MULTIBANK, INC.
AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Financial Statements

As of December 31, 2014

(With Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

MULTIBANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Multibank, Inc.

We have audited the accompanying consolidated financial statements of Multibank, Inc. and subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Multibank, Inc. and subsidiaries as at 31 December 2014 and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of a matter

As explained in notes 2 and 28, as of December 31, 2014, the Bank adopted International Financial Reporting Standards issued by the International Accounting Standards Board. Our opinion does not include any qualification on that matter.

Other Matters

The consolidated financial statements of Multibank, Inc. and Subsidiaries, as of and for the year ended December 31, 2013 were audited by other auditors, who expressed an unqualified opinion dated January 29, 2014 in accordance with International Financial Reporting Standards, as amended by prudential regulations issued by the Superintendence of Banks of Panama for oversight purposes.

KPMG (SIGNED)

January 29, 2015
Panama, Republic of Panama

MULTIBANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2014

(Amounts expressed in Balboas)

Assets	Note	2014	2013
Cash and cash equivalents		24,811,124	27,952,862
Bank deposits:			
Demand deposits - local banks		19,200,569	20,799,404
Demand deposits - foreign banks		135,975,462	81,342,615
Time deposits - local banks		89,300,272	53,000,271
Time deposits - foreign banks		118,150,067	122,800,860
Total bank deposits		362,626,370	277,943,150
Total cash, cash items and bank deposits	4, 9	387,437,494	305,896,012
Securities purchased under resale agreement	4, 10	0	1,281,000
Available-for-sale securities	4, 11	520,254,949	414,262,960
Held-to-maturity securities	4, 11	157,984,738	160,170,813
Loans, net	4, 12, 24	2,403,868,514	2,091,115,858
Property, furniture, equipment and leasehold improvements, net	13	51,158,757	29,827,823
Accrued interest receivable	24	22,780,623	20,242,769
Customers' liabilities under acceptances		3,529,246	2,057,595
Goodwill	14	6,717,198	6,717,198
Deferred tax assets	7	5,529,864	5,677,691
Other assets	15, 23	59,908,248	65,007,966
Total assets		3,619,169,631	3,102,257,685

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

Liabilities and equity	Note	2014	2013
Liabilities:			
Customers' deposits:	4, 24		
Demand deposits - local banks		274,110,359	191,016,658
Demand deposits - foreign banks		376,705,371	307,819,625
Savings deposits		381,270,321	287,857,517
Time deposits - local banks		934,938,115	880,341,462
Time deposits - foreign banks		393,350,184	342,649,853
Total customers' deposits		2,360,374,350	2,009,685,115
Securities sold under repurchase agreement	4, 16	112,000,000	90,078,000
Borrowings received	4, 17	603,910,339	537,144,128
Bonds payable	4, 18	38,655,000	42,284,000
Certified and cashier's checks		24,213,922	18,250,352
Accrued interests payable	24	30,711,294	28,431,187
Pending acceptances		3,529,246	2,057,595
Other liabilities	19, 24	81,577,348	70,221,501
Total liabilities		3,254,971,499	2,798,151,878
Equity:			
Common shares	20	171,046,039	167,047,099
Preferred shares	20	99,000,000	73,370,300
Surplus in acquisition of non-controlling interest	20	(5,606,927)	(5,454,054)
Regulatory reserves	27	30,843,565	1,545,924
Property revaluation	13	6,951,310	111,842
Reserve for valuation of available-for-sale securities	11	(21,074,557)	(24,011,273)
Unrealized loss from transfer to held-to-maturity securities	11	(10,102,806)	(11,132,710)
Foreign currency translation effect		(11,516,064)	(1,395,050)
Retained earnings		104,657,572	102,813,037
Equity attributable to equity holders		364,198,132	302,895,115
Non-controlling interests in subsidiary	1	0	1,210,692
Total equity		364,198,132	304,105,807
Total liabilities and equity		3,619,169,631	3,102,257,685

MULTIBANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Profit or Loss

For the year ended December 31, 2014

(Amounts expressed in Balboas)

	Note	2014	2013
Interest and commissions income:			
Interests from:	25		
Loans		161,463,857	142,311,882
Time deposits		777,113	477,133
Investments		19,523,345	18,416,852
Commissions from loans		17,268,556	15,964,651
Total interest and commission income		199,032,871	177,170,518
Interest expenses:	25		
Deposits		54,420,861	48,624,595
Borrowings		16,121,423	15,517,829
Bonds		1,877,437	1,410,611
Total interest expenses		72,419,721	65,553,035
Total interest and commissions income, net		126,613,150	111,617,483
Allowance for impairment of financial assets:			
Provision for loan losses	12	10,113,094	9,287,518
Provision for impairment of foreclosed assets	15	4,112	6,210
Net interests and commission income, after provisions		116,495,944	102,323,755
Income (expenses) from banking services and others:			
Fees and other commissions earned	6	21,715,723	31,526,471
Net gain (loss) from sale of securities	8	62,002	(2,834,093)
Unrealized net gain from securities at fair value through profit or loss	11	0	117,425
Exchange gain		1,767,209	2,011,930
Insurance premiums, net		4,042,003	2,945,298
Commissions incurred		(8,377,224)	(9,348,054)
Other, net		(2,475,198)	(1,292,843)
Total income from banking services and other, net		16,734,515	23,126,134
General and administration expenses:			
Salaries and other personnel costs	24	46,601,575	43,517,026
Professional fees		6,122,016	4,174,387
Depreciation and amortization	13	4,924,617	3,874,769
Maintenance of equipment and premises		5,705,471	5,418,765
Rental	21, 24	4,929,620	5,143,823
Sundry taxes		4,517,494	3,859,661
Other		10,652,545	11,521,467
Total general and administration expenses		83,453,338	77,509,898
Net income before income tax		49,777,121	47,939,991
Income tax, net	7	(7,134,568)	(8,477,615)
Net income for the period		42,642,553	39,462,376
Attributable to:			
Equity holder of the Bank		42,531,121	39,449,748
Non-controlling interest in subsidiary		111,432	12,628
Net income for the year		42,642,553	39,462,376

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

MULTIBANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2014

(Amounts expressed in Balboas)

	Note	2014	2013
Net income		42,642,553	39,462,376
Other comprehensive income (loss):			
Items that are or may be reclassified to profit or loss			
Foreign currency translation effect		(10,121,014)	(2,957,963)
Reserve for valuation of investment securities:	11		
Net changes in valuation of available-for-sale securities		3,006,406	(23,814,109)
Transfer of unrealized loss from held-to-maturity securities		0	(11,551,455)
Amortization to profit or loss of unrealized loss from securities transferred to held-to-maturity investments		1,029,904	418,745
Net loss (gain) from available-for-sale securities transferred to profit or loss		(69,690)	2,062,693
Total other comprehensive losses, net		(6,154,394)	(35,842,089)
Total comprehensive income		36,488,159	3,620,287
Comprehensive income attributable to:			
Equity holder of the Bank		36,376,727	3,619,742
Non-controlling interest in subsidiary		111,432	545
Total comprehensive income		36,488,159	3,620,287

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

MULTIBANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2014

(Amounts expressed in Balboas)

		Attributable to the Controlling Company			Regulatory Reserves											
	Note	Common shares	Preferred shares	Surplus in acquisition of non-controlling interest	Dynamic provisions	Surplus of credit reserve	Allowance for foreclosed assets	Insurance regulatory reserve	Capital regulatory reserve	Property revaluation	Reserve for valuation of available-for-sale securities	Unrealized loss from securities transferred to held-to-maturity investments	Foreign currency translation effect	Undistributed earnings	Non-controlling interest in subsidiary	Total
Balance as of December 31, 2012		127,047,099	73,370,300	(5,454,054)	0	0	677,734	295,465	211,598	72,696	(2,259,857)	0	1,562,913	74,174,270	1,198,064	270,896,228
Comprehensive income:																
Net income		0	0	0	0	0	0	0	0	0	0	0	0	39,449,748	12,628	39,462,376
Other comprehensive income (loss):																
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	(2,957,963)	0	0	(2,957,963)
Reserve for valuation of investment securities:																
Net changes in valuation of available-for-sale securities	11	0	0	0	0	0	0	0	0	0	(35,365,564)	0	0	0	0	(35,365,564)
Transfer of unrealized loss from held-to-maturity securities		0	0	0	0	0	0	0	0	0	11,551,455	(11,551,455)	0	0	0	0
Amortization to profit or loss of unrealized loss from held-to-maturity securities transferred		0	0	0	0	0	0	0	0	0	0	418,745	0	0	0	418,745
Net loss from available-for-sale securities transferred to profit or loss		0	0	0	0	0	0	0	0	0	2,062,693	0	0	0	0	2,062,693
Total other comprehensive (losses) income		0	0	0	0	0	0	0	0	0	(21,751,416)	(11,132,710)	(2,957,963)	0	0	(35,842,089)
Total comprehensive income (losses)		0	0	0	0	0	0	0	0	0	(21,751,416)	(11,132,710)	(2,957,963)	39,449,748	12,628	3,620,287
Other equity transactions:																
Issuance of common shares		40,000,000	0	0	0	0	0	0	0	0	0	0	0	0	0	40,000,000
Regulatory reserve for foreclosed assets	27	0	0	0	0	0	(265,086)	0	0	0	0	0	0	265,086	0	0
Reserve for property revaluation	13	0	0	0	0	0	0	0	0	39,146	0	0	0	0	0	39,146
Insurance regulatory reserve		0	0	0	0	0	0	439,284	0	0	0	0	0	(377,523)	0	61,761
Capital reserve		0	0	0	0	0	0	0	186,929	0	0	0	0	(186,929)	0	0
Total other equity transactions		40,000,000	0	0	0	0	(265,086)	439,284	186,929	39,146	0	0	0	(299,366)	0	40,100,907
Contributions, distributions and changes in stockholders' interests:																
Dividends paid - common shares	20	0	0	0	0	0	0	0	0	0	0	0	0	(5,558,749)	0	(5,558,749)
Dividends paid - preferred shares	20	0	0	0	0	0	0	0	0	0	0	0	0	(5,901,491)	0	(5,901,491)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	948,625	0	948,625
Total contributions, distributions and changes in stockholders' interests		0	0	0	0	0	0	0	0	0	0	0	0	(10,511,615)	0	(10,511,615)
Balance as of December 31, 2013		167,047,099	73,370,300	(5,454,054)	0	0	412,648	734,749	398,527	111,842	(24,011,273)	(11,132,710)	(1,395,050)	102,813,037	1,210,692	304,105,807
Comprehensive income:																
Net income		0	0	0	0	0	0	0	0	0	0	0	0	42,531,121	111,432	42,642,553
Other comprehensive income (loss):																
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	(10,121,014)	0	0	(10,121,014)
Reserve for valuation of investment securities:																
Net changes in valuation of available-for-sale securities	11	0	0	0	0	0	0	0	0	0	3,006,406	0	0	0	0	3,006,406
Amortization to profit or loss of unrealized loss from held-to-maturity securities transferred	11	0	0	0	0	0	0	0	0	0	0	1,029,904	0	0	0	1,029,904
Net gain from available-for-sale securities transferred to profit or loss		0	0	0	0	0	0	0	0	0	(69,690)	0	0	0	0	(69,690)
Total other comprehensive (loss) income		0	0	0	0	0	0	0	0	0	2,936,716	1,029,904	(10,121,014)	0	0	(6,154,394)
Total comprehensive (loss) income		0	0	0	0	0	0	0	0	0	2,936,716	1,029,904	(10,121,014)	42,531,121	111,432	36,488,159
Other equity transactions:																
Dynamic reserve	27	0	0	0	25,380,285	0	0	0	0	0	0	0	0	(25,380,285)	0	0
Credit regulatory reserve	27	0	0	0	0	565,116	0	0	0	0	0	0	0	(565,116)	0	0
Regulatory reserve for foreclosed assets		0	0	0	0	0	(18,003)	0	0	0	0	0	0	319,200	0	301,197
Reserve for property revaluation	13	0	0	0	0	0	0	0	0	7,199,892	0	0	0	0	0	7,199,892
Deferred tax	13	0	0	0	0	0	0	0	0	(360,424)	0	0	0	0	0	(360,424)
Insurance regulatory reserve		0	0	0	0	0	0	489,495	0	0	0	0	0	(489,495)	0	0
Capital reserve		0	0	0	0	0	0	0	2,880,748	0	0	0	0	(2,880,748)	0	0
Total other equity transactions		0	0	0	25,380,285	565,116	(18,003)	489,495	2,880,748	6,839,468	0	0	0	(28,996,444)	0	7,140,665
Contributions, distributions and changes in stockholders' equity:																
Issuance of preferred shares	20	0	25,629,700	0	0	0	0	0	0	0	0	0	0	0	0	25,629,700
Issuance of common shares	20	3,998,940	0	0	0	0	0	0	0	0	0	0	0	0	0	3,998,940
Dividends paid - common shares	20	0	0	0	0	0	0	0	0	0	0	0	0	(6,112,609)	0	(6,112,609)
Dividends paid - preferred shares	20	0	0	0	0	0	0	0	0	0	0	0	0	(6,080,804)	0	(6,080,804)
Acquisition of non-controlling interest in subsidiary not resulting in change of control		0	0	(152,873)	0	0	0	0	0	0	0	0	0	777,738	(1,322,124)	(697,259)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	(274,467)	0	(274,467)
Total contributions, distributions and changes in stockholders' interests		3,998,940	25,629,700	(152,873)	0	0	0	0	0	0	0	0	0	(11,690,142)	(1,322,124)	16,463,501
Balance as of December 31, 2014		171,046,039	99,000,000	(5,606,927)	25,380,285	565,116	394,645	1,224,244	3,279,275	6,951,310	(21,074,557)	(10,102,806)	(11,516,064)	104,657,572	0	364,198,132

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

MULTIBANK, INC. Y SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2014

(Amounts expressed in Balboas)

	Notes	2014	2013
Operating activities:			
Net income		42,642,553	39,462,376
Adjustments for:			
Provision for loan losses	12	10,113,094	9,287,518
Provision for impairment of foreclosed assets	15	4,112	6,210
Unrealized gain from securities at fair value through profit or loss	11	0	(117,425)
Depreciation and amortization	13	4,924,617	3,874,769
Income tax, current	7	6,986,741	7,677,933
Deferred income tax	7	147,827	799,682
Net gain (loss) from sale of securities	8	(62,002)	2,834,093
Interest income		(181,764,315)	(161,205,867)
Interest expense		72,419,721	65,553,035
Loss from disposal of property, furniture and equipment	13	108,415	125,762
Net changes in operating assets and liabilities:			
Deposits over 90 days		(24,610,081)	(4,069,539)
Increase in loans		(327,245,173)	(324,977,920)
Decrease in other assets		11,548,165	1,386,942
Increase in customers' deposits		353,839,366	233,766,757
Increase in other liabilities		9,258,899	13,753,872
Securities at fair value, net	11	0	4,254,681
Interests received		179,290,434	156,278,732
Interests paid		(69,852,574)	(59,927,004)
Income tax paid		(8,409,805)	(5,259,808)
Net cash from (used in) operating activities		79,339,994	(16,495,201)
Cash flows from investing activities:			
Securities purchased under resale agreement	10	1,281,000	(1,281,000)
Purchase of available-for-sale securities	11	(607,516,658)	(649,607,087)
Sale and redemption of available-for-sale securities	11	509,873,309	488,843,622
Purchase of securities held-to-maturity	11	(221,464)	(21,000,000)
Redemption of securities held-to-maturity		2,945,020	22,620
Purchases of property, furniture and equipment	13	(19,155,477)	(22,398,950)
Net cash used in investing activities		(112,794,270)	(205,420,795)
Cash flows from financing activities:			
Securities sold under repurchase agreements		21,922,000	53,970,894
Borrowings received		436,400,596	599,463,219
Borrowings paid and amortizations		(375,995,454)	(419,048,549)
Subordinated debt paid		0	(15,000,000)
Issuance of bonds payable		0	21,164,000
Redemption of bonds payable		(3,629,000)	0
Issuance of common shares	20	3,998,940	40,000,000
Issuance of preferred shares	20	25,629,700	0
Changes in interest in subsidiaries		(1,474,997)	0
Dividends paid on common shares	20	(6,112,609)	(5,558,749)
Dividends paid on preferred shares	20	(6,080,804)	(5,901,491)
Net cash from financing activities		94,658,372	269,089,324
Effect of fluctuation in exchange rates		(4,272,695)	(1,272,559)
Net increase in cash and cash equivalents		56,931,401	45,900,769
Cash and cash equivalents at the beginning of year		296,141,473	250,240,704
Cash and cash equivalents at the end of year	9	353,072,874	296,141,473
Non-cash generating transactions			
Reclassification from available-for-sale securities to held-to-maturity securities	11	0	136,030,568
Revaluation of property, furniture and equipment	13	7,208,489	0

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

Index to the notes to the consolidated financial statements

(1) General Information

Multibank, Inc. is incorporated under the laws of the Republic of Panama. The Bank started operations on July 12, 1990 under a general banking license issued by the Superintendence of Banks of Panama (hereinafter referred to as "the Superintendence"), by means of Resolution N° 918 dated March 28, 1990, which allows to provide banking services, indistinctly, in Panama or abroad and conduct any other activity authorized by the Superintendence.

