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

Consolidated Financial Statements

As of December 31, 2019

(Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION)

"This document was prepared with the knowledge that their content will be made available to the public investor and the general public"

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

Table of Contents

KPMG
Torre PDC, Ave. Samuel Lewis y
Calle 56 Este, Obarrio
Panamá, República de Panamá

Teléfono: (507) 208-0700
Website: kpmg.com.pa

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Multibank, Inc. and Subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for loan losses
See Notes 3(k) and 11 to the consolidated financial statements

Key audit matter	How the key matter was addressed during the audit
The allowance for loan losses in loans at amortized cost is considered as one of the most significant matters because it requires the use of judgments and subjective assumptions made by management for the construction of expected credit loss model ("ECL"). The loan portfolio represents 72% of the Bank´s total assets. The allowance for loan losses comprised the ECL as a result of the loan rating model and the mechanism to determine the probability of default of the loan according to the impairment stage in which it is assigned. The model to estimate the ECL is determined according to the grouping of loans with similar credit risk characteristics, segregated in "Consumer Banking" and "Corporate Banking". Both methodologies are composed of estimates of the probability of default, loss given default, prospective analysis and exposure to default. The evaluation of whether or not a significant increase in the credit risk of the loans has been presented entails the application of important judgments in those methodologies. This is a challenge from an audit perspective due to the complexity in estimating the components used to perform these calculations and the application of Bank’s judgment.	Our audit procedures, considering the use of specialists, included: • We assessed the key controls over delinquency calculations, internal customer risk ratings, accuracy review of customer and model information and the methodologies used. • For a sample of corporates loans, classified by type of activity or industry, and debtors with changes in risk classification based on quantitative and qualitative factors, the respective credit files were inspected, including the financial information of the debtors, the values of guarantees, determined by expert appraisers, that support credit operations and other factors that could represent an event that causes losses, to determine the reasonableness of the credit risk. • The methodology applied by the Bank in the ECL model were assessed in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals and methodology documented and approved by the Bank's corporate government. • An independent assessment was made of the inputs used by the Consumer Banking and Corporate Banking methodologies, and a recalculation was carried out for both methodologies according to the ECL estimation model. • We assessed the judgments applied by the management on assumptions related to the current conditions of the economy and the considerations on the prospective analysis that could change the level of ECL, based on our experience and knowledge of the industry

Fair value of investment in securities
See Notes 3(b), 3(g) and 10 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Investments in securities at fair value through profit or loss and fair value through other comprehensive income represent 13% of total assets as of December 31, 2019. For Investments in Level 1 and Level 2 of the fair value hierarchy, the Bank uses external suppliers to obtain the majority of the prices of these investments and for Investments in Level 3 of the fair value hierarchy, the Bank uses valuation methodologies. The valuation of investments in Level 3 involves significant judgment by the Bank and the use of some inputs that are not available in active markets. As of December 31, 2019, investments classified as Level 3 represent 27% of total investments measured at fair value.	Our procedures in this area included: • Assessment of key controls over the process for identification, measurement and management of valuation risk, and assessment of the methodologies, inputs and assumptions used by the Bank in determination of fair value. • Valuation tests of Level 1 and 2 instruments through comparison of the fair values applied by the Bank to public and observable market data. • Assessment of the fair value models and inputs used in the valuation of Level 3 instruments; we compared observable market inputs against independent sources and external market data.

Other Information

Management is responsible for the Other Information, which comprises the information that is published together to the consolidated financial statements, but does not include the consolidated financial statements and our auditors' report thereon, which was obtained before the date of this audit report.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information identified before and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or if, in some way, it seems to contain a material misstatement.

If, based on the work performed on the Other Information obtained prior to the date of this audit report, we conclude that there is a material error in this Other Information, we are required to report this fact. We have nothing to report in this regard.

When we read the information that is published with the consolidated financial statements, if we conclude that there is a material error in that Other Information, we will be obliged to report this fact to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Jorge E. Castrellón.

KPMG (SIGNED)

Panama, Republic of Panama
February 7, 2020

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

Consolidated Statement of Financial Position

December 31, 2019

(Amounts expressed in Balboas)

Assets	**Note**	**2019**	**2018**
Cash and cash items		23,875,586	27,171,005
Deposits due from banks:			
Demand deposits - local banks		12,625,941	23,202,782
Demand deposits - foreign banks		86,092,251	117,396,979
Time deposits - local banks		8,500,000	15,160,963
Time deposits - foreign banks		123,920,941	138,950,000
Allowance for expected credit losses on bank deposits		(10,104)	(10,104)
Accrued interest receivable		112,538	111,474
Total cash, cash items and bank deposits at amortized cost	4, 8	255,117,153	321,983,099
Securities bought under resale agreement	4, 9	0	1,175,072
Derivative financial instruments	24	0	1,119,743
Investments securities designated as at fair value to profit or loss	10	59,226,261	71,932,575
Debt instruments at fair value through other comprehensive income	4, 10	547,785,376	677,391,682
Debt instruments at amortized cost, net	4, 10	85,300,248	78,786,869
Loans:			
Local sector		3,135,920,458	3,023,391,759
Foreign sector		301,789,349	404,590,176
Accrued interest receivable		39,459,363	31,834,877
Allowance for expected credit losses on loans		(54,575,217)	(44,814,918)
Unearned discounted interests and commissions		(2,532,283)	(3,213,778)
Loans at amortized cost	4, 11, 25	3,420,061,670	3,411,788,116
Property, furniture, equipment and leasehold improvements, net	12	66,275,663	40,402,011
Customers' liabilities under acceptances		115,506,674	109,031,124
Deferred tax assets	6	12,733,159	9,218,407
Other assets	14, 25	179,550,987	173,107,751
Total assets		4,741,557,191	4,895,936,449

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

Liabilities and Equity	Note	2019	2018
Liabilities			
Deposits from customers:			
Demand deposits - local		189,020,363	205,583,322
Demand deposits - foreign		173,014,660	313,883,582
Savings deposits		384,322,132	413,389,338
Time deposits - local		1,444,340,481	1,382,966,128
Time deposits - foreign		578,671,161	578,984,363
Accrued interest payable		42,510,497	42,674,341
Total deposits from customers	4, 25	2,811,879,294	2,937,481,074
Securities sold under repurchase agreements	4, 15	31,093,230	75,475,448
Borrowings	4, 16	600,723,767	677,501,291
Bonds payable	4, 17	447,110,798	438,380,392
Negotiable commercial papers	4, 18	55,098,511	37,309,849
Acceptances outstanding		115,506,674	109,031,124
Derivative financial instruments	4, 24	5,767,808	3,769,626
Certified and cashier's checks		26,747,227	29,895,014
Other liabilities	19	69,490,132	64,126,531
Total liabilities		4,163,417,441	4,372,970,349
Equity:			
Common shares	21	183,645,893	183,645,893
Preferred shares	21	110,000,000	110,000,000
Excess paid in acquisition of non controlling interests	21	(5,606,927)	(5,606,927)
Reserves		45,319,379	24,249,134
Retained earnings		244,781,405	210,678,000
Total equity		578,139,750	522,966,100
Commitments and contigencies	22		
Total liabilities and equity		4,741,557,191	4,895,936,449

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

Consolidated Statement of Profit or Loss

For the year ended December 31, 2019

(Amounts expressed in Balboas)

	Note	2019	2018
Interest and commission income:			
Interest on:	25		
Loans		236,430,558	233,636,937
Time deposits		4,742,936	3,341,595
Securities		20,351,641	24,826,805
Commissions on loans		12,620,596	13,011,595
Total interest and commission income		274,145,731	274,816,932
Interest expenses:	25		
Deposits		92,262,053	82,521,742
Borrowings		34,305,669	32,291,297
Bonds		18,215,379	16,687,739
Total interest expenses		144,783,101	131,500,778
Total interest and commission income, net		129,362,630	143,316,154
Allowance for impairment of financial assets:			
Provision for loan losses	11	25,806,308	8,695,326
Provision for other accounts receivable losses	14	45,154	0
Provision for credit losses on debt instruments at amortised cost	10	1,670	865,346
Reversal of provision for credit losses on debt instruments at fair value through other comprehensive income	10	(527,468)	(694,890)
Net interest and commission income, after provisions		104,036,966	134,450,372
Income (expenses) from banking services and others:			
Fees and other commissions earned		24,075,909	23,847,021
Net gain on securities sales and valuation of derivatives	7	9,173,044	8,522,428
Foreign exchange gain, net		1,719,827	2,766,945
Insurance premiums, net		11,506,793	8,839,080
Commissions incurred		(14,872,143)	(12,569,075)
Others, net		11,560,883	2,936,136
Provision for impairment of foreclosed assets	14	(55,651)	(56,385)
Total income from banking services and other, net		43,108,662	34,286,150
General and administrative expenses:			
Salaries and other personnel benefits	25	55,253,702	55,559,300
Professional fees		8,467,451	6,947,318
Depreciation and amortization	12	7,337,479	4,519,403
Maintenance of equipment and premises		8,520,940	7,161,288
Rental	23, 25	3,373,833	4,468,007
Taxes, other than income		3,993,362	3,678,035
Other	13	5,664,271	17,634,619
Total general and administrative expenses		92,611,038	99,967,970
Net income before income tax		54,534,590	68,768,552
Income tax, net	6	(6,034,830)	(11,888,508)
Net income of the year		48,499,760	56,880,044

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 Other Comprehensive Income

For the year ended December 31, 2019

(Amounts expressed in Balboas)

	Note	2019	2018
Net income of the year		48,499,760	56,880,044
Other comprehensive income:			
Items that will never be reclassified to the consolidated statement of profit or loss			
Reserve for property revaluation		0	1,463,227
Deferred tax on property revaluation		3,202	(69,959)
Deferred tax on derecognition of reveled properties		0	294,431
Items that are or may be reclassified to the consolidated statement of profit or loss:			
Foreign currency translation effect		(234,155)	(2,437,757)
Gain net on hedge of net investment in foreign operation		64,411	933,065
Net changes in valuation of debt instruments at fair value through other comprehensive income		30,050,650	(17,016,419)
Net gain in debt instruments at fair value through comprehensive income transferred to profit or loss	7, 10	(6,464,948)	(1,056,844)
Net change in debt instruments at fair value reclassified to profit or loss for fair value hedge	7	(1,945,820)	1,071,083
Reversal of recognized provision in profit or loss for impairment of debt instruments at fair value through other comprehensive income	10	(527,468)	(694,890)
Change in fair value of the effective portion of cash flow hedge		(1,357,133)	895,046
Total other comprehensive (loss) income, net		19,588,739	(16,619,017)
Total other comprehensive income for the year		68,088,499	40,261,027

The consolidated statement of other 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, 2019

(Amounts expressed in Balboas)

					Reserves										
	Note	**Common Shares**	**Preferred shares**	**Excess paid in acquisition of non-controlling interests**	**Dynamic provisions**	**Excess of credit reserve**	**Allowance for foreclosed assets**	**Regulatory insurance reserve**	**Regulatory capital reserve**	**Revaluation surplus**	**Reserve for valuation of debt instruments at fair value with changes in other comprehensive income**	**Foreign currency translation effect**	**Cash flow hedge**	**Retained earnings**	**Total**
Balance as of January 1, 2018		183,645,893	110,000,000	(5,606,927)	51,504,903	13,756,809	480,670	3,311,104	78,248	6,288,961	(11,176,803)	(21,528,063)	(23,477)	168,836,546	499,567,864
Comprehensive income:															
Net income		0	0	0	0	0	0	0	0	0	0	0	0	56,880,044	56,880,044
Other comprehensive income:															
Reserve for property revaluation		0	0	0	0	0	0	0	0	1,463,227	0	0	0	0	1,463,227
Deferred tax on property revaluation		0	0	0	0	0	0	0	0	(69,959)	0	0	0	0	(69,959)
Deferred tax on derecognition of reveled properties		0	0	0	0	0	0	0	0	294,431	0	0	0	0	294,431
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	(2,437,757)	0	0	(2,437,757)
Net gain on hedge of net investment in foreign operation		0	0	0	0	0	0	0	0	0	0	933,065	0	0	933,065
Net gain in debt instruments at fair value through comprehensive income transferred to profit or loss		0	0	0	0	0	0	0	0	0	(17,016,419)	0	0	0	(17,016,419)
Net gain in debt instruments at fair value through comprehensive income transferred to profit or loss		0	0	0	0	0	0	0	0	0	(1,056,844)	0	0	0	(1,056,844)
Recognized provision in profit or loss for impairment of debt instruments at fair value through comprehensive income		0	0	0	0	0	0	0	0	0	(694,890)	0	0	0	(694,890)
Net change in debt instruments at fair value reclassified to profit or loss for fair value hedge		0	0	0	0	0	0	0	0	0	1,071,083	0	0	0	1,071,083
Change in fair value of the effective portion of cash flow hedge		0	0	0	0	0	0	0	0	0	0	0	895,046	0	895,046
Dynamic provision	28	0	0	0	1,942,242	0	0	0	0	0	0	0	0	(1,942,242)	0
Regulatory credit reserve	28	0	0	0	0	619,623	0	0	0	0	0	0	0	(619,623)	0
Allowance for foreclosed assets		0	0	0	0	0	473,376	0	0	0	0	0	0	(473,376)	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(5,952,637)	0	0	0	5,952,637	0
Regulatory insurance reserve		0	0	0	0	0	0	993,674	0	0	0	0	0	(993,674)	0
Regulatory capital reserve		0	0	0	0	0	0	0	99,521	0	0	0	0	(99,521)	0
Total other comprehensive income		0	0	0	1,942,242	619,623	473,376	993,674	99,521	(4,264,938)	(17,697,070)	(1,504,692)	895,046	1,824,201	(16,619,017)
Total other comprehensive (loss) income		0	0	0	1,942,242	619,623	473,376	993,674	99,521	(4,264,938)	(17,697,070)	(1,504,692)	895,046	58,704,245	40,261,027
Contributions, distributions and changes in stockholder's interests:															
Dividends paid - common shares	21	0	0	0	0	0	0	0	0	0	0	0	0	(8,727,101)	(8,727,101)
Dividends paid - preferred shares	21	0	0	0	0	0	0	0	0	0	0	0	0	(7,944,833)	(7,944,833)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	(190,857)	(190,857)
Total contributions, distributions and changes in stockholder's interests		0	0	0	0	0	0	0	0	0	0	0	0	(16,862,791)	(16,862,791)
Balance as of December 31, 2018		183,645,893	110,000,000	(5,606,927)	53,447,145	14,376,432	954,046	4,304,778	177,769	2,024,023	(28,873,873)	(23,032,755)	871,569	210,678,000	522,966,100
Net income		0	0	0	0	0	0	0	0	0	0	0	0	48,499,760	48,499,760
Other comprehensive income:															
Deferred tax on property revaluation		0	0	0	0	0	0	0	0	3,202	0	0	0	0	3,202
Deferred tax on derecognition of reveled properties		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	(234,155)	0	0	(234,155)
Net gain on hedge of net investment in foreign operation		0	0	0	0	0	0	0	0	0	0	64,411	0	0	64,411
Net changes in valuation of debt instruments at fair value through other comprehensive income		0	0	0	0	0	0	0	0	0	30,050,650	0	0	0	30,050,650
Net gain in debt instruments at fair value through comprehensive income transferred to profit or loss		0	0	0	0	0	0	0	0	0	(6,464,948)	0	0	0	(6,464,948)
Recognized provision in profit or loss for impairment of debt instruments at fair value through comprehensive income		0	0	0	0	0	0	0	0	0	(527,468)	0	0	0	(527,468)
Net change in debt instruments at fair value reclassified to profit or loss for fair value hedge		0	0	0	0	0	0	0	0	0	(1,945,820)	0	0	0	(1,945,820)
Change in fair value of the effective portion of cash flow hedge		0	0	0	0	0	0	0	0	0	0	0	(1,357,133)	0	(1,357,133)
Regulatory credit reserve	28	0	0	0	0	(689,114)	0	0	0	0	0	0	0	689,114	0
Allowance for foreclosed assets	28	0	0	0	0	0	1,073,231	0	0	0	0	0	0	(1,073,231)	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(64,035)	0	0	0	64,035	0
Regulatory insurance reserve		0	0	0	0	0	0	1,161,424	0	0	0	0	0	(1,161,424)	0
Total other comprehensive income		0	0	0	0	(689,114)	1,073,231	1,161,424	0	(60,833)	21,112,414	(169,744)	(1,357,133)	(1,481,506)	19,588,739
Total other comprehensive (loss) income		0	0	0	0	(689,114)	1,073,231	1,161,424	0	(60,833)	21,112,414	(169,744)	(1,357,133)	47,018,254	68,088,499
Contributions, distributions and changes in stockholder's interests:															
Dividends paid - common shares	21	0	0	0	0	0	0	0	0	0	0	0	0	(4,553,300)	(4,553,300)
Dividends paid - preferred shares	21	0	0	0	0	0	0	0	0	0	0	0	0	(7,944,833)	(7,944,833)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	(416,716)	(416,716)
Total contributions, distributions and changes in stockholder's interests		0	0	0	0	0	0	0	0	0	0	0	0	(12,914,849)	(12,914,849)
Balance as of December 31, 2019		183,645,893	110,000,000	(5,606,927)	53,447,145	13,687,318	2,027,277	5,466,202	177,769	1,963,190	(7,761,459)	(23,202,499)	(485,564)	244,781,405	578,139,750

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. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

(Amounts expressed in Balboas)

