments.

Management process of liquidity risk

The Bank's management process of liquidity risk includes:

- Managing and monitoring future cash flows to ensure that requirements can be met. This includes replenishing funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to prevent any non-compliance;
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen availability of cash flows;
- Monitoring liquidity rate of the consolidated financial position against internal and regulatory requirements;
- Managing the concentration and profile of the maturities of financial liabilities.

The Asset and Liability Committee (ALCO) reviews the above detailed management process.

The monitoring and the report, prepared by Management, become tools for measuring and projecting cash flow for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturities of financial liabilities and the expected collection date of the financial assets.

Management also monitors assets in the medium term, the level and type of debt obligation, the use of overdraft facilities and the impact of contingent liabilities, such as 'standby' letters of credit and guarantees.

Liquidity risk exposure

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to net deposits received from customers. Liquid assets are cash and cash equivalents and debt securities, for which there is an active and liquid market less any deposit received from banks, debt securities issued, other borrowings and commitments maturing within the next month. . A similar calculation, but not identical, is used for measuring liquidity limits set by the Bank in compliance with that indicated by the Superintendency of Banks of Panama with respect to liquidity risk measurement.

The corresponding ratios for the net liquid asset margin on deposits received from the Bank's customers at the date of the consolidated financial statements are as follows:

	2017	**2016**
At end of year	64.14%	75.86%
Year average	74.37%	75.08%
Year maximum	81.20%	87.26%
Year minimum	64.61%	64.01%

The Bank is exposed to daily requirements on its resources of funds available from overnight deposits, current accounts, maturing deposits, loan disbursements and collateral and margin requirements settled in cash.

The Bank maintains cash resources to meet all these needs, as experience shows that a minimum level of reinvestment of funds that are maturing can be predicted with a high level of security. The Board of Directors sets limits on the minimum proportion of available funds to meet these requirements and the minimum level of interbank facilities.

The table below shows the Bank's financial assets and liabilities according to contractual maturity groupings based on the outstanding period at the date of the consolidated statement of financial position concerning the contractual maturity dates:

2017	Up to 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Assets:					
Demand deposits	31,878,698	-	-	-	31,878,698
Time deposits in banks	28,800,000	-	-	-	28,800,000
Securities available for sale	12,015,000	7,104,553	27,387,776	62,739,661	109,246,990
Securities held to maturity	-	-	-	2,500,000	2,500,000
Loans	227,389,983	56,881,226	56,560,821	47,472,427	388,304,457
Total	300,083,681	63,985,779	83,948,597	112,712,088	560,730,145
Liabilities:					
Client deposits	404,690,377	67,659,087	3,085,103	-	475,434,567
Borrowing received	18,966,110	-	-	-	18,966,110
Marketable securities	4,492,477	-	-	-	4,492,477
Total	428,148,964	67,659,087	3,085,103	-	498,893,154
Total sensitivity to interest rates	(128,065,283)	(3,673,308)	80,863,494	112,712,088	61,836,991

2016	Up to 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Assets:					
Demand deposits	44,496,728	-	-	-	44,496,728
Time deposits in banks	86,922,800	-	-	-	86,922,800
Securities available for sale	8,750,000	1,787,400	12,470,460	96,376,851	119,384,711
Loans	198,769,318	31,216,958	33,730,616	54,939,461	318,656,353
Total	338,938,846	33,004,358	46,201,076	151,316,312	569,460,592
Liabilities:					
Client deposits	362,050,191	92,525,707	4,535,102	-	459,111,000
Securities sold under repurchase agreements	57,371,340	-	-	-	57,371,340
Marketable securities	5,816,587	-	-	-	5,816,587
Total	425,238,118	92,525,707	4,535,102	-	522,298,927
Total sensitivity to interest rates	(86,299,272)	(59,521,349)	41,665,974	151,316,312	47,161,665

To manage liquidity risk arising from financial liabilities, the Bank maintains liquid assets such as cash and cash equivalents and investment grade investments for which an active market exists. These assets can be readily sold to meet liquidity requirements.

Off balance sheet items

The table below summarizes the maturity structure of letters of credit, guarantees and operating leasing commitments, based on the most recent maturity date:

	2017			2016	
	Up to 1 year	Over 1 year	Total	Up to 1 year	Total
Letters of credit	504,184	-	504,184	-	-
Guarantees and bonds	120,000	-	120,000	445,000	445,000
Promissory notes	5,235,087	-	5,235,087	9,796,782	9,796,782
Credit lines	16,094,893	41,842	16,136,735	4,249,448	4,249,448
	21,954,164	41,842	21,996,006	14,491,230	14,491,230

4.5 Capital risk management

The Bank manages its capital to ensure:

- Compliance with all requirements established by the Superintendency of Banks of Panama.
- Maintain a capital base, strong enough to support business performance. The Bank, as an entity regulated by the Superintendency of Banks of Panama, is required to maintain a total capital ratio measured based on risk-weighted assets. The capital adequacy and the use of regulatory capital are monitored by the Bank's Management based on guidelines and techniques developed by the Superintendency of Banks of Panama. The information requirements are sent to the regulator on a quarterly basis.

In the year ended December 31, 2016, according to the requirements of the Superintendency of Banks of Panama, new provisions for the calculation of capital adequacy for banks in the Republic of Panama entered into force. These new provisions were established by the publication of Agreements No.3-2016 of March 22, 2016, which established the rules for the determination of assets weighted by credit risk and counterparty risk; and Agreement No.1-2015 of February 3, 2015, which establishes the standards for capital adequacy applicable to banks and banking groups in the Republic of Panama.