Multibank, Inc. provides a wide range of financial services mainly related to corporate, investment, mortgage and consumer banking as well as insurance, factoring and leasing services.

Multibank, Inc. is a 100%-owned subsidiary of Multi Financial Group Inc. ("Holding Company"), an entity incorporated in conformity with the laws of the Republic of Panama, through Public Deed N° 27,702 dated November 9, 2007.

Multibank, Inc. owns the following subsidiaries:

	Activity	Country of incorporation	Controlling interest 2014	Controlling interest 2013
Hemisphere Bank Inc., Ltd.	Commercial bank business	Turks& Caicos Islands	100%	100%
Gran Financiera, S. A.	Consumer loans	Panama	100%	100%
Multi Securities, Inc.	Trade, execute and process the purchase/sale of securities, locally and abroad, and management of an investment portfolio	Panama	100%	100%
Multi Trust, Inc	Foster, establish, administrate and management of trust funds and render trust services	Panama	100%	100%
Macrofinanciera, S. A.	Render remittance and financial intermediation services	Colombia	100%	100%
Multi Capital Company, Inc,	Render advisory services abroad	Nevis Islands	100%	100%
Multibank Seguros, S.A.	Insurance business	Panama	100%	100%
Multileasing Financiero, S.A.	Finance leasing of movable goods	Panama	100%	100%

(1) General Information, continued

	Activity	Country of incorporation	Controlling interest 2014	2013
Multi Facilities Holding Corporation y subsidiarias	Collection and recovery of special loans and activities related to financial loans through subsidiaries	British Virgin Islands	100%	100%
MB Créditos, S.A.	Subsidiary of Multi Facilities Holding Corporation, its activity is to offer car financing services	Costa Rica	100%	75%
MB Leasing, S.A.	Subsidiary of MB Créditos, S.A.; finance leasing of movable property.	Costa Rica	100%	0%
Multibank Factoring, Inc.	Factoring services	Panama	100%	100%
Multibank Caymán, Inc.	Commercial bank business	Cayman Islands	100%	100%
Orbis Real Estate, Inc.	Purchase, sale and administration of real estate.	Panama	100%	100%
Inversiones Prosperidad, S.A.	Purchase, sale and administration of real estate.	Panama	100%	0%

Multibank, Inc. and subsidiaries shall be hereinafter jointly referred to as the "Bank".

On April 30, 2014, Multi Facilities Holding Corporation acquired the remaining 25% of the interest of MB Créditos, S.A. in order to obtain 100%-interest on such subsidiary effective that date. Additionally, during August 2014, the subsidiary MB Leasing, S. A started operations.

On October 23, 2014, the Board of Directors of Multi Financial Group Inc. and Multibank Inc., made the decision of reorganizing some Group's subsidiaries, for which as of December 31, 2014, the following commonly-controlled entity transaction was performed:

- Sale of 100% of shares of Inversiones Prosperidad, S. A., by Multi Investment Inc. to Multibank Inc., at its carrying value.

The main office of Multibank, Inc. is located at Vía España, Edificio Prosperidad, Local #127, P.O. Box No.0823-05627, Panama, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the first consolidated financial statements of the Bank prepared in accordance with IFRS. IFRS 1 *"First-time Adoption of International Financial Reporting Standards"* has been applied.

(2) Basis of Preparation, continued

Note 28 includes an explanation of how transition to IFRS has affected the consolidated financial position, the consolidated statement of profit or loss and consolidated statement of cash flows of the Bank.

These consolidated financial statements were authorized the issuance by the Audit Committee on January 20, 2015.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis or amortized cost, except for assets and liabilities recorded at fair value through profit or loss, available-for-sale securities and derivative financial instruments, which are measured at fair value; as well as foreclosed assets, which are measured at the lower of its carrying value and its fair value less cost to sell.

The Bank initially, recognizes loans, receivables and deposits on the date on which they are originated. Any other financial assets (including assets designated at fair value through profit or loss), are initially recognized on the trade date, which is the date when the Bank engages to purchase or sell an instrument.

(c) Functional and Presentation Currency

The consolidated financial statements are presented in balboas (B/.).The balboa is the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States of America dollar (US$). The Republic of Panama does not issue paper currency, and in lieu the United States of America dollar (US$) is used as legal tender and functional currency.

(d) Changes in Accounting Policies

(d.1) Subsequent measurement of property, furniture and equipment

During the year ended December 31, 2014, the Bank adopted the revalued cost method provided by International Accounting Standard N°16 *Property, Plant and Equipment* for the subsequent measurement of its lands and buildings. By virtue of this change, the Bank recognized B/.7,208,489 as a reserve for revaluation of real estate in the consolidated statement of changes in equity.

(3) Summary of Significant Accounting Policies

The accounting policies detailed below have been consistently applied by the Bank for all the periods presented in these consolidated financial statements.

(a) Basis of Consolidation

(a.1) Subsidiaries

The Bank has control on a subsidiary when is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The financial statements of the subsidiaries, described in Note 1, are included in the consolidated financial statements since the date the Bank obtains control and ceases when the Bank loses control.

Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective acquisition date or the effective disposal date, as applicable.

Non-controlling interests in subsidiaries are separately identified from the Bank's equity. Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. After acquisition, the carrying value of non-controlling interests represents the amount of these interests on initial recognition plus the share of non-controlling interests of subsequent changes in equity. Total comprehensive income of subsidiaries is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(a.2) Investment Entities and Separate Vehicles

The Bank manages and administrates assets held in trust funds and other investment instruments to support investors. The financial statements of these entities do not form part of these consolidated financial statements, except when the Bank has control over the entity.

(a.3) Transactions Eliminated on Consolidation

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

(a.4) Conversion of the Financial Statements of Foreign Subsidiaries

The functional currency of the subsidiary Macrofinanciera, S.A. (Colombia) is the Colombian Peso. Profit or loss and financial position of the Bank's entities having a functional currency other than presentation currency are converted into presentation currency, as follows:

- Monetary assets and liabilities, at the exchange rate in effect at year-end.
- Income and expenses, at the average exchange rate.

(3) Summary of Significant Accounting Policies, continued

- Equity accounts, at the historical exchange rate.
- The resulting conversion adjustment is directly recorded in a separate account in Equity, under the caption "Foreign Currency Translation Effect".

(a.5) Changes in the Bank's ownership interests in existing subsidiaries
Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Bank loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When the assets of the subsidiary are recorded at their revalued amounts or fair values and the related accumulated gain or loss has been recognized in other comprehensive income and accrued in equity, all amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to retained earnings as specified by applicable standard). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement*, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered as active if the transactions of these assets and liabilities are frequent and in a sufficient volume to provide information to set prices on a going concern basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable input data and minimize the use of unobservable inputs. The selected valuation technique incorporates all of the factor that would be considered by market participants when setting the price of a transaction.

(3) Summary of Significant Accounting Policies, continued

The fair value of a demand deposit is not lower than the amount payable as required, discounted since the first date payment might be required.

The Bank recognizes transfers among the fair value hierarchy levels at the end of the period when the change occurred.

(c) Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include demand deposits and time deposits with banks that have an original maturity of three (3) months or less.

(d) Securities Purchased under Resale Agreement

Securities purchased under resale agreements correspond to short-term financing transactions secured with collaterals, whereby the Bank acquires such securities at a discounted market value and agrees to resell them in the future to the debtor at an agreed price. The difference between this purchase value and the selling price is recognized as income under the effective interest rate method.

(e) Derivative Financial Instruments

Derivatives are initially recognized at fair value; transactions costs are recognized in profit or loss as incurred. After initial recognition, derivatives are valued at fair value and any change is recorded as follows:

(e.1) Fair Value Hedges

Derivatives under the fair value method are instruments that hedge the exposure to changes in the fair value of: (a) a portion or the total value of financial asset or liability recognized in the consolidated statement of financial position, (b) a firm commitment or probable transaction to be materialized. The change in the fair value of the hedging instrument is recognized in profit or loss.

If a hedged asset is classified as available for sale, the revaluation of this category of investments is recorded in equity. At the inception of the hedge relationship, the revaluation of such asset will begin to be recorded in the consolidated statement of profit or loss and the revaluation balance, previously recorded in the provision shall be maintained until sale or maturity date of the asset.

If a hedged asset or liability is carried at amortized cost, its carrying value shall be adjusted to show the changes in its fair value by virtue of the fluctuation in interest rates. These hedged assets and liabilities shall be carried at amortized cost upon termination of the hedging relationship by using the adjusted effective yield rate for the amortization calculation. If the hedged asset carried at amortized cost suffers a permanent impairment, the loss shall be calculated based on the difference between the carrying value, after the adjustment by changes in the fair value of the hedged asset, as a result of the hedged risk and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

(3) Summary of Significant Accounting Policies, continued

(e.2) Other Derivatives

Derivatives not connected to a hedge strategy are classified as assets or liabilities at fair value, and are recognized in the consolidated statement of financial position at their fair value. Changes in the valuation of these derivatives are recorded in the consolidated statement of profit or loss.

(f) Investment Securities

Investment securities are initially measured at fair value and they are subsequently recorded based on the classifications maintained in accordance with the characteristics of the instrument and on management's intent with respect to these securities at the acquisition date. The classifications used by the Bank are as follows:

(f.1) Financial assets at fair value through profit or loss (FVTPL):

Those investment securities acquired to obtain benefits from short-term price fluctuations are classified in this category. Financial assets at FVTPL are stated at fair value, with any change in the fair value recognized in the consolidated statement of profit or loss.

(f.2) Available-for-sale financial assets (AFS):

This category includes investments acquired to be maintained for indefinite time with the intention to sell them in case of liquidity issues, changes in interest rates, exchange rate or changes in share market prices. These investments are recorded at their fair market value and other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of (derecognized) or is determined to be impaired, the cumulative gain or loss previously recognized in the consolidated statement of other comprehensive income is reclassified to profit or loss.

Impairment of available-for-sale financial assets

The Bank reviews at the date of each consolidated statement of financial position, if there is any objective evidence of impairment in investment securities. For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative losses are reclassified from equity to profit or loss in the period.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(3) Summary of Significant Accounting Policies, continued

(f.3) Held-to-Maturity Investments:
Held-to-maturity investments are non-derivative financial assets that the Bank has the intention and ability to hold to their maturity. These securities are mainly comprised of debt instruments, which are presented on the amortized cost basis. Any security presenting a permanent decline in the value is decreased to its fair value by recording a specific investment reserve with charge to profit or loss for the year.

When the fair value of equity investments cannot be measured reliably, investments are maintained at cost.

- *Transfer among categories*
The Bank assesses in each reporting period, the classification of its investments and evaluates if there is any change in its intention or ability to maintain the same category.

If due to a change in the intention or ability over a financial asset or liability, it is required to be recognized at cost or amortized cost rather than fair value, the carrying amount of the fair value of the financial asset or liability at that date shall be converted into its new cost or amortized cost, as applicable. Any effect resulting from this asset, previously recognized in other comprehensive income shall be recorded as follows:

In case of a fixed-term financial asset, any gain or loss shall be recorded in profit or loss for the period through the remaining useful life of the held-to-maturity investment, using the effective interest method. Any difference between the new amortized cost and the amount upon maturity shall be also amortized through the remaining useful life of the financial asset using the effective interest method, similarly to the amortization of a premium or discount. In case of a subsequent impairment, any gain or loss that was previously recognized in other comprehensive income shall be reclassified from equity to the consolidated statement of profit or loss.

In the case of a financial asset not having a fixed maturity date, upon sale or disposal, any unrealized gain or loss shall be recognized in profit or loss for the year. In case of a subsequent impairment, any gain or loss that was previously recognized in other comprehensive income shall be reclassified from equity to the consolidated statement of profit or loss for the year.

(g) Loans
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, which are generally originated by to lend funds to a debtor. Loans are presented at their principal pending collection value, less any unearned interest and commissions and the allowance for loan losses. Unearned interest and commissions are recognized as income through the duration of the loan by using the effective interest method.

(3) Summary of Significant Accounting Policies, continued

(h) Finance lease receivable

Finance leases are mainly comprised of vehicles lease arrangements, which are reported as part of the loan portfolio at the present value of the lease. The difference between the gross amount receivable and the present value receivable is recorded as unearned interests, which is amortized to operating revenues by using a method that shows a periodical return rate.

(i) Factoring receivable

Factoring mainly consists of the purchase of invoices, which are presented at their principal amount pending collection. These invoices receivable show the present value of the contract.

(j) Allowance for loan losses

At the consolidated statement of financial position date, the Bank reviews loan or loan portfolio, finance lease receivable or factoring receivable (hereinafter referred to as the "loans") to determine whether there is any indication that those assets have suffered an impairment loss. The amount of loan losses determined during the period is recognized as a provision expense in profit or loss for the period increasing the allowance for loan losses. The allowance is presented deducted from loans receivable in the consolidated statement of financial position. In case of a bad debt, the amount not recovered is charged off against the corresponding allowance account. The recovery of loans that were previously written-down as bad debts are credited to the allowance account.

Impairment losses are determined through two methods which indicate if there is any objective evidence of impairment, i.e. individually for loans individually material and collectively for loans not individually material.

(j.1) Individually Assessed Loans

Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the actual rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the consolidated statement of profit or loss. The carrying value of impaired loans is decreased through the use of the allowance for loan losses account.

(3) Summary of Significant Accounting Policies, continued

(j.2) Collectively Assessed Loans

For purposes of a collective assessment for impairment, loans are grouped based on similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for the groups of such assets, being an indicator of the payment capacity of debtors for all the amounts owed as per the contractual terms of assessed assets. Future cash flows for a loan group collectively assessed for impairment are estimated based on contractual cash flows of the group's assets, the historical loss experience for assets with similar credit risk characteristics and adjusted by an economic factor showing the following:

- The economic conditions prevailing in each market
- Portfolio position within the business cycle
- The effect of the aging of the portfolio
- Changes in interest rates
- Changes in loan policies and/or procedures
- Political and legal changes.

(j.3) Reversal due to 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 was recognized, the previously recognized impairment loss is reversed by decreasing the allowance for loan losses. The amount of any reversal is recognized in the consolidated statement of profit or loss.

(j.4) Restructured loans

Restructured loans are those for which a restructuring has been made due to any impairment in the financial condition of the counterparty, and where the Bank considers to change the loan parameters. These loans, after restructuring, are maintained in the corresponding category, regardless if the debtor presents any improvement in its condition after restructuring.

(k) Dynamic Provision

A dynamic provision is an equity item that will increase or decrease through transfers from and to undistributed earnings, which is required by Agreement 4-2013 of the Superintendence of Banks of Panama.

(l) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank a legally enforceable sight to set off the amounts and it intends either to settled them on a net basis or to realize the asset and settle the liability simultaneously.

(3) Summary of Significant Accounting Policies, continued

(m) Property, Furniture, Equipment and Improvements

Property, furniture, equipment and improvements comprise buildings, furniture and improvements used by branches and offices. Property, furniture, equipment and improvements are presented at their historical cost, less accumulated depreciation and amortization, except for lands and buildings, which as of December 31, 2014 are recognized at the revalued cost method. The historical cost includes the expense directly attributed to the purchase of goods.

Subsequent costs are capitalized or they are recognized as a separate asset, as corresponds, when it is probable that the economic benefits associated with the transaction will flow to the Bank; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Costs for maintenance and repairs are charged directly to expenses when incurred.