	Note	2019	2018
Cash flows from operating activities:			
Net income for the year		48,499,760	56,880,044
Adjustments for:			
Provision for loan losses	11	25,806,308	8,695,326
Provision for other accounts receivable		45,154	0
Provision for impairment of foreclosed assets	14	55,651	56,385
Provision for losses on debt instruments at amortized cost	10	1,670	865,346
Reversal of reserve for expected credit losses on debt instruments at fair value through comprehensive income	10	(527,468)	(694,890)
Net gain from securities and valuation of derivatives	7	(9,173,044)	(8,522,428)
Depreciation and amortization	12	7,337,479	4,519,403
Income tax	6	6,034,830	11,888,508
Goodwill impairment	13	0	6,717,198
Income from transfer of assets and liabilities		(4,622,331)	0
Interest and commission income, net		(129,362,630)	(143,316,154)
Loss on disposal of property, furniture and equipment		1,924,767	713
Net changes in operating assets and liabilities:			
Deposits with terms over 90 days		(9,021,577)	(13,333,696)
Loans		(53,521,006)	(267,467,737)
Other assets		(5,321,672)	(67,829,905)
Deposits from customers		(105,259,574)	93,361,282
Other liabilities		8,820,213	6,468,026
Investments securities designated as at fair value to profit or loss, net	10	15,298,408	1,626,193
Interest received		268,938,709	267,648,538
Interest paid		(145,059,635)	(118,779,027)
Income tax paid		(11,998,258)	(8,804,809)
Net cash used in operating activities		(91,104,246)	(170,021,684)
Cash flows from investing activities:			
Securities under repurchase agreements, net		1,173,377	1,958,623
Purchase of debt instruments at fair value through other comprehensive income	10	(979,454,210)	(187,495,254)
Sales and redemptions of debt instruments at fair value through comprehensive income	10	1,136,577,186	250,931,756
Purchase of debt instruments at amortised cost		(12,056,679)	(45,661,811)
Amortization of capital and redemptions of instruments at amortized cost		5,704,204	37,745,384
Transfer of net financial assets and liabilities		11,527,705	0
Purchases of property, furniture and equipment	12	(12,895,343)	(4,748,059)
Net cash provided by investing activities		150,576,240	52,730,639
Cash flows from financing activities:			
Securities under repurchase agreements		(44,724,436)	24,828,620
Borrowings received		318,879,269	499,934,928
Borrowings canceled and amortizations		(415,890,649)	(507,620,765)
Payments of financial leases		(2,969,593)	0
Issuance of bonds payable		6,000,000	1,000,000
Redemption and amortizations of bonds payable		0	(14,081,808)
Issuance of negotiable commercial papers		17,812,324	25,837,562
Dividends paid on common shares	21	(5,944,121)	(7,336,280)
Dividends paid on preferred shares	21	(7,944,833)	(7,228,000)
Complementary tax		(416,716)	(190,857)
Net cash (used in) provided by financing activities		(135,198,755)	15,143,400
Effect of exchange rate changes on cash and cash equivalents		(161,827)	(1,218,011)
Net decrease in cash and cash equivalents		(75,888,588)	(103,365,656)
Cash and cash equivalents at the beginning of year		302,253,307	405,618,963
Cash and cash equivalents at the end of year	8	226,364,719	302,253,307
Non-cash flows generating transactions			
Revaluation of properties, furniture and equipment	12	0	1,463,227
Transfer of assets	12	0	17,078,229
Incorporation of the right of use in property, furniture and equipment, as a result of the adoption of IFRS 16	12	22,240,555	0
Dividends declared but not paid on common and preferred shares	19, 21	716,833	2,107,654
Effect on initial adoption of IFRS 9	4	0	646,975

The consolidated statement of cash flows should be read along with the accompanying notes which are an integral part of 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 and started operations on July 12, 1990 under a general banking license issued by the Superintendency of Banks of Panama (hereinafter referred to as "the Superintendency"), by means of Resolution N° 918 dated March 28, 1990, which allows it 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 entire equity of the following subsidiary companies:

	Activity	Country of Incorporation
Hemisphere Bank Inc., Ltd.	Commercial banking businnes (liquidated in August 2019).	Turks & Caicos Islands
Gran Financiera, S. A.	Consumer loans.	Panama
Multi Securities, Inc.	Trade, execute and process the purchase/sale of securities, locally and abroad, and management of investment portfolios.	Panama
Multi Trust, Inc.	Promote, establish, administrate and manage a trust and provide services as trustee.	Panama
Banco Multibank, S. A.	Commercial banking business (in the process of voluntary closing).	Colombia
Multi Capital Company, Inc.	Provide advisory services abroad. (Sold in September 2019).	Nevis Islands
Multibank Seguros, S. A. y Subsidiaria	Insurance business.	Panama
Multileasing Financiero, S. A.	Leasing business of non-fixed assets.	Panama

(1) General Information, continued

	Activity	Country of Incorporation
Multi Facilities Holding Corporation	Collection and recovery of special loans and activities related to loans acquired from subsidiaries. (Closed in 2018)	British Virgin Islands
MB Créditos, S. A. y Subsidiaria	Finance leasing of non-fixed assets.	Costa Rica
Multibank Factoring, Inc.	Factoring services.	Panama
Multibank Caymán, Inc.	Commercial banking business.	Cayman Islands
Orbis Real Estate, Inc. y Subsidiaria	Commercial banking business.	Cayman Islands
Inversiones Prosperidad, S. A.	Purchase, sale and administration of real estate. (Deconsolidated in 2018)	Panama

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

On March 2, 2018 the Superintendency of Banks of Panama authorized the closing of the subsidiary Multifacilities Holding Corp., a process that concluded with the issuance of the certificate of dissolution on June 7, 2018.

On December 19, 2018, the Bank transferred the shares of its Subsidiary Inversiones Prosperidad, S.A. (See Note 12).

On May 31, 2019, the Financial Superintendence of Colombia authorized the partial transfer of assets, liabilities and contracts of Banco Multibank, S. A. to Coltefinanciera, S. A.; as part of the approved process for voluntary wind-down of the banking business of the Subsidiary by the Board of Directors.

In August 2019 and September 2019, the Bank concluded the liquidation process of Hemisphere Bank Inc., Ltd, and the sale of Multi Capital Company, Inc, respectively.

On October 31, 2019, the signing of the purchase-sale agreement of the shares of Multi Financial Group, Inc., by The AVAL Group (based in Colombia) through its subsidiary Leasing Bogotá, S.A. Panama, is notified. The transaction is expected to close in the second quarter of 2020, pending the completion of regulatory approvals.

The main office of Multibank, Inc. is located at Via 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 the International Financial Reporting Standards (IFRS).

These consolidated financial statements were authorized for issuance by the Audit Committee on January 22, 2020 and ratified by the Board of Directors on January 23, 2020.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis or amortized cost, except for debt instruments at fair value through other comprehensive income, derivative financial instruments, properties and liabilities at fair value, which are measured at fair value; the foreclosed assets held for sale, which are measured at the lower of carrying amount or fair value less cost to sell and derivatives financial instruments that are recognized at fair value.

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.

(3) Summary of Significant Accounting Policies

Except as incorporated in sections 3 (i), the accounting policies detailed below have been consistently applied by the Bank for all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

(a.1) Subsidiaries

The Bank has control on a subsidiary when it 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.

(3) Summary of Significant Accounting Policies, continued

(a.2) Investment Entities and Separate Legal Vehicles

The Bank manages and administrates assets held in trust funds and other investment instruments on behalf of 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 in Consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between subsidiaries of the Bank are eliminated in preparing the consolidated financial statements.

(a.4) Foreign Currency Translation of the Financial Statements of Foreign Subsidiaries

The functional currency of the subsidiary Banco Multibank, S. A., located in Colombia, is the Colombian peso. Profit or loss and financial position of the Bank's entities having a functional currency other than the presentation currency are translated 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;
- Equity accounts at the historical exchange rate;
- The resulting translation adjustment is directly recorded in a separate account in equity, under the caption "Foreign currency translation effect".

(a.5) Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

(b) Fair Value Measurment

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

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

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

(3) Summary of Significant Accounting Policies, continued

The best evidence of fair value is a quoted market price in an active market. In the case that the market for a financial instrument is not active, a valuation technique is used. The decision of whether a market is active may include, but is not limited to, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the magnitude of the deals and sales. In markets that are not active, the guaranty for the price of the transaction to provide evidence of the fair value, or to determine adjustments to the transaction prices that are needed to measure the fair value of the instrument, requires additional work during the valuation process.

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

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the period during which the change has 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 due from banks that have an original maturity of three months or less.

(d) Securities Sold Under Repurchase Agreements

The securities sold under repurchase agreements are financing transactions in the short-term with security of values, in which it is required to repurchase the securities sold at a future date and at a certain price. The difference between the sale price and the future purchase value is recognized as an expense for interest under the effective interest rate method.

Values delivered as collaterals will remain recorded in the statement of consolidated financial position, since the counterparty has no property right over securities unless there is a breach of contract by the Bank.

(e) Securities Bought under Resale Agreements

The securities bought under resale agreements are transactions of short-term financing with securities guarantee, in which the Bank takes possession of the securities at a discount of the market value and agrees to resell them to the debtor at a future date and at a certain price. The difference between the value of purchase and the future sale price is recognized as income under the effective interest rate method.

Securities received as collateral are not recognized in the financial statement unless there is a breach by the counterparty of the contract, which gives right to the Bank to appropriate the values.

(3) Summary of Significant Accounting Policies, continued

(f) Derivatives Financial Instruments

Derivatives are initially recognized at fair value; transaction costs are recognized in income as incurred. After initial recognition, derivatives are valued at fair value and any change is recorded as follows

(f.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 a financial asset or liability recognized in the consolidated statement of financial position, or (b) a firm commitment or probable transaction to be materialized. The change in the fair value of the hedging instrument is recognized in the consolidated statement of profit or loss.

If a hedged asset is classified as fair value through comprehensive income, the revaluation of this category of investments is recorded in equity. Since 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 equity, 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 reflect the changes in its fair value due to 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 an 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 recalculated effective interest rate of the item.

(f.2) Cash Flows Hedges

Derivative instruments designated for cash flow hedges are instruments that cover the exposure to changes in cash flows associated with a previously recognized asset or liability, or a highly probable forecast transaction. The effective part of any change in the fair value of the hedging instrument is recognized directly in other comprehensive income and presented as a reserve for cash flow hedges within equity, while the ineffective portion of any change in the fair value amount is recognized in the consolidated statement of profit or loss. The amounts accumulated in equity are reclassified to the consolidated statement of profit or loss in the periods in which the hedging transactions will affect profit or loss.

(3) Summary of Significant Accounting Policies, continued

If the hedge derivative expires or is sold, terminated or exercised, or if the hedge no longer meets the cash flow hedge accounting criteria, or if the hedge designation is revoked, then the hedge accounting is discontinued prospectively and any remaining cumulative gain or loss in equity is recognized in the consolidated statement of profit or loss.

If it is considered that the anticipated transaction will not occur, the balance maintained in other comprehensive income will be reclassified immediately to the consolidated statement of profit or loss.

(f.3) Net Investment Hedges

When a derivative financial instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized in other comprehensive income and presented in the foreign currency translation effect within equity. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in the consolidated statement of profit or loss. The amount recognized in other comprehensive income will be reclassified to the consolidated statement of profit or loss as a reclassification adjustment on disposal of the foreign operation.

(f.4) Other Derivatives

Derivatives not designated as part of a hedging 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.

(g) Investment Securities

The Bank classifies all its financial instruments based on the business models for the management of these financial assets and in accordance with the contractual terms. These financial assets are measured as follows:

- Amortized Cost (AC)
- Fair value through comprehensive income (FVOCI)
- Fair value through profit and loss (FVTPL).

Classification and Measurement – Financial assets

A financial asset is measured at amortized cost and not at fair value with changes in profit and loss if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(3) Summary of Significant Accounting Policies, continued

- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and;

- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured at its fair value with changes in profit and loss.

Additionally, the Bank will evaluate each case to irrevocably designate a financial asset as FVTPL in order to significantly reduce the accounting asymmetry that could occur if it does not do so.

Derivatives embedded in contracts in which the host is a financial asset are evaluated to determine the classification of the hybrid financial instrument taken as a whole.

Evaluation of the Business Model
The Bank determined its business models for its financial instruments at the portfolio level to reflect, in the best way, the way in which the business is managed and in which the information is provided to the Administration and other supervisory and reporting entities. The information considered included:

- The policies and objectives indicated for the portfolio and the operation of those policies in practice. These include whether the Administration's strategy focuses on collecting revenue from contractual interests, maintaining a specific interest return profile or coordinating the duration of the financial assets with that of the liabilities that said assets are financing or the expected cash outflows or realize cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the key personnel of the Bank's Administration;
- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which said risks are managed;
- How the business managers are compensated (for example, if the compensation is based on the fair value of the assets under management or on the contractual cash flows obtained); and
- The frequency, value and scheduling of sales in previous periods, the reasons for those sales and expectations about future sales activity.

(3) Summary of Significant Accounting Policies, continued

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss because they are not maintained to collect contractual cash flows or to obtain contractual cash flows and sell these financial assets.

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

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

When evaluating whether the contractual cash flows are solely payment of principal and interest, the Bank will consider the contractual terms of the instrument. This will include the evaluation to determine if the financial asset contains a contractual term that could change the period or amount of the contractual cash flows in such a way that it does not comply with this condition. In making this evaluation, the Bank will consider:

- Contingent events that will change the amount and periodicity of cash flows;
- Leverage conditions;
- Terms of prepayment and extension;
- Terms that limit the Bank to obtain cash flows from specific assets (e.g. asset agreements without recourse); and
- Characteristics that modify the considerations of the time value of money, for example, periodic review of interest rates.

Reclassification between categories of financial assets and liabilities

The Bank does not reclassify its financial assets after its initial designation, unless there is any exceptional circumstance in which the Bank can, but is not limited to, acquire, sell any investment portfolio or market conditions arise that merit a revaluation of the business models. Financial liabilities will never be reclassified. The Bank has not reclassified any of its financial assets and liabilities in 2019.

(h) Loans

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, which are generally originated by lending funds to a debtor. Loans are presented at their principal outstanding amounts, less any unearned interest and commissions, and the allowance for loan losses. Unearned interest and commissions are recognized as income throughout the term of the loans by using the effective interest rate method. Within loans, financial leases receivables (note 3 (i)) and factoring receivables are included (note 3 (j)).

(3) Summary of Significant Accounting Policies, continued

(i) Financial Lease Receivables

Financial Lease Receivables as of January 1, 2019

The Bank initially applied IFRS 16 on January 1, 2019, using the modified retrospective approach; therefore, the comparative information has not been restated and is still reported in accordance with IAS 17 and IFRIC 4.

The Bank implemented the practical expedient to exempt the definition of a transitional lease contract. This means that it will apply IFRS 16 to all contracts concluded before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Also, in relation to IFRS 16 leases, the Bank has recognized depreciation and interest expense, rather than operating lease expenses. During the twelve months ended December 31, 2019, the Bank recognized B/.2,512,206 in depreciation expenses and B/.1,338,907 in interest expenses from these leases. No depreciation is recognized for the right of use asset that meets the definition of investment property.

The Bank will assess at the outset whether a contract is, or contains, a lease, and will account for each component of the lease within the contract as a separate lease from the components of the contract that do not constitute a lease, unless apply the practical solution. To assess whether a contract transfers the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset: this may be specified explicitly or implicitly, and must be physically different or substantially represent the entire capacity of a physically distinct asset. If the supplier has a substantial replacement right, then the asset is not identified;

- the Bank has the right to substantially obtain all of the economic benefits from the use of the asset through out the period of use; and

- the Bank has the right to operate the asset. The Bank has this right when it has the rights to make decisions that are most relevant for changing on how and for what purpose the asset is used. In rare cases, when the decision on how and for what purpose the asset is used is predetermined, the Entity has the right to decide the use of the asset if:

  - the Bank has the right to operate the asset; or

  - the Bank designed the asset in a way that predetermines how and for what purpose the asset wil be used

(3) Summary of Significant Accounting Policies, continued

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

At inception or assessment of a contract containing a leasing component, the Bank assigns the consideration exchange in the contract to each leasing component on the basis of its independent relative prices. However, for leases of land and buildings in which you are a lessee, the Bank has chosen not to separate non-lease components and rather take into account leasing components and non-leasing components as a single component of the lease.

(i.1) As Lessee

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

The right-to-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the asset's useful life by right-of-use or at the end of the lease term. The estimated useful lives of right-to-use assets are determined on the same basis as property, furniture, equipment, and improvements. In addition, the right-to-use asset is periodically reduced by impairment losses, if any, and adjusted as a result of possible reassessments of the financial lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the start date, discounted using the interest rate implied in the lease, or, if the rate cannot be easily determined, the incremental borrowing rate maintained by the Bank shall be used. Generally, the Bank uses its incremental as a discount rate.

The lease liability is subsequently increased by the cost of interest on the lease liability and decreased by the payments. It is re-measured when there is a change in future lease payments of a change in an index or rate, a change in the estimate of the amount expected to be paid under a residual value guarantee, i.e. changes in the evaluation of the purchase option or extension if reasonably safe to exercise or if an early termination option is reasonably safe to not be exercised.

(3) Summary of Significant Accounting Policies, continued

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price of a purchase option that the Bank can reasonably exercise, lease payments in an optional renewal period if the Bank is reasonably sure to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably sure not to make an early termination.

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

When the lease liability is re-measured in this way, an adjustment is made for the book value of the right-of-use asset, or recognized in profit or loss if the book value of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets
The Bank has decided not to recognize the right-to-use assets and lease liabilities for short-term equipment leases that have a lease term of 12 months or less and leases of low-value assets, including technology equipment. The Bank recognizes the lease payment associated with these leases an expense on a straight-line basis over the lease term.

(i.2) As a lessor
The Bank as a lessor will classify each of its leases as either an operating lease or a financial lease.

To classify each lease, the Bank performs a general assessment to determine whether the lease transfers substantially all risks and rewards incidental the ownership of the underlying asset. If this is the case, then the lease is a financial lease; otherwise, it is an operational lease. As part of this assessment, the Bank considers certain indicators such as whether leasing is for the major part of the economic life of the underlying asset.

(4) Summary of Significant Accounting Policies, continued

Financial leases consist mainly of vehicles equipment leasing contracts, 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 of the amount receivable is recorded as non-accrued interest, which is amortized as operating income using the effective interest rate method.

The Bank shall recognize lease payments from operating leases as income on a strainght-line basis or another systematic basis.