The Panamanian Banking Law requires general license banks to maintain a minimum paid-in capital of B/.10,000,000, an equity of at least 8% of risk-weighted assets, including financial instruments outside the consolidated statement of financial position. For these purposes, assets must be considered net of their respective allowances or reserves and with the weighted considerations specified in the Agreement of the Superintendency of Banks of Panama.

For the purpose of calculating capital requirements and the capital adequacy ratio, regulatory capital funds are composed of:

Primary capital

Ordinary primary capital is composed of:

- Paid-in share capital, which includes share capital provided by capitalized retained earnings.
- Issuance premiums arising from instruments included in ordinary primary capital.
- Declared reserves, meaning, those classified by the regulated entity as capital reserve to strengthen its financial position, generated by the carrying amount of retained earnings and subject to what is established in Article No.69 of the Banking Law.
- Retained earnings. The regulated entity may include in the ordinary primary capital the profits from the current period, before a formal decision has been taken confirming the results, making sure to deduct all possible foreseeable expenses, interest or dividends from said profits.
- Share interest representative of the non-controlling interest in capital accounts of consolidating subsidiaries that meet the criteria for inclusion in the ordinary primary capital.
- Other (total) cumulated comprehensive income items, in particular, net unrealized gains or losses on the assets available for sale portfolio.
- Other reserves authorized by the Superintendency of Banks of Panama.

Secondary capital

The secondary capital is comprised of the following elements:

- Instruments issued by the regulated entity that meet the criteria for inclusion in the secondary capital and are not included in the primary capital.
- Issuance premiums arising from instruments included in the secondary capital.
- Instruments issued by consolidating subsidiaries of the regulated entity and controlled by third parties that meet the criteria for inclusion in the secondary capital and are not included in the primary capital.
- The reserves established for unidentified future losses may be classified as part of the secondary capital. Provisions assigned to the identified individual asset impairment evaluated individually or collectively are excluded. These reserves may not exceed a maximum of 1.25 percentage points of the assets weighted for credit risk. Reserved established as dynamic provisions according to Agreement No.4-2013 will be excluded from the secondary capital.

For the calculation of the amount of capital funds of a General License Bank, deductions must be taken into account, which will be made on a quarterly basis, and which are detailed as follows:

- Current year losses and cumulative losses from prior years.
- Goodwill or commercial funds present in the valuation of the significant investment in the capital of banking, financial and insurance entities which are outside of the regulatory consolidation framework.
- Intangible assets and deferred taxes defined by the IFRSs.
- Cash flow hedge reserves associated with hedging of items not recognized at fair value.
- Unrealized gains and losses arising from variations in own credit risk on financial liabilities recognized at fair value.
- Investment in treasury shares.
- Reciprocal cross-interest in banking, financial and insurance entities; also, interests in non-financial entities included within the consolidation framework.

The Bank maintains a regulatory capital position for the years ended December 31, 2017 and 2016, which is detailed below:

	2017	2016
Regulatory capital funds		
Paid-in share capital	60,000,000	60,000,000
Dynamic provision	5,159,433	3,905,206
Accumulated profit (deficit)	13,607	(1,738,234)
Net changes in securities available for sale	(2,000,879)	(3,527,175)
Less regulatory adjustments to the calculation of ordinary primary capital:		
Other intangible assets	(3,751,669)	(3,818,576)
Deferred tax assets	(774,996)	(1,148,409)
Total	58,645,496	53,672,812
Risk-weighted assets	340,542,094	315,744,831
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of risk-weighted assets	17.22%	17.00%

Capital ratios

	Minimum	2017	Minimum	2016
Capital adequacy	8.00%	17.22%	8.00%	17.00%
Ordinary primary capital	4.00%	17.92%	3.75%	18.81%
Primary capital	5.50%	15.71%	5.25%	15.76%

5. Fair value of financial instruments

The Bank's Management has used the following assumptions to estimate the fair value of each class of financial instrument in the consolidated statement of financial position:

- Demand and time deposits – For these financial instruments, the carrying amount approximates their fair value due to their short-term nature.

- Investments in securities – For securities available for sale, their fair value is based on quoted market prices or quoted prices from brokers; investment securities held to maturity are calculated using discounted cash flows. If a reliable quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

- Loans – The estimated fair value of loans represents the discounted amount of estimated future cash flows receivable. Expected cash flows are discounted using effective interest rates to determine their fair value.

- Savings and demand deposits – For savings and demand deposits received, the carrying amount approximates their fair value due to their short-term nature.

- Time deposits received – For time deposits received, their fair value is based on discounted cash flows using the interest rate offered to new deposits with similar residual maturity periods.

- Borrowing received – The carrying amount of borrowing received with maturity of one year or less approximate their fair value due to their short-term nature. For obligations with maturities greater than one year, the discounted cash flows method is used based on the current market interest rate to determine their fair value.

- Marketable securities and securities sold under repurchase agreements – To determine the fair value of these financial instruments, the discounted cash flow method is used at the current market interest rate.

These estimates are subjective by nature, involve uncertainty and critical judgment elements and therefore cannot be determined with accuracy. Changes in assumptions and criteria can significantly affect the estimates.

IFRS 13 specifies a hierarchy level of valuation techniques based on whether the information included in those valuation techniques are observable or unobservable:

- Level 1 - are quoted prices (unadjusted) in active markets for identical assets or liabilities for which the entity has access to 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 valued instruments using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where data significant inputs are directly or indirectly observable in a market.

- Level 3 - This category includes all instruments for which the input data are not based on observable market information and they have a significant effect on the fair value measurement.