Depreciation of property, furniture and equipment and amortization of improvements are calculated using the straight-line method over the estimated useful lives of assets. The useful lives of assets are as follows:

- Buildings	60 years
- Furniture and office equipment	3 - 10 years
- Computers	3 - 7 years
- Vehicles	3 - 7 years
- Leasehold improvements	5 - 10 years

The useful life is reviewed and adjusted as appropriate at each date of the consolidated statement of financial position. Property and equipment are reviewed for impairment provided that any change in events or circumstances indicates that the carrying value might not be recoverable. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use.

(n) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units. The impairment test requires that fair value of each cash-generating unit to be compared to its carrying value. Goodwill is presented at cost less any accumulated impairment loss. Any impairment loss for goodwill is recognized directly in profit or loss.

Goodwill or other intangible assets with indefinite useful lives are not amortized but is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

(3) Summary of Significant Accounting Policies, continued

(o) Deposits, Bonds payable, Borrowings Received and Trading Securities

These instruments result from the funds received by the Bank, which are initially measured at fair value, net of transaction costs. Subsequently, they are measured at amortized cost, using the effective interest method, except for liabilities that the Bank decides to measure at fair value through profit or loss. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

(p) Financial Guarantees

Financial guarantees are contracts that required the Bank to make specific payments on behalf of its clients for purposes of reimbursing the guarantee beneficiary, in case that the client is unable to honor the payment at the date agreed, in conformity with the terms and conditions of the arrangement. Liabilities arising from financial guarantees are initially measured at fair value, which is amortized throughout the term of the financial guarantee. Subsequently, guarantee is carried at the highest amount between the amortized amount and the present value of expected future payments. Financial guarantees are included in the consolidated statement of financial position within other liabilities.

(q) Interest income and expenses

Interest income and expenses are usually recognized in the consolidated statement of profit or loss for any financial instrument presented at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income over the relevant period. The calculation includes all the commissions and installments paid or received by the counterparties which form integral part of the effective interest rate, transaction costs and any other premium or discount. Transaction costs are origin costs directly attributable to the acquisition, issuance or disposal of an asset or liability. When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses.

(r) Income from Fees and Commissions

Usually, fees and commissions on short-term loans, letters of credit and other bank services are recognized as income under the cash basis due to their short-term maturity. Income recognized the cash basis does not significantly differ from income recognized under the accrual method.

Commissions on loans and other mid-term and long-term transactions, net of some direct costs are deferred and amortized during their useful lives.

(s) Dividend Income

Dividends are recognized in the consolidated statement of profit or loss when the Bank's right to receive the dividends is established.

(3) Summary of Significant Accounting Policies, continued

(t) Defined Contribution Plan

Defined contribution plans are recognized as an expense in the consolidated statement of profit or loss for the period when services are rendered by employees.

(u) Revenue or loss recognition from sale assets

The Bank recognizes a gain or loss from sale of property based on the accrual method, provided that all the following conditions are satisfied:

- the Bank has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Bank retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Bank; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Additionally, the following conditions shall be satisfied:

- The purchase-sale agreement shall be executed by both parties;
- The Bank obtains a letter of intent for the rest of the debt, if any; and
- Title has been registered before Public Registry.

(v) Insurance operations

Insurance arrangements correspond to those arrangements whereby the Bank assumes the significant insurance risk of a counterparty (the insurer), committing to compensate the insurer or other beneficiary when an uncertain future event (the insured event) adversely affects the insurer or beneficiary. By general rule, the group determines if the arrangement has a significant insurance risk by comparing benefits paid to benefits to be paid if the insured event does not occur. An insurance arrangement might also transfer financial risks. Insurance arrangements are maintained for the rest of their effective term, notwithstanding if the insurance risk significantly decreases, until all the risks and obligations terminate or expire. During the normal course of operations, the Bank has entered into reinsurance arrangements with reinsurance companies.

The reinsurance payable corresponds to the portion of premiums generated by sharing the risks. This agreed in the reinsurance arrangements; however, reinsurance arrangements do not release the Bank from contracted obligations, retaining overall responsibility for the insurer, policy holders or beneficiaries.

(3) Summary of Significant Accounting Policies, continued

The reinsurance receivable represents the balance of the amounts receivable from reinsurance companies by virtue of claims occurred, whereby it assumes the indemnity in favor of the insurer, and for the reinsurances accepted on behalf of other insurance companies. The amounts expected to be recovered from reinsurance companies are recognized in conformity with the clauses included in the arrangements entered into by both parties.

Any gain or loss from the reinsurance arrangement is recognized in the consolidated statements of profit or loss at the inception of the arrangement and they are not amortized.

Income and expenses from insurance operations are recorded as follows:

Insurance premiums are recognized in the year when the insurance policy was issued. Income from insurance premium corresponding to the period contracted in the policy is recognized upon the inception of the hedge without considering the payment status of the premium. Hedging begins with the acceptance of the insurance request by the client and payment of the premium, which may be fractioned or deferred when paid in one sole portion.

Expenses from reinsurance and commissions and other income and expenses related to the policy issuance are recognized upon recognition of income from premiums.

(w) Trust Operations

Assets held in trust are not considered part of the Bank's assets, and consequently, such assets and their corresponding income are not included in these consolidated financial statements. The Bank shall administrate the trust funds in conformity with contractual arrangements and separately from its own equity.

The Bank charges a commission for administrating the trust funds, which is paid by the settlors based on the amount maintained in the trust funds or as agreed by the parties. These commissions are recognized in income in accordance with the terms of the trust funds agreements, whether monthly, quarterly or annually or on an accrual basis.

(x) Preferred Shares

The Bank classifies preferred shares as part of its equity, since it has the discretionary power to decide on their redemption and declare dividends. Payment of dividends is deducted from retained earnings.

(y) Income Tax

Estimated income tax corresponds to the income tax payable for the year, using tax rates enacted at the consolidated statement of financial position date, plus any other income tax adjustment from prior years.

(3) Summary of Significant Accounting Policies, continued

Deferred income tax corresponds to the tax amount expected to be recovered or paid over temporary differences between carrying amounts reported of assets and liabilities, and their corresponding tax basis, using the tax rate enacted at the consolidated statement of financial position date. These temporary differences are expected to be reversed in the future. If it is determined that deferred tax cannot be realized in the future, it would be totally or partially reduced.

(z) Held-for-sale Assets

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Immediately before being classified as held for sale, assets or disposal groups will be measured again in conformity with the Bank's accounting policies. Based on that classification, the lowest value between its carrying amount and its fair value less costs of sales shall be recognized. An impairment loss shall be recognized by virtue of reductions in the beginning value of the Bank's assets. Impairment losses classified at the beginning and subsequently as held for sale are recognized in the consolidated statements of profit or loss.

(aa) Segment Information

A business segment is a component of the Bank, whose operating results are reviewed on a regular basis by management to make decisions about resources allocated to each segment and assess its performance, and for which financial information is available.

(ab) Foreign Currency

Assets and liabilities maintained in foreign currency are converted into balboas (B/.) at the official exchange rate prevailing the consolidated statement of financial position date. Foreign currency transactions are recorded at the exchange rates prevailing at the date of the transactions, and exchange gains and losses are included in other income or other expenses in the statement of profit or loss for the period.

(ac) Comparative Information

Certain figures of 2013 have been reclassified for comparison purposes to conform to 2014 consolidated financial statements.

(3) Summary of Significant Accounting Policies, continued

(ad) New IFRSs and Interpretations that have not been yet adopted

There are standards that have not been yet applied in the preparation of the consolidated financial statements:

- The final version of IFRS 9 Financial Instruments (2014) supersedes any previous versions of IFRS 9 (2009, 2010 and 2013), and forms part of the comprehensive project to supersede IAS 39. Among the most significant effects of this Standard are:

  - IFRS 9 contains new requirements for the classification and measurement of financial assets. Among other aspects, this Standard includes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 eliminates the categories previously implemented by IAS 39 corresponding to held-to-maturity investments, available-for-sale investments, loans and receivables.

  - Removal of profit or loss volatility caused by changes in the credit risk of liabilities measured at fair value, which implies that gains obtained from the entity's own credit risk impairment in this type of obligations is no longer recognized in profit or loss for the period, but in equity.

  - A substantially amended approach for hedge accounting, with enhanced disclosures in relating with risk management.

  - A new impairment model, based on "expected losses" which will require greater and timely recognition of expected credit losses.

  IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

  Given the nature of the Bank's financial operations, the adoption of this standard as is expected to have a pervasive impact on the consolidated financial statements, which is currently assessed by management.

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for reporting periods beginning on or after 1 January 2017 with early adoption permitted.

  The Bank is evaluating the potential effect of the application of IFRS 15 on its consolidated financial statements.

(4) Financial Risk Management

The main purpose of risk management is mitigating the potential losses the Bank may face as actor in the financial industry through a preventive integral management approach maximizing the risk-return ratio and enhancing the allocation of economic capital.

The Bank has a Comprehensive Risk Management System (SIAR for its words in Spanish) whose bases are supported by the policies and procedures that set out the effect of each type of risks identified and mentioned in the manual. Additionally, it has provided the system with an organization structure with material and financial resources directly reporting to the Board of Directors through the Risk Committee.

The Risk Committee, comprised by independent directors and Bank's executives, is mainly engaged in the following activities:

- Approve the strategies to assume risks, ensuring that they represent a proper risk-return ratio optimizing the use of the Bank's economic capital.

- Approve the maximum exposure limits allowed, showing the Bank's risk appetite.

- Approve the management policies and framework for any type of risks.

- Analyze the Bank's exposure to different risks and their interrelation and recommend mitigation strategies as required.

- Inform the Board of Directors as to the Bank's risk behavior.

The Bank has defined four main principles for Risk Management, detailed as follows:

- The management approach shall be comprehensive, incorporating any risk and operations of the Bank and its subsidiaries.

- The management of individual risks shall be uniform.

- The risk management framework shall be based on international best practices and shall incorporate past experiences.

- The function of the risk unit shall be independent from the business.

Additionally, the Bank is subjected to regulations from the Superintendence of Banks and the Superintendence of Securities of Panama, with respect to concentrations of risk, liquidity and capitalization, among other.

(4) Financial Risk Management, continued

The Bank's Audit Committee supervises the form Management monitors the compliance with risk management policies and procedures and reviews if the risk management framework is appropriate to face the Bank's risks. This Committee is assisted by Internal Audit acting as supervisor. Internal Audit periodically reviews risk management controls and procedures, whose results are reported to the Audit Committee.

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

(a) Credit Risk

The credit risk represents the probability that the counterparty to a business transaction does not meet the terms originally agreed with the Bank. In order to assume this risk, the Bank has a management framework including the following main elements:

- Analysis of risk or pre-approval, it is carried out separately from business, whose objectives, in addition to identify, evaluate and quantify the risk of the proposals is to determine the effect they will have on the Bank's loan portfolio and guarantee that the price of proposed operations covers the cost of the risk assumed.

- A control area responsible for validating that proposals are framed within the Bank's policies and limits, obtain the approval required based on the risk level assumed and meet the conditions agreed in the approval upon settling the operation.

- The process is approved by the Credit Committees on their different stages.

- A portfolio management process aimed at monitoring the risk trends for the Bank in order to proactively anticipate any evidence of impairment in the portfolio.

- Supervision by the Board of Directors' members through their participation in the different Committees (Credit, Portfolio Quality, Policies and Risk Assessment (CPER), Assets and Liabilities (ALCO).

Formulating Credit Policies:

Credit policies are issued or reviewed by the Credit Risk, Business and Consumer Managements, always considering:

- Changes in market conditions.
- Risk factors.
- Changes in laws and regulations
- Changes in financial conditions and cash availability.
- Other relevant factors.

Any change in policies or the establishment of new policies approved by the Risk Management Committee, ratified by the Board of Directors are published through internal channels to be available to the Bank's entire staff.

(4) Financial Risk Management, continued

Established the Authorization Limits:
Approval limits for credits are established depending on the amount that it represents to the Bank's equity. These levels are submitted before the consideration of the Risk Management Committee (CGIR for its words in Spanish) and ratified by the Board of Directors.

Exposure Limits:
In order to limit the exposure, maximum limits have been established for an individual debtor or economic group, based on the Bank's capital funds.

Concentration Limits:
In order to limit concentration per activity or industries, exposure limits have been approved based on capital distribution and the strategic orientation to be given to the loan portfolio.

Furthermore, the Bank has limited its exposure to different geographies through the country risk policy, in which it has defined countries where it would like to have exposure based on the Bank's strategic plan; also, credit and investment exposure limits have been implemented in such countries, based on their credit assessment and the approved risk appetite.

Review of Policy Compliance:
Each business unit is responsible for the quality and performance of their loan portfolios, as well as for the control and monitoring of risks. However, through the Loan Management and Control, the debtor's financial position and payment capacity is constantly monitored. The rest of the loans that are not individually material is followed-up through default ranges observed in their installment payments, and the particular characteristics of such portfolios.

(4) Financial Risk Management, continued

Analysis of Credit Quality

The following table analyses the credit quality of financial assets and allowance for loan losses maintained by the Bank for these assets.

	Securities under Resale Agreement		Loans receivable		Investment Securities	
	2014	2013	2014	2013	2014	2013
Maximum exposure						
Carrying value	0	1,281,000	2,403,868,514	2,091,115,858	672,632,999	568,185,832
At amortized cost						
Level 1: Pass	0	1,281,000	2,370,005,085	2,014,112,016	157,984,738	160,170,813
Level 2: Special Mention	0	0	37,385,308	82,794,535	0	0
Level 3: Substandard	0	0	13,543,238	16,485,535	0	0
Level 4: Doubtful	0	0	13,321,317	14,266,498	0	0
Level 5: Loss	0	0	17,506,391	9,292,082	0	0
Gross amount	0	1,281,000	2,451,761,339	2,136,950,666	157,984,738	160,170,813
Allowance for impairment loss	0	0	(35,011,937)	(34,945,571)	0	0
Unearned discounted interests and commissions	0	0	(12,880,888)	(10,889,237)	0	0
Carrying value, net	0	1,281,000	2,403,868,514	2,091,115,858	157,984,738	160,170,813
Available-for-sale securities designated at fair value through profit or loss						
Level 1: Low risk	0	0	0	0	514,648,261	408,015,019
Carrying value	0	0	0	0	514,648,261	408,015,019
Allowance for impairment loss	0	0	0	0	0	0
Carrying value, net	0	0	0	0	514,648,261	408,015,019
Not past-due nor impaired						
Level 1	0	0	2,370,005,085	2,014,112,016	0	0
Level 2	0	0	37,385,308	82,794,535	0	0
Sub-total	0	0	2,407,390,393	2,096,906,551	0	0
Individually impaired						
Level 3	0	0	13,543,238	16,485,535	0	0
Level 4	0	0	13,321,317	14,266,498	0	0
Level 5	0	0	17,506,391	9,292,082	0	0
Sub-total	0	0	44,370,946	40,044,115	0	0
Allowance for impairment loss						
Specific	0	0	7,653,833	14,030,608	0	0
Collectively	0	0	27,358,104	20,914,963	0	0
Total allowance for impairment loss	0	0	35,011,937	34,945,571	0	0
Off-balance operations						
Level 1: Low risk						
Letters of credit	0	0	22,777,317	3,518,809	0	0
Guarantees issued	0	0	94,319,231	38,736,747	0	0
Promissory notes	0	0	103,558,880	106,739,599	0	0
	0	0	220,655,428	148,995,155	0	0

The factors considered by the Bank to determine impairment are detailed as follows:

- Impairment of loans and debt security investments:
  Management determines if there is objective evidence of impairment of loans and debt securities, based on the following criteria established by the Bank:

  - breach of contract, such as a default or delinquency in interest or principal payments;
  - significant financial difficulty of the issuer or counterparty;
  - non-compliance with contractual terms and conditions;
  - it becoming probable that the borrower will enter bankruptcy or financial re-organization;
  - decline in the borrower's competitive position; and
  - impairment of the collateral value.

(4) Financial Risk Management, continued

- Loans past-due but not impaired:
  Loans and investments having collaterals and/or payment sources sufficient to cover the carrying value of such loans and investments are considered past-due but not impaired.

- Restructured Loans:
  It corresponds to loans restructured due to any impairment in the debtor's financial condition and when the Bank considers to grant any variation with respect to the credit original terms (balance, term, payment plan, rate and collaterals). These loans after restructured, are maintained in this category, notwithstanding if the debtor's capacity improves after Bank's restructuring.