The lease income of lease contracts in which the Bank acts as a lessor is as follows:

	2019
Operating lease	
Lease income	364,508

Leases through December 31, 2018
Financial leases consist primarily of vehicles equipment leases, 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 of the amount receivable is recorded as non-accrued interest, which is amortized as operating income using the effective interest rate method.

Based on IAS 17
In the comparative period, as a lessee, the Bank classified leases that substantially transfer all risks and rewards of the property as financial leases. If this may be the case, the leased assets were initially measured in an amount equal to the lesser of the fair value and the present value of the minimum lease payments. The minimum lease payments were payments during the lease term that the tenant was required to make, excluding any contingent income. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Bank's financial statement. Payments made under operating leases were recognized on a straight-line basis during the lease term.

(3) Summary of Significant Accounting Polices, continued

Policy applicable prior to January 1, 2019

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

- compliance with the contract depended on the use of a specific asset or assets; and

- the agreement had transferred the right-of-use of the asset. A contract transferred the right-of-use of the asset if one of the following conditions are met;

- the buyer had the ability or right to operate the asset while obtaining or controlling more than a insignificant amount of production;

- the buyer had the ability or right to control physical access to the asset while obtaining or controlling more than a negligible amount of production; or

- the facts and circumstances indicated that it was remote for other parties to obtain more than a negligible amount of production, and the price per unit was not fixed as a unit of production or equal to the current market price per unit of production.

(j) Factoring Receivables

Factoring mainly consists of the purchase of invoices, which are presented at their principal amount outstanding, less unearned discounted interests and commissions and allowance for expected credit losses on loans. These receivable invoices reflect the present value of the contract.

(k) Impairment of inancial assets

The Bank evaluates at each reporting date, if there is any objective evidence of impairment of its financial assets. The amount of losses will be determined by applying the model of 'expected credit loss' (ECL), during the period and the variations with respect to the previous period are recognized as an allowance expense in profit and loss.

The impairment model will be applied to the following financial assets that are not measured at FVTPL:

- Debt instrument;
- Loans receivable;
- Loans commitments and irrevocable letters of credit;
- Deposits in banks;
- Finance Lease and Factoring Receivables.

No impairment losses will be recognized on investments in equity securities.

(3) Summary of Significant Accounting Policies, continued

The allowances for losses shall be recognized for an amount equal to the ECL during the lifetime of the asset, except in the following cases in which the recognized amount is equivalent to a 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments over which the credit risk has not increased significantly since its initial recognition.

ECL measurement

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

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

The ECL is the probability-weighted estimate of credit loss and is measured as follows:

- Financial assets that do not show credit impairment at the reporting date: the present value of all past due contractual cash payments (e.g., the difference between the cash flows owed to the Bank according to the contract and the cash flows that the Bank expects to receive);
- Financial assets that are impaired at the reporting date: the difference between the book value and the present value of the estimated future cash flows;
- Outstanding loan commitments: the present value of the difference between the contractual cash flows that are owed to the Bank in the event that the commitment is executed and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the payments expected to reimburse the holder less any amount that the Bank expects to recover.

Definition of default

Bank considers a financial asset in default when:

- It is unlikely that the debtor fully pays its credit obligations to the Bank, with no course of action on the part of the Bank to award collateral (if applicable); or
- The debtor has a delinquency of more than 90 days in any material credit obligation. Overdrafts are considered delinquent once the client has exceeded the recommended limit or has been recommended a lower limit than the current balance.

(3) Summary of Significant Accunting Policies, continued

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

- Qualitative - ex. Breach of contractual clauses;
- Quantitative - ex. delinquency status and no payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

The inputs used in the evaluation of whether the financial instruments are in default and their importance may vary over time to reflect changes in circumstances.

Significant Increase in the Credit Risk

When determining whether the credit risk of a financial asset has increased significantly since its initial recognition, the Bank will consider reasonable and sustainable information that is relevant and available without disproportionate cost or effort, including both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert evaluation of the credit, including information with a forward projection.

The Bank expect to identify if there has been a significant increase in the credit risk exposure comparing between:

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

Credit Risk Rating for the expected loss model

The Bank will assign to each exposure a specific credit risk rating for the expected loss model in its origination and subsequent dates using the methodology that considers mainly the days past due of each credit facility. The Bank expects to use these ratings for purposes of identifying significant increases in the credit risk under IFRS 9.

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

- Criteria are able to identify significant increases in credit risk before an exposure is in default;
- The criteria are not aligned to a point in time when the asset shows 30-days delinquency; and

(3) Summary of Significant Accounting Policies, continued

The mechanism to determine the probability of default according to the methodology of (ECL) is detailed below:

Stage 1	The ECL for 12 months is calculated as the portion of the expected life of the ECL as a result of events of default of a financial instrument that are possible within 12 months after the reporting date. The Bank calculates the 12-month ECL reserve based on the expectation of a default within the 12 months after the reporting date. These expected 12-month probabilities of default apply to a projection of the EAD, multiplied by the expectation of expected PD and discounted by an approximation to the original EIR. This calculation is performed for each of the four scenarios, as explained previously.
Stage 2	When a loan has shown a significant increase in credit risk since its origination, the Bank records an allowance corresponding to the lifetime ECL. The mechanisms are similar to those explained above, including the use of multiple scenarios, but the PDs and LGDs are calculated over the life of the security. The expected cash shortfalls are discounted by an approximation to the original EIR of the loan.
Stage 3	When a loan has shown a significant increase in credit risk since its inception, the Bank records an allowance for the lifetime ECL. The mechanisms are similar to those explained above, including the use of multiple scenarios, but the PDs and LGDs are calculated for the life of the security. The expected cash shortfalls are discounted by an approximation to the original EIR of the loan.
Loans Commitments and irrevocable letter of credit	In estimating the lifetime ECL for loan commitments and non-disbursed irrevocable letters of credit, the Bank estimates part of the commitment that is expected to be used during its expected life. The ECL is based on the present value of the expected cash shortfalls if the commitment is used, based on a weighted probability of the four scenarios. The expected cash shortfalls are discounted by an approximation to the expected EIR of the loan. For credit cards and revolving credit facilities that include both a loan and a commitment, the ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognized as a liability.

Derecognition of Financial Assets

A financial asset (or, if any, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset and has either transferred substantially all risks and rewards from the asset, or transferred or retained substantially the risks and rewards of the asset, but control of the asset has been transferred.
- The Bank reserves the right to receive cash flows from the asset, but has recognized an obligation to pay the cash flows received in full and without material delay to a third party.

(3) Summary of Significant Accounting Policies, continued

- When the Bank has transferred its rights to receive cash flows from an asset or entered into a transfer agreement, and all risks and rewards of the asset have not been transferred or retained substantially, nor has control of the asset been transferred. The asset is recognized to the extent that the Bank's participation in the asset continues. In that case, the Bank also recognizes an associated liability that is presented net of the corresponding asset accounts to reflect the net exposure of the transaction. Transferred assets and associated liabilities are measured on a basis that reflects the contractual rights and obligations that the Bank has retained. The continued participation in the form of a guarantee on the transferred asset is measured by the lesser between the original book value of the asset and the maximum consideration that the Bank could be obligated to pay.

Modified or Restructured Financial Assets
The contractual terms of the credits can be modified for several reasons, such as difficulties in the debtor's ability to pay, changes in market conditions, customer retention or other factors not related to a current or potential credit impairment.

The Bank renegotiates loans to clients in financial difficulties to optimize recovery opportunities and reduce the likelihood of default. Bank policies consider granting concessions that generally correspond to reduction in interest rates, changes in terms, or changes in payments.

After a follow-up period, the Bank will assess whether, according to its ability to pay and fulfill its obligations, there are grounds for classification into a lower risk category or else it should be classified into a higher category.

For financial assets modified as part of the Bank's renegotiation policies, the PD estimate will reflect whether the modifications have improved or restored the Bank's ability to raise interest and principal and the Bank's previous experiences of similar actions.

Restructuring indicators are generally a relevant factor in increasing credit risk. Therefore, a restructured debtor needs to demonstrate consistent payment behaviour over a period of time before it is no longer regarded as a impaired loan.

For modified financial assets as part of the Bank's renegotiation policies, the PD estimate will reflect whether the modifications have improved or restored the Bank's ability to collect interest and principal and the Bank's previous experiences of similar actions. As part of this process, the Bank assesses the debtor's compliance with the debt-modified terms and considers several indicators of the debtor's or group of modified debtors' behavior.

(3) Summary of Significant Accounting Policies, continued

During the year ended December 31, 2019, the Bank restructured B/.40,658,366 in loans, generating an increase in the reserve for expected credit losses of B/.8,021,778.

(l) Offsetting of Financial Assets and Liabilities

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

(m) Property, Furniture, Equipment and Improvements net

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 land and buildings, which since December 31, 2014 are recognized under the revalued cost method. The historical cost includes the expense directly attributed to the purchase of the assets.

Subsequent costs are capitalized, or they are recognized as a separate asset, as applicable, 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 the assets. Land is not subject to depreciation. The useful lives of the assets are as follows:

- Buildings	60 years
- Furniture and equipment	3 - 10 years
- IT Equipment	3 - 7 years
- Vehicles	3 - 7 years
- Property improvements	5 - 10 years
- Rights of Use	2 - 10 years

The amount equivalent to the depreciation expense associated with the revaluation of buildings is transferred from the equity account of property revaluation reserve to retained earnings as these assets are being used, without affecting profit or loss.

The useful life is revised and adjusted as appropriate at each reporting date. 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 to sell and value in use.

(3) Summary of Significant Accounting Policies, continued

(n) Goodwill

Goodwill represents the excess of the purchase price over fair value of the net assets acquired, resulting from a business acquisition.

All goodwill is allocated to one or more cash-generating units and is assessed for impairment at that level. Goodwill, is not amortized, but tested for impairment at least once a year or when there is indication of impairment, whichever comes first.

The impairment test requires 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 the consolidated statement of profit or loss.

(o) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to the initial recognition, the investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the results of the period in which they arise.

An investment property is written off at the time of disposition or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposition. Any gain or loss that arises when the property is derecognized (calculated as the difference between the net proceeds of the disposition and the carrying value of the asset) is included as gain or loss in the period in which the property is written off, from the accounting records.

(p) Deposits, Bonds Payable, Borrowings Received and Negotiable Commercial Papers

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.

(q) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specific payments on behalf of its customers for purposes of reimbursing the guarantee beneficiary, in the event that the customer fails to make payment when due, in accordance with the terms and conditions of the arrangement.

Liabilities arising from financial guarantees are initially measured at fair value, which is amortized over the term of the financial guarantee. Subsequently, the 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.

(3) Summary of Significant Accounting Policies, continued

(r) 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 rate 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 an integral part of the effective interest rate, transaction costs and any other premium or discount. Transaction costs are origination 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.

(s) 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 under 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 over the life of the respective financial instrument.

(t) Dividend Income

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

(u) Defined Contribution Plan

Defined contribution plans are recognized as an expense in the consolidated statement of profit or loss for the period as services are rendered by employees, in accordance with the terms established for those contributions.

(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 policyholder or other beneficiary when an uncertain future event (the insured event) adversely affects the policyholder or beneficiary. By general rule, the Bank determines if the arrangement has a significant insurance risk by comparing premiums collected for benefits to be paid if the insured event occurs. 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.

(3) Summary of Significant Accounting Policies, continued

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

The reinsurance receivable represents the balance of the amounts receivable from reinsurance companies originating from events occurred, whereby it assumes the indemnity on behalf of the policyholder, and for the reinsurances accepted by other insurance companies. The amounts expected to be recovered from reinsurance companies are recognized in conformity with the terms and conditions 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:

Premiums receivable are recognized when the insurance policy is issued. Income from insurance premiums corresponding to the period contracted in the policy is recognized upon the inception of the insurance without considering the payment status of the premium. Insurance begins with the acceptance of the insurance request submitted by the client and collection of the premium, which may be fractioned or deferred when collected in one single installment, during the term of the policy.

Expenses from reinsurance and commissions and other income and expenses related to the policy issuance are recognized upon recognition of income from insurance 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 manage 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 fund agreements, whether monthly, quarterly or annually or on an accrual basis.

(x) Preferred Shares

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

(3) Summary of Significant Accounting Policies, continued

(y) Income Tax

Estimated income tax is 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.

Deferred income tax is the tax amount expected to be recovered or paid in future periods over temporary differences between carrying amounts of assets and liabilities, for financial reporting purposes and the amounts used for taxation purposes, using tax rates that are expected to be applied to temporary differences when they reverse, based on laws enacted or substantially enacted at the reporting date. These temporary differences are expected to be reversed in the future. If it is determined that a deferred tax asset cannot be realized in the future, it would be totally or partially reduced.

(z) Assets Classified as Held for Sale

Non-current assets, or disposal group comprised of assets and liabilities, including foreclosed assets held for sale, which are expected to be recovered primarily through sales rather than being recovered through continued use are classified as available for sale.

Immediately before being classified as held for sale, assets or components of 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 to sell shall be recognized. An impairment loss shall be recognized for reductions in the initial value of the Bank's assets. Impairment losses at initial classification and subsequently as held for sale are recognized in the consolidated statement of profit or loss.

(aa) Segment Information

An operating 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.

(bb) Foreign Currency

Assets and liabilities maintained in foreign currency are converted into balboas (B/.) at the official exchange rate prevailing at the reporting 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 consolidated statement of profit or loss. (See Note 3(a.4)).

(cc) Impact of the adoption of International Financial Reporting Standards (IFRS)

The Bank has adopted Standard IFRS 16 Leases, which replaces the Standard IAS 17 Leases with initial application date on January 1, 2019. The requirements of IFRS 16 represent a significant change with respect to Standard IAS 17 Lease.

(3) Summary of Significant Accounting Policies, continued

The nature and effects of the key changes to the Bank´s accounting policies resulting from the adoption of IFRS16 are summarized below.

- IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use assets, which represents its right to use the underlying asset and a lease liability that represents its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. The lessor's accounting remains similar to the current standard: that is, lessors continue to classify leases as finance or operating leases.

- IFRS 16 replaces existing leases guidance, including IAS 17 on Leases, IFRIC 4 Determination of whether an agreement contains a lease, SIC-15 operating leases - Incentives and SIC-27 evaluating the substance of transactions involving the legal form of a lease.

Leases in which the Bank is a lessee

The Bank recognized new assets and liabilities for its operating leases of branches and offices. The nature of the expenses related to these leases changed because IFRS 16 replaces the operating lease expense with a straight-line depreciation charge for the right to use the asset and interest expenses on lease liabilities.

Previously, the Bank recognized straight line operating lease expense over the term of the lease and recognized assets and liabilities only to the extent that there was a time difference between the actual lease payments and the recognized expense.

In the transition to IFRS 16, the Bank has recognized right-of-use assets and liabilities for financial leases and provisions. A summary of the impact is presented below as of January 1, 2019.

	January 1, 2019
Right of use recognized in property, furniture and equipment	5,477,287
Liabilities for financial leasing	(5,380,341)
Provision for dismantling	(96,946)

(3) Summary of Significant Accounting Policies, continued

In the measurement of financial lease liabilities, the Bank has discounted the incremental payments as of January 1, 2019, using an incremental borrowing rate of 6.36%.

	January1, 2019
Operating leases committed to December 31, 2018 disclosed in the consolidated financial statements	16,260,144
Contracts accepted before December 31, 2018, but with application at the beginning of 2019	(8,016,000)
	8,244,144
Discounted amount using the incremental borrowing rate (%) as of January 1, 2019.	7,250,867
- Exclusion for low-value leases	(6,786)
- Exclusion for short-term leases	(5,185,183)
- Application of IFRS 16 verification of contractual term plus term of exercisable renewal instead of only contractual term as per IAS 17.	3,321,443
Total liabilities for leases recognized as of January 1, 2019	**5,380,341**

(dd) New IFRS and Interpretations that have not yet been adopted

At the date of the consolidated financial statements there are standards that have not yet been applied in their preparation:

- IFRS 17 *Insurance Contracts,* requires that insurance liabilities be measured at a current compliance value and provide a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent and principled accounting for insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and will become effective in the annual reporting periods beginning on or after January 1, 2021.

The Bank is evaluating the possible impact of the application of IFRS 17 on its consolidated financial statements.

(4) Financial Risk Management

The main purpose of risk management is to mitigate the potential losses the Bank may face as actor in the financial industry through a preventive comprehensive 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 acronym in Spanish) whose bases are supported by the policies and procedures that set out the effect of each type of risk identified and described in an operating manual. Additionally, it has provided the system with an organizational structure with material and financial resources directly reporting to the Board of Directors through the Risk Committee.

(4) Financial Risk Management, continued

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 produce an adequate risk-return ratio optimizing the use of the Bank's economic capital.
- Approve the maximum exposure limits allowed, reflecting 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 interrelationship and recommend mitigating strategies as required.
- Inform the Board of Directors about 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 all operations of the Bank and its subsidiaries.
- 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 Superintendency of Banks and the Superintendency of the Securities Market of Panama, with respect to concentrations of risk, liquidity and capitalization, among others. Moreover, the Bank is subject to the regulations applicable in the various countries where it operates.

The Bank's Audit Committee supervises the way Management monitors 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 in its oversight role. Internal Audit periodically reviews risk management controls and procedures, whose results are reported to the Audit Committee.

(4) Financial Risk Management, continued

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

(a) Credit Risk

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, which is carried out separately from business; its 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 ensure 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 required approval based on the risk level taken and meet the conditions agreed in the approval upon settling the operation.
- The approval process takes place within different levels of the Bank, considering approval limits for each level.
- 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.

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

Formulating Credit Policies:

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

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

Every change in policies or the establishment of new policies approved by the Risk Committee, and ratified by the Board of Directors, are published internally for the Bank's entire staff.

Establishing Authorization Limits:

Approval limits for credits are established depending on the percentage that each amount represents of the Bank's equity. These limit levels are submitted before the consideration of the Risk Committee and ratified by the Board of Directors.

(4) Financial Risk Management, continued

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 risk rating and the approved risk appetite.

Policy Compliance Review:
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 Loan Management and Control, the debtor's financial position and payment capacity are periodically assessed. For loans that are not individually material, monitoring is made through delinquency ranges as observed in their installment payments, and the particular characteristics of such portfolios.