Below are the Bank's financial assets that are measured at fair value at the end of each year. The following table shows the information on how these assets at fair value are determined:

Financial assets	Fair value 2017	Fair value 2016	Fair value hierarchy	Valuation technique and key inputs	Input range	Sensitivity to fair value measurement of significant unobservable inputs
Investments available for sale	72,553,729	96,897,781	Level 1	Quoted prices in active markets	-	
	21,677,013	515,530	Level 2	Quoted prices of similar instruments in active markets	From 2.25% to 3.07%	Local corporate bonds using a fixed rate for 5 years referenced to USA 5-year bond plus note from the Republic of Panama
	15,016,248	21,971,400	Level 3	Discounted cash flows	From 3.38% to 4.37%	An increase (decrease) an isolated unobservable input will give a lesser (greater) fair value measurement
	109,246,990	119,384,711				

The Bank's carrying value and fair value of the main financial assets and liabilities not presented in the consolidated statement of financial position at fair value are summarized as follows:

	2017		2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Demand deposits	31,878,698	31,878,698	44,496,728	44,496,728
Time deposits	28,800,000	28,800,000	86,922,800	86,922,800
Securities held to maturity	2,500,000	2,528,255	-	-
Loans	388,304,457	389,267,122	315,520,270	319,235,871
	451,483,155	452,474,075	446,939,798	450,655,399
Financial liabilities:				
Demand deposits	27,801,262	27,801,262	24,005,094	24,005,094
Savings deposits	84,106,544	84,106,544	80,078,721	80,078,721
Time deposits	363,526,761	368,478,759	355,027,185	359,576,403
Securities sold under repurchase agreements and borrowings	18,966,110	18,990,666	57,371,340	57,419,777
Marketable securities	4,492,477	4,521,950	5,816,587	5,854,230
	498,893,154	503,899,181	522,298,927	526,934,225

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Time deposits in banks	-	28,800,000	-	28,800,000
Securities held to maturity			2,528,255	2,528,255
Loans	-	-	389,267,122	389,267,122
Financial liabilities:				
Time deposits	-	-	368,478,759	368,478,759
Borrowings received	-	-	18,990,666	18,990,666
Marketable securities	-	-	4,521,950	4,521,950

2016	Level 1	Level 2	Level 3	Total
Financial assets:				
Time deposits in banks	-	86,922,800	-	86,922,800
Loans	-	-	319,235,871	319,235,871
Financial liabilities:				
Time deposits	-	-	359,576,403	359,576,403
Borrowings received and securities sold under repurchase agreements	-	-	57,419,777	57,419,777
Marketable securities	-	-	5,854,230	5,854,230

Methodology for determining the fair value of financial instruments at amortized cost

Financial instruments	Valuation technique	Level
Local corporate bonds	Quoted prices in active markets.	1
Local corporate bonds	Quoted prices in active markets.	2
Local corporate bonds	Discounted cash flowss with discount rate.	3
Foreign corporate bonds	Discounted cash flowss with discount rate.	3

6. Accounting estimates and critical judgments

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. *Impairment losses on non-performing loans* - The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Bank makes judgments and makes decisions as to whether there is observable data indicating that there has been an adverse change in the payment status of the debtors, or national or local economic conditions that correlate with defaults on assets. The Bank's Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

b. *Impairment of investment securities* - The Bank determines which capital investments available for sale are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making a judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

c. *Investment securities held to maturity* - The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity, except than by circumstance - for example, selling an insignificant amount close to maturity - it may be required to reclassify the entire category as available for sale. Therefore, investments would be measured at cost and not fair value at amortized cost.

d. Income tax

- Current income tax – The Bank is subject to income tax under the jurisdiction of the Republic of Panama. Estimates are made through a tax projection to determine the provision for income taxes and the liabilities arising from said estimates are recognized. When the final tax result is different from the amounts recorded, those differences will affect the provisions for income taxes and deferred taxes in the period in which the determination was made.

- Deferred income tax – The recognition of deferred income tax assets is based on budget earnings estimates developed by Management, which are based on available evidence and historical earning levels, which indicate the likelihood that the Group will have future earning against which the asset can be used.

7. Balances and transactions with related parties

Balances and transactions with related parties included in the consolidated statement of financial position and consolidated statement of profit or loss are summarized below:

	2017		2016	
	Directors and key management personnel	**Related parties**	**Directors and key management personnel**	**Related parties**
Assets:				
Accounts receivable	-	674,107	-	2,333,799
Investments held to maturity	-	2,500,000	-	-
Loans	2,425,872	25,101,479	2,105,076	26,742,168
Accrued interest receivable	9,344	101,242	7,429	61,399
Liabilities:				
Demand deposits	176,862	892,154	69,711	121,204
Savings deposits	1,189,763	147,287	456,858	-
Time deposits	9,079,290	100,000	6,420,969	110,051
Accrued interest payable	282,452	7,787	243,248	3,011

	2017		2016	
	Directors and key management personnel	Related parties	Directors and key management personnel	Related parties
Interest income on loans	117,043	1,115,914	102,596	1,100,244
Interest earned on investments	-	5,000	-	-
Interest paid on deposits	432,327	10,393	89,579	3,464
Interest paid on borrowings	-	5,000	-	-
General and Administrative expenses:				
Key executive salaries	1,654,635	-	1,689,779	-
Commissions	-	37,193	-	80,995
Leases	-	627,276	-	607,792

Loans to related parties as at December 31, 2017, amounted to B/.25,101,479 (2016: B/.26,742,168), with an interest rate between 3% and 6.25%, with various maturities up to 2022 (2015: 5% to 6% with maturities up to 2021).

Loans to directors and key executives as at December 31, 2017, amounted to B/.2,425,872 (2016: B/.2,105,076 with an interest rate between 4% and 11%; with various maturities up to 2046 (2016: 2.25% to 11% with maturities up to 2044).