- Write-offs:
  Loans are written-off when they are deemed as losses. This determination is taken after considering certain factors such as: debtor's inability to pay; the collateral is not sufficient or it is not duly incorporated; or it is determined that all the resources were exhausted to recover the loan through collection procedures.

The Bank maintains collaterals for loans granted to customers corresponding to mortgages on properties and other guarantees. Fair value estimates are based on the collateral value depending on the effective date of the loan and they are usually updated except if the loan is individually impaired.

Bank Deposits
The Bank maintains deposits in banks for the amount of B/.362,626,370, as of December 31, 2014 (December 2013: B/.277,943,150). Deposits are maintained in financial institutions applying the limits established in the risk policy for the counterparty.

Collaterals and their financial effect
The Bank maintains collaterals and other facilities to reduce credit risk, in order to ensure the collection of its financial assets exposed to credit risk. The table below shows the main types of collaterals with respect to the different types of financial assets.

	% of exposure subjected to Collaterals		
	2014	**2013**	**Type of Collaterals**
Securities under repurchase agreements	100%	100%	Debt securities
Loans receivables	67%	62%	Cash, Property and Equipment

(4) Financial Risk Management, continued

Residential Mortgage Loans

The following table presents the ratio of mortgage loans with respect to guarantee value ("*Loan To Value*" - LTV). The LTV is calculated as a percentage of the loan gross amount with respect to the guarantee value. The gross amount of the loan does not include any impairment loss. The guarantee value for mortgages is based on the original value of the guarantee at disbursement date and which is not generally updated.

	2014	2013
Residential mortgage loans:		
Less than 50%	22,188,775	21,479,070
51% - 70%	49,486,666	49,441,747
71% - 90%	114,369,023	92,896,416
91% - 100%	117,303,557	95,143,563
More than 100%	1,798,464	194,272
Total	305,146,485	259,155,068

Derivatives, Margin Loans, Securities under repurchase and resale agreements

The Bank mitigates the credit risk of derivatives, margin loans, securities under repurchase and resale agreements, through the execution of master netting agreement and holding collaterals under the form of cash and trading securities. Netting clauses are established in all its contracts. Resale agreements only include collateral clauses.

Derivative operations are traded on exchanges or under master netting agreements (International Swap and Derivatives Association (ISDA)). These master agreements regulating credit risk include netting clauses. In general, by virtue of these master netting agreements (ISDA) in certain specific cases, for example, in case of delinquency or default, any transaction pending payment under the agreement is terminated, and the value of the termination is reviewed and only one net amount is demandable when settling all the transaction.

ISDA agreements do not meet the netting criteria in the statement of financial position. The foregoing is because the Bank has not constructive right to offset the recognized amounts, because the right to offset is only demandable upon occurrence of future events determined by the parties.

Assets received as Collateral

Total collaterals assumed by the Bank to guarantee the collection or the execution of credit facilities during the period are as follows:

	2014	2013
Property	140,853	98,000
Vehicles	243,192	258,081
Total	384,045	356,081

(4) Financial Risk Management, continued

The Bank's policy is to perform or execute the sale of these assets in order to cover owed balances. In general terms, it is not the Bank's policy to use non-financial assets for its own operations. In case of enforcing the security right, assets are sold in the short term.

Concentration of Credit Risk

The following table details the breakdown of the Bank's investments exposed to credit risk and their corresponding assessment based on their classification level:

The Bank makes follow-up of credit risk concentration per sector and geographic location. The analysis of credit risk concentration at the date of the consolidated financial statements is as follows:

	Securities under Resale Agreement		Loans receivable		Investment Securities	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Concentration per sector						
Corporate	0	0	1,576,022,616	1,342,894,846	224,425,776	220,384,534
Consumption	0	0	827,845,898	748,221,012	0	0
Government	0	1,281,000	0	0	448,207,223	347,801,298
	0	1,281,000	2,403,868,514	2,091,115,858	672,632,999	568,185,832
Geographic concentration						
Panama	0	1,281,000	1,736,710,118	1,473,607,043	148,293,272	140,628,759
Latin America and the Caribbean	0	0	654,007,799	587,716,986	235,212,791	183,501,030
USA	0	0	8,121,685	17,112,882	267,625,989	227,276,120
Other	0	0	5,028,912	12,678,947	21,500,947	16,779,923
	0	1,281,000	2,403,868,514	2,091,115,858	672,632,999	568,185,832

	Letters of Credit		Guarantees received		Promissory notes	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Concentration per sector						
Corporate	22,777,317	3,518,809	91,374,540	35,966,071	13,204,347	8,491,792
Consumption	0	0	2,944,691	2,770,676	90,354,533	98,247,807
Government	0	0	0	0	0	0
	22,777,317	3,518,809	94,319,231	38,736,747	103,558,880	106,739,599
Geographic concentration						
Panama	4,774,092	2,706,463	20,515,338	23,316,041	103,553,080	106,739,599
Latin America and the Caribbean	491,574	812,346	3,511,386	1,700,000	0	0
USA	11,341,875	0	7,138,777	1,160,930	5,800	0
Other	6,169,776	0	63,153,730	12,559,776	0	0
	22,777,317	3,518,809	94,319,231	38,736,747	103,558,880	106,739,599

The geographic concentration of loans and bank deposits is based on the debtor's location. In connection with investments, it is based on the issuer's location.

(4) Financial Risk Management, continued

(b) Liquidity or Financial Risk

Liquidity risk is defined as the risk that the Bank might be unable to meet all the obligations related to its financial liabilities, which are settled through cash or any other financial asset. Liquidity risk might be affected by different reasons, such as: unexpected withdrawn of funds contributed by creditors or clients, the impairment of the quality of the loan portfolio, the decline in value of investments, the concentration surplus of liabilities in any particular source, the mismatch between assets and liabilities, lack of assets' liquidity, or financing of long-term assets with short-term liabilities. The Bank manages its liquid funds to honor its obligations at due date under normal conditions.

Liquidity Risk Management:

The risk management policies establish liquidity limits that determine the portion of the Bank's assets that shall be maintained in high-liquidity instruments; limits of borrowing composition; leverage limits; and time limits. In connection therewith, a limit of 25% has been established for liquidity funds mainly comprised of cash funds, bank deposits and investment portfolio (investments superseding liquidity)

The Bank is exposed to daily requirements with respect to its available funds due to withdrawals from demand and savings deposits, maturity of fixed-term deposits and obligations, and loan guarantees.

Liquidity is monitored on a daily basis by the Bank's treasury and on a periodical basis by the Risk Management (Market and Liquidity). Simulations are performed including stress tests developed in different scenarios considering normal or more severe conditions to determine the Bank's ability to face such crisis scenarios with available liquidity levels. All the policies and procedures for managing liquidity are subjected to the review of the Risk Committee and the Assets and Liabilities Committee (ALCO) approved by the Board of Directors.

Exposure to Liquidity Risk:

The key measure used by the Bank to manage liquidity risk is the net liquid asset ratio over customers' deposits. Net liquid assets correspond to cash and cash equivalents and debt securities, for which there is an active and liquid market, less any other deposit received from banks, debt instruments issued, other borrowings and commitments due during the following month.

The Bank's liquidity ratio, net liquid assets on customers' deposits measured at the consolidated financial statements date is detailed as follows:

	2014	2013
At end of the year	38.29%	36.56%
Average for the year	34.87%	40.15%
Maximum for the year	38.29%	46.51%
Minimum for the year	31.79%	21.27%

(4) Financial Risk Management, continued

The following table details the undiscounted cash flows from financial assets and liabilities, unrecognized loans commitments and disbursements related to derivative financial liabilities in groups based on due dates corresponding to the remaining period from the date of the consolidated statement of financial position.

2014	Until 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total nominal gross amount (inflow/ outflow)	Carrying value
Financial liabilities						
Customers' deposits	(1,934,316,993)	(440,357,904)	(109,156,584)	(3,222,708)	(2,487,054,189)	2,360,374,350
Repurchase securities	(112,034,418)	0	0	0	(112,034,418)	112,000,000
Borrowings received	(395,697,698)	(155,642,366)	(64,958,801)	(68,145,263)	(684,444,128)	603,910,339
Bonds payable	(21,813,635)	(19,182,716)	0	0	(40,996,351)	38,655,000
Letters of credit	(19,682,011)	(2,992,651)	(102,655)	0	(22,777,317)	0
Financial guarantees issued	(16,194,444)	(46,016,936)	(32,107,851)	0	(94,319,231)	0
Loan arrangements	(31,977,044)	(71,581,836)	0	0	(103,558,880)	0
Derivatives	0	0	0	(6,250,292)	(6,250,292)	6,250,292
	(2,531,716,243)	(735,774,409)	(206,325,891)	(77,618,263)	(3,551,434,806)	3,121,189,981
Financial assets						
Cash and cash equivalents	381,929,362	8,249,725	0	0	390,179,087	387,437,494
Available-for-sale securities	38,510,422	55,125,000	78,538,571	352,981,176	525,155,169	520,254,949
Held-to-maturity securities	10,382,711	5,500,000	17,625,000	129,495,200	163,002,911	157,984,738
Loans, net	942,397,842	473,148,291	467,495,718	1,318,828,594	3,201,870,445	2,403,868,514
	1,373,220,337	542,023,015	563,659,289	1,801,304,970	4,280,207,611	3,469,545,695

2013	Until 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total nominal gross amount (inflow/ outflow)	Carrying value
Financial liabilities						
Customers' deposits	(1,611,723,629)	(410,407,332)	(106,581,240)	(1,050,003)	(2,129,762,204)	2,009,685,115
Repurchase securities	(90,101,847)	0	0	0	(90,101,847)	90,078,000
Borrowings received	(362,558,566)	(87,395,553)	(104,481,226)	(24,967,637)	(579,402,982)	537,144,128
Bonds payable	(42,408,521)	(5,566,629)	(20,582)	0	(47,995,732)	42,284,000
Letters of credit	(3,518,809)	0	0	0	(3,518,809)	0
Financial guarantees issued	(38,736,747)	0	0	0	(38,736,747)	0
Loan arrangements	(106,739,599)	0	0	0	(106,739,599)	0
Derivatives	0	0	0	(671,431)	(671,431)	671,431
	(2,255,787,718)	(503,369,514)	(211,083,048)	(26,689,071)	(2,996,929,351)	2,679,862,674
Financial assets						
Cash and cash equivalents	281,050,730	14,978,042	13,646,208	0	309,674,980	305,896,012
Securities purchased under resale agreement	1,281,000	0	0	0	1,281,000	1,281,000
Available-for-sale securities	37,939,275	39,193,671	55,875,000	295,704,282	428,712,229	414,262,960
Held-to-maturity securities	6,398,837	5,150,000	30,500,000	142,959,000	185,007,837	160,170,813
Loans, net	909,446,636	296,230,505	349,816,511	1,199,587,325	2,755,080,977	2,091,115,858
	1,236,116,478	355,552,218	449,837,719	1,638,250,608	3,679,757,023	2,972,726,643

To the date of these consolidated financial statements, the Bank maintains contractual commitments in connection with the payment of dividends from preferred shares. As of December 31, 2014, based on preferred shares issued and outstanding shares, the payment of dividends committed for 2015 amounts to B/.7,349,392.

(4) Financial Risk Management, continued

The following table shows the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled twelve months after balance sheet date:

	2014	2013
Assets:		
Available-for-sale securities	487,509,556	383,452,740
Held-to-maturity securities	150,087,188	156,674,966
Loans, net	1,476,183,345	1,268,179,122
Total assets	2,113,780,089	1,808,306,828
Liabilities:		
Time deposits	524,637,513	508,507,394
Borrowings received	237,924,517	199,288,426
Bonds payable	18,655,000	42,284,000
Total liabilities	781,217,030	750,079,820

The following chart details the Bank's financial assets and liabilities grouped depending on their due date considering the remaining period at the date of the consolidated statement of financial position with respect to the contractual due date.

	2014						
	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Past Due	Total
Financial assets:							
Cash and cash equivalents	24,811,124	0	0	0	0	0	24,811,124
Bank deposits	362,626,370	0	0	0	0	0	362,626,370
Available-for-sale securities	7,680,869	19,457,837	55,106,719	78,400,044	354,002,794	5,606,688	520,254,950
Held-to-maturity securities	6,808,866	1,088,684	5,500,407	19,408,141	125,178,640	0	157,984,738
Loans, net	523,310,502	404,374,668	292,490,912	345,479,666	838,212,766	0	2,403,868,514
Total financial assets	925,237,731	424,921,189	353,098,036	443,287,851	1,317,394,200	5,606,688	3,469,545,695
Financial liabilities:							
Demand deposits	650,815,730	0	0	0	0	0	650,815,730
Savings deposits	381,270,321	0	0	0	0	0	381,270,321
Time deposits	315,864,714	487,786,072	414,903,674	104,117,539	5,616,300	0	1,328,288,299
Repurchase securities	112,000,000	0	0	0	0	0	112,000,000
Borrowings received	129,642,435	236,343,387	127,924,517	50,000,000	60,000,000	0	603,910,339
Bonds payable	0	20,000,000	18,655,000	0	0	0	38,655,000
Total financial liabilities	1,589,593,200	744,129,459	561,483,191	154,117,539	65,616,300	0	3,114,939,689
Commitments and contingencies	67,853,499	120,591,422	32,210,507	0	0	0	220,655,428

(4) Financial Risk Management, continued

	2013						
	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Past due	Total
Financial assets:							
Cash and cash equivalents	27,952,862	0	0	0	0	0	27,952,862
Bank deposits	268,188,611	9,754,539	0	0	0	0	277,943,150
Securities purchased under resale agreements	1,281,000	0	0	0	0	0	1,281,000
Available-for-sale securities	8,442,488	15,858,889	39,436,374	55,195,081	288,821,285	6,508,843	414,262,960
Held-to-maturity securities	0	3,495,847	5,529,255	10,858,612	140,287,099	0	160,170,813
Loans, net	443,332,631	379,604,105	180,700,581	253,507,191	833,971,350	0	2,091,115,858
Total financial assets	749,197,592	408,713,380	225,666,210	319,560,884	1,263,079,734	6,508,843	2,972,726,643
Financial liabilities:							
Demand deposits	498,836,283	0	0	0	0	0	498,836,283
Saving deposits	287,857,517	0	0	0	0	0	287,857,517
Time deposits	303,359,160	411,124,761	405,910,759	101,546,576	1,050,059	0	1,222,991,315
Repurchase securities	90,078,000	0	0	0	0	0	90,078,000
Borrowings received	102,980,904	234,874,798	74,344,666	99,943,760	25,000,000	0	537,144,128
Bonds payable	0	0	38,614,000	3,670,000	0	0	42,284,000
Total financial liabilities	1,283,111,864	645,999,559	518,869,425	205,160,336	26,050,059	0	2,679,191,243
Commitments and contingencies	54,038,207	87,141,841	7,815,107	0	0	0	148,995,155

(c) *Market risk*

It corresponds to the risk that the value of a Bank's financial asset declines due to fluctuation in the interest rates, foreign exchange rates, changes in the price of shares or the effect of other financial variables beyond Bank's control. The purpose of the market risk management is to administrate and supervise risk exposures to be maintained within acceptable parameters to optimize risk return.

Risk management policies establish compliance with limits per financial instrument, limits as to the maximum amount of loss requiring the closure of the positions causing such loss and the requirement that, otherwise approved by the Board of Directors, all the assets and liabilities should be substantially denominated in US dollars or in Balboas.

Market Risk Management:

The Bank's investment policies provide for the compliance with limits for the total amount of the investment portfolio, individual limits per type of assets, institution, issuer and/or issuance and maximum terms.

Additionally, the Bank has established maximum limits for market risk loan losses that might be caused by fluctuations in the interest rates, credit risk and fluctuation in market value of the investments. The policies and structure of limits to investment exposure included in the Investments Manual are established and approved by the Bank's Board of Directors based on the recommendations of the Committees of Assets and Liabilities (ALCO) and Risk; such recommendations consider the portfolio and assets forming part thereto.

Currently, the Bank's investment policy does not provide for own investments in foreign currency or commodities market.

(4) Financial Risk Management, continued

Below you will find a detail of the breakdown and analysis of each type of market risk:

- *Foreign Exchange Rate Risk*:
  It refers to the risk that the value of a financial instrument fluctuates by virtue of changes in the exchange rate of foreign currency and other financial variables, as well as the reaction of market participants to political and economic events.