(4) Financial Risk Management, continued

Credit Quality Analysis

The following table analyzes the credit quality of financial assets and the impairment allowance maintained by the Bank for these assets.

	Securities under Resale Agreement		Loans Receivable and Other Accounts Receivable		Debt Security Investments	
	2019	2018	2019	2018	2019	2018
Maximum exposure						
Carrying value	0	1,175,072	0	0	633,085,624	756,178,551
At amortized cost						
Level 1: Pass	0	1,173,377	0	0	86,142,374	79,789,899
Accrued interest receivable	0	1,695	0	0	339,689	177,115
Allowance for expected credit loss	0	0	0	0	(1,181,815)	(1,180,145)
Carrying value, net	0	1,175,072	0	0	85,300,248	78,786,869
Maximum exposure						
Carrying value	0	0	3,563,774,410	3,552,360,009	0	0
At amortized cost						
Levels 1-3 (Low risk)	0	0	3,514,678,886	3,521,286,223	0	0
Level 4 (Watch list)	0	0	7,114,662	3,837,711	0	0
Level 5 (Substandard)	0	0	5,092,712	3,771,889	0	0
Level 6 (Doubtful)	0	0	1,038,910	2,132,408	0	0
Level 7 (Loss)	0	0	54,139,808	37,525,597	0	0
Gross amount	0	0	3,582,064,978	3,568,553,828	0	0
Accrued interest receivable	0	0	39,459,363	31,834,877	0	0
Allowance for expected credit loss	0	0	(55,217,648)	(44,814,918)	0	0
Unearned discounted interest and commissions	0	0	(2,532,283)	(3,213,778)	0	0
Carrying value, net	0	0	3,563,774,410	3,552,360,009	0	0
Securities at fair value through comprehensive income						
Level 1: Low Risk	0	0	0	0	544,319,197	671,391,523
Carrying value	0	0	0	0	544,319,197	671,391,523
Accrued interest receivable	0	0	0	0	3,466,179	6,000,159
Carrying value, net	0	0	0	0	547,785,376	677,391,682
Stage 1						
Level 1	0	0	0	0	630,461,571	751,181,422
No past due nor impaired						
Level 1-3	0	0	3,514,678,886	3,521,286,223	0	0
With evidence of impairment						
Level 4-7	0	0	67,386,092	47,267,605	0	0
Allowance for expected credit loss						
Stage 1	0	0	18,696,705	14,590,328	417,118	270,391
Stage 2	0	0	4,941,429	2,167,210	764,697	909,754
Stage 3	0	0	31,579,514	28,057,380	0	0
Total reserve for expected credit loss	0	0	55,217,648	44,814,918	1,181,815	1,180,145

(4) Financial Risk Management, continued

	2019	2018
Off balance sheet operations (Note 28)		
Level 1:		
Letters of credit	5,593,064	5,770,923
Guarantees issued	137,563,787	128,347,330
Promissory notes	90,538,235	236,151,593
Level 2;		
Guarantees issued	1,165,000	5,000
Promissory notes	411,854	936,594
Level 4;		
Promissory notes	0	61,740
Level 5:		
Guarantees issued	450,000	450,000
Promissory notes	137,750	547,739
	235,859,690	372,270,919
Allowance for expected credit loss (Note 19)	(394,320)	(487,357)
Carrying net value	235,465,370	371,783,562

The Bank maintains deposits with banks for the amount of B/.231,129,029 (2018: B/.294,700,620). Deposits are held in financial institutions applying the limits established in the risk policy for each counterparty.

The following are the factors that the Bank has considered to determine its impairment:

- Impairment of bank deposits, loans and debt security investment:
  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;
  - Experienced difficulty in cash flows of the debtor or issuer;
  - Non-compliance with contractual terms and conditions;
  - Beginning of bankruptcy procedures;
  - Decline in the borrower's competitive position; and
  - Impairment of the collateral value.
  - Changes in the original rating
  - Significant increases in the PD in relation with the original PD.

- Loans past due but not impaired:
  Those considered past due without impairment, that is, without incurred losses. Loans and investments having collateral and/or payment sources sufficient to cover the carrying value of such loans and investments are considered past-due but not impaired.

(4) Financial Risk Management, continued

- 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 modification to the original loan terms (balance, term, payment plan, rate or collateral). These loans once restructured, are maintained in this category, regardless of whether the debtor's capacity improves after Bank's restructuring (see note 28).

- Writte offs:
  Loans are written-off when they are deemed as uncollectible. This determination is taken after considering various 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 means were used to recover the loan through collection procedures.

The Bank maintains collateral for loans granted to customers consisting of 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 not usually updated except if the loan becomes individually impair.

Collateral and their Financial Effect
The Bank has collateral 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 collateral with respect to the different types of financial assets.

	% of exposure subjected to Collateral		Type of Collateral
	2019	2018	
Securities bought under resale agreement	100%	100%	Securities
Loans receivable	87%	87%	Cash, Properties and Equipment
Other Accounts Receivable	80%	80%	Properties and Equipment

(4) Financial Risk Management, continued

Residential Mortgage Loans

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

	2019	**2018**
Residential mortgage loans:		
% LTV		
Less than 50%	60,413,713	20,787,497
51% - 70%	148,290,399	41,149,130
71% - 90%	254,196,264	164,999,103
91% - 100%	264,080,966	479,701,565
More than 100%	5,907,445	3,724,785
Total	732,888,787	710,362,080

Derivatives, Margin Loans, Securities under Repurchase and Resale Agreements

The Bank mitigates the credit risk of derivatives, margin loans, and securities under repurchase and resale agreements, through the execution of master netting agreements and holding collateral under the form of cash and trading securities. Netting clauses are established in all of 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 which regulate credit risk include netting clauses. In general, in light 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 termination value is revised and only one net amount may be claimed or is payable when settling all the transaction.

ISDA agreements do not meet the netting criteria in the consolidated statement of financial position, because the Bank has no constructive right to offset the recognized amounts, since the right to offset is only required upon occurrence of future events determined by the parties.

Assets Received as Collateral

During the period, total collaterals foreclosed by the Group to guarantee collection or execution of credit support are as follows:

	2019	**2018**
Properties	3,526,472	3,194,351
Vehicles and others	1,715,660	1,947,406
Total	5,242,132	5,141,757

(4) Financial Risk Management, continued

The Bank's policy is to perform or execute the sale of these assets in order to cover outstanding balances. In general terms, it is not the Bank's policy to use non-financial assets for its own operations, but in case of enforcing the guarantee right, the intention is to dispose of those assets in the short term.

Concentration of Credit Risk

The Bank monitors credit risk concentration per sector and geographic location. The analysis of credit risk concentration at the reporting date is as follows:

	Securities under Resale Agrrement		Loans Receivable and Other Accounts Receivable		Debt Security Investments	
	2019	2018	2019	2018	2019	2018
Sector:						
Corporate	0	1,173,377	1,975,525,681	2,016,144,612	93,391,380	180,521,931
Consumption	0	0	1,545,302,320	1,494,154,638	0	0
Government	0	0	3,487,046	10,225,882	537,070,192	570,659,491
	0	1,173,377	3,524,315,047	3,520,525,132	630,461,572	751,181,422
Accrued interest receivable	0	1,695	39,459,363	31,834,877	3,805,867	6,177,274
	0	1,175,072	3,563,774,410	3,552,360,009	634,267,439	757,358,696
Geographic concentration:						
Panama	0	1,173,377	3,220,852,464	3,106,370,585	216,067,688	250,385,344
Latin America and the Caribbean	0	0	294,743,174	398,784,465	32,523,527	85,365,672
United States of America		0	3,762,477	2,702,781	381,870,357	407,494,805
Others	0	0	4,956,932	12,667,301	0	7,935,601
	0	1,173,377	3,524,315,047	3,520,525,132	630,461,572	751,181,422
Accrued interest receivable	0	1,695	39,459,363	31,834,877	3,805,867	6,177,274
	0	1,175,072	3,563,774,410	3,552,360,009	634,267,439	757,358,696

	Letters of Credit		Guarantees Issued		Promissory Notes	
	2019	2018	2019	2018	2019	2018
Sector:						
Corporate	5,593,064	5,770,923	138,724,020	125,304,605	10,222,919	19,019,021
Consumption	0	0	454,767	3,497,725	80,864,920	218,678,645
	5,593,064	5,770,923	139,178,787	128,802,330	91,087,839	237,697,666
Geographic concentration:						
Panama	5,418,064	5,069,235	132,149,739	115,183,004	91,087,839	230,283,916
Latin America and the Caribbean	175,000	701,688	0	253,000	0	7,413,750
Others	0	0	7,029,048	13,366,326	0	0
	5,593,064	5,770,923	139,178,787	128,802,330	91,087,839	237,697,666

The geographic concentration of loans and bank deposits is based on the debtor's location. For 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 of the obligations relating 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 withdrawal of funds contributed by customers, the impairment of quality of the loan portfolio, the decline in value of investments, the excessive concentration 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 cover its obligations when due 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 highly-liquid instruments; limits of borrowing composition; leverage limits; and term limits. In connection therewith, a limit of 25% has been established for liquid funds mainly comprised of cash funds, bank deposits and investment portfolio (highly liquid investments).

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 borrowings, and disbursements of loans, guarantees, commitments and operating expenses.

Liquidity is monitored on a daily basis by the Bank's Treasury department and on a periodical basis by the Risk Management (Market and Liquidity) department. 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) and the approval of 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 within the following month. The Banking Regulation in Panama requires that general license banks to maintain a minimum balance of liquid assets at all times, as defined in Rule 4-2008 of the Superintendence of Banks of Panama, not less than 30% of their deposits; however, as a result of the strict liquidity policies for the coverage of its liabilities operations, as of December 31, 2019, the Bank's liquidity based on this ruling was 48.94% (2018: 45.31%).

.

(4) Financial Risk Management, continued

The Bank's net legal liquid asset ratio over customers' deposits measured at the reporting date is detailed as follows:

	2019	2018
At the end of the year	48.94%	45.31%
Average for the year	49.92%	51.57%
Maximum for the year	54.06%	62.05%
Minimum for the year	43.26%	44.34%

The following table details the undiscounted cash flows from financial assets and liabilities, and unrecognized loan commitments in groups based on due dates corresponding to the remaining period from the reporting date:

2019	Less than 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	(2,032,841,434)	(716,903,723)	(176,362,381)	(2,673,286)	(2,928,780,824)	2,811,879,294
Repurchase agreements	(16,077,223)	(16,423,556)	0	0	(32,500,779)	31,093,230
Borrowings received	(211,409,927)	(246,218,286)	(80,935,444)	(135,851,100)	(674,414,757)	600,723,767
Bonds payable	(55,929,302)	(426,566,785)	(5,173,611)	0	(487,669,698)	447,110,798
Negotiable commercial papers	(56,284,344)	0	0	0	(56,284,344)	55,098,511
Acceptances outstanding	(115,506,674)	0	0	0	(115,506,674)	115,506,674
Derivative financial instruments	(5,767,808)	0	0	0	(5,767,808)	5,767,808
Other accounts payables	(26,633,642)	0	0	0	(26,633,642)	26,633,642
Letters of credit	(5,511,361)	(81,703)	0	0	(5,593,064)	0
Financial guarantees issued	(74,151,353)	(65,027,434)	0	0	(139,178,787)	0
Loan commitments	(69,525,254)	(21,562,585)	0	0	(91,087,839)	0
	(2,669,638,322)	(1,492,784,072)	(262,471,436)	(138,524,386)	(4,563,418,216)	4,093,813,724
Financial Assets						
Cash, cash equivalents and due deposits	254,133,114	1,633,152	0	0	255,766,266	255,117,153
Securities at fair value though profit or loss	9,110,874	6,660,273	5,278,905	40,851,578	61,901,630	59,226,261
Debt instruments at fair value through comprehensive income	81,021,754	157,213,904	115,017,017	327,411,695	680,664,370	547,785,376
Debt instruments at amortized cost, net	12,529,782	17,300,223	27,834,720	66,561,279	124,226,004	85,300,248
Loans, net	1,165,905,907	806,052,380	732,588,989	2,172,758,267	4,877,305,543	3,420,061,670
Customers' liabilities under acceptances	115,506,674	0	0	0	115,506,674	115,506,674
Other accounts receivables	143,712,740	0	0	0	143,712,740	143,070,309
	1,781,920,845	988,859,932	880,719,631	2,607,582,819	6,259,083,227	4,626,067,691

(4) Financial Risk Management, continued

2018	Less than 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	(2,320,943,704)	(606,595,179)	(122,747,860)	(2,638,900)	(3,052,925,643)	2,937,481,074
Repurchase agreements	(76,281,825)	0	0	0	(76,281,825)	75,475,448
Borrowings received	(479,279,553)	(114,859,636)	(76,876,184)	(151,674,539)	(822,689,912)	677,501,291
Bonds payable	(20,097,431)	(155,622,788)	(308,225,000)	0	(483,945,219)	438,380,392
Negotiable commercial papers	(38,225,391)	0	0	0	(38,225,391)	37,309,849
Acceptances outstanding	(109,031,124)	0	0	0	(109,031,124)	109,031,124
Other accounts payables	(33,274,239)	0	0	0	(33,274,239)	33,274,239
Letters of credit	(5,770,923)	0	0	0	(5,770,923)	0
Financial guarantees issued	(68,495,072)	(35,395,769)	(24,911,489)	0	(128,802,330)	0
Loan commitments	(110,105,582)	(127,592,084)	0	0	(237,697,666)	0
	(3,261,504,844)	(1,040,065,456)	(532,760,533)	(154,313,439)	(4,988,614,272)	4,308,453,417
Financial Assets						
Cash and cash equivalents	320,998,156	1,595,979	0	0	322,594,135	321,983,099
Securities purchases under resale agreements	1,175,072	0	0	0	1,175,072	1,175,072
Securities at fair value though profit or loss	19,471,651	5,422,041	6,773,084	44,339,121	76,005,897	71,932,575
Debt instruments at fair value through comprehensive income	76,372,263	133,805,256	200,269,712	474,350,168	884,797,399	677,391,682
Debt instruments at amortized cost, net	10,090,541	15,640,090	32,061,286	46,107,248	103,899,165	78,786,869
Loans, net	1,089,721,982	796,947,498	722,645,405	2,140,570,797	4,749,885,682	3,411,788,116
Customers' liabilities under acceptances	109,031,124	0	0	0	109,031,124	109,031,124
Other accounts receivables	140,609,993	0	0	0	140,609,993	140,571,893
	1,767,470,782	953,410,864	961,749,487	2,705,367,334	6,387,998,467	4,812,660,430

The Bank uses derivative financial instruments to reduce certain identified risks, which could generate liability or asset undiscounted cash flows (see Note 24).

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

	2019	2018
Assets:		
Banks deposits	4,000,000	1,500,000
Securities at fair value through profit or loss	16,710,893	26,515,885
Debt instruments at fair value through comprehensive income	480,849,640	623,248,409
Debt instruments at amortized cost	76,861,363	74,581,736
Loans, net	2,436,019,211	2,447,959,165
Total assets	3,014,441,107	3,173,805,195
Liabilities:		
Time deposits	842,526,728	683,610,637
Repurchase agreements	16,000,000	0
Borrowings received	409,290,428	306,254,223
Bonds payable	407,807,475	431,289,244
Total liabilities	1,675,624,631	1,421,154,104

(c) Market Risk Management

It corresponds to the risk that the value of a Bank's financial asset declines due to fluctuation in 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 oversee risk exposures to be maintained within acceptable parameters to optimize return on risk.

(4) Financial Risk Management, continued

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 United States of America Dollars or in Balboas.

Market Risk Management:
The Bank's investment policies provide for compliance with limits based on the total amount of the investment portfolio, individual limits per type of asset, entity, issuer and/or issuance and maximum terms.

Additionally, the Bank has established maximum limits for market risk losses in its investment portfolio 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 Investment Manual are established and approved by the Bank's Board of Directors based on the recommendations of the Assets and Liabilities Committee (ALCO) and the Risk Committee; such recommendations consider the portfolio and assets forming part thereof.

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

Following is a 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 due to changes in the exchange rates of foreign currency and other financial variables, as well as the rearesponse ction 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 the position in the functional currency represent over the currency being translated; thus, generating the mix of the foreign exchange risk. The Bank manages this risk for certain operations through the use of hedge derivatives that mitigate the exposure to exchange rate fluctuations. (See Note 23).

(4) Financial Risk Management, continued

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

2019	Colombian pesos expressed in B/.	Euros expressed in B/.	Swisss francs expressed in B/.	Other currencies expressed in B/.	Total
Exchange rate	**3,277.14**	**1.12**	**0.97**		
Assets:					
Cash ítems and bank deposits	22,186,041	12,964,378	1,936,356	5,289,156	42,375,931
Debt instruments at fair value through profit or loss	3,983,101	22,230	0	0	4,005,331
Debt instruments at amortized cost	1,085,615	0	0	0	1,085,615
Loans at amortized cost	13,577,580	0	0	0	13,577,580
Total financial assets	40,832,337	12,986,608	1,936,356	5,289,156	61,044,457
Liabilities:					
Customers' deposits	16,194	12,945,510	1,929,830	5,232,716	20,124,250
Borrowings received	18,738,238	0	0	0	18,738,238
Bonds payable	0	0	105,155,631	0	105,155,631
Total financial liabilities	18,754,432	12,945,510	107,085,461	5,232,716	144,018,119
Net position in the consolidated statement of financial position	22,077,905	41,098	(105,149,105)	56,440	(82,973,662)

2018	Colombian pesos expressed in B/.	Euros expressed in B/.	Swisss francs expressed in B/.	Other currencies expressed in B/.	Total
Exchange rate	**3,249.75**	**1.14**	**0.99**		
Assets:					
Cash and due from banks	15,919,430	55,725,728	3,612,433	2,758,434	78,016,025
Debt instruments at fair value through profit or loss	9,466,677	22,634	0	0	9,489,311
Debt instruments at amortized cost	1,526,745	0	0	0	1,526,745
Loans at amortized cost	68,257,704	0	0	0	68,257,704
Total financial assets	95,170,556	55,748,362	3,612,433	2,758,434	157,289,785
Liabilities:					
Customers' deposits	43,738,909	54,868,793	1,617,836	4,676,501	104,902,039
Borrowings received	27,962,463	0	0	0	27,962,463
Bonds payable	0	0	102,865,136	0	102,865,136
Total financial liabilities	71,701,372	54,868,793	104,482,972	4,676,501	235,729,638
Net position in the consolidated statement of financial position	23,469,184	879,569	(100,870,539)	(1,918,067)	(78,439,853)

(4) Financial Risk Management, continued

- *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 Integrated 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 Assets and Liabilities Committee (ALCO) and the Risk Committee.