The Bank presents an account receivable with its associate Top & Selected Properties, Inc., amounting to B/.674,107 (2016: B/.2,333,799), which has no maturity and does not generate interest.

8. Cash and cash equivalents

Cash, cash equivalents and bank deposits are as follows:

	2017	2016
Cash and cash equivalents	1,806,601	1,897,707
Demand deposits	31,878,698	44,496,728
Time deposits	28,800,000	86,922,800
Total cash, cash equivalents and bank deposits in the consolidated statement of financial position	62,485,299	133,317,235
Less:		
Time deposits with original maturities over 90 days	(500,000)	(922,800)
Total cash and cash equivalents in the consolidated statement of cash flows	61,985,299	132,394,435

At the close of December 31,2017, the annual interest rates on time deposits ranged between 0.25% and 1.66% (December 31, 2016: 0.12% and 1.85%).

9. Securities available for sale, net

Securities classified as available for sale are presented below:

2017	1 - 5 years	5 - 10 years	Fair value	Nominal value
Debt securities - governmental	2,014,170	514,085	2,528,255	2,500,000
Debt securities - private	45,493,209	61,225,526	106,718,735	102,076,000
	47,507,379	61,739,611	109,246,990	104,576,000
Less:				
Provision for investment impairment	(871,121)	(25,625)	(896,746)	-
	46,636,258	61,713,986	108,350,244	104,576,000

2016	1 - 5 years	5 - 10 years	Fair value	Nominal value
Debt securities - governmental	-	10,452,768	10,452,768	10,300,000
Debt securities - private	23,007,860	85,924,083	108,931,943	109,732,400
	23,007,860	96,376,851	119,384,711	120,032,400
Less:				
Provision for investment impairment	-	(677,218)	(677,218)	-
	23,007,860	95,699,633	118,707,493	120,032,400

As at December 31, 2017, the annual interest rates accrued on securities available for sale ranged between 2.63% and 8.13% (December 31, 2016: 3.25% and 8.13%).

The change in fair value for investment securities available for sale during 2017 was an unrealized loss of 2017, was an unrealized loss of B/.1,526,296 (2016 unrealized gain: B/.3,558,793) which is part of the valuation amount in equity.

The movement of investment securities available for sale is summarized as follows:

	2017	2016
Balance at the beginning of the year	118,707,493	4,031,618
Purchases	132,882,623	111,900,675
Amortization of premiums and discounts	(431,206)	(82,369)
Sales and redemptions	(144,115,434)	(95,746,802)
Reclassifications (Note 10)	-	102,840,382
Net unrealized gain (loss) arising from revaluation during the year	1,526,296	(3,558,793)
Provision for impairment	(219,528)	(677,218)
	108,350,244	118,707,493

During 2017, the Bank performed sales and redemptions of securities available for sale for an amount of B/.144,115,434, which generated a gain on the sale of investment securities for an amount of B/.1,882,375 (2016:B/.2,340,628).

As at December 31, 2017, the Bank established a provision for impairment of securities available for sale for the amount of B/.219,528 (2016: B/.677,218).

As at December 31, 2017 the Bank secured loans payable and securities sold under repurchase agreements with the investment portfolio of securities available for sale of B/.18,966,110 (2016: B/.57,371,340) borrowings and securities sold under repurchase agreement.

10. Securities held to maturity

The investment portfolio of securities held to maturity was reclassified on September 16, 2017 to available for sale. (See Note 9).

Securities held to maturity as at December 31, 2017 are detailed as follows:

2017	5 - 10 years	Amortized cost	Fair value
Debt securities - private	2,500,000	2,500,000	2,789,980
Total	2,500,000	2,500,000	2,789,980

The movement of securities held to maturity is summarized as follows:

	2017	2016
Balance at the beginning of the year	-	104,534,422
Purchases	2,500,000	6,374,575
Amortization of premiums and discounts	-	(83,777)
Sales and redemptions	-	(7,984,838)
Reclassification (Note 9)	-	(102,840,382)
	2,500,000	-

11. Loans

The breakdown of loans by type are detailed as follows:

	2017	2016
Internal segment		
Corporate loans	302,724,141	240,524,199
Personal	30,398,979	26,069,099
Automobile	561,712	1,248,348
Residential mortgage	23,150,876	25,064,202
Overdrafts	12,409,860	8,806,389
Financial leases, net	2,044,877	1,775,365
Total internal segment	371,290,445	303,487,602
External segment		
Corporate loans	17,014,012	15,055,913
Overdrafts	-	112,838
Total external segment	17,014,012	15,168,751
Subtotal	388,304,457	318,656,353
Less:		
Allowance for possible loan losses	(1,128,475)	(2,836,452)
Unearned commissions	(265,493)	(299,631)
Total loans, net	386,910,489	315,520,270

As at December 31, 2017, the annual interest rates on loans and overdrafts ranged from 2% and 24% (2016: 2% and 24%).

The movement of the allowance for possible loan losses is summarized as follows:

	2017	2016
Balance at the beginning of the year	2,836,452	1,218,436
Increase of provision for loans	1,428,998	2,220,862
Loans written-off	(3,136,975)	(602,846)
Balance at the end of the year	1,128,475	2,836,452

As at December 31, 2017, the loan portfolio secured by deposits in the same bank amounted to B/.117,737,995 (2016: B/.117,531,128) which represents 30.3% (2016: 36.9%) of the total portfolio.