  The sensitivity analysis for the foreign exchange risk is mainly considered in the measurement of the position within a specific currency. The analysis consists of verifying how much would represent the position on the functional currency over the currency being translated; thus, generating the combination in the foreign exchange risk.

The following chart details the Bank's exposure to foreign currency risk:

2014	Colombian Pesos expressed in USD	Euros expressed in USD	Other currency expressed in USD	Total
Exchange rate	2,375.65	1.21		
Assets:				
Cash and due from banks	28,035,483	64,952,122	27,861,107	120,848,712
Available-for-sale securities	596,003	15,498,686	1,767,720	17,862,409
Held-to-maturity securities	2,686,054	0	0	2,686,054
Loans, net	177,862,870	328	384	177,863,582
Total financial assets	209,180,410	80,451,136	29,629,211	319,260,757
Liabilities:				
Customers' deposits	82,511,818	80,522,429	29,469,275	192,503,522
Borrowings received	82,028,427	0	0	82,028,427
Total financial liabilities	164,540,245	80,522,429	29,469,275	274,531,949
Net position in the consolidated statement of financial position	44,640,165	(71,293)	159,936	44,728,808

(4) Financial Risk Management, continued

2013	Colombian Pesos expressed in USD	Euros expressed in USD	Other currency expressed in USD	Total
Exchange rate	**1,929.51**	**1.38**		
Assets:				
Cash and due from banks	10,985,498	7,776,034	4,001,426	22,762,958
Available-for-sale securities	288,896	18,788,520	0	19,077,416
Held-to-maturity securities	3,495,847	0	0	3,495,847
Loans, net	192,075,322	563	0	192,075,885
Total financial assets	206,845,563	26,565,117	4,001,426	237,412,106
Liabilities:				
Customers' deposits	92,735,556	32,338,256	2,240,223	127,314,035
Borrowings received	61,383,599	0	0	61,383,599
Total financial liabilities	154,119,155	32,338,256	2,240,223	188,697,634
Net position in the consolidated statement of financial position	52,726,408	(5,773,139)	1,761,203	48,714,472

- *Interest rate risk*:
  It corresponds to the risk that future cash flows and the value of a financial instrument change due to fluctuations in the market interest rates. The Bank's net interest margin may change as a result of unexpected changes in interest rates. In order to mitigate this risk, the Risk Management Department has set limits to exposure to interest rate risks that might be assumed, which are approved by the Board of Directors. Compliance with these limits is monitored by the Committees of Assets and Liabilities (ALCO) and Risk.

  For interest rate risk management, the Bank has defined a limit interval to supervise the sensitivity of financial assets and liabilities. The estimate of the effect of the interest change per category is made under the assumption of an increase or decrease of 50 and 100 basic points (bp) in financial assets and liabilities. The table below shows the effect of applying such variations to the interest rates.

(4) Financial Risk Management, continued

Sensitivity of the net income of projected interests:	**50 pb of increase**	**50 pb of decrease**	**100 pb of increase**	**100 pb of decrease**
2014				
As of December 31	8,708,153	(8,708,153)	17,416,305	(17,416,305)
Average for the year	8,249,391	(8,249,391)	16,498,783	(16,498,783)
Maximum for the year	8,708,153	(8,708,153)	17,416,305	(17,416,305)
Minimum for the year	7,751,070	(7,751,070)	15,502,139	(15,502,139)
2013				
As of December 31	7,383,278	(7,383,278)	14,766,556	(14,766,556)
Average for the year	6,834,849	(6,834,849)	13,669,699	(13,669,699)
Maximum for the year	7,383,278	(7,383,278)	14,766,556	(14,766,556)
Minimum for the year	6,296,360	(6,296,360)	12,595,720	(12,595,720)

Sensitivity of net equity due to interest rate fluctuation:	**50 pb of increase**	**50 pb of decrease**	**100 pb of increase**	**100 pb of decrease**
2014				
As of December 31	(3,207,427)	3,207,427	(6,414,854)	6,414,854
Average for the year	(5,244,460)	5,244,460	(10,488,920)	10,488,920
Maximum for the year	(7,143,753)	7,143,753	(14,287,505)	14,287,505
Minimum for the year	(3,207,427)	3,207,427	(6,414,854)	6,414,854
2013				
As of December 31	(2,047,654)	2,047,654	(4,095,307)	4,095,307
Average for the year	(4,194,862)	4,194,862	(8,389,724)	8,389,724
Maximum for the year	(7,881,945)	7,881,945	(15,763,889)	15,763,889
Minimum for the year	(2,047,654)	2,047,654	(4,095,307)	4,095,307

(4) Financial Risk Management, continued

The table presented below summarizes the Bank's exposure to interest rate risks. The Bank's assets and liabilities are included in the table at their carrying values, classified per categories, depending on the new setting of the contractual rate or due dates, whichever occurs first.

2014	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Interest rate free	Total
Financial assets:							
Cash and cash equivalents	0	0	0	0	0	24,811,124	24,811,124
Bank deposits	362,626,370	0	0	0	0	0	362,626,370
Available-for-sale securities	130,938,278	19,457,837	55,106,718	76,513,932	232,631,496	5,606,688	520,254,949
Held-to-maturity securities	15,933,866	1,088,684	407	15,783,141	125,178,640	0	157,984,738
Loans, net	1,504,163,793	165,500,894	154,096,192	168,038,592	412,069,043	0	2,403,868,514
Total financial assets	2,013,662,307	186,047,415	209,203,317	260,335,665	769,879,179	30,417,812	3,469,545,695
Financial liabilities:							
Demand deposits	0	0	0	0	0	650,815,730	650,815,730
Savings deposits	381,270,321	0	0	0	0	0	381,270,321
Time deposits	315,864,715	487,786,071	414,903,674	104,117,539	5,616,300	0	1,328,288,299
Repurchase securities	112,000,000	0	0	0	0	0	112,000,000
Borrowings received	129,642,434	236,343,388	127,924,517	50,000,000	60,000,000	0	603,910,339
Bonds payable	0	20,000,000	18,655,000	0	0	0	38,655,000
Total financial liabilities	938,777,470	744,129,459	561,483,191	154,117,539	65,616,300	650,815,730	3,114,939,689
Total sensitivity to interest rates	1,074,884,837	(558,082,044)	(352,279,874)	106,218,126	704,262,880	(620,397,919)	354,606,006

2013	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Interest rate free	Total
Financial assets:							
Cash and cash equivalents	0	0	0	0	0	27,952,862	27,952,862
Bank deposits	277,943,150	0	0	0	0	0	277,943,150
Securities purchased under resale agreement	1,281,000	0	0	0	0	0	1,281,000
Available-for-sale securities	95,411,069	46,359,346	39,436,374	55,195,081	172,028,803	5,832,287	414,262,960
Held-to-maturity securities	0	0	5,529,255	10,858,612	143,782,946	0	160,170,813
Loans, net	1,457,413,953	123,629,482	62,791,433	64,692,258	382,588,732	0	2,091,115,858
Total financial assets	1,832,049,172	169,988,828	107,757,062	130,745,951	698,400,481	33,785,149	2,972,726,643
Financial liabilities:							
Demand deposits	0	0	0	0	0	498,836,283	498,836,283
Savings deposits	287,857,517	0	0	0	0	0	287,857,517
Time deposits	303,359,160	411,124,761	405,910,759	101,546,576	1,050,059	0	1,222,991,315
Repurchase securities	90,078,000	0	0	0	0	0	90,078,000
Borrowings received	102,980,904	234,874,798	74,344,666	99,943,760	25,000,000	0	537,144,128
Bonds payable	0	0	38,614,000	3,670,000	0	0	42,284,000
Total financial liabilities	784,275,581	645,999,559	518,869,425	205,160,336	26,050,059	498,836,283	2,679,191,243
Total sensitivity to interest rates	1,047,773,591	(476,010,731)	(411,112,363)	(74,414,385)	672,350,422	(465,051,134)	293,535,400

- *Price risk:*
  It refers to the risk that the value of a financial instrument fluctuates by virtue of changes in market prices, notwithstanding if they are caused by specific factors related to particular instruments or their issuer, or by factors affecting all securities traded in the market.

(4) Financial Risk Management, continued

The Bank is exposed to the price risk of equity instruments classified as available for sale or as at fair value through profit or loss. The Bank diversifies its portfolio based on limits established to manage the price risk of equity instruments.

(d) Operational Risk and Business Continuity

The operational risk refers to the risk generated by losses caused by the lack or insufficiency of controls on processes, individuals and internal systems or by external events not related to credit, market and liquidity risks, such as those generated by legal and regulatory requirements and the behavior of corporate standards generally accepted.

The Operational Risk Management structure has been prepared to provide a segregation of functions among the owners, executors, control areas and areas in charge of ensuring the compliance with policies and procedures. In this sense, we have established an Operational Risk Management Model that includes the Business Continuity model, approved by the Risk Committee and ratified by the Board of Directors.

The Bank's Supporting and Business Units assume an active role in the identification, measurement, control and monitoring of operational risks and they are responsible for managing and administrating these risks during daily activities.

During the implementation of this risk management structure, spread throughout the organization by the Operational Risk coordinators, who receive continuous training, the Bank has adopted a self-assessment method of functions and processes based on risks, identification of inherent risks, design of the process cycle and definition of mitigating controls; making timely follow-up on the execution of action plans defined by the areas Management is supported by technology tools allowing us to document, quantify and monitor the risk alerts identified through risk alert matrices and the timely report of loss events or incidents. Additionally, the operating risk level of new products and/or services is also evaluated.

Likewise, the Bank, as actor of the Financial System, in order to guarantee operations, and generate confidence, has a Business Continuity Plan implemented whereby it has defined the types of alerts to be considered for activation and executes an annual training plan in line with operating tests; such Plan is used along with other plans designed to address different events, such as the evacuation plan and the functional plans of the critical areas.

(4) Financial Risk Management, continued

(e) Capital Management

The Bank's regulators, i.e., the Superintendence of Banks and the Superintendence of Market Securities of Panama, require that the Bank maintains a total capital ratio measured based on weighted average assets based on risk. The Bank is in compliance with the requirements of regulatory capital required.

The Bank's policy is to maintain a sound capital to leverage in the future the development of investment and credit business within the market, with adequate levels regarding capital return to stockholders and adequacy of capital required by regulators.

The Banking Law in Panama requires general license Banks to maintain a minimum paid-in capital stock of B/.10,000,000, and an equity of at least 8% of its weighted assets, including financial instruments off the consolidated statement of financial position. For these purposes, assets shall be considered net of their respective provisions or reserves and with the weights indicated in the Superintendence Agreement.

The Bank maintains a regulatory capital position in line with the standards of the Superintendence to be complied by general license Banks, in conformity with Agreement 5-2008 dated October 1, 2008 and amended by Agreement 4-2009 dated July 9, 2009 comprised as follows for the periods ended December 31, 2014 and 2013, as follows:

	2014	2013
Primary Capital (pillar 1)		
Common shares	171,046,039	167,047,099
Preferred shares	99,000,000	73,370,300
Surplus of acquisition of non-controlling interest	(5,606,927)	(5,454,054)
Dynamic provision	25,380,285	0
Retained earnings	104,657,572	102,813,037
Non-controlling interest in subsidiary	0	1,210,692
Less: goodwill	(6,717,198)	(6,717,198)
Total regulatory capital	387,759,771	332,269,876
Total weighted assets	2,465,400,426	2,086,487,045
Capital ratios		
Total regulatory capital expressed in percentage over the weighted assets	15.73%	15.92%
Total pillar 1expressed in percentage over the weighted assets	15.73%	15.92%

(5) Use of Estimates and Judgments in the application of Accounting Policies

The preparation of the consolidated financial statements in accordance with International Reporting Standards requires the Bank's management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Estimates and decisions are reviewed on an ongoing basis and they are based on past experience and other factors, including the expectative of future events deemed reasonable under the circumstances.

The Bank's management evaluates the selection, disclosure and application of critical accounting policies for the most uncertain estimates. The information related to the assumptions and estimates affecting the reported amounts of assets and liabilities during the following tax year and critical judgments in the selection and application of the accounting policies are detailed as follows:

(a) *Determination of Control Over Investees:*
Control indicators mentioned in Note 3(a) are subjected to management's judgment and may have a significant effect on Bank's interests or shares in structured entities and investment funds.

- *Investment companies and Separate Instruments*
The Bank acts as administrator of assets in favor of third parties through investment companies and separate instruments. When evaluating if the Bank controls those investment funds, we have considered the following factors such as the reach of its authority to make decisions on behalf of the investee, the rights maintained by third parties, the consideration vested in conformity with the consideration agreements and its exposure to return fluctuations. Accordingly, the Bank has concluded that it acts as investment agent for all cases and therefore, it does not consolidate these investment companies and separate instruments.

(b) *Allowance for loan losses:*
The Bank reviews its loan portfolio on a periodical basis for purposes of assessing impairment based on criteria established by the Risk Committee and establishes specific provisions for loans for which a risk higher than normal has been identified. These provisions are classified into individual provisions for loans, that by its nature and amount have an effect on creditworthiness and other financial indicators of the Bank and provision per group of loans, which are those related to group of loans of the same nature, geographic area or common purpose or that were granted under the same loan program.

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

(c) Fair Value of Derivatives:

The fair value of financial instruments not quoted in active markets is determined by using valuation techniques. When the valuation techniques (for example, models) are used to determine the fair value, they are validated and periodically reviewed by qualified staff independent from the responsible area. Models are all evaluated and adjusted before use, and they are tailored to ensure that results show the current information and comparative market prices.

As possible, models only use observable information; however, areas such as credit risk (own and counterparty's risk), volatilities and correlations require management estimates. Changes in the assumptions as to these factors might affect the fair value reported of financial instruments.

(d) Impairment of Available-for-sale Investments

The Bank determines that available-for-sale investments are impaired when there is a significant or prolonged decline in the fair value of the security below its cost. This determination of significant or prolonged requires professional judgment. Additionally, impairment might be determined when there is evidence of impairment in the issuer's financial position, industry and sector performance, technology changes and variations in operating and financial cash flows.

(e) Impairment of Goodwill

The Bank shall determine if goodwill is impaired annually or when there is any evidence of impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

(f) Income Tax

The Bank is subjected to income tax payment. Significant estimates are required to determine the provision for income taxes. There are many transactions and calculations for which the determination of the last tax is uncertain during the normal course of business. The Bank recognizes the obligations based on anticipated tax audits. Whenever the final tax result differs from the amounts initially determined, such differences shall have an effect on provision for income taxes and deferred tax for the period in which the determination was made.

(6) Commissions Earned on Remittances

Commissions earned on remittances amounting to B/.1,887,076 (2013: B/.14,022,092) were generated by the subsidiary Macrofinanciera, S.A., incorporated in the Republic of Colombia. During July 2014, the Bank decided to discontinue these operations in that country so that the subsidiary undertakes the financial intermediation business.

(7) Income Tax

Under current tax regulations, the income tax returns of the Bank and its subsidiaries incorporated in the Republic of Panama are subject to examinations by local tax authorities for the last three (3) years. Under current tax regulations, the companies incorporated in Panama are exempted from tax caused on income from foreign operations, from interest earned on term deposits at local banks, from debt securities of the Panamanian Government, and from investments in bonds listed with the Superintendence of Market Securities, and listed in Bolsa de Valores de Panamá, S.A.

Pursuant to Article 699 of the Tax Code, modified by Article 9 of Law 8 from March 15, 2010, in force as of January 1, 2010, companies engaged in the banking business in the Republic of Panama must calculate income taxes at the rate of 25% effective January 1, 2014.

For non-banking subsidiaries of the Bank, the applicable income tax rate is 25% from January 1, 2011. Additionally, companies with annual taxable income over one million five hundred thousand Balboas (B/.1,500,000) will pay income tax on the greater of:

a. Net taxable income calculated by the traditional method; or
b. Net taxable income resulting from applying four point sixty-seven percent (4.67%) to total taxable income.

Law 52 from August 28, 2012 reestablished the payment of estimated income tax returns from 2012 onwards. Pursuant to this Law, estimated income tax returns must be paid in three equal installments every year, in June, September and December.