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

Sensitivity of net income due to projected interest rates	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
2019				
As of December 31	(599,249)	599,249	(1,198,498)	1,198,498
Average for the year	(586,610)	586,610	(1,173,220)	1,173,220
Maximum for the year	(735,866)	735,866	(1,471,732)	1,471,732
Minimum for the year	(452,306)	452,306	(904,612)	904,612
2018				
As of December 31	13,530,373	(13,530,373)	27,060,746	(27,060,746)
Average for the year	13,184,278	(13,184,278)	26,368,556	(26,368,556)
Maximum for the year	13,530,373	(13,530,373)	27,060,746	(27,060,746)
Minimum for the year	12,711,675	(12,711,675)	25,423,350	(25,423,350)

Sensitivity of net equity due to interest rates fluctuation	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
2019				
As of December 31	(11,357,947)	11,357,947	(22,715,894)	22,715,894
Average for the year	(11,738,183)	11,738,183	(23,476,366)	23,476,366
Maximum for the year	(13,516,447)	13,516,447	(27,032,894)	27,032,894
Minimum for the year	(8,796,489)	8,796,489	(17,592,978)	17,592,978
2018				
As of December 31	(1,570,349)	1,570,349	(3,140,698)	3,140,698
Average for the year	(2,200,507)	2,200,507	(4,401,014)	4,401,014
Maximum for the year	(2,307,346)	2,307,346	(4,614,692)	4,614,692
Minimum for the year	(2,389,047)	2,389,047	(4,778,094)	4,778,094

(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 maturity dates, whichever occurs first.

				2019			
	Less than 3 months	**3 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial assets:							
Cash and cash equivalents	23,875,586	0	0	0	0	0	23,875,586
Bank deposits	222,591,567	4,650,000	4,000,000	0	0	0	231,241,567
Securities at fair value through profit or loss	24,593,468	1,164,140	0	0	21,965	33,446,688	59,226,261
Debt instruments at fair value through comprehensive income	105,986,627	22,490,417	125,245,741	76,038,448	218,024,143	0	547,785,376
Debt instruments at amortized cost, net	75,794,350	628,665	0	0	8,877,233	0	85,300,248
Loans, net	2,289,545,753	284,237,409	231,971,118	60,189,915	554,117,475	0	3,420,061,670
Customers' liabilities under acceptances	0	115,506,674	0	0	0	0	115,506,674
Other accounts receivables	0	0	0	0	0	143,712,740	143,712,740
Total financial assets	2,742,387,351	428,677,305	361,216,859	136,228,363	781,040,816	177,159,428	4,626,710,122
Financial liabilities:							
Demand deposits	362,035,023	0	0	0	0	0	362,035,023
Savings deposits	384,322,132	0	0	0	0	0	384,322,132
Time deposits	410,572,486	812,422,925	668,477,456	171,381,272	2,668,000	0	2,065,522,139
Repurchase agreements	0	15,093,230	16,000,000	0	0	0	31,093,230
Borrowings received	76,209,692	115,223,647	215,618,863	65,372,368	128,299,197	0	600,723,767
Bonds payable	8,103,323	31,200,000	402,807,475	5,000,000	0	0	447,110,798
Negotiable commercial papers	4,583,511	50,515,000	0	0	0	0	55,098,511
Acceptances outstanding	0	115,506,674	0	0	0	0	115,506,674
Other accounts payables	0	0	0	0	0	26,633,642	26,633,642
Total financial liabilities	1,245,826,167	1,139,961,476	1,302,903,794	241,753,640	130,967,197	26,633,642	4,088,045,916
Total sensitivity to interest rate	1,496,561,184	(711,284,171)	(941,686,935)	(105,525,277)	650,073,619		

				2018			
	Less than 3 months	**3 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial assets:							
Cash and cash equivalents	27,171,005	0	0	0	0	0	27,171,005
Bank deposits	287,162,094	6,150,000	1,500,000	0	0	0	294,812,094
Securities bought under resale agreements	1,175,072	0	0	0	0	0	1,175,072
Securities at fair value through profit or loss	24,996,445	4,146,079	3,838,314	1,337,678	2,952,103	34,661,956	71,932,575
Debt instruments at fair value through comprehensive income	134,214,609	49,759,586	59,706,669	132,895,872	300,814,946	0	677,391,682
Debt instruments at amortized cost, net	69,177,709	727,766	0	0	8,881,394	0	78,786,869
Loans, net	2,286,491,480	236,041,278	228,330,844	58,329,807	592,057,706	10,537,001	3,411,788,116
Customers' liabilities under acceptances	0	0	0	0	0	109,031,124	109,031,124
Other accounts receivables	0	0	0	0	0	140,571,893	140,571,893
Total financial assets	2,830,388,414	296,824,709	293,375,827	192,563,357	904,706,149	294,801,974	4,812,660,430
Financial liabilities:							
Demand deposits	519,466,904	0	0	0	0	0	519,466,904
Savings deposits	413,389,338	0	0	0	0	0	413,389,338
Time deposits	487,238,225	833,775,970	567,016,609	114,765,128	1,828,900	0	2,004,624,832
Repurchase agreements	44,475,448	31,000,000	0	0	0	0	75,475,448
Borrowings received	174,323,801	196,923,267	110,349,814	54,470,178	141,434,231	0	677,501,291
Bonds payable	0	0	140,633,940	297,746,452	0	0	438,380,392
Negotiable commercial papers	3,809,849	33,500,000	0	0	0	0	37,309,849
Acceptances outstanding	0	0	0	0	0	109,031,124	109,031,124
Other accounts payables	0	0	0	0	0	33,274,239	33,274,239
Total financial liabilities	1,642,703,565	1,095,199,237	818,000,363	466,981,758	143,263,131	142,305,363	4,308,453,417
Financial liabilities:	1,187,684,849	(798,374,528)	(524,624,536)	(274,418,401)	761,443,018		

(4) Financial Risk Management, continued

- *Price Risk:*

  It refers to the risk that the value of a financial instrument fluctuates due to 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.

  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. To manage the price risk derived from investments in equity instruments, the Bank diversifies its portfolio based on established limits.

(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 designed to provide a segregation of functions among the owners, executors, control areas and areas in charge of ensuring 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.

For the implementation of this risk management structure, which has been disseminated 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, flowcharting 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 it 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 assessed.

(4) Administración de Riesgos Financieros, continuación

Likewise, the Bank, as member of the Financial System, in order to guarantee operations, and generate confidence, has implemented a Business Continuity Plan that defines the types of alerts to be considered for triggering action 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 for the critical areas.

(e) Capital Management

The Bank's regulators, which are the Superintendency of Banks and the Superintendency of the Securities Market of Panama, require that the Bank maintain a total capital ratio measured based on the risk weighted average assets. The Bank complies with the regulatory capital requirements to which it is subject.

The Bank's policy is to maintain a strong capital base to leverage the future development of investment and credit business within the market, with adequate levels of capital return to shareholders and regulatory capital.

The Banking Law in Panama requires general license banks to maintain a minimum paid-in capital of B/.10,000,000, and an equity of at least 8% of its risk-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 rulings of the Superintendency of Banks.

(4) Financial Risk Management, continued

Based on Rules No. 1-2015 and its amendments and No. 3-2016, as well as Rule 3-2018 and Rule 11-2018 (Note 28), issued by the Superintendency of Banks of Panama, as of December 31, 2019, the Bank maintains a position of regulatory capital that is composed as follows for its financial subsidiaries:

	2019	**2018**
Common Equity Tier 1 Capital		
Common shares	183,645,893	183,645,893
Excess paid in acquisition of non-controlling interests	(5,606,927)	(5,606,927)
Retained earnings	244,411,807	201,949,723
Declared capital reserves	177,769	0
Other items of comprehensive income		
Loss on securities at fair value through profit or loss and others	(7,761,459)	(28,873,873)
Foreign currency translation effect	(23,202,499)	(23,032,755)
Less: Reserve cash flow hedge	(485,564)	871,569
Total of Common Equity Tier 1 Capital	391,179,020	328,953,630
Additional Tier 1 Capital		
Preferred shares	110,000,000	110,000,000
Total of Additional Tier 1 Capital	110,000,000	110,000,000
Dynamic provision	53,447,145	53,447,145
Total Regulatory Capital Funds	554,626,165	492,400,775
Total risk weighted assets (Note 28)	3,020,616,712	3,053,577,621
Ratios:		
Capital Adecuacy Ratio	18.36%	16.13%
Common Equity Tier 1 Capital Ratio	12.95%	10.77%
Tier 1 Capital Ratio	16.59%	14.38%
Leverage Ratio	8.84%	7.12%

(5) Use of Estimates and Judgements in the Application of Accounting Policies

In the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards, the Bank's management requires to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, 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 expectation 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 fiscal 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 subject to management's judgment and may have a significant effect on the Bank's interests or participation in investment companies and separate vehicles.

- *Investment Entities and Separate Legal Vehicles*
  The Bank acts as an asset manager on behalf of third parties through investment companies and separate vehicles. When evaluating if the Bank controls those investment companies and vehicles, factors such as the following have been considered: 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 compensation agreements and its exposure to return fluctuations. Accordingly, the Bank has concluded that it acts as investment agent for all cases; therefore, it does not consolidate these investment companies and separate vehicles.

(b) Impairment Losses on Financial Assets:
The Bank reviews its main financial assets such as cash and cash equivalents, assets at amortized cost and assets at fair value through comprehensive income to assess impairment based on the criteria established by the Comprehensive Risk Committee, which establishes reserves under the expected credit losses methodology. These are divided into reserves for 3 different stages, losses at 12 months, losses for the lifetime of the loan and credits at default. See Note 3 (k).

(5) Use of Estimates and Judgements in the Application of Accounting Policies, continued

(c) *Fair Value of* Derivatives *Instruments:*

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 independent staff from the corresponding area that created them. Models are all evaluated and adjusted before use, and they are tailored to ensure that results show the current information and comparable market prices.

As possible, models only use observable information; however, factors 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 reported fair value of financial instruments.

(d) Income Tax:

The Bank is subject to income tax payment. Significant estimates are required to determine the provision for income taxes. There are a number of transactions and calculations for which the determination of what is the last tax figure 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 the provisions for income taxes and deferred taxes for the period in which the determination was made.

(6) Income Tax

The income tax returns of the Bank and its subsidiaries incorporated in the Republic of Panama, in accordance with current tax regulations, are subject to review by the tax authorities for up to the last three (3) years. The statute of standard limitations for tax reviews applicable to the income tax of the subsidiary incorporated in the Republic of Colombia, is three years. The statute of standard limitations for tax reviews applicable to the income tax of the subsidiary incorporated in the Republic of Colombia, is three years (2018: up to two years), from the due date or date on which the tax return was filed. Income tax returns in which they use or incur losses will have a statute of limitations of six years (2018: up to five years). A statute of limitations of three additional years applies if losses are used in the last two years (2018: losses used in the fifth or sixth year). The income tax return prescription law for the tax returns file by tax payers subject to the transfer pricing regime will be six years starting from the date of filling. In accordance with the income tax law applicable to the subsidiary incorporated in the Republic of Costa Rica, annual income tax returns must be presented at December 31 of each year. The fiscal authorities can review the tax returns of the years 2015, 2016, 2017, 2018 and 2019.

According to current tax regulations, the companies incorporated in Panama are exempt from the payment of income tax on profits from foreign operations, interest earned on time deposits in local banks, debt securities of the Government of Panama and the investments in securities registered in the Superintendency of the Securities Market, and traded through the Panamanian Stock Exchange.

(6) Income Tax, continued

Legal entities in the Republic of Panama must calculate income taxes at the statutory rate of 25%. Additionally, entities with annual taxable income over one million five hundred thousand balboas (B/.1,500,000) must 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 the total taxable income.

Law No 52 of August 28, 2012 reestablished the advanced payment of estimated income taxes starting in September 2012. Pursuant to this Law, estimated income taxes must be paid in three equal installments, in June, September and December of each year.

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

Country	Statutory tax rate	Effective Fiscal year
Colombia	37%	2018
	33%	2019 and on
Costa Rica	30%	

Income tax expense is detailed as follows:

	2019	2018
Current tax:		
Estimated income tax	9,792,427	11,136,281
Prior period tax adjustments	(242,845)	(791,273)
Deferred tax:		
Origination and reversal of temporary differences	(3,514,752)	1,543,500
Total income tax expense	6,034,830	11,888,508

(6) Income tax, continued

In addition, the deferred tax as of December 31, 2019 for B/.204,075 (2018: B/.207,277), corresponds to the depreciation expense from revaluation of property in 2014 and 2018. This was recognized in other comprehensive income for the period for B/.3,202 (2018: B/.224,472).

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

	2019	**2018**
Net income before income tax	54,534,590	68,768,552
Income tax applying the statutory tax rate (25%)	13,633,648	17,192,138
Effects of rates on operations in other jurisdictions and exchange rates	(198,704)	(1,309,664)
Foreign, exempted and non-taxable income	(32,975,906)	(33,698,710)
Non-deductible costs and expenses	25,364,660	28,100,468
Tax loss carryforwards	211,132	1,604,276
Total income tax expense	6,034,830	11,888,508

The effective income tax rate is determined as follows:

	2019	**2018**
Income before income tax	54,534,590	68,768,552
Current tax expense	6,034,830	11,888,508
Effective income tax rate	11.07%	17.29%

Deferred income tax asset and liability are detailed below:

	2019			**2018**		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Cash and cash equivalents	2,526	0	2,526	2,526	0	2,526
Allowances for loan losses	12,205,174	0	12,205,174	8,906,847	0	8,906,847
Allowance for other accounts receivables	175,379	0	175,379	187,195	0	187,195
Revaluation of properties	0	(204,075)	(204,075)	0	(207,277)	(207,277)
Right-of-use of assets	251,500	0	251,500	0	0	0
Irrevocable commitments and letters of credit	98,580	0	98,580	121,839	0	121,839
Total	12,733,159	(204,075)	12,529,084	9,218,407	(207,277)	9,011,130

(6) Income Tax, continued

The reconciliation of deferred income tax is as follows:

2019	Beginnig balance	Adjustment for adoption of IFRS 9	Recognition in profito or loss	Recognition in other comprehensive income	Ending Balance
Cash and cash equivalents	2,526	0	0	0	2,526
Allowances for loan losses	8,906,847	0	3,298,327	0	12,205,174
Allowance for other accounts receivables	187,195	0	(11,816)	0	175,379
Revaluation of properties derecognition revalued properties	(207,277)	0	0	3,202	(204,075)
Right-of-use of assets	0	0	251,500	0	251,500
Irrevocable commitments and letters of credit	121,839	0	(23,259)	0	98,580
Total	9,011,130	0	3,514,752	3,202	12,529,084

2018	Beginnig balance	Adjustment for adoption of IFRS 9	Recognition in profito or loss	Recognition in other comprehensive income	Ending Balance
Cash and cash equivalents	0	2,526	0	0	2,526
Allowances for loan losses	5,166,512	2,939,722	800,613	0	8,906,847
Allowance for other accounts receivables	0	0	187,195	0	187,195
Revaluation of properties derecognition revalued properties	(431,749)	0	0	224,472	(207,277)
Prepaid expenses	481,133	0	(481,133)	0	0
Irrevocable commitments and letters of credit	0	107,759	14,080	0	121,839
Tax loss carry forwards	2,064,255	0	(2,064,255)	0	0
Total	7,280,151	3,050,007	(1,543,500)	224,472	9,011,130

The recognition of deferred tax assets for por B/.12,733,159 (2018: B/.9,218,407) is based on the Management's forecasted profit (which is based on the available evidence including historical level of profitability), which indicates that it is probable that the companies of the Bank will generate future taxable income against which these assets may be used.

Deferred taxes assets have not been recognized for B/.7,492,390 (2018: B/.7,711,541) from accumulated tax losses for B/.22,647,643 (2018: B/.23,368,305) because there is not enough evidence that indicates that there will be sufficient future taxable income for the Bank to use the corresponding taxable benefits. These accumulated tax losses expire between 2021 and 2029

The Bank kept a cumulative tax loss balance of available tax loss carryforwards of B/.22,648,743 (2018: B/.23,370,305), originated by companies incorporated in Panama and Colombia.

Tax loss carryforwards incurred by companies incorporated in Panama could be used for up to five years, up to 20% every year without exceeding 50% of taxable income.

(6) Income Tax, continued

These tax loss carryforwards are distributed as follows:

Year	Tax loss to be used per year in Panama
2020	1,100

Tax loss carryforwards for B/.22,647,643 incurred by companies incorporated in Colombia could be used up to 12 subsequent years and without cap of amount per fiscal period. Losses generated by excess of presumptive income over ordinary income may be applied up to 5 subsequent years without cap of amount per year.