Financial leasing

The net balance of financial leases and the maturity profile of the minimum payments are summarized as follows:

	2017	2016
Up to 1 year	772,855	102,997
1 to 5 years	1,541,540	1,867,730
Total minimum payments	2,314,395	1,970,727
Less: unearned interest	(269,518)	(195,362)
Total financial leasing, net	2,044,877	1,775,365

As at December 31, 2017, the financial leasing portfolio maintains an amount of B/.229,428 (2016: B/.195,362), corresponding to unearned interest receivable.

12. Investment in associate

The investment in associate is detailed as follows:

		2017		2016	
Name of associate	Principal activity	% of participation and voting rights	Carrying amount of participation	% of participation and voting rights	Carrying amount of participation
Invertis Securities,S.A.	Brokerage firm	50%	2,152,847	50%	2,284,693

The share capital of Invertis Securities, S.A. is comprised by 1,200 shares with a nominal value of B/.1,000 per share, of which the Bank acquired 6,000 shares for the amount of B/.1,600,000.

The summary of the financial information of the investment in associates is detailed as follows:

	2017	2016
Assets	3,461,957	3,750,184
Liabilities	159,329	171,831
Equity	3,302,628	3,578,353
Income	3,393,370	2,954,178
Expenses	2,289,036	2,023,832
Profit for the year	1,104,334	930,346

The reconciliation of the financial information summarized above with the carrying amount of the participation in Invertis Securities, S.A. recognized in the consolidated financial statements is presented below:

	2017	2016
Balance at beginning of the year	2,284,693	1,824,004
Equity participation	552,167	460,689
Dividends received, net of taxes	(684,013)	-
Balance at end of the year	2,152,847	2,284,693

The investment in Invertis Securities, S.A. is registered under the equity participation method because no control is held over said associate

13. Furniture, equipment and improvements, net

Furniture, equipment and improvements are summarized as follows:

2017	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost:				
Balance at beginning of the year	1,676,406	1,238,746	2,941,067	5,856,219
Additions	10,437	17,872	9,307	37,616
Sales and write-offs	-	-	(90,336)	(90,336)
Balance at end of the year	1,686,843	1,256,618	2,860,038	5,803,499
Accumulated depreciation:				
Balance at the beginning of the year	798,028	781,486	629,810	2,209,324
Expenses for the year	143,209	108,159	136,886	388,254
Sales and write-offs	-	-	(90,336)	(90,336)
Balance at end of the year	941,237	889,645	676,360	2,507,242
Net balance	745,606	366,973	2,183,678	3,296,257

2016	Furniture and fixtures	Computer equipment	Leasehold improvements	Building	Total
Cost:					
Balance at beginning of the year	1,609,494	2,004,104	3,094,592	761,849	7,470,039
Additions	52,895	61,215	60,454	-	174,564
Sales and write-offs	-	(812,556)	(213,979)	(761,849)	(1,788,384)
Reclassifications	14,017	(14,017)	-	-	-
Balance at end of the year	1,676,406	1,238,746	2,941,067	-	5,856,219
Accumulated depreciation:					
Balance at beginning of the year	667,660	1,456,539	569,161	86,766	2,780,126
Expenses for the year	128,532	139,339	86,478	6,349	360,698
Sales and write-offs	-	(812,556)	(25,829)	(93,115)	(931,500)
Reclassification	1,836	(1,836)	-	-	-
Balance at the end of the year	798,028	781,486	629,810	-	2,209,324
Net balance	878,378	457,260	2,311,257	-	3,646,895

14. Asset held for sale

Below are the financial assets that the Bank holds according to execution of a loan guarantee classified as non-current asset:

	2017	2016
Non-current asset available for sale	-	2,639,646

At the close of August 31, 2017, the Bank made the sale of shares that it held as non-current asset available for sale for B/.1,809,705 net of reserves, obtaining a profit of B/.90,295.

15. Other assets

The breakdown of other assets is summarized as follows:

	2017	2016
Intangible assets, net of amortization	3,751,669	3,818,576
Prepaid taxes and expenses	745,258	641,129
Assets and projects under development	336,672	340,729
Foreclosure properties	680,966	631,986
Accounts receivable - employees	573,721	518,418
Accounts receivable - related parties	674,107	2,333,799
Tax credits receivable	601,185	647,862
Cuentas por cobrar empleados	774,996	1,148,409
Accrued interest receivable	3,261,700	2,850,016
Other assets	2,173,713	1,405,371
Total	13,573,987	14,336,295

The asset under development consists primarily of costs incurred in the purchase and implementation of the computerized systems platform for the management and reporting process in the Bank.

Tax credits receivable correspond to mortgage loans with preferential interest processed with the Ministry of Economy and Finance pending receipt from the years 2013, 2014, 2015 and 2016.

Intangible assets with finite lives are represented by data processing computer software and licenses, whose movements are as follows:

	2017	2016
Balance at beginning of the year	3,818,576	2,950,480
Additions	383,519	1,354,664
Write-offs	-	(142,596)
Amortization for the year	(450,426)	(343,972)
Balance at the end of the year	3,751,669	3,818,576

16. Other liabilities

The breakdown of other liabilities is summarized as follows:

	2017	2016
Employee provisions and withholdings	395,467	203,081
FECI payable	172,659	137,541
Deferred tax liability	-	184,449
Accounts payable and outstanding transactions	6,526,963	2,178,135
Cashier's checks and certified checks	5,664,904	2,123,722
Accrued interest payable	4,364,155	4,684,600
Total	17,124,148	9,511,528

As at December 31, 2017, the variation in the account payable and pending transactions correspond to the transfer received from the client for B/.6,398,572.