The Subsidiaries incorporated in the following jurisdictions are subject to income tax in accordance with the tax legislations of each country:

Country	Income tax rate	Reviewed period
Colombia	34%	2013 onwards
Costa Rica	30%	2013 onwards

(7) Income Tax, continued

The income tax expense is as follows:

	2014	2013
Current tax:		
Estimated income tax	6,964,288	7,731,983
Tax adjustment from prior periods	22,452	(54,050)
Deferred tax:		
Origin and reversal of temporary differences	147,828	799,682
Total income tax expense	7,134,568	8,477,615

The reconciliation of income before income tax and current income tax is as follows:

	2014	2013
Net income before income taxes, including non-controlling interests	49,777,121	47,939,991
Exempted and non-taxable income from foreign source, net	(79,177,620)	(52,739,443)
Non-deductible costs and expenses	54,303,264	30,573,714
Tax loss carryforwards from prior years	(17,239)	(31,097)
Net taxable income	24,885,526	25,743,165
25% (2013: 27.5%) income tax at local rate	6,221,381	7,079,370
Effects of application of different local tax rates	765,360	598,563
Current income tax	6,986,741	7,677,933

The effective income tax rate is as follows:

	2014	2013
Income before income taxes	49,777,121	47,939,991
Current income tax expense and tax rate applicable to book income	7,134,568	8,477,615
Effective income tax rate	14.33%	17.68%

(7) Income Tax, continued

The deferred income tax asset and liability is detailed below:

	2014			2013		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Allowance for loan losses	5,456,302	0	5,456,302	5,677,691	0	5,677,691
Revaluation of properties	0	(360,424)	(360,424)	0	0	0
Tax loss carryforwards	73,562	0	73,561	0	0	0
Total	5,529,864	(360,424)	5,169,439	5,677,691	0	5,677,691

Based on current and projected results, management of the Bank and its subsidiaries considers that future taxable income will be enough to absorb the deferred tax assets and liabilities described in the consolidated statement of financial position.

At December 31, 2014, the Bank kept a cumulative tax loss balance for B/.294,247 (2013: B/.450,348).Accumulated tax losses may be used by 20% every year, for up to five years, provided that they not exceed 50% of taxable income. Said accumulated losses available for use are distributed as follows:

Year	**Tax loss to be used per year**
2015	86,537
2016	86,532
2017	86,532
2018	34,646

(8) Net Gain (Loss) on Sale of Securities

Gains or losses on sale of securities and other financial instruments are detailed as follows:

	2014	**2013**
Net loss on sale of securities through profit or loss	(105,163)	(617,727)
Net gain (loss) on sale of available-for-sale securities	81,118	(1,966,657)
Net loss (gain) on revaluation of derivatives	(11,438)	153,674
Net gain (loss) on sale of other financial instruments	97,485	(403,383)
	62,002	(2,834,093)

(9) Cash and Cash Equivalents

Cash and cash equivalents for purposes of reconciliation with the consolidated statement of cash flows are as follows:

	2014	2013
Cash and cash equivalents	24,811,124	27,952,862
Demand deposits	155,176,031	102,142,019
Time deposits	207,450,339	175,801,131
Total cash and due from banks	387,437,494	305,896,012
Less: interest-bearing deposits due over 90 days and pledges	34,364,620	9,754,539
Cash and cash equivalents in the consolidated statement of cash flows	353,072,874	296,141,473

(10) Securities Purchased under Resale Agreements

At December 31, 2013, securities purchased under resale agreements amounted to B/.1,281,000, expiring in January 2014.

(11) Investment in Securities

Investment in securities and other financial assets are detailed below:

Securities at fair value through profit or loss

At December 31, 2014, the Bank sold securities at fair value through profit or loss for B/.18,820,000 (2013: B/.103,505,940), generating a loss on sale for B/.105,163 (2013: loss for B/.617,727).

Available-for-Sale Securities

Investments in available-for-sale securities are as follows:

	2014	2013
Foreign common stock	78,059	748,368
Preferred stock	30,635	27,995
Local stock	5,497,994	5,471,578
Foreign Corporate Bonds	146,846,172	101,325,191
Corporate Bonds and Local Fixed Income Funds	45,321,981	61,297,823
Bonds of the Republic of Panama	0	535,000
Bonds from Other Governments	80,131,898	62,075,484
Bonds from US Government and Agencies	206,786,260	149,059,814
Negotiable Certificate of Participation	31,742,595	33,587,517
Negotiable Certificate of Deposit – Thirteenth Month	3,819,355	134,190
	520,254,949	414,262,960

(11) Investment in Securities, continued

The Bank keeps capital shares amounting to B/.190,207 (2013: B/.71,756), which are kept at cost due to the Bank inability to reliably determine their fair value. The Bank performs annual reviews to check for any permanent impairment in the value of such investments that warrants adjustments to the investment value. Capital shares kept at cost do not have an active market and the Bank intends to hold them in books.

The Bank conducted sales of its portfolio of investment in available-for-sale securities for B/.509,873,309 (2013: B/.402,706,210) generating a gain on sale of B/.81,118 (2013: loss B/.1,966,657).

At December 31, 2014, the securities with market value at B/.113,080,000 (2013: B/.73,725,675) are secured with bonds sold under repurchase agreements. See Note 16.

At December 31, 2014, securities with nominal value at B/.167,737,000 (2013: B/.127,787,000) guarantee the financing received. See Note 17.

Held-to-Maturity Securities

The portfolio of held-to-maturity investments amounted to B/.157,984,738 (2013: B/.160,170,813).

The amortized cost of the portfolio of held-to-maturity securities is as follows:

	2014	**2013**
Foreign Corporate Bonds	15,157,477	15,855,520
Corporate Bonds and Local Fixed Income Funds	19,786,200	20,625,000
Bonds of the Republic of Panama	47,623,141	48,423,823
Bonds from Other Governments	26,892,534	27,168,964
Bonds from US Government and Agencies	40,951,648	40,578,022
Commercial Papers and Treasury Bills	7,573,738	7,519,484
	157,984,738	160,170,813

At December 31, 2014, securities with nominal value of B/.26,850,000 (2013: B/.31,850,000) guarantee securities sold under repurchase agreements in the amount of B/.112,000,000 (2013: B/.90,078,000). See Note 16.

At December 31, 2014, securities with nominal value of B/.49,825,000 (2013: B/.41,325,000) guarantee the financing received. See Note 17.

Reclassification from available-for-sale investments to held-to-maturity investments

On September 24, 2013, the ALCO Committee approved the transfer of part of available-for-sale securities to held-to-maturity securities, based on the creditworthiness of the issuer and the intent and capacity to hold them in such category.

(11) Investment in Securities, continued

The table below presents financial assets reclassified at their carrying value until reclassification date and their carrying value and fair value at the date of the consolidated statement of financial position:

		2014		2013	
	Reclassified amount	Carrying value	Fair value	Carrying value	Fair value
Foreign Corporate Bonds	13,971,147	12,471,422	13,388,227	12,359,672	12,740,636
Foreign Public Bonds	73,616,215	75,417,921	79,209,050	75,266,470	74,661,307
Local Public Bonds	48,609,703	47,471,257	48,506,845	48,423,823	47,729,790
Total	136,197,065	135,360,600	141,104,122	136,049,965	135,131,733

The following table shows the amounts recognized as profit or loss in the consolidated statement of profit or loss and consolidated statement of comprehensive income of available-for-sale assets and held-to-maturity investments:

	2014		2013	
	Profit or loss	Comprehensive income	Profit or loss	Comprehensive income
Interest income	5,941,649	0	1,798,534	0
Net change in fair value	0	(11,132,710)	0	(11,551,455)
Amount transferred from the allowance for unrealized loss to profit or loss for the period	(1,029,904)	1,029,904	(418,745)	418,745

The following table shows the amounts that would be recognized in case the reclassification had not occurred.

	2014		2013	
	Profit or loss	Comprehensive income	Profit or loss	Comprehensive income
Interest income	5,941,649	0	1,798,534	0
Net change in fair value	0	(6,644,420)	0	(12,616,787)

The effective interest rate ranges between 0.98% and 4.62% and total cash flows for B/.137 million is expected to be recovered.

(12) Loans

The loan portfolio by product is as follows:

	2014	2013
Commercial	870,726,987	756,915,802
Personal, cars and credit cards	440,904,484	414,419,512
Residential mortgage	305,146,485	259,155,068
Interim financing and construction	237,086,196	173,278,922
Pledge	179,682,011	171,961,985
Agricultural	124,257,441	97,156,401
Industrial	81,796,332	83,750,896
Factoring	84,889,979	59,835,021
Pensioners	56,710,304	49,995,941
Tourism and services	27,443,238	27,942,249
Finance leasing	27,349,047	19,269,524
Commercial mortgage	15,768,835	23,269,345
Total	2,451,761,339	2,136,950,666
Less:		
Allowance for loan losses	35,011,937	34,945,571
Unearned discounted interests and commissions	12,880,888	10,889,237
Total loans, net	2,403,868,514	2,091,115,858

On April 11, 2014, the Bank incorporated, jointly with other financial institutions, a syndicated loan for B/.37,670,000. At December 31, 2014, B/.8,386,247 of the total loan principal has been granted.

The principal balance of non-performing loans amounted to B/.10,234,146 (2013: B/.10,500,839) and past-due loans amounted to B/.20,084,372 (2013: B/.18,598,666).

The total guarantee amounts for both years are presented in Note 4.

At December 31, 2014, the restructured loan balance was B/.4,948,193 (2013: B/.4,036,813).

The allowance for loan losses is detailed as follows:

	2014	2013
Balance at the beginning of year	34,945,571	31,511,271
Provision charged to expenses	10,113,094	9,287,518
Written-off loans	(12,531,092)	(13,013,553)
Collections	2,484,364	7,160,335
Balance at the end of year	35,011,937	34,945,571

(12) Loans, continued

At December 31, 2014, management of the Bank has set aside a specific reserve amounting to B/.7,653,833 (2013: B/.14,030,608) based on the estimate of classified loan losses, considering the estimate of the value of the existing guarantees. It also recorded a collectively reserve amounting to B/.27,358,104 (2013: B/.20,914,963) so that the total reserve amounts to B/.35,011,937 (2013: B/.34,945,571).

The loan portfolio includes finance leases with the following maturities:

	2014	2013
Minimum payments up to 1 year	8,552,556	5,170,268
Minimum payments from 1 to 5 years	18,796,491	14,099,256
Total minimum payments	27,349,047	19,269,524
Less: Unearned discounted interests and commissions	168,881	163,582
Total finance leasing	27,180,166	19,105,942

(13) Property, Furniture, Equipment and Improvements

Property, furniture, equipment and improvements are summarized below:

2014

	Land and building	Improvements	Furniture	Office equipment	Vehicles	Total
Cost:						
At the beginning of year	14,893,583	13,031,087	3,780,531	22,755,875	753,381	55,214,457
Incorporation of acquire	13,998,965	748,374	0	70,901	0	14,818,240
Revaluation of assets	5,080,754	2,127,735	0	0	0	7,208,489
Purchases	429,821	2,204,747	360,915	3,104,755	227,835	6,328,073
Sales and disposals	(167,597)	(444,758)	(1,080,691)	(5,566,760)	(62,760)	(7,322,566)
At the end of year	34,235,526	17,667,185	3,060,755	20,364,771	918,456	76,246,693
Accumulated depreciation:						
At the beginning of year	109,772	7,722,811	1,980,363	15,144,525	429,163	25,386,634
Incorporation of acquire	1,379,632	571,834	0	39,370	0	1,990,836
Expense for the year	181,494	1,007,013	347,368	3,260,840	127,902	4,924,617
Disposals	(167,597)	(145,898)	(1,072,313)	(5,776,146)	(52,197)	(7,214,151)
At the end of year	1,503,301	9,155,760	1,255,418	12,668,589	504,868	25,087,936
Net balance	32,732,225	8,511,425	1,805,337	7,696,182	413,588	51,158,757

2013

	Land and building	Improvements	Furniture	Office equipment	Vehicles	Total
Cost:						
At the beginning of year	193,583	12,393,300	3,064,080	17,082,472	639,443	33,372,878
Purchases	14,700,000	641,746	718,077	6,164,289	174,838	22,398,950
Sales and disposals	0	(3,959)	(1,626)	(490,886)	(60,900)	(557,371)
At the end of year	14,893,583	13,031,087	3,780,531	22,755,875	753,381	55,214,457
Accumulated depreciation:						
At the beginning of year	109,772	6,364,914	1,741,144	13,340,593	387,051	21,943,474
Expense for the year	0	1,357,897	239,425	2,174,435	103,012	3,874,769
Disposals	0	0	(206)	(370,503)	(60,900)	(431,609)
At the end of year	109,772	7,722,811	1,980,363	15,144,525	429,163	25,386,634
Net balance	14,783,811	5,308,276	1,800,168	7,611,350	324,218	29,827,823

(13) Property, Plant, Equipment and Improvements, continued

As of December 31, 2014, the Bank conducted a technical appraisal of its lands and buildings. The revaluation adjustment is recorded in a separate item in the consolidated statement of changes in equity as property revaluation.

In October 2014, Multibank, Inc. acquired, through a cash payment, lots of land, buildings and leasehold improvements for a net carrying value of B/.12,827,404, by virtue of the purchase of Inversiones Prosperidad, S. A. from its Holding Company.

(14) Goodwill

Management applies the future cash flows method for the valuation of its goodwill in the acquired subsidiary based on the profitability of its operations.

The balance of the Bank goodwill generated from the acquisition in the following company is summarized below:

Entity	Acquisition date	Acquired interest	Balance
Macrofinanciera, S.A.	September 2007	70%	6,717,198

No goodwill movements have been recorded for the period.

To value its acquired assets and businesses, the net flows expected from such assets or businesses were projected over a nine-year period, and a perpetuity growth rate or flows multiples were defined at the end of period for the projected flows to determine the final flow. The growth rates of assets or businesses fluctuate based on their nature, with the current range being between 20% and 25%, whereas the perpetual growth rate ranges between 2% and 5%.

To determine the growth rates of the assets or businesses, the were used as reference the growth, performance, and actual historical metrics of the relevant assets or businesses, their future perspectives, the projected country macroeconomic growth, the segments or business analyzed, and the Bank business plans, and the expected growth rates in general, just like those of the specific businesses assessed.

To calculate the present value of future cash flows and determine the value of assets or businesses assessed, the free cash flow yield required by the stockholder was used as discount rate when the Bank is the business unit assessed. Additionally, a comparative calculation was made of the weighted average cost of Bank capital, but if it is below the shareholder-required rate, the stricter rate is used to remain conservative. The used capital cost ranges from 12% to 18% and changes in time.

The valuation also includes an assessment conducted based on the market approach, using recent comparable multiples for financial institutions listed in the Colombian market.

(14) Goodwill, continued

The main assumptions described above may change as market and economic conditions change. The Bank estimates that fairly likely changes in these assumptions would not affect the recoverable amount of the business units or decrease below their book value.

(15) Other Assets

The breakdown of other assets is as follows:

	2014	2013
Receivables	31,560,886	24,065,180
Accounts receivable from related companies	10,306,620	20,205,066
Prepaid expenses	12,626,373	11,870,915
Prepaid taxes	3,140,047	6,611,066
Foreclosed assets	899,916	722,708
Guarantee deposits	787,490	803,350
Other	586,916	729,681
Total	59,908,248	65,007,966

Available-for-sale foreclosed assets are as follows:

	2014	2013
Real estate	681,704	620,129
Vehicles and other	255,633	135,888
	937,337	756,017
Allowance for potential losses	(37,421)	(33,309)
Total, net	899,916	722,708

The movement of the reserve for foreclosed assets is as follows:

	2014	2013
Beginning balance	33,309	122,977
Reserve recorded in profit or loss	4,112	6,210
Loss on sale of assets	0	(95,878)
Total, net	37,421	33,309

(16) Securities Sold under Repurchase Agreement

As of December 31, 2014, securities sold under repurchase agreements amounted to B/.112,000,000 (2013: B/.90,078,000) with maturity in January 2015 (2013: June 2014) at annual interest rates from 0.36% to 0.40% (2013: 0.36%). Such securities are guaranteed with available-for-sale and held-to-maturity securities amounting to B/.113,080,000 and B/.31,850,000, respectively, (2013: available-for-sale and held-to-maturity securities for B/.73,275,675, and B/.31,850,000, respectively). See Note 11.