(7) Net Gain on Securities and Valuation of Derivatives

Gains or losses on securities and valuation of derivatives are detailed as follows:

	2019	2018
Net gain on sale of securities with changes in profit or loss	2,636,904	6,168,669
Gain on investment property valuation (Note 12)	0	479,338
Net gain on sale of the debt instruments at fair value through other comprehensive income	6,464,948	1,860,470
Unrealized gain (loss) transferred to profit or loss due to application of hedge accounting	1,945,820	(1,071,083)
(Loss) gain on revaluation of derivative instruments	(1,908,467)	1,105,139
Net loss in cash flow hedging	(22,699)	(24,838)
Net gain on sale of other financial instruments	56,538	4,733
	9,173,044	8,522,428

(8) Cash and Cash Equivalents

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

	2019	2018
Cash and cash equivalents	23,875,586	27,171,005
Demand deposits	98,718,192	140,599,761
Time deposits	132,420,941	154,110,963
Allowance for impairment of cash equivalents	(10,104)	(10,104)
Interest receivable	112,538	111,474
Total cash and due from banks	255,117,153	321,983,099
Less; interest-bearing deposits due over 90 days, pledges and allowance for impairment and interest receivable	28,752,434	19,729,792
Cash and cash Equivalents in the consolidated statement of cash flows	226,364,719	302,253,307

(9) Securities Purchased under Resale Agreements

As of December 31, 2019, no securities purchased under resale agreement are maintained since they expired in January 2019 (2018: B/.1,173,377, with interest receivable of B/.1,695).

(10) Investment in Securities

Investments in securities are detailed below:

Securities at fair value through profit or loss

As of December 31, 2019, , the Bank maintains securities at fair value through profit or loss of B/.59,221,342 (2018: B/.71,882,846) and accrued interest receivable for B/.4,919 (2018: B/.49,729), and sales and redemptions of its securities for B/.8,513,365 (2018: B/.23,512,093), realizing a net gain of B/.2,636,904 (2018: net gain B/.6,168,669).

(10) Investment in Securities, continued

Debt instruments at fair value with changes in other comprehensive income:

The fair value of the debt instruments at fair value through other comprehensive income is detailed as follows:

	2019	2018
Foreign corporate bonds	9,392,120	75,083,511
Corporate bonds and local fixed income funds	11,351,135	37,851,559
Bonds of the Republic of Panama	129,719,923	146,827,234
Bonds from other governments	11,985,663	43,741,403
Bonds from US Government and Agencies	381,870,357	367,887,816
	544,319,198	671,391,523
Accrued interest receivable	3,466,178	6,000,159
Total net	547,785,376	677,391,682

The Bank sold its portfolio of debt instruments at fair value through comprehensive income for B/.1,136,577,186 (2018: B/.250,931,756) generating a net gain on sale B/.6,464,948 (2018: net gain B/.1,860,470).

Securities with nominal value of B/.33,900,000 (2018: B/.91,655,000) guaranteeing securities sold under repurchase agreements in the amount of B/.31,000,000 (2018: B/.75,040,000). See Note 15. Additionally, securities with nominal value of B/.261,077,000 (2018: B/.329,722,000) guaranteeing borrowings received. See Note 16.

The allowance for expected credit losses related to debt instruments at fair value through other comprehensive income is detailed as follows:

	Stage 1	Stage 2	Total
Allowance for expected credit losses at December 31, 2018	358,867	795,542	1,154,409
Changes due to financial instruments recognized during the year	(335,036)	(239,574)	(574,610)
Origination or purchase of new financial assets	47,142	0	47,142
Allowance of expected credit losses at December 31, 2019	70,973	555,968	626,941

	Stage 1	Stage 2	Total
Allowance for expected credit losses at January 1, 2018	379,478	1,469,821	1,849,299
Changes due to financial instruments recognized at January 1, 2018	(87,227)	(674,279)	(761,506)
Origination or purchase of new financial assets	66,616	0	66,616
Allowance of expected credit losses at December 31, 2018			
Allowance for expected credit losses at January 1, 2018	358,867	795,542	1,154,409

(10) Investment in Securities, continued

Debt instruments at amortized cost

The amortized cost of the portfolio is as follows:

	2019	2018
Foreign corporate bonds	7,043,615	7,045,480
Corporate bonds and local fixed income funds	74,996,630	68,200,342
Bonds from other governments	4,102,129	4,544,077
Total	86,142,374	79,789,899
Accrued interest receivable	339,689	177,115
Allowance for expected credit losses	(1,181,815)	(1,180,145)
Net total	85,300,248	78,786,869

Securities with nominal value B/. 3,000,000 (2018: B/.3,000,000) guaranteeing borrowings received. See Note 16

The allowance for expected credit losses related to debt instruments at amortized cost is detailed as follows:

	Stage 1	Stage 2	Total
Allowance for expected credit losses at December 31, 2018	270,391	909,754	1,180,145
Changes due to financial instruments recognized during the year	36,483	(941,142)	(904,659)
Origination or purchase of new financial assets	110,244	796,085	906,329
Allowance of expected credit losses at December 31, 2019	417,118	764,697	1,181,815

	Stage 1	Stage 2	Total
Allowance for expected credit losses at January 1, 2018	65,277	249,522	314,799
Changes due to financial instruments recognized at January 1, 2018	150,950	660,232	811,182
Origination or purchase of new financial assets	54,164	0	54,164
Allowance of expected credit losses at December 31, 2018	270,391	909,754	1,180,145

(11) Loans

The loan portfolio by product is detailed as follows:

	2019	2018
Commercial	906,685,463	930,951,732
Residential mortgage	732,888,787	710,362,080
Personal, vehicles and credit cards	671,961,298	640,614,891
Interim financing and construction	475,837,322	455,634,096
Agricultural	212,221,892	193,615,907
Pledged loan	200,030,121	201,155,039
Retirees	100,672,106	100,132,637
Industrial	89,696,040	126,744,629
Financial leases	22,033,658	29,371,911
Tourism and services	10,315,186	10,965,515
Factoring	9,997,117	21,821,116
Commercial mortgage	5,370,817	6,612,382
	3,437,709,807	3,427,981,935
Accrued interest receivable	39,459,363	31,834,877
Allowance for expected credit loss	(54,575,217)	(44,814,918)
Unearned discounted interest and commissions	(2,532,283)	(3,213,778)
Total	3,420,061,670	3,411,788,116

The movement of the allowance for expected credit losses is detailed below:

	2019			
	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses at December 31, 2018	14,590,328	2,167,211	28,057,379	44,814,918
Transfer to expected credit losses during the next 12 months	68,631	(49,567)	(19,064)	0
Transfer to expected losses during the lifetime	(3,877,949)	4,007,222	(129,273)	0
Transfer to financial instruments with credit impairment	(11,409,783)	(10,129,449)	21,539,232	0
Net effect of changes in the allowance for expected credit losses	21,200,931	9,849,521	(6,873,385)	24,177,067
Financial instruments that have been written-off during the year	(6,804,331)	0	0	(6,804,331)
Origination or purchase of new financial assets	6,626,219	579,948	1,227,405	8,433,572
Loans written-off	(2,339,772)	(1,483,457)	(21,137,233)	(24,960,462)
Recoveries	0	0	8,914,453	8,914,453
Allowance for expected credit losses at December 31, 2019	18,054,274	4,941,429	31,579,514	54,575,217

(11) Loans, continued

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as of December 31, 2017				33,139,997
Adjustment due to initial adoption of IFRS 9				15,015,351
Allowance for expected credit losses at January 1, 2018	13,488,832	13,142,021	21,524,495	48,155,348
Transfer to expected credit losses during the next 12 months	1,050,418	(1,023,754)	(26,664)	0
Transfer to expected losses during the lifetime	(1,406,053)	1,442,082	(36,029)	0
Transfer to financial instruments with credit impairment	(8,844,686)	(6,485,436)	15,330,122	0
Net effect of changes in the allowance for expected credit losses	9,049,409	(2,811,096)	(5,358,517)	879,796
Financial instruments that have been written-off during the year	(1,726,385)	0	0	(1,726,385)
Changes due to financial instruments recognized at January 1, 2018	(1,877,297)	(8,878,204)	9,908,912	(846,589)
Origination or purchase of new financial assets	6,853,591	799,654	1,888,670	9,541,915
Loans written-off	(3,874,798)	(2,896,260)	(14,351,253)	(21,122,311)
Recoveries	0	0	9,086,555	9,086,555
Allowance for expected credit losses at December 31, 2018	14,590,328	2,167,211	28,057,379	44,814,918

The credit risk concentration for each stage is detailed below:

2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Clasification				
Levels 1-3 (Low Risk)	3,259,050,302	103,361,521	7,911,892	3,370,323,715
Level 4 (Watch list)	0	7,034,033	80,629	7,114,662
Level 5 (Substandard)	0	3,827,034	1,265,678	5,092,712
Level 6 (Doubtful)	0	12,519	1,026,391	1,038,910
Level 7 (Loss)	0	0	54,139,808	54,139,808
Total general	3,259,050,302	114,235,107	64,424,398	3,437,709,807
Allowance	(18,054,274)	(4,941,429)	(31,579,514)	(54,575,217)
Total loan portfolio net of allowance for expected credit losses	3,240,996,028	109,293,678	32,844,884	3,383,134,590

2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Clasification				
Levels 1-3 (Low Risk)	3,314,284,538	60,150,963	6,278,829	3,380,714,330
Level 4 (Watch list)	0	3,830,121	7,590	3,837,711
Level 5 (Substandard)	0	3,177,199	594,690	3,771,889
Level 6 (Doubtful)	0	1,491,009	641,399	2,132,408
Level 7 (Loss)	0	0	37,525,597	37,525,597
Total general	3,314,284,538	68,649,292	45,048,105	3,427,981,935
Allowance	(14,590,328)	(2,167,210)	(28,057,380)	(44,814,918)
Total loan portfolio net of allowance for expected credit losses	3,299,694,210	66,482,082	16,990,725	3,383,167,017

(11) Loans, continued

During the 2018, the Bank adopted a new impairment model based on the requirements of IFRS 9, using the modified retrospective approach; therefore, the cumulative effect of the adoption is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018.

The model used to determine the impairment losses of the loan portfolio is subject to periodic review of its segments and inputs to fine tune the calculations once the model matures.

The loan portfolio includes finance leases with the following maturities:

	2019	**2018**
Minimum payments up to 1 year	9,636,658	12,405,593
Minimum payments from 1 to 5 years	10,125,688	14,097,885
Payments over 5 years	2,271,312	2,868,433
Total of minimum payments	22,033,658	29,371,911
Plus: accrued interest receivable	93,285	132,807
	22,126,943	29,504,718
Less: unearned commissions	97,302	135,845
Net Investment in finance leases	22,029,641	29,368,873

The following table shows the total future minimum payments:

	2019	**2018**
Minimum payments up to 1 year	10,472,515	13,593,570
Minimum payments from 1 to 5 years	11,847,848	16,580,098
Payments over 5 years	3,485,047	4,433,143
Total of minimum payments	25,805,410	34,606,811
Plus: accrued interest receivable	93,285	132,807
Less: unearned discounted interest	3,771,752	5,234,900
Total finance leases, net of unearned discounted interest	22,126,943	29,504,718

During the month of July 2019, as part of a voluntary wind-down proccess of the banking business, the subsidiary Banco Multibank, S. A. transferred loans to a Colombian company in the amount of B/.27,083,752 and financial liabilities for B/.20,178,378.

(12) Property, Furniture, Equipment and Improvements

Properties, furniture, equipment and improvements are summarized below:

					2019				
	Land and properties	Building Progress	Improvements	Right of use of Properties	Right of use of Equipment	Furniture	Office Equipment	Vehicles	Total
Cost									
At the beginning of the year	19,470,814	0	20,410,148	0	0	3,897,900	31,993,022	1,156,224	76,928,108
Adoption of accounting standard	0	0	0	5,324,699	152,588	0	0	0	5,477,287
Purchases	675,000	4,057,292	2,342,918	16,763,268	0	1,249	5,818,884	0	29,658,611
Reclasificación	1,069,392	(102,427)	(966,965)	0	0	0	0	0	0
Sales, disposals and adjustments	(477,147)	0	(2,870,517)	(1,049,564)	(152,588)	(137,214)	(4,535,117)	(69,370)	(9,291,517)
At the end of the year	20,738,059	3,954,865	18,915,584	21,038,403	0	3,761,935	33,276,789	1,086,854	102,772,489
Accumulated depreciation and amortization									
At the beginning of the year	205,442	0	11,130,310	0	0	2,308,730	22,132,348	749,267	36,526,097
Expense for the year	35,097	0	930,036	2,512,207	0	327,153	3,126,801	131,997	7,063,291
Impairment	110,000	0	0	0	0	0	164,188	0	274,188
Sales, disposals and adjustments	(122,960)	0	(2,513,084)	(60,495)	0	(110,287)	(4,490,729)	(69,195)	(7,366,750)
At the end of the year	227,579	0	9,547,262	2,451,712	0	2,525,596	20,932,608	812,069	36,496,826
Net balance	20,510,480	3,954,865	9,368,322	18,586,691	0	1,236,339	12,344,181	274,785	66,275,663

			2018			
	Land and buildings	Improvements	Furniture	Office Equipment	Vehicles	Total
Cost:						
At the beginning of the year	36,750,533	21,107,383	3,340,902	29,498,661	1,043,330	91,740,809
Transfer of assets	(18,742,946)	(2,101,982)	0	(88,533)	0	(20,933,461)
Assets revaluation	1,463,227	0	0	0	0	1,463,227
Purchases	0	1,404,747	556,998	2,606,420	179,894	4,748,059
Disposals	0	0	0	(23,526)	(67,000)	(90,526)
At the end of the year	19,470,814	20,410,148	3,897,900	31,993,022	1,156,224	76,928,108
Accumulated depreciation:						
At the beginning of the year	2,819,879	11,054,142	1,983,307	19,439,004	655,407	35,951,739
Transfers of assets	(3,072,834)	(712,865)	0	(69,533)	0	(3,855,232)
Expense for the year	458,397	789,033	325,423	2,785,690	160,860	4,519,403
Disposals	0	0	0	(22,813)	(67,000)	(89,813)
At the end of the year	205,442	11,130,310	2,308,730	22,132,348	749,267	36,526,097
Net balance	19,265,372	9,279,838	1,589,170	9,860,674	406,957	40,402,011

The following table summarizes the group of revalued assets if they still were measured on a historical cost basis less accumulated depreciation

	2019	**2018**
Land	15,585,547	15,585,547
Building and improvements	5,806,044	5,806,044
	21,391,591	21,391,591

As of December 31, 2018 land and buildings were technically appraised by independent appraisers for B/.1,463,227. The revaluation adjustment is recorded in a separate account in the consolidated statement of changes in equity as a revaluation surplus.

During the month of December 2018, the Bank transferred to a real estate investment trust the shares of its subsidiary in Inversiones Prosperidad, S. A., which held a real state in the amount of B/.17,078,229

(13) Goodwill

During the year 2018, the Bank derecognized goodwill since its value in use is lower than the net fair value.

(14) Other Assets

The detail of other asssets is as follows:

	2019	**2018**
Accounts receivable, net	68,011,651	90,521,982
Accounts receivable, from related companies	73,227,228	47,984,519
Prepaid expenses	14,360,920	15,452,539
Foreclosed assets, net	8,622,003	5,583,392
Guarantee deposits	2,803,326	1,633,374
Investment properties	2,388,166	2,388,166
Reinsurers' share of unearned premiums Note (Note 20)	2,473,862	2,065,392
Prepaid taxes	4,789,148	4,803,209
Others	2,874,683	2,675,178
Total	179,550,987	173,107,751

The allowance for accounts receivable at December 31, 2019 has a balance of B/.642,431 (2018: B/.638,257).

	Stage 1
Allowance for expected credit losses at December 31, 2018	638,257
Origination or purchase of new financial assets	45,154
Writte offs	(40,980)
Allowance for expected credit losses at December 31, 2019	642,431

The change in the reserve for foreclosed assets is as follows:

	2019	**2018**
Balance at the beginning of the year	0	0
Provision recognized in profit or loss	55,651	56,385
Sales of assets	(49,727)	(56,385)
Total, net at the end of the year	5,924	0

(15) Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements amounted to B/.31,000,000 (2018: B/.75,040,000) and accrued interest payable for B/.93,230 (2018: B/.435,448) with maturities to September 2020 and 2021 (2018: to April 2019) and annual interest rates from 3.68% to 3.78% (2018: from 1.96% to 3.60%). Such securities are guaranteed with debt instruments at fair value through comprehensive income for B/.33,900,000 (2018: debt instruments at fair value through comprehensive income for B/.91,655,000). See Note 10

The Bank has not breached principal, interests and other contractual clauses.

(16) Borrowings

The terms and conditions of the borrowings by the Bank are as follows:

Financial liability	Interest rate	Maturity	2019	2018
Credit line	From 2.59% to 7.33%	Several up to December 2019	0	367,263,497
Credit line	From 2.92% to 8.28%	Several up to August 2020	185,435,218	82,871,036
Credit line	5.61%	March 2021	19,966,043	27,225,176
Credit line	From 3.25% to 4.03%	Several up to July 2022	195,748,859	38,057,337
Credit line	From 4.16% to 4.22%	Several up to October 2023	40,000,000	16,697,408
Credit line	From 4.16% to 5.31%	January 2024	25,808,038	29,294,583
Credit line	From 2.88% to 5.92%	June 2025	109,533,395	111,695,931
Finance leases	6.36%	Several from 2021 to 2033	19,439,825	0
			595,931,378	673,104,968
Accrued interest payable			4,792,389	4,396,323
			600,723,767	677,501,291

Borrowings for B/.180,840,587 (2018: B/.155,995,167) are guaranteed with debt instruments at fair value through comprehensive income and debt instruments at amortized cost for B/.261,077,000 and B/.3,000,000 (2018: B/.329,722,000 and B/.3,000,000), respectively. See Note 10

The Bank has not breached principal, interests and other contractual clauses.

(17) Bond Payable

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

Serie	Interest rate	Maturity	2019	2018
Corporate bonds – November 2017 issue	4.38%	Nov-22	298,662,333	298,194,662
Corporate bonds – June 2017 issue (CHF 100MM)	2.00%	Jan-21	103,145,142	100,894,582
Serie F- November 2015 issue	4.35%	Nov-20	30,000,000	30,000,000
Serie L- February 2017 issue	4.19%	Aug-20	1,200,000	1,200,000
Serie Q - March 2018 issue	3.25%	Mar-20	1,000,000	1,000,000
Serie R- March 2019 issue	5.00%	Aug-23	5,000,000	0
Serie S – April 2019 issue	3.63%	Jun-21	1,000,000	0
			440,007,475	431,289,244
Accrued interest payable			7,103,323	7,091,148
			447,110,798	438,380,392

The characteristics and guarantees for these issuances are described below:

December 2012 Issuance (placed in 2013, 2015, 2016, 2017, 2018 and 2019)
Public offering of the Corporate Bond Revolving Program for a value of up to B/.150,000,000 divided into B/.100,000,000 of Revolving Corporate Class A Bonds and B/.50,000,000 of Revolving Corporate Class B Bonds, authorized by the Superintendency of the Securities Market of Panama, through CNV Resolution No.436-12 of December 27, 2012 and by the Panamanian Stock Exchange. During 2013, placements under this authorization were made in the months of June and September. In 2015 and 2016, additional placements of this issue were made.