17. Borrowings received

The Bank's terms and conditions of borrowings received are detailed as follows:

Type of financing	Interest rate	Maturity	Carrying amount 2017	Carrying amount 2016
Margin line	2.56%	-	5,000,000	-
Margin line	2.60%	-	3,000,030	-
Margin line	2.52%	-	-	5,980,876
Margin line	1.85%	-	-	14,340,912
Repurchase agreement	1.98%	february 2017	-	7,235,045
Repurchase agreement	2.08%	february 2017	-	5,213,530
Repurchase agreement	2.25%	may 2017	-	8,089,567
Repurchase agreement	2.35%	may 2017	-	4,054,970
Trade financing	1.58%	march 2017	-	6,956,440
Trade financing	3.09%	march 2017	-	1,500,000
Trade financing	4.01%	april 2017	-	1,000,000
Trade financing	3.32%	june 2017	-	1,500,000
Trade financing	3.90%	august 2017	-	1,500,000
Trade financing	3.60%	march 2018	1,500,000	-
Trade financing	2.11%	april 2018	6,966,080	-
Trade financing	4.31%	april 2018	1,000,000	-
Trade financing	3.84%	june 2018	1,500,000	-
			18,966,110	57,371,340

As at December 31, 2017, margin lines have an open maturity, reviewed daily. The Bank maintains borrowings received for a total of B/.18,966,110 (2016: B/.57,371,340). These obligations are secured by an assortment of elements from the portfolio of securities available for sale for B/.11,419,405 (2016: B/.39,733,857).

18. Marketable securities

The Bank was authorized by SMV Resolution No. 498-13 of November 19, 2013, issued by the Superintendency of Securities Market of Panama, to offer Marketable Securities (VCNs) through a Public Offering, for a nominal value of up to B/.50,000,000 with maturity of up to one year from their issuance.

VCNs have been issued on a renewal basis, registered, with coupons, in denominations of B/.1,000 or multiples thereof and through as many series as the Bank deems appropriate according to its needs and market demands. VCNs bear a fixed annual interest rate that will depend on the term of the securities and be determined at the time the sale offer is made. Interest is paid monthly, bi-monthly, quarterly or semi-annually, depending on the series and may not be redeemed early. These VCNs are backed by the Bank's general credit.

Below is a breakdown of VCNs issued as at December 31, 2017:

			2017	2016
Description	Maturity	Interest rate	Carrying amount	
Series K	June 2017	3.75%	-	1,225,000
Series L	July 2017	4.00%	-	3,100,000
Series M	February 2017	3.25%	-	1,500,000
Series P	July 2018	4.00%	2,000,000	-
Series Q	January 2018	3.50%	1,500,000	-
Series R	May 2018	3.50%	1,000,000	-
		Total :	4,500,000	5,825,000
		Transaction costs:	7,523	8,413
		Total net transaction costos:	4,492,477	5,816,587

19. Equity

The Bank's authorized share capital is represented by 60,000,000 common shares as at December 31, 2017 (2016: 60,000,000) with a nominal value of B/.1 (2016: B/.1) each. Total balance of the share capital paid is B/.60,000,000.

Once dividends are declared, the shareholder has the right to receive them from time to time and is entitled to one vote per share at the shareholders' meetings.

20. Other commissions and income

Other commissions and income are presented as follows:

	2017	2016
Commission income:		
Loan commissions	953,579	1,149,295
Transfers	437,858	282,114
Banking services	281,522	272,437
Letters of credit and documentary collections	37,148	27849
Other commissions	717234	395265
Total	2,427,341	2,126,960
Other income:		
Net gain on foreign currency exchange	262,582	164,114
Dividend income	102,884	8,627
Other income:	224,071	757,620
Total	589,537	930,361

As at December 31, 2017, the Bank sold fixed assets which resulted in a gain of B/.90,336 (2016: 473,651) in the results for the year.

21. Commission expenses and other general and administrative expenses

Commission expenses and other general and administrative expenses are presented below:

	2017	2016
Commission expenses:		
Correspondent banking relationships	98,796	101,993
Other commissions	33,619	65,200
	132,415	167,193

	2017	2016
Other general and administrative expenses:		
Other taxes	780,165	744,251
Utilities	232,804	272,657
Technological services	674,610	625,178
Maintenance and security	49,496	51,535
Office supplies and stationery	53,762	55,018
Subscriptions	19,857	20,171
Insurance	73,648	60,391
Transportation	62,861	48,575
Advertising and marketing	121,093	162,839
Other expenses	521,115	500,506
	2,589,411	2,541,121

22. Commitments and contingencies

Commitments

The Bank maintains off-balance sheet commitments and contingencies arising from the normal course of its operations that may involve elements of credit and liquidity risk.

The letters of credit and promissory notes include exposure to a certain risk element of credit loss in the event of default by the client The Bank's credit policies and procedures for approving credit commitments and contingencies are similar to those used for granting loans that are recognized in the Bank's assets.

The Bank's Management does not anticipate that the Bank will incur in losses arising from these commitments and contingencies for the benefit of the clients. As at December 31, 2017, the Bank has no contingency reserve for off-balance sheet credit risk since it classified these transactions as involving normal risk.

Contingencies

A summary of transactions with off-balance sheet credit risk is presented below:

	2017	2016
Letters of credit	504,184	445,000
Endorsements and guarantees	120,000	9,796,782
Promissory notes	5,235,087	4,249,448
Credit lines	16,136,735	9,333,817
Total	21,996,006	23,825,047

As at December 31, 2017, the Bank maintains commitments with third parties arising from operating property leases, which expire on various dates over the next years. The amount of the annual lease rentals for the next five years is as follows:

Years	Amount
2018	788,291
2019	819,886
2020	776,553
2021	638,181
2022	670,090

During the year ended as at December 31, 2017, the property lease expenses amounted to B/.810,861 (2016: B/.832,603).