(17) Borrowings Received

At December 31, 2014, the terms and conditions of the borrowings received by the Bank are as follows:

Financial liability	Interest rate	Due date	2014 Carrying value	2013 Carrying value
Line of Credit	1.44% to 2.76%	Multiple, up to December 2014	0	339,976,078
Line of Credit	1.12% to 4.42%	Multiple, up to December 2015	348,734,393	43,181,813
Line of Credit	2.14% to 4.40%	Multiple, up to June 2016	47,460,969	25,000,000
Line of Credit	2.75% to 4.34%	Multiple, up to October 2017	85,544,624	74,943,760
Line of Credit	3.05% to 4.32%	Multiple, up to December 2018	53,078,105	54,042,477
Line of Credit	1.74% to 1.78%	Multiple, up to September 2019	9,092,248	0
Line of Credit	3.78%	March 2021	30,000,000	0
Line of Credit	5.31%	April 2024	30,000,000	0
Total			603,910,339	537,144,128

At December 31, 2014, borrowings for B/.144,500,000,(2013: B/.139,943,760) are guaranteed with available-for-sale and held-to-maturity securities amounting to B/.167,737,000 and B/.49,825,000 (2013: B/.127,787,000 and B/.41,325,000) respectively. See Note 11.

(18) Bonds Payable

The Bank has issued bonds payable, which are summarized in the table below:

Series	Interest rates	Due date	2014	2013
B Series- September 2013 issue	4.00%	Jul. 2015	20,000,000	19,722,000
A Series- June 2013 issue	4.13%	Jun. 2016	12,985,000	12,435,000
C Series- September 2013 issue	4.45%	Feb. 2017	5,670,000	3,670,000
D Series- August 2010 issue	Libor (3m) +5.15%	Feb. 2016	0	6,457,000
			38,655,000	42,284,000

Following are the characteristics and guarantees of the aforementioned series:

December 2012 issue

Public offering of the revolving program of corporate bond for a value of up to B/.150,000,000, authorized by the Superintendence of Securities of Panama, in CNV Decision No.436-12 of December 27, 2012, and by the Panama Stock Exchange. During 2013, placements under this authorization were made in June and September.

Bonds will be issued as nominative, revolving, registered, without coupons, and denominated in thousands of Balboas, in different series, with the maturity of Corporate Revolving Class A Bonds being determined by the "Issuer," whereas Corporate Class B Bonds will be issued for a 20-year term. However, after 15 years, they will be renewed automatically for additional 20-year terms each, from the date of maturity of the original 20-year term.

(18) Bonds payable, continued

The annual interest rate of such Bonds may be fixed or variable at the "Bank" discretion. For fixed rates, Bonds will earn an interest rate determined by the "Issuer". For variable rates, Bonds will earn an annual interest equal to 3-month LIBOR plus a difference determined by the "Issuer" per market demand.

August 2010 Issue

Public offering of the revolving program of corporate bond for a value of up to B/.50,000,000 authorized by the Superintendence of Securities of Panama in CNV Decision No. 312-10 of August 19, 2010 and by the Panama Stock Exchange.

Bonds will be issued as nominative, revolving, registered, without coupons, and denominated in thousands of Balboas, in different series for 2, 3, 5, and 10-year terms from the date of each series issue.

The annual interest rate of such Bonds may be fixed or variable at the "Issuer" discretion. For fixed rates, Bonds will earn an interest rate determined by the "Issuer". For variable rates, Bonds will earn an interest rate equal to 3-month LIBOR plus a difference determined by the "Issuer" per market demand.

(19) Other Liabilities

Other liabilities are as follows:

	2014	**2013**
Accounts payable	26,432,886	29,309,241
Customers' deposits	1,553,049	1,610,435
Items in transit	42,399,585	33,789,191
Fair value of interest rate swaps	6,250,292	1,248,262
Severance indemnities payable	1,491,451	1,258,694
Other labor liabilities	2,774,588	2,403,658
Deferred tax	360,424	0
Other	315,073	602,020
Total	81,577,348	70,221,501

(20) Equity

Common Shares:

	2014	**2013**
Authorized shares without nominal value	50,000,000	50,000,000
Issued and paid-in shares at the beginning of year	16,177,254	14,714,028
Issued and paid-in shares during the year	352,336	1,463,226
Total issued and outstanding shares at the end of year	16,529,590	16,177,254

(20) Equity, continued

During December 2014, the Bank issued 352,336 common shares at a par value of B/.3,998,940.

Dividends declared and paid on common shares are as follows:

	2014	2013
Total dividends declared and paid on common shares	6,112,609	5,558,749

Preferred Shares:

The Bank is authorized to issue 1,500,000 preferred shares with nominal value of B/.100. At December 31, 2014, the number of outstanding preferred shares is 990,000 (2013: 733,703); these were public preferred stock issues.

The current balances, terms, and conditions of the different preferred stock issues are detailed in the table below:

Multibank Inc.

Issuances	2014	2013	Dividends	Type	Series
2007	20,000,000	20,000,000	8.00%	Non-cumulative	A
2008	15,000,000	15,000,000	7.00%	Non-cumulative	B
2008	3,270,000	3,270,000	7.50%	Non-cumulative	C
2009	2,911,700	2,911,700	7.50%	Non-cumulative	C
2010	3,818,300	3,818,300	7.50%	Non-cumulative	C
2011	7,000,000	7,000,000	7.00%	Non-cumulative	A
2011	6,323,700	6,323,700	6.70%	Non-cumulative	B
2011	15,046,600	15,046,600	7.00%	Non-cumulative	C
2014	3,676,300	0	6.70%	Non-cumulative	B
2014	4,953,400	0	7.00%	Non-cumulative	C
2014	11,269,700	0	6.70%	Non-cumulative	D
2014	899,000	0	6.70%	Non-cumulative	E
2014	1,101,000	0	6.70%	Non-cumulative	E
2014	3,730,300	0	6.70%	Non-cumulative	D
	99,000,000	73,370,300			

The Information Circular of the public offerings provide for the following conditions:

- Non-cumulative preferred shares have no maturity dates. Multibank, Inc. may, at its entire discretion, partially or fully redeem stock after 3 years from issue, in accordance with the mechanism established in section 3.7, Chapter III, of the Circular. However, Agreement No. 5-2008 of October 1, 2008, issued by the Superintendence of Banks of Panama sets forth that redemptions should be authorized by the Office of the Superintendent.

(20) Equity, continued

- Dividends shall be paid as declared by the Board of Directors; however, they cannot be accrued.

- Dividends on preferred shares will be paid to the registered holder on a quarterly basis until redemption of the issue (4 times a year), until the Issuer decides to redeem such preferred shares. The Information Circular of the public offerings provide for the following: i) for the "A" Series issued in Decision No.326-07 of December 20, 2007, the dates set for dividend payment are March 26, June 26, September 26, and December 26 every year; ii) for the "B" and "C" Series issued in Decision No.255-08 of August 14, 2008, the dates set for dividend payment are January 5, April 5, July 5, and October 5; iii) and the "A," "B," and "C" Series issued in Decision No.47-11 of February 25, 2011, the dates set for dividend payment are February 28, May 28, August 28, and November 28.

- Dividend decrees are the responsibility of the Board of Directors, applying its best criterion to decree or not dividends. The Board of Directors is not legally or contractually bound to decree dividends.

- Multibank, Inc. cannot guarantee, and therefore it does not guarantee, dividend payments.

- Investments of preferred stockholders may be affected provided that Multibank, Inc. does not generate the profits or earnings required to decree dividends at the Board of Directors' discretion.

- Dividends on preferred stock will be net of any Bank-derived tax.

- Preferred stock is backed up by the Bank general loans and is entitled to preferred rights over common stockholders for payment of dividends as decreed.

During the year 2014, dividends were paid on preferred shares for a total of B/.6,080,804 (2013: B/.5,901,491).

Surplus of Capital Stock:
The table below summarizes the balance of the Bank excess paid-in capital generated from changes in interest acquired in the following subsidiaries:

Entity	Acquisition date	Acquired interest	Balance
Macrofinanciera, S.A.	April 2011	30%	(5,454,054)
MB Crédito, S.A.	April 2014	25%	(152,873)
			(5,606,927)

(21) Commitments and Contingencies

Commitments:

The Bank kept financial instruments off the consolidated statement of financial position with credit risks stemming from its regular business, which involve credit and liquidity risk items, such financial instruments include letters of credit, guarantees issued, and promissory notes, which are described below:

	2014	2013
Letters of credit	22,777,317	3,518,809
Guarantees issued	94,319,231	38,736,747
Promissory notes	103,558,880	106,739,599
	220,655,428	148,995,155

Letters of credit, collaterals issued, and promissory notes are exposed to credit losses in the event client fails to meet its payment obligations. Bank policies and procedures for approval of loans commitments, financial collaterals, and promissory notes are the same used to granting loans recorded in the consolidated statement of financial position.

Guarantees issued have default maturities and mostly expire without the need for any disbursements; therefore, they do not pose a significant liquidity risk.

The majority of the letters of credits are used, but they are mainly used on demand with immediate payments.

Promissory notes are commitments in which the Bank undertakes to pay once certain conditions are met, with average maturity of six (6) months, and which are mainly used for repayment of mortgage and vehicle loans. The Bank does not foresee losses as a result of such transactions.

Contingencies:

Common proceedings against the Bank are in place in the amount of B/.5,437,277 (2013: B/.1,649,422). Bank management and its legal counsel estimate a favorable outcome from these procedures.

Bank has commitments with third parties arising out of operating lease agreements, which expire in the upcoming years. The annual lease fees of such agreements for the next five years are as follows:

Years	Total
2015	4,101,223
2016	4,178,246
2017	3,690,927
2018	3,771,712
2019	3,856,536

(21) Commitment and Contingencies, continued

During the year ended December 31, 2014, lease expenses amounted to B/.4,157,111 (2013: B/.4,318,731).

(22) Trust Agreement Administration – Asset Administration

The subsidiary Multi Trust, Inc. administered trust agreements at customer risk and expense, amounting to B/.200,601,993 (2013: B/.145,649,439); for which collateralized trust agreements are in place amounting to B/.193,951,806 (2013: B/.142,057,818).

The subsidiary MultiSecurities, Inc. administered cash and investment portfolios at customer risk and expense amounting to B/.535,230,827 (2013: B/.474,139,206).

(23) Derivative Financial Instruments

The Bank uses interest rate swap agreements to mitigate the interest rate risk of financial assets and liabilities. Said agreements are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, where appropriate.

Find below a summary of the derivatives contracts by maturity and accounting method:

2014	Remaining maturity of nominal value	Fair value	
Accounting Methods	Over 1 year	Assets	Liabilities
Fair value	87,056,000	0	6,250,292

2013	Remaining maturity of nominal value	Fair value	
Accounting Methods	Over 1 year	Assets	Liabilities
Fair value	87,065,600	353,815	1,248,262

Changes in fair value are monthly determined for hypothetical derivatives that simulate the primary hedged position considering only the interest rate risk vs. the changes in the valuation of the actual derivative relating to the interest rate.

Both values are compared to determine their effectiveness in accordance with the 80-125% effectiveness rule provided for in the accounting standards for hedge accounting.

The Bank has measured the effects of the credit risk of its counterparties and its own credit risk to determine the fair value of its derivatives.

(23) Derivative Financial Instruments, continued

The Bank calculates credit risk adjustments incorporating inputs from the credit default swaps (CDS) market.

Derivative financial instruments are classified within level 2 of the fair value hierarchy as follows:

Measurement of derivative fair value

	2014	Level 2
Financial liabilities at fair value		6,250,292

	2013	Level 2
Financial assets at fair value		353,815
Financial liabilities at fair value		1,248,262

See Levels' description in Note 26.

The main methods applied for valuation, hypotheses, and variables used to measure the fair value of derivatives are as follows:

Derivatives	Valuation Technique	Variables used	Level
Over the Counter (OTC)	Discounted cash flows	Yield curves Foreign currency rates Credit spread	2

(24) Balances and Transactions with Related Parties

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

	2014		
	Related companies	Stockholders, Directors and Key executives	Affiliates
Assets:			
Loans	11,240,515	7,970,474	0
Accrued interests receivable	50,191	9,842	0
Receivables	0	0	10,306,620
Liabilities			
Demand deposits	481,049	307,368	1,157,830
Savings deposits	399,670	634,825	0
Fixed-term deposits	24,136,211	40,000	0
Accrued interests payable	520,100	4,729	0
Commitments and contingencies			
Collaterals issued	0	712,740	0
Interests earned on:			
Loans	466,011	170,337	0
Interest expenses:			
Deposits	441,262	82,472	0
General and administration expenses:			
Allowances	0	115,131	0
Salaries and other benefits	0	2,077,466	0
Rents	1,632,773	0	0

(24) Balances and Transactions with Related Parties, continued

	2013		
	Related companies	Stockholders, Directors and Key executives	Affiliates
Assets:			
Loans	11,137,495	4,590,427	1,715,893
Accrued interests receivable	50,243	10,371	27,958
Receivables	0	0	20,205,066
Liabilities			
Demand deposits	404,202	44,842	1,877,658
Savings deposits	140,996	1,467,609	0
Fixed-term deposits	17,703,988	2,307,423	0
Accrued interests payable	481,175	17,397	0
Commitments and contingencies			
Collaterals issued	72,957	72,957	0
Interest earned on:			
Loans	462,298	152,665	83,646
Interest expenses:			
Deposits	481,175	17,397	0
General and administration expenses:			
Allowances	0	88,706	0
Salaries and other benefits	0	1,858,673	0
Rents	1,550,757	0	0

Loans to related parties have multiples maturities between January 2015 and November 2044 (2013: July 2043) and bear annual interest ranging from 2.25% to 24.00% (2013: 2.25% to 18.00%).

These loans are backed with cash collateral amounting to B/.4,855,000 (2013: B/.7,574,000) by real estate collaterals for B/.7,218,503 (2013: B/.5,693,572) and property guarantees for B/.246,733 (2013: B/.255,699).

The terms of transactions with related parties are substantially similar to those with unrelated third parties.

(25) Segment Information

Business segments are as follows:

2014	Financial services	Fund Administration	Insurance	Elimination	Total Consolidated
Interest income and commissions	218,530,489	1,830,091	388,014	0	220,748,594
Interest expense and commissions	80,506,462	283,397	7,086	0	80,796,945
Other income, net	276,629	365,951	2,940,864	(187,428)	3,396,016
Allowance for loan losses and foreclosed assets	10,117,206	0	0	0	10,117,206
General and administration expenses	80,541,821	1,667,668	1,452,025	(208,176)	83,453,338
Net profit before income tax	47,641,629	244,977	1,869,767	20,748	49,777,121
Total assets	3,609,637,810	3,330,587	12,881,161	(6,679,927)	3,619,169,631
Total liabilities	3,253,627,729	479,067	4,217,041	(3,352,338)	3,254,971,499

2013	Financial services	Fund Administration	Insurance	Elimination	Total Consolidated
Interest income and commissions	207,113,256	1,819,329	275,330	(510,926)	208,696,989
Interest expense and commissions	74,321,595	574,076	5,418	0	74,901,089
Other income, net	(2,002,634)	302,265	2,648,086	0	947,717
Allowance for loan losses and foreclosed assets	9,293,728	0	0	0	9,293,728
General and administration expenses	74,891,893	1,515,118	1,267,868	(164,981)	77,509,898
Net profit before income tax	46,603,406	32,400	1,650,130	345,945	47,939,991
Total assets	3,102,289,063	3,393,153	10,095,027	(13,169,558)	3,102,607,685
Total liabilities	2,797,360,510	1,178,805	4,052,086	(4,439,523)	2,798,151,878

(26) Fair Value of Financial Instruments

The fair value of financial assets and financial liabilities traded in active markets is based on quoted market prices or traders' price quotes. For all other financial instruments, the Bank determines their fair value using different valuation techniques.

For financial instruments not regularly traded and with limited availability of price information, fair value is less objective and its determination requires a certain degree of judgment, dependent upon liquidity, concentration, market uncertainty factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair value using the following levels of hierarchy, which reflect the relevance of the inputs used for said measurement:

- Level 1: Quoted (unadjusted) prices in active markets for assets or liabilities identical to those accessed by the Bank at the measurement date.

(26) Fair Value of Financial Instruments, continued

- Level 2: Inputs other than quoted prices included in Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e., determined based on prices). This category includes instruments valued using prices quoted in active markets for similar instruments, quoted prices for identical or similar instruments in non-active markets, or other valuation techniques where significant inputs are directly or indirectly observable in a market.