Bonds are issued as nominative, revolving, registered, without coupons, and denominated in thousands of Balboas, in different series, with the maturity of Revolving Corporate 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. Revolving Corporate Class A Bonds were issued during 2013, as Series A, B and C; during 2015; as Series D, E and F; during 2016 as Series G, H, I and J; during 2017 were issued as Series K, L, M, N and O and for 2018 were issued as Series Q and R and during the year 2019 as Serie S.

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

Corporate Bond Issuance of June 2017
During the month of June 2017, the Bank made a placement of corporate bonds in the Swiss market for CHF 100,000,000, with a coupon of 2.00% and a maturity date of January 2021.

(17) Bond Payable, continued

Corporate Bond Issuance of November 2017

During the month of November 2017, the Bank placed a corporate bond under the structure of 144A Reg (S) in the United States of America for the nominal value of USD 300,000,000 and due on November 9, 2022. Interest on the Bonds will be accumulated at a rate of 4.375% per year and will be paid semiannually on May 2 and November 9 of each year, beginning May 9, 2018.

The Bank may redeem the Bonds at any time prior maturity, in whole or in a part, at a redemption price based on a “total” premium, plus any accrued and unpaid interest on the principal amount of the Bonds to the redemption date. In case of certain changes in the applicable tax treatment related to the payments of the Bonds, the Bank can exchange the Bonds in full, but not in part, at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if applicable but excluding the redemption date.

The Bank has not breached principal, interests and other contractual clauses.

(18) Negotiable Commercial Papers (NCPs)

Multibank, Inc. was authorized, according to Resolution No.405-17 of July 26, 2017 of the Superintendency of the Securities Market of Panama, to offer through a public offering, Negotiable Commercial Papers (NCPs) for a nominal value of up to B/. 200,000,000 and with a maturity of up to one year from the date of issue of each series. The NCPs will be issued in nominative certificates registered and without coupons, in denominations of one thousand dollars (US$ 1,000) or their multiples. The NCPs of each series will accrue a fixed rate or variable interest rate, which will be determined by the issuer before the Respective Offer Date. For each of the series, interest will be payable monthly on the fifteenth (15th) day of each month until their respective due date. The basis for calculating interest will be calendar days/365 for each series. The nominal value of each NCPs will be paid by means of a single payment to capital, on their respective due date. NCPs can not be subject to early redemption.

(18) Negotiable Commercial Papers (NCPs), continued

The details of the Negotiable Commercial Papers are summarized below:

Serie	Date of issue	Interest rate	Maturity	2019	2018
Serie Z	27-Nov-19	2.75%	Aug-20	2,000,000	0
Serie Y	01-Oct-19	3.00%	Oct-20	2,000,000	0
Serie X	08-Oct-19	3.13%	Oct-20	25,000,000	0
Serie W	26-Sept-19	2.75%	Mar-20	1,000,000	0
Serie V	26-Sept-19	3.25%	Sept-20	1,000,000	0
Serie U	18-Sept-19	3.25%	Sept-20	1,500,000	0
Serie T	30-Aug-19	3.50%	Aug-20	2,000,000	0
Serie S	20-Aug-19	3.50%	Aug-20	5,000,000	0
Serie R	14-Aug-19	3.50%	Aug-20	5,000,000	0
Serie Q	30-Jul-19	3.50%	Jul-20	925,000	0
Serie P	22-Jul-19	3.50%	Jul-20	5,000,000	0
Serie O	30-May-19	3.50%	May-20	1,090,000	0
Serie N	23-Feb-19	3.50%	Mar-20	1,254,000	0
Serie M	06-Feb-19	3.50%	Feb-20	1,000,000	0
Serie L	25-Jan-19	3.50%	Jan-20	1,246,000	0
Serie K	04-Dec-18	3.50%	Dec-19	0	2,000,000
Serie J	08-Oct-18	3.50%	Oct-19	0	25,000,000
Serie I	18-Sept-18	3.50%	Sept-19	0	1,500,000
Serie H	30-Aug-18	3.50%	Aug-19	0	4,000,000
Serie G	06-Aug-18	3.00%	Feb-19	0	750,000
Serie F	30-Jul-18	3.50%	Jul-19	0	1,000,000
Serie E	23-Feb-18	3.00%	Feb-19	0	2,000,000
Serie D	06-Feb-18	3.00%	Feb-19	0	1,000,000
				55,015,000	37,250,000
Accrued interest payable				83,511	59,849
				55,098,511	37,309,849

The Bank has not breached principal, interests and other contractual clauses.

(19) Other Liabilities

The detail of other liabilities is as follows:

	2019	2018
Items subject to clearance	32,863,759	18,491,436
Accounts payable	17,189,414	23,099,061
Provision for insurance contract, net (Note 20)	9,444,228	10,175,178
Other fringe benefits	3,674,685	4,514,268
Severance and indemnity payable	1,757,746	1,639,965
Dividends payable (Note 21)	716,833	2,107,654
Allowance for expected credit losses for irrevocable commitments and letters of credit	394,320	487,357
Deferred tax	204,075	207,277
Customers' deposits	1,692,877	1,644,010
Others	1,552,195	1,760,325
Total	69,490,132	64,126,531

(20) Provisions for Insurance Contracts

As of December 31, 2019 and 2018, the participation in insurance contracts in process are presented net of provisions for insurance contracts.

	2019	2018
Provision for insurance contract	10,733,673	10,989,119
Participation in reinsurance contracts in process	(1,289,445)	(813,941)
Total	9,444,228	10,175,178

Provision related to insurance contracts are as follows:

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
General Insurance Business						
Unearned premiums	6,571,127	2,473,862	4,097,265	7,917,339	2,065,392	5,851,947
Allowance for pending claims						
General insurance policies	1,656,917	47,954	1,608,963	987,228	117,169	870,059
Personal insurance policies	1,528,733	1,241,491	287,242	1,510,696	696,772	813,924
Total allowance for pending claims	3,185,650	1,289,445	1,896,205	2,497,924	813,941	1,683,983
Long-term business life						
Provision for non-participation benefits	976,896	0	976,896	573,856	0	573,856
Total provision to insurance contracts	10,733,673	3,763,307	6,970,366	10,989,119	2,879,333	8,109,786

(21) Equity

	Number of Shares	
	2019	**2018**
Common shares:		
Authorized shares without par value	50,000,000	50,000,000
Issued and paid-in-shares:		
Beginning of the year	16,862,753	16,862,753
Issued and paid during the year	0	0
Total issued and outstanding shares, at the end of the year	16,862,753	16,862,753

As of December 31, 2019, the subsidiaries of the Bank capitalized retained earnings of B/.1,211,521 (2018: B/.711,765) and in the previous year of B/.16,681,112 (2018: B/.15,969,347), for a cumulative amount of B/.17,892,633 (2018: B/.16,681,112) therefore, these retained earnings are not available for dividend distribution.

Dividends declared and paid on common shares are as follows:

	2019	**2018**
Total dividends declared on common shares	4,553,300	8,727,101
Total dividends paid on common shares	5,944,121	7,336,280
Total dividends declared and payable on common shares	0	1,390,821

Preferred shares:
The Bank is authorized to issue 1,500 preferred shares with par value of B/.100 each. As of December 31, 2019, the Bank has not issued preferred shares and the number of preferred shares outstanding amount to 1,100,000 (2018: 1,100,000). These preferred shares are publicly traded.

(21) Equity, continued

The outstanding balances, terms and conditions of the various preferred shares issued are detailed in the table below:

Multibank Inc.

Issuances	2019	2018	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	3,676,300	6.70%	Non-cumulative	B
2014	4,953,400	4,953,400	7.00%	Non-cumulative	C
2014	11,269,700	11,269,700	6.70%	Non-cumulative	D
2014	899,000	899,000	6.70%	Non-cumulative	E
2014	1,101,000	1,101,000	6.70%	Non-cumulative	E
2014	3,730,300	3,730,300	6.70%	Non-cumulative	D
2015	1,000,000	1,000,000	6.70%	Non-cumulative	E
2015	800,000	800,000	6.70%	Non-cumulative	E
2015	1,200,000	1,200,000	6.70%	Non-cumulative	E
2016	8,000,000	8,000,000	6.70%	Non-cumulative	F
	110,000,000	110,000,000			

The Offering Memorandum (OM) 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 shares after 3 years from issue, in accordance with the mechanism established in section 3.7, Chapter III, of the OM. However, Ruling No. 5-2008 of October 1, 2008, issued by the Superintendency of Banks of Panama sets forth that redemptions should be authorized by the Superintendency.

- Dividends shall be paid as declared by the Board of Directors; however, they will not be cumulative.

- 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 OM of the public offerings provide for the following: i) for the Series “A” issued under Resolution No.326-07 of December 20, 2007, the dates set for dividend payment are March 26, June 26, September 26, and December 26 of each year; ii) for the Series “B”, “C” and “D” issued under Resolution No.255-08 of August 14, 2008, the dates set for dividend payment are January 5, April 5, July 5, and October 5 of each year; iii) and for Series “A”, “B”, “C”, “E” and “F” issued under Resolution No.47-11 of the February 25, 2011, the dates set for dividend payment are February 28, May 28, August 28, and November 28 of each year.

(21) Equity, continued

- Declaration of dividends is the responsibility of the Board of Directors, by applying its best criteria to declare or not declare dividends. The Board of Directors is not legally or contractually bound to declare dividends.

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

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

- Dividends on preferred shares will be net of any applicable tax.

- Preferred shares are backed by the Bank's general creditworthiness and are entitled to preferred rights over common shares for payment of dividends declared.

As of December 31, 2019 dividends on preferred shares were declared and paid for a total of B/.7,228,000 (2018: B/.7,228,000) and dividends declared and remain declared but unpaid for B/.716,833 (2018: 716,833).

Surplus of Capital Stock:
The table below summarizes the balance of the Bank's excess capital paid in acquisition of non-controlling interests in the following subsidiaries:

Entity	Acquisition date	Acquired interest	Excess paid
Banco Multibank, S. A	Abril 2011	30%	(5,454,054)
MB Crédito, S. A.	Abril 2014	25%	(152,873)
			(5,606,927)

(22) Commitments and Contingencies

Commitments:
The Bank has financial instruments with risk off the consolidated statement of financial position, which involve elements of credit and liquidity risks. Such financial instruments include letters of credit, guarantees issued, and promissory notes, which are described below:

	2019	2018
Letters of credit	5,593,064	5,770,923
Guarantees issued	139,178,787	128,802,330
Commitments letters	91,087,839	237,697,666
	235,859,690	372,270,919
Allowance for expected credit losses (Note 19)	(394,320)	(487,357)
	235,465,370	371,783,562

(22) Commitments and Contingencies, continued

Letters of credit, guarantees issued, and promissory notes are exposed to credit losses in the event the customer fails to meet its payment obligations. Bank policies and procedures for approval of loan commitments, financial guarantees, and promissory notes are the same as those used to extend loans recorded in the consolidated statement of financial position.

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

Most of the letters of credits are used, but they are mainly used on demand with immediate reimbursement.

Commitment letters are commitments by the Bank to make payments when certain conditions are met, with average maturity of six (6) months, and which are mainly used for further disbursement of mortgage and vehicle loans. The Bank does not anticipate any losses as a result of such transactions.

Common legal proceedings against the Bank are in place in the amount of B/.32,834,736 (2018: B/.22,871,848). Bank's management and its legal counsel do not estimate any material adverse effect on the consolidated financial position, the consolidated results of operations or business of the Bank. For those cases where there is a potential unfavorable outcome, the Bank maintains a reserve designated for these contingencies for B/.708,523 (2018: B/.864,231).

During the period ended on December 31, 2019, lease expenses amounting to B/.3,373,833 (2018: B/.4,468,007), include property rental expenses of B/.2,730,701 (2018: B/.3,797,748).

The following table provides an analysis of the maturity of the financial lease payments according to IFRS 16, which shows the un-discounted lease payments that will be made after the report date:

2019 - Operational leases according to IFRS 16

	2019
Up to 1 year	2,710,006
From 1 to 3 years	5,342,937
From 3 to 5 years	5,653,347
More than 5 years	11,657,712
Total liabilities for undiscounted leases	25,364,002

(23) Commitments and Contingencies, continued
2018 - Operating leases according to IAS 17

	2018
2019	5,226,431
2020	4,718,263
2021	2,510,933
2022	4,372,821
Total liabilities for undiscounted leases	16,828,448

The following items are recognized in the income statement, related to lease liabilities:

	2019
Lease interest	1,333,097
Short-term lease expenses and low value assets	3,373,834
	4,706,931

(23) Investment Entities and Separate Legal Vehicles
The subsidiary Multi Trust, Inc. administered trust agreements at customers' risk and expense, amounting to B/.207,723,290 (2018: B/.176,990,193); from which collateralized trust agreements amount for B/.204,307,487 and administration trust contracts amount to B/.3,415,803 (2018: B/.3,415,803).

The subsidiary Multi Securities, Inc. administered trust agreements at customers' risk and expense, amounting to B/.335,229,390 (2018: B/.344,177,611).

As of December 31, 2019, the Bank does not maintain customers discretionary accounts (2018: B/.899,963).

The Bank maintains a total of B/.244,470,776 (2018: B/.229,650,055) corresponding to investments of the Board of Directors of the Savings & Capitalization Pension System for Public Sector Employees (SIACAP). The administration of SIACAP was awarded to the Multibank/Multi Securities Operating Venture, (The "Administrator") through Service Contract No. 008-2017 published in the Official Gazette No.28379 of October 4, 2017. Some important clauses of this Contract establish the following:

Operate as an investment manager of the resources of SIACAP members for a period of 5 years. Manage and invest the resources of affiliates according to Law No.27 of June 27, 1997 and Executive Decree No.32 of July 6, 1998. Deliver a monthly investment report to SIACAP.

As of September 30, 2019, the Administrator maintains a compliance bond in the amount of B/.2,750,000 (2018: B/2,500,000) in favor of Consejo de Administración del SIACAP-Contraloría General de la República."

(24) Derivatives Financial Instruments

Fair value hedges of interest rate risk

As of December 31, 2019, the Bank uses interest rate swap agreements ("interest rate swaps") to mitigate the interest rate risk of financial assets and liabilities. Such agreements are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, where appropriate.

Following is a summary of the derivative instruments contracts by maturity and accounting method:

2019	**Nominal Amount**	**Fair Value**	
Type of instrument	**Over 1 year**	**Assets**	**Assets**
Exchange rate of interest	20,500,000	0	4,245,608

2018	**Nominal Amount**	**Fair Value**	
Type of instrument	**Over 1 year**	**Assets**	**Assets**
Exchange rate of interest	20,500,000	0	2,337,139

Monthly, changes in fair value are determined for hypothetical derivatives that simulate the primary hedged position considering only the interest rate risk compared to the changes in the valuation of the actual interest rate swap.

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 derivative financial instruments. Some of the contracts entered with counterparties include early termination clauses.

The Bank calculates credit risk adjustments incorporating inputs from credit default swaps.

Cash flow hedges of the exchange rate risk

As of December 31 2019, the Bank uses interest rate swap and cross currency swap contracts to reduce the risk of the exchange rate of financial liabilities. These contracts are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, as appropriate.

(24) Derivatives Financial Instruments, continued

The derivative instruments contracts by maturity and by accounting method are summarized below:

2019	Outstanding balance of notional value	Fair Value	
Type of instrument	**Over 3 years**	**Assets**	**Liabilities**
Cross-currency swaps	CHF 100,000,000	0	758,534

2018	Outstanding balance of notional value	Fair Value	
Type of instrument	**Over 3 years**	**Assets**	**Liabilities**
Cross-currency swaps	CHF 100,000,000	0	1,432,487

Net investment hedge

As of December 2019, the Bank uses interest rate swap and cross currency swap contracts to reduce the risk of the exchange rate of financial liabilities. These contracts are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, as appropriate.

The derivative instruments contracts by maturity and accounting method are summarized below:

2019 Accounting method	Nominal Amount 1 year	Fair Value Assets	 Assets
Foreign Exchange forward	20,000,000	0	763,666

2018 Accounting method	Nominal Amount 1 year	Fair Value Assets	 Assets
Foreign Exchange forward	20,000,000	1,119,743	0

The derivatives financial instruments have been categorized in level 2 of the fair value hierarchy, as follows:

	2019	2018
Financial assets at fair value	0	1,119,743
Financial liabilities at fair value	(5,767,808)	(3,769,626)
Net	(5,767,808)	(2,649,883)

See description of levels in Note 27.