As at December 31, 2017, there are legal claims against the Bank in the amount of B/.4,519,927 (2016: B/.4,519,927). Bank's Management and its legal counsel do not believe that the results of these proceedings have a material adverse effect on the consolidated statement of financial position, the consolidated financial performance and the Bank's operations.

23. Income tax

Income tax returns of companies incorporated in the Republic of Panama are subject to examination by the tax authorities for the last three years, including the year ended December 31, 2017, according to current fiscal regulations.

According to current Panamanian tax legislation, companies are exempt from payment of income tax on profits derived from foreign operations, interest earned on time deposits placed in local banks, interest earned on Panamanian Government securities and securities issued through the Panamanian Securities Exchange.

In reference to Law No.8 of March 15, 2010 in Official Gazette No. 26489-A, the general income tax rates (ISR) are amended to 25% as of January 1, 2014 for financial institutions.

By Law No. 8 of March 15, 2010, the alternate calculation method of income tax called (CAIR) is eliminated and is replaced with the presumption of Income Tax, forcing all entities that earn income in excess of one million five hundred thousand dollars (B/.1,500,000), to determine the taxable amount of such tax, the amount greater of: (a) the net taxable income calculated by the standard method established in the Tax Code and (b) the net taxable income resulting from the application of four point sixty-seven percent (4.67%) to total taxable income.

Income tax expense is detailed as follows:

	2017	2016
Profit before income tax	3,212,710	3,002,856
Less: tax effect of non-taxable income	(15,041,129)	(11,560,081)
Less: capital gains	(90,295)	(584,320)
Plus: tax effect of non-deductible expenses	9,714,633	12,162,887
Less: loss carryforward	-	(371,712)
Tax base	(2,204,081)	2,649,630
Current income tax expense	-	662,407

The current income tax expense for the year is detailed as follows:

	2017	2016
Caused income tax	-	662,407
Deferred income tax	(188,964)	(471,197)
Net income tax	(188,964)	191,210

The annual movement of assets for deferred income tax is presented below

	Deferred income tax	
	Assets	Liabilities
Balance at December 31, 2015	711,837	(219,074)
Income (expense) to profit or loss during the year	436,572	34,625
Balances at December 31, 2016	1,148,409	(184,449)
Income (expense) to profit or loss during the year	(373,413)	184,449
Balance at December 31, 2017	774,996	-

As at December 31, 2016, the average effective current income tax rate was 22%.

24. General regulatory laws and features

(a) Banking Law

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of Panama, according to the law established by Executive Decree No. 52 of April 30, 2008, adopting the single text of Decree Law No. 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, whereby the banking system in Panama is established and the Superintendency of Banks and the rules governing it are created.

(b) Financial lease law

Operations of financial companies in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry according to the law established in Law No. 7 of July 10, 1990.

(c) Regulatory standards issued by the Superintendency of Banks that began their lifetimes during 2014.

General Resolution SBP-GJD-003-2013 of the Board of Directors dated July 9, 2013, which establishes the accounting treatment for those differences arising from prudential regulations issued by the Superintendency of Banks and International Financial Reporting Standards (IFRS), in such a way that 1) the accounting records and financial statements are to be prepared in accordance with IFRS as required by Agreement No. 006-2012 of December 18, 2012 and, 2) in the event that the calculation of a provision or reserve under prudential rules applicable to banks, that present additional specific accounting aspects to those required by IFRS is greater than the respective calculation under IFRS, the excess of the provision or reserve under prudential standards will be recognized in a regulatory provision in equity. This General Resolution took effect for accounting periods ending on or after December 31, 2014.

Subject to prior approval from the Superintendency of Banks, banks may reverse the established provision, partially or totally, based on the justifications properly evidenced and presented to the Superintendency of Banks.

Agreement No. 004-2013 dated May 28, 2013, which establishes provisions on the management and administration of the credit risk inherent to the loan portfolio and operations outside the statement of financial position, including general classification criteria of credit facilities for the purpose of determining the specific and dynamic provisions to cover the Bank's credit risk. In addition, this agreement sets certain minimum required disclosures in line with IFRS disclosure requirements on credit risk management and administration.

This Agreement supersedes Agreement No. 6-2000 of June 28, 2000 in its entirety and all its amendments, Agreement No. 6-2002 of August 12, 2002 and Article 7 of Agreement No. 2-2003 of March 12, 2003. This agreement became effective on September 30, 2014.

Risk of money laundering prevention and financing of terrorism

It is the risk that the Bank may incur arising from transactions performed by its clients, which can be used as money laundering and/or terrorist-financing instruments.

The Bank’s objective is to reduce the risk on Prevention of Money Laundering and Financing of Terrorism, in order to avoid financial losses and damages to the Entity’s reputation.

The Bank has established a risk management policy to prevent money laundering, the financing of terrorism and the financing that enables the proliferation of weapons of mass destruction. The Committee for the Prevention of Money Laundering is in charge of reviewing the steps taken to mitigate this risk.

The preventive risk management structure has been developed to provide a segregation of responsibilities between the owners, the executors, the control areas and the areas that are responsible for ensuring compliance with policies and procedures. The Bank's business units and services take an active role in identifying, measuring, controlling and monitoring this risk, becoming the Bank's first line of defense. The implementation of this structure implies that the Bank has adopted a methodology for the assessment of customer profiles, supported by technological tools that enable it to document and have early warnings regarding unusual transactions. The Comprehensive Risk Department, through its programs, ensures the compliance with the identified procedures and controls. This is carried out in conjunction with the compliance area. Concerning human resources, existing policies have been strengthened in terms of periodic and continuous training on the Bank's existing controls to manage this risk.