- Level 3: This category includes all instruments where the valuation techniques include non-observable inputs with significant effect on fair value measurement. This category includes instruments valued per quoted prices for similar instruments where significant non-observable assumptions or adjustments reflect differences among the instruments.

Other valuation techniques include net present value and discounted cash flow models, comparisons to similar instruments for which observable market prices are available, and other valuation models. Inputs and assumptions used in the valuation techniques include risk-free referential rates, credit spreads, and other assumptions used to determine discount rates.

The main purpose of applying a valuation technique is to determine the price at which an orderly transaction would be performed to sell the asset or transfer the liability between market participants at the measurement date in current market conditions.

The fair values and carrying amounts of financial assets and liabilities are as follows:

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and due from banks	179,987,155	179,987,155	130,094,881	130,094,881
Time deposits	207,450,339	205,874,090	175,801,131	175,801,131
Securities purchased under resale agreement	0	0	1,281,000	1,281,000
Available-for-sale securities	520,254,949	520,254,949	414,262,960	414,262,960
Held-to-maturity securities	157,984,738	163,785,170	160,170,813	158,631,207
Loans, net	2,403,868,514	2,425,835,991	2,091,115,858	2,109,151,389
	3,469,545,695	3,495,737,355	2,972,726,643	2,989,222,568
Liabilities				
Demand deposits	650,815,730	650,815,730	498,836,283	498,836,283
Savings deposits	381,270,321	381,270,321	287,857,517	287,857,517
Time deposits	1,328,288,299	1,338,990,892	1,222,991,315	1,341,181,826
Repurchase securities	112,000,000	111,918,987	90,078,000	90,101,847
Borrowings received	603,910,339	605,080,305	537,144,128	579,402,981
Bonds payable	38,655,000	39,654,205	42,284,000	47,995,732
	3,114,939,689	3,127,730,440	2,679,191,243	2,845,376,186

(26) Fair Value of Financial Instruments, continued

The table below analyzes the financial instruments measured at fair value on a recurring basis. These instruments are classified at different levels of fair value hierarchy based on the inputs and valuation techniques used.

2014	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Foreign common shares	0	54,036	24,023	78,059
Local shares	0	5,031,194	276,593	5,307,787
Preferred stock	0	30,635	0	30,635
Foreign corporate bonds	88,705,270	57,544,899	596,003	146,846,172
Corporate Bonds and Local Fixed Income Funds	0	30,034,521	15,287,460	45,321,981
Other Governments' Bonds	22,346,560	56,410,338	1,375,000	80,131,898
Bonds from US Government and Agencies	81,311,985	125,474,275	0	206,786,260
Negotiable Certificate of Participation	0	0	31,742,595	31,742,595
Negotiable Certificate of Deposit – Thirteenth Month	0	0	3,819,355	3,819,355
Total available-for-sale securities measured at fair value	192,363,815	274,579,898	53,121,029	520,064,742

2013	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Foreign common shares	0	721,141	27,226	748,368
Local shares	0	4,986,317	413,505	5,399,822
Preferred stock	0	27,995	0	27,995
Foreign corporate bonds	84,853,638	16,182,657	288,896	101,325,191
Corporate Bonds and Local Fixed Income Funds	11,131,508	37,221,899	12,944,416	61,297,823
Bonds of the Republic of Panama	0	535,000	0	535,000
Other Governments' Bonds	33,113,983	27,336,501	1,625,000	62,075,484
Bonds from US Government and Agencies	35,520,837	113,538,977	0	149,059,814
Negotiable Certificate of Participation	0	0	33,587,517	33,587,517
Negotiable Certificate of Deposit – Thirteenth Month	0	0	134,190	134,190
Total available-for-sale securities measured at fair value	164,619,966	200,550,487	49,020,751	414,191,205

At December 31, 2014, no instruments were reclassified from Level 1 to Level 2.

At December 31, 2014, no instruments were reclassified from Level 2 to Level 1

Following is the reconciliation of the opening balances to closing balances of the financial instruments measured at fair value on a recurring basis, classified as Level 3:

	2014	2013
Beginning balance	49,092,507	6,520,134
Purchases	6,335,314	5,082,318
Sales and redemptions	(2,094,922)	(4,239,522)
Changes in fair value	(21,666)	(10,478)
Category reclassification	0	41,707,032
Ending balance	53,311,233	49,092,507

During 2013, certain available-for-sale investments were transferred from level 2 to level 3, since certain inputs used to determine their fair value shall not be observable.

(26) Fair Value of Financial Instruments, continued

The valuation techniques and significant inputs used in the recurring fair value measurements of the financial instruments are described in the table below:

Financial instrument	Valuation technique and inputs used	Level
Corporate Bonds and Bonds of the Republic of Panama.	Discounted cash flows using a discount rate made up of the risk-free rate and market risk-free rate of the Republic of Panama, for an instrument with a similar remaining maturity.	2 and 3
Bonds from the US Government and Agencies	Quoted prices for identical instruments in non-active markets.	2
Mutual Funds	Net Asset Value.	2

The following table describes the valuation techniques and significant non-observable input used in recurring fair value measurements classified within Level 3:

Financial instrument	Valuation technique	Significant non-observable inputs	Weighted average range	Sensitivity of the fair value measurement of significant non-observable inputs
Corporate bonds	Discounted cash flows	Adjusted discount rate with a spread of perpetual growth horizon.	2.28% - 4.75% (3.40%)	An increase (decrease) in the non-observable input alone would lead to lower (higher) fair value measurement).
Shares and Mutual Funds	Discounted cash flows	Adjustment of a credit risk spread over the referential rate of Panama Public Bonds	1.00% - 1.02% + 0.15% (1.51%)	An increase (decrease) in the non-observable input alone would lead to lower (higher) fair value measurement).

The Bank's management believes that changing any non-observable input data listed in the table above to reflect reasonable and potential alternate assumptions would not result in significant changes in the estimated fair value.

The Bank has determined that the net carrying amount of the collateral represents the fair value at the reporting date.

The Bank's Board of Directors has decided to outsource service providers to estimate the fair value of the financial assets measured at recurring and non-recurring fair value classified in the Level 3 of the fair value hierarchy.

(26) Fair Value of Financial Instruments, continued

For this purpose, the Bank has defined a control framework, which includes a review by an independent unit who reports directly to the ALCO Committee and Risk Committee. This independent unit is responsible for fair value measurements and for the regular review of significant non-observable inputs and adjustments to such valuations by third parties, and for ensuring that they have been developed according to the requirements of International Financial Reporting Standards. Such review includes assessing and documenting the evidence obtained from these third parties that support the valuation techniques and the level of fair value hierarchy in which they were classified. The results of such reviews are reported to the Audit Committee.

In the table below we have analyzed the fair values of financial instruments not measured at fair value. These instruments are classified into different levels of fair value hierarchy based on the inputs and valuation techniques used.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Time deposits	0	0	205,874,090	205,874,090
Held-to-maturity securities	16,262,879	129,443,663	18,078,628	163,785,170
Loans, net	0	0	2,425,835,991	2,425,835,991
	16,262,879	129,443,663	2,649,788,709	2,795,495,251
Liabilities				
Time deposits	0	0	1,338,990,892	1,338,990,892
Repurchase securities	0	0	111,918,987	111,918,987
Borrowings	0	0	605,080,305	605,080,305
Bonds payable	0	0	39,654,205	39,654,205
	0	0	2,095,644,389	2,095,644,389

	2013		
Assets	**Level 2**	**Level 3**	**Total**
Time deposits	0	175,801,131	175,801,131
Securities purchased under resale agreement	0	1,281,000	1,281,000
Held-to-maturity securities	155,468,342	3,162,865	158,631,207
Loans, net	0	2,109,151,389	2,109,151,389
	155,468,342	2,289,396,385	2,444,864,727
Liabilities			
Time deposits	0	1,341,181,826	1,341,181,826
Repurchase securities	0	90,101,847	90,101,847
Borrowings	0	579,402,981	579,402,981
Bonds payable	0	47,995,732	47,995,732
	0	2,058,682,386	2,058,682,386

(26) Fair Value of Financial Instruments, continued

The valuation techniques and significant inputs used in the financial assets and liabilities not measured at fair value, classified in the fair value hierarchy as Level 2 and 3, are described in the table below:

Financial instrument	Valuation techniques and inputs used
Held-to-maturity securities	Discounted cash flows using a discount rate made up of the risk-free rate and market risk-free rate of the Republic of Panama, for an instrument with a similar remaining maturity
Loans	The fair value of loans represents the discounted amount of estimated future cash flows to be received. Supplied cash flows are discounted at current market rates to determine their fair value.
Time deposits, customers' time deposits, borrowings received, and bonds payable	Discounted cash flows using current interest rates for financing of new obligations with similar remaining maturities.

(27) Main Applicable Laws and Regulations

<u>*General Laws and Regulations*</u>

(a) *Banking Law*

Banking operations in the Republic of Panama are regulated and supervised by the Superintendence of Banks of the Republic of Panama, pursuant to the regulations established in Executive Decree No.52 of 30 April 2008, which adopted the sole text of Decree Law 9 of February 26, 1998, amended by Decree-Law No.2 of February 22, 2008 that incorporates the banking system in Panama and the Superintendence of Banks and its regulations.

For purposes of compliance with the prudential norms issued by the Superintendence of Banks of Panama, the Bank will prepare an estimate of the regulatory credit reserve. If the regulatory calculation is greater than the corresponding estimate determined under IFRS, the excess reserve is recognized in a regulatory equity reserve.

(b) *Corporate Law*

Corporate operations in Panama are regulated by the Corporations Department of the Ministry of Trade and Industry pursuant to the regulations established by Law No.42 of July 23, 2001.

(c) *Finance Leasing Law*

Leasing operations in Panama are regulated by the Corporations Department of the Ministry of Trade and Industry pursuant to the regulations established by Law No.7 of July 10, 1990.

(27) Main Applicable Laws and Regulations, continued

(d) *Insurance and Reinsurance Law*

Insurance and reinsurance operations in Panama are regulated by the Superintendence of Insurance and Reinsurance of Panama pursuant to the regulations established by Insurance Law No.12 of April 3, 2012 and Reinsurance Law No.63 of 19 September 1996.

(e) *Securities Law*

Broker-dealer operations in Panama are regulated by the Superintendence of Securities pursuant to the regulations established by Decree-Law No.1 of July 8, 1999, reformed by Law No. 67 of September 1, 2011.

The operations of the brokerage houses are in the process of being adapted to the Agreement 4-2011, amended in certain provisions by Agreement 8-2013, established by the Superintendence of Securities, which provide that brokerage houses are liable to comply with the capital adequacy rules and modalities.

(f) *Trust Law*

Trust operations are regulated in Panama by the Superintendence of Banks of Panama pursuant to the regulations established by Law No.1 January 5, 1984.

(g) *Foreclosed Assets*

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

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

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

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

(27) Main Applicable Laws and Regulations, continued

Regulations issued by the Superintendence of Banks effective 2014:

- *General Resolution of the Board of Directors SBP-GJD-003-2013* dated July 9, 2013, which establishes the accounting treatment for differences arisen between prudential standards issued by the Superintendence of Banks and International Financial Reporting Standards (IFRS), so 1) the accounting records and financial statements be prepared in conformity with IFRS as required by *Agreement No.006-2012* dated December 18, 2012 and 2) in the event that the calculation of a provision or reserve in conformity with prudential standards applicable to banks presenting specific accounting aspects in addition to those required by IFRS, results to be higher than the corresponding calculation as per IFRS, the excess of the provision or reserve under prudential standards shall be recognized in a regulatory reserve in equity. This General resolution entered into effect for accounting periods ending on or after December 31, 2014.

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

- *Agreement No. 004-2013* dated May 28, 2013, which sets forth the provisions for credit risk management and administration inherent to the loan portfolio and off-balance sheet operations, including general classification criteria for credit facilities in order to determine the specific and dynamic provisions to cover the Bank's credit risk. Additionally, this Agreement establishes certain required minimum disclosures, in line with IFRS disclosure requirements about credit risk management and administration.

  This Agreement derogates Agreement No.6-2000 dated June 28, 2000 and any addendum thereto, Agreement No.6-2002 dated August 12, 2002 and Article 7 of Agreement No.2-2003 dated March 12, 2003. This Agreement entered into effect on June 30, 2014.

Specific Provisions

Agreement No.004-2013 sets forth that specific provisions are generated by any objective and concrete evidence of impairment. These provisions shall be recorded for credit facilities classified in the risk categories named: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

Effective December 31, 2014, banks shall calculate and maintain the amount of the specific provisions determined through the methodology explained in this Agreement, which takes into consideration the balance owed by each credit facility classified in any of the categories subjected to provision, mentioned in the preceding paragraph; the present value of each collateral available as risk mitigating, as established per type of collateral in this Agreement, and a table of estimates applied to the net balance exposed to losses for such credit facilities.

(27) Main Applicable Laws and Regulations, continued

In case of a surplus in the specific provision, calculated in conformity with this Agreement, over the provision calculated in conformity to IFRS; this surplus shall be accounted for in a regulatory reserve in equity increasing or decreasing through allocations from or to retained earnings. The balance of the regulatory reserve shall not be considered as capital funds for purposes of calculating certain indices or ratios mentioned in this Agreement.

The table below summarizes the classification of the loan portfolio of the Bank based on Agreement 6-2000 issued by the Superintendence of Banks Panama as of December 31, 2013 and based on Agreement 4-2013 as of December 31, 2014:

	2014 Agreement 4-2013		2013 Agreement 6-2000	
	Loans	Reserves	Loans	Reserves
Individual Impairment Analysis:				
Special-mention	37,385,307	5,065,519	82,794,535	1,028,469
Substandard	13,543,238	2,638,021	16,485,535	1,545,238
Doubtful	13,321,317	6,586,360	14,266,498	4,329,650
Loss	17,509,242	9,213,233	9,292,082	7,127,251
Gross amount	81,759,104	23,503,133	122,838,650	14,030,608
Collective Impairment Analysis:				
Pass	2,370,002,235	0	2,014,112,016	0
	2,451,761,339	23,503,133	2,136,950,666	0
Collectively reserve	0	0	0	20,914,963
Total	2,451,761,339	23,503,133	2,136,950,666	34,945,571

Non-interest bearing loans amounted to B/.14,187,569 (2013: B/.10,174,930).

Dynamic Provision

Agreement No.004-2013 sets forth that a dynamic provision is a reserve incorporated to face future incorporation of specific provisions, which is ruled by prudential criteria inherent to banking regulations. The dynamic provision is incorporated on a quarterly basis on credit facilities lacking a specific provision assigned, i.e., on credit facilities classified under the pass category.

This Agreement regulates the methodology to calculate the amount of the dynamic provision, which considers a maximum and minimum percentage restriction to the amount of the provision determined over credit facilities classified under pass category.

The dynamic provision is an equity item that increases or decreases through allocations from or to retained earnings. The credit balance of this dynamic provision forms part of the regulatory capital but does not replace nor offset capital adequacy requirements established by the Superintendence.

(27) Main Applicable Laws and Regulations, continued

The following table summarizes the balance of the dynamic provision incorporated by the Bank and each of the following subsidiaries:

Entity	2014
Multibank, Inc.	19,929,172
Hemisphere Bank Inc., Ltd.	145,613
Gran Financiera, S. A.	159,148
Macrofinanciera, S. A.	2,583,365
Multileasing Financiero, S. A.	334,216
Multi Facilities Holding Corp. y Subs.	957,270
Multibank Factoring, Inc.	218,662
Multibank Cayman, Inc.	1,052,839
	25,380,285

As per requirements of Agreement No.004-2013, a regulatory reserve for B/.565,116 was incorporated, which represents the surplus of the regulatory credit reserve over the balance of credit reserves recognized as per IFRS.

(28) Explanation of Transition to IFRS

The Bank used IFRS 1 for the preparation of these consolidated financial statements using January 1, 2013, as transition date.

Accounting policies established in note 2(a) have been applied in the preparation of the financial statements for the year ended December 31, 2014 and comparative information.

In the preparation of the beginning consolidated statement of financial position under IFRS, the Bank did not identify significant accounting adjustments when compared with IFRS as modified by prudential regulations issued by the Superintendence of Banks for regulatory purposes. However, new disclosures have been presented as required by IFRS.