The Bank has performed a significant investment to improve the technological platform for being more efficient with controls using an updated database and the issuance of alerts given the customers' transactional profiles.

Specific provisions

Agreement No. 004-2013 indicates that specific provisions arise from objective and concrete evidence of impairment. These provisions must be established for credit facilities classified in the risk category called special mention, substandard, doubtful or irrecoverable, both for the individual credit facilities as well as to a group of such facilities. In case of a group, it corresponds to circumstances indicating the existence of deterioration in credit quality, although individual identification is not yet possible.

2017	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Corporate loans	330,306,470	3,123,209	145,132	-	127,460	333,702,271
Consumer loans	53,895,092	164,842	29,703	-	512,549	54,602,186
Total	384,201,562	3,288,051	174,835	-	640,009	388,304,457
Specific provision	-	(286,087)	(63,342)	-	(623,523)	(972,952)

2016	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Corporate loans	259,886,574	-	638,957	822,274	4,926,900	266,274,705
Consumer loans	52,285,167	7,608	30,797	7,669	50,407	52,381,648
Total	312,171,741	7,608	669,754	829,943	4,977,307	318,656,353
Specific provision	-	-	(334,877)	(663,954)	(1,787,976)	(2,786,807)

Calculation basis

The calculation is made based on the following weighting table and it is the difference between the amount of the credit facility classified in the above-mentioned categories, and the present value of the guarantee to mitigate the potential loss. If the difference is negative, the result is zero.

Loan categories	Weighting
Special mention	20%
Subnormal	50%
Doubtful	80%
Unrecoverable	100%

The table below shows the balances for delinquent and overdue loans for the main categories and the amounts of the specific provisions for each portfolio as required in Article 29 of Agreement No.004-2013:

	2017		2016	
Classification	**Portfolio**	**Provisions**	**Portfolio**	**Provisions**
Normal	384,201,562	-	312,171,741	-
Special mention	3,288,051	286,087	7,608	-
Subnormal	174,835	63,342	669,754	334,877
Doubtful	-	-	829,943	663,954
Unrecoverable	640,009	623,523	4,977,307	1,787,976
Total	388,304,457	972,952	318,656,353	2,786,807

The classification of the loan portfolio by maturity profile is as follows:

	2017				2016			
Classification	**Current**	**Delinquent**	**Overdue**	**Total**	**Current**	**Delinquent**	**Overdue**	**Total**
Corporate loan	330,212,765	2,937,757	443,045	333,593,567	261,520,509	-	6,388,130	267,908,639
Consumer loan	53,095,810	925,577	689,503	54,710,890	49,676,886	974,346	96,482	50,747,714
Total	383,308,575	3,863,334	1,132,548	388,304,457	311,197,395	974,346	6,484,612	318,656,353

Accounting treatment

As a minimum, banks must calculate and maintain at all times the amount of the specific provisions determined by the method specified in this agreement, which takes into account the outstanding balance of each credit facility classified in one of the categories subject to provision mentioned in the previous paragraph; the present value of each benefit available as mitigating risk, as required by type of guarantee in this agreement; and a table of weightings applied to the net balance exposed to loss of such credit facilities.

In case of an excess of a specific provision, calculated in accordance with this agreement on the provision calculated according to IFRS, this excess shall be accounted for in a regulatory reserve in equity which increases or decreases with allocations to or from the retained earnings. The balance of the regulatory reserve will not be considered as capital funds for purposes of calculating certain ratios or prudential ratios mentioned in the agreement.

An analysis of the effect from differences between IFRS provision and Agreement No.004.-2013 arising from the regulatory provisions is shown below:

	2017	**2016**
Provisions according to IFRSs	1,128,475	2,836,452
Regulatory reserves		
Specific reserves	972,952	2,786,807
Differences between IFRSs and regulatory reserves	155,523	49,645

Dynamic reserve

Agreement No.4-2013 indicates that the dynamic reserve is a reserve established to meet possible future needs for creating specific provisions, which is governed by own prudential criteria specific of banking regulation. The dynamic reserve is constituted on a quarterly basis on credit facilities lacking the specific assigned reserve, that is, credit facilities classified in the normal category.

The dynamic reserve is an equity account that affects retained earnings. The credit balance of this dynamic reserve is part of the regulatory capital, but does not replace or offset the capital adequacy requirements established by the Superintendency of Banks of Panama (SBP). This means that the dynamic reserve decreases the amount of retained earnings of each bank until it meets Agreement No.4-2013. The amount of this reserve as at December 31, 2017 is for B/.5,108,311 and for its subsidiary, Uni Leasing, Inc., is for B/.51,122.

As at December 31, 2017, the amount for the dynamic reserve is as follows:

	2017	2016
Component 1		
For Alpha coefficient(1.50%)	3,570,463	2,745,844
Component 2		
Quarterly variation for Beta coefficient (5.00%)	1,080,894	-
Component 3		
Less: Positive quarterly variation of specific reserve	386,323	397,146
Total dynamic reserve (2.13% and 1.88%)	4,265,034	2,348,698
Restrictions:		
Total dynamic reserve	5,135,611	3,905,206
Minimum (1.25% of risk-weighted assets per normal category)	2,978,196	2,288,300
Maximum (2.50% of risk-weighted assets per normal category)	5,956,393	4,576,601

As at December 31, 2017, the dynamic reserve calculation is held for B/.5,159,433, which according to Agreement No.4-2013 is maintained within the minimum required by the regulator.

25. Approval of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2017 were approved by the Board of Directors and authorized for their issuance on March 6, 2018.

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