(24) Derivatives Financial Instruments, continued

The main valuation methods, hypotheses and variables used in estimating the fair value of derivatives are presented below:

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

(25) 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:

	2019	
	Related companies	**Shareholders, Directors and Key executives**
Assets:		
Loans	38,232,958	5,597,040
Accrued interest receivable	441,086	7,232
Accounts receivable	73,227,228	0
Debt instruments at amortized cost	16,000,000	0
Accrued interest receivable	15,111	0
Provision for expected credit losses on debt instruments at amortized cost	(49,852)	0
Liabilities:		
Demand deposits	4,529,907	54,313
Savings deposits	1,438,153	1,402,975
Time deposits	15,942,110	3,979,689
Accrued interest payable	354,719	32,808
Commitments and contingencies:		
Guarantees issued	0	296,209
Interest earned on:		
Loans	2,050,090	171,564
Debt instruments at amortized cost	1,360,000	0
Interest expenses:		
Deposits	679,720	195,062
General and administrative expenses:		
Allowance	0	387,839
Salaries and other benefits	0	4,811,851
Rental	2,269,939	0

(25) Balances and Transactions with Related Parties, continued

	2018	
	Related companies	**Shareholders, Directors and Key executives**
Assets:		
Loans	32,555,312	5,181,647
Accrued interest receivable	283,858	7,305
Accounts receivable	47,984,519	0
Debt instruments at amortized cost	16,000,000	0
Liabilities:		
Demand deposits	3,649,415	73,125
Savings deposits	312,820	1,063,046
Time deposits	13,258,902	2,949,489
Accrued interest payable	280,020	8,813
Commitments and contingencies:		
Guarantees issued	0	443,558
Interest earned on:		
Loans	1,839,090	155,039
Interest expenses:		
Deposits	516,964	142,362
General and administration expenses:		
Allowance	0	448,125
Salaries and other benefits	0	4,436,160
Rental	1,713,620	0

Loans granted to related parties have various maturities from January 2020 to July 2048 (2018: from January 2019 to July 2048) and bear annual interest rates ranging from 2.25% to 24.50% (2018: 2.25% to 24.50%).

These loans are backed with cash collateral amounting to B/.8,308,265 (2018: B/.8,175,265), by real estate collateral for B/.83,291,428 (2018: B/.81,343,546) other assets pledged for B/.366,138 (2018: B/.346,484) cash guarantees by B/.57,099 (2018: B/.57,099).

During the month of September 2019, the Bank sold its subsidiary Multi Capital, Inc., to a related party at book value at the date of the transaction.

(25) Balances and Transactions with Related Parties, continued

At December 31, 2019 debt instruments at amortized cost (2018: debt instruments at amortized cost) acquired from related parties have a tenor of ten (10) years from the date of the offer on November 15, 2017 and accrue an annual interest rate of 6 months LIBOR plus a spread of 5.5%. In no case, will the interest rate be lower than 8.5%. These securities are 100% guaranteed with the properties acquired with the money received, which have been placed in a Guarantee Trust

The terms of transactions with related parties are substantially similar to those with third parties nonrelated to the Bank.

(26) Operating Segments

Composition of the Operating Segments is as follows:

2019	Financial Services	Fund Management	Insurance	Eliminations	Total Consolidated
Interest income and commissions	273,242,856	157,997	744,878	0	274,145,731
Interest expenses	144,840,456	863	0	(58,218)	144,783,101
Other income, net	31,827,426	2,085,369	12,122,418	223,449	46,258,662
Provisions for impairment of financial assets	25,317,114	1,688	6,863	0	25,325,665
General and administrative expenses	90,372,604	1,440,440	4,183,476	(235,483)	95,761,037
Net income before income tax	44,540,108	800,375	8,676,957	517,150	54,534,590
Total de assets	4,700,830,074	5,194,484	43,548,272	(8,015,639)	4,741,557,191
Total de liabilities	4,124,604,467	428,842	15,711,350	22,672,782	4,163,417,441

2018	Financial Services	Fund Management	Insurance	Eliminations	Total Consolidated
Interest income and commissions	274,078,619	118,020	620,293	0	274,816,932
Interest expenses	131,640,165	0	36,920	(176,307)	131,500,778
Other income, net	22,775,562	1,656,833	9,577,918	275,837	34,286,150
Provisions for impairment of financial assets	8,861,583	0	4,199	0	8,865,782
General and administrative expenses	95,385,055	1,346,941	3,528,549	(292,575)	99,967,970
Net income before income tax	60,967,378	427,912	6,628,543	744,719	68,768,552
Total de assets	4,861,224,732	4,670,926	36,788,256	(6,747,465)	4,895,936,449
Total de liabilities	4,342,859,103	472,394	16,093,953	13,544,899	4,372,970,349

(27) 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 other valuation techniques.

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

(27) Fair Value of Financial Instruments, continued

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

- Level 1: quoted prices (unadjusted) in active markets for assets or liabilities identical to those that the Bank can access in the measurement date.

- Level 2: Inputs other than quoted prices included in Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e., 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, and 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 unobservable 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 between 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 under current market conditions.

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

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Time deposits	132,523,375	132,523,375	154,212,333	154,212,333
Securities purchased under resale agreements	0	0	1,175,072	1,175,072
Derivatives assets held for risk management	0	0	1,119,743	1,119,743
Securities at fair value through profit or loss	59,226,261	59,226,261	71,932,575	71,932,575
Debt instruments at fair value through comprehensive income	547,785,376	547,785,376	677,391,682	677,391,682
Debt instruments at amortized cost	85,300,248	85,701,417	78,786,869	78,166,209
Loans, net	3,420,061,670	3,433,558,692	3,411,788,116	3,582,141,886
	4,244,896,930	4,258,795,121	4,396,406,390	4,566,139,500

(27) Fair Value of Financial Instruments, continued

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Time deposits	2,063,536,718	2,091,587,041	2,004,624,832	2,029,373,385
Repurchase agreements	31,093,230	31,579,977	75,475,448	75,720,938
Borrowings received	600,688,647	612,235,373	677,501,291	665,457,016
Bonds payable	449,131,339	454,697,870	438,380,392	424,953,921
Negotiable commercial papers	55,098,511	55,098,511	37,309,849	37,096,922
Derivative financial instruments	5,767,808	5,767,808	3,769,626	3,769,626
	3,205,316,253	3,250,966,580	3,237,061,438	3,236,371,808

It is not necessary to disclose information about short – term financial instruments, for which book value approximates fair value

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

2019	Level 1	Level 2	Level 3	Total
Debt instruments at fair value through other comprehensive income				
Foreign common shares	0	0	44,195	44,195
Local shares and fixed income funds	0	0	59,177,147	59,177,147
Foreign corporate bonds	0	9,392,120	0	9,392,120
Local corporate bonds and fixed income funds	0	4,013,520	7,337,615	11,351,135
Bonds of the Republic of Panama	0	87,966,970	41,752,952	129,719,922
Other governments' bonds	0	11,985,663	0	11,985,663
Bonds of US Government and Agencies	48,588,828	215,723,215	117,558,314	381,870,357
	48,588,828	329,081,488	225,870,223	603,540,539
Accrued interest receivable				3,471,098
Total debt instruments at fair value through other comprehensive income				607,011,637

2018	Level 1	Level 2	Level 3	Total
Debt instruments at fair value through other comprehensive income				
Foreign common shares	0	0	2,974,737	2,974,737
Local shares and fixed income funds	0	0	68,908,108	68,908,108
Foreign corporate bonds	30,682,322	42,383,874	2,017,315	75,083,511
Local corporate bonds and fixed income funds	0	26,013,095	11,838,464	37,851,559
Bonds of the Republic of Panama	0	146,453,501	373,733	146,827,234
Other governments' bonds	10,783,720	32,957,683	0	43,741,403
Bonds of US Government and Agencies	18,107,582	205,379,924	144,400,310	367,887,816
	59,573,624	453,188,077	230,512,667	743,274,369
Accrued interest receivable				6,049,888
Total debt instruments at fair value through other comprehensive income				749,324,257

During 2018, there were transfers from Level 1 to Level 2, as a result of the low trading of certain financial instruments held by the Bank.

During 2018, no instruments were reclassified from Level 2 to Level 1.

(27) Fair Value of Financial Instruments, continued

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:

	2019	**2018**
Balance at the beginning of the year	230,512,667	266,636,940
Sales and redemptions	(39,503,499)	(47,633,557)
Changes in fair value	(2,017,315)	(2,819,470)
Category reclassifications	36,878,370	14,328,754
Ending balance of the year	225,870,223	230,512,667

During 2018, certain securities available for sale were transferred to Level 3, since certain inputs used to determine their fair value were not observable.

The valuation techniques and significant inputs used in the recurring fair value measurements of 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 composed of the risk-free rate, an issuer's risk spread, and a liquidity spread, for an instrument with similar remaining maturity.	2 and 3
Shares and Bonds of US Government and Agencies.	Quoted prices for identical instruments in non-active markets.	2 and 3
Mutual funds.	Net Asset Value	2

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

Financial Instruments	Valuation Technique	Significant non-observable inputs	Range (Weighted Average)	Sensitivity of the fair value measurement to significant unobservable inputs
Corporate bonds	Discounted cash flows	Discounted cash flows at a rate adjusted to the credit and liquidity risk of each instrument.	0.99% - 8.50% (3.30%)	An increase or (decrease) in the unobservable input alone would lead to lower (higher) fair value measurement.
Negotiable certificates of participation / Negotiable certificates corresponding to the second installment of the XIII-month salary	Discounted cash flows	Discounted cash flows at a rate adjusted to the liquidity risk of each instrument.	0.46% - 1.00%	An increase or (decrease) in the unobservable input alone would lead to lower (higher) fair value measurement.

(27) Fair Value of Financial Instruments, continued

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

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

The Bank's Board of Directors has decided to outsource pricing services 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.

For those measurements, the Bank has defined a control framework, which includes a review by an independent unit which reports directly to the ALCO Committee and the Risk Committee. This independent unit is responsible for fair value measurements and for the regular review of significant unobservable 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, all differences greater than (5%) in valuation compared to our internal models are investigated with the suppliers to understand the variables used in the period evaluated.

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.

		2019		
	Level 1	Level 2	Level 3	Total
Assets:				
Time deposits	0	0	132,523,375	132,523,375
Debt instruments at amortized cost	0	0	85,701,417	85,701,417
Loans, net	0	0	3,433,558,692	3,433,558,692
	0	0	3,651,783,484	3,651,783,484
Liabilities:				
Time deposits	0	0	2,091,587,041	2,091,587,041
Repurchase agreements	0	0	31,579,977	31,579,977
Borrowings received	0	0	612,235,373	612,235,373
Bonds payable	0	0	454,697,870	454,697,870
Negotiable commercial papers	0	0	55,098,511	55,098,511
Derivatives instruments	0	0	5,767,808	5,767,808
	0	0	3,250,966,580	3,250,966,580

(27) Fair Value of Financial Instruments, continued

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Time deposits	0	0	154,212,333	154,212,333
Debt instruments at amortized cost	0	10,767,729	67,398,480	78,166,209
Loans, net	0	0	3,582,141,886	3,582,141,886
	0	10,767,729	3,803,752,699	3,814,520,428
Liabilities:				
Time deposits	0	0	2,029,373,385	2,029,373,385
Repurchase agreements	0	0	75,720,938	75,720,938
Borrowings received	0	0	665,457,016	665,457,016
Bonds payable	0	0	424,953,921	424,953,921
Negotiable commercial papers	0	0	37,096,922	37,096,922
	0	0	3,232,602,182	3,232,602,182

The valuation techniques and significant inputs used for 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
Debt instruments at amortized cost	Discounted cash flows using a discount rate composed of the risk-free rate, an issuer's risk spread, and a liquidity spread, for an instrument with a similar remaining maturity.
Loans at amortized cost	The fair value of loans represents the discounted amount of estimated future cash flows to be received. Estimated cash flows are discounted at current market rates to determine their fair value.
Time deposits, customers' time deposits, securities sold under repurchase agreements, borrowings received, and bonds payable	Discounted cash flows using current interest rates for financing of new obligations with similar remaining maturities.

(28) Main Applicable Laws and Regulations

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

(a) Banking Law in the Republic of Panama

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

For purposes of compliance with the regulatory standards issued by the Superintendency of Banks of Panama, the Bank must 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.

Regulation in the Republic of Colombia

Operations of the Colombian subsidiary are regulated by the Financial Superintendence of Colombia, by means of Law 510 of 1999, which provides for the regulations of the financial system.

Law of the Republic of Costa Rica

A capital reserve must be created in compliance with article 143 of the Commerce Code of Costa Rica, which requires allocation of 5% of liquid earnings of each business year, for constitution of a capital reserve, until this reserve becomes equivalent to 20% of the equity of each individual company.

(b) Financial Compañies Law

Financial companies in Panama are regulated by the General Directorate of Financial Companies of the Ministry of Trade and Industry pursuant to the regulations established by Law No.42 of July 23, 2001.

(c) Law for Finance Lease

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

(d) Insurance and Reinsurance Laws

Insurance and reinsurance operations in Panama are regulated by the Superintendency 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 September 19, 1996.

Insurance Reserve

Reserves for legal and catastrophic risks and/or contingencies and a provision for statistical deviations must be established in accordance with Article 213 of the Insurance Law of the Republic of Panama, which establishes that insurers in Panama are required to make and maintain in the country, a reserve fund equivalent to 20% of its net earnings before income tax, until the fund reaches two million dollars (B/.2,000,000) and, thereafter, 10% until reaching 50% of paid – in capital.

(28) Main Applicable Laws and Regulations, continued

(e) Securities Law

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

The operations of brokerage houses are currently in the process of being adapted to the Rule No. 4-2011, as amended in certain provisions by Rule No. 8-2013, issued by the Superintendency of the Securities Market, which provides that brokerage houses must comply with the capital adequacy rules and its models.

(f) Trust Law

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

(g) Foreclosed Assets

Based on Rule No. 3-2009, for regulatory purposes, the Superintendency of Banks of Panama sets a term of five (5) years, effective the date of registration before the Public Registry, to sell the real estate acquired in compensation of past due loans. If after that term the Bank has not sold the foreclosed property, 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 an equity reserve, through the appropriation in the following order of: a) retained earnings; b) profits for the period, to which the following value of the foreclosed asset will be transferred:

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

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

The Bank maintains a regulatory reserve for B/.2,027,277 (2018: B/.954,046) under Rule No.3-2009.

(28) Main Applicable Laws and Regulations, continued

Regulations issued by the Superintendency of Banks effective since 2014:

General Resolution of the Board of Directors SBP-GJD-003-2013 dated July 9, 2013, establishes the accounting treatment for differences arising between regulatory standards issued by the Superintendency of Banks and International Financial Reporting Standards so that 1) the accounting records and financial statements be prepared in conformity with IFRS as required by Rule No. 6-2012 dated December 18, 2012 and 2) in the event that the calculation of a provision or reserve in conformity with regulatory 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 regulatory standards shall be recognized in an equity reserve.

Upon prior authorization of the Superintendency of Banks, banks shall be able to partially or totally reverse the provision established, after submitting due justification to the Superintendency of Banks.

Rule No. 4-2013 dated May 28, 2013 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 Ruling establishes certain minimum required disclosures, in line with IFRS disclosure requirements about credit risk management and administration.

Specific Provisions
Rule No.4-2013 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 following risk categories: special-mention, substandard, doubtful or loss, both for individual or groups of credit facilities.

As a minimum, banks shall calculate and maintain the amount of the specific provisions determined through the methodology explained in this Rule, 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 to mitigate risk, as established by type of collateral, and a table of estimates applied to the net balance of credit facilities exposed to losses.

In case of an excess in the specific provision, calculated in conformity with this Rule, over the provision calculated in conformity with IFRS; such excess 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 ratios mentioned in this Rule.

(28) Main Applicable Laws and Regulations, continued

The table below summarizes the classification on the loan portfolio of the Bank based on Rule No. 4-2013:

	2019		2018	
	Loans	Reserves	Loans	Reserves
Individual impairment assessment				
Special mention	283,223,573	21,861,222	191,523,833	16,506,298
Substandard	64,876,888	8,057,578	53,846,073	8,035,675
Doubtful	26,072,459	6,498,349	29,069,313	11,510,408
Loss	58,019,471	30,260,784	37,954,775	19,964,732
Gross amount	432,192,391	66,677,933	312,393,994	56,017,113

The Bank has made the classification of the off-balance sheet irrevocable operations and has estimated reserves based on Rule No. 4-2013 issued by the Superintendency of Banks of Panama, as shown below

2019	Letters of credits	Reserves	Guarantees Received	Reserves
Pass	5,593,064	0	137,563,787	0
Special mention	0	0	1,165,000	0
Loss	0	0	450,000	450,000
Total	5,593,064	0	139,178,787	450,000

2018	Letters of credits	Reserves	Guarantees Received	Reserves
Pass	5,770,923	0	128,347,330	0
Special mention	0	0	5,000	0
Loss	0	0	450,000	450,000
Total	5,770,923	0	128,802,330	450,000

The Bank for regulatory purposes, has the policy of classifying loans under non-accrual status when principal or interest are overdue by more than ninety days, unless in the opinion of management, based on the assessment of the financial condition of the borrower, collateral or other factors, the total collection of principal and interest will be probable

Loans in non-accrual status amounted to B/.45,159,340 (2018: B/.30,864,933) and had unrecognized accrued interest for B/.2,240,172 (2018: B/.1,336,002).

Rule No. 4-2013 defined past due loans as any credit facility with any unpaid amount for contractual principal, interest or fees, with an aging of more than 30 days up to 90 days, from the payment due date.

(28) Main Applicable Laws and Regulations, continued

Rule No. 4-2013 defined non-performing loans as any credit facility which payments have remained past due for more than 90 days. This period shall be calculated from the date contractually set for payment. Operations with a lump-sum payment at maturity and overdrafts will become non - performing when the aging of defaulted payments exceeds 30 days from the date on which payment was required.

The balance of past due and non-performing loans based on Rule No. 4-2013 is detailed below:

2019

Past due	Non-performing-loans	Total
18,383,572	60,487,424	78,870,995

2018

Past due	Non-performing-loans	Total
19,792,383	43,705,385	63,497,768

Aggregate total collateral amounts for both years are presented in Note 4.

The balance of modified loans at December 31, 2019 amounted B/.135,717,000 (2018: B/.95,058,664).

Furthermore, based on Rule No. 8-2014, which amends Rule No. 4-2013, suspension of accrual of interest income is based on days in arrears in payment of principal and/or interest and the type of credit transaction as follows:

a) For consumer and corporate loans; if payment are in arreas for more than 90 days; and
b) For residential mortgage loans, if payments are in arreas for more than 120 days.

Dynamic Provision

Rule No.4-2013 sets forth that a dynamic provision is a reserve incorporated to face future needs of specific provisions, which is ruled by regulatory 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 performing category.

(28) Main Applicable Laws and Regulations, continued

This Rule 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 performing category.

The dynamic provision is an equity item that increases or decreases through appropriations 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 Superintendency.

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

Entity	2019	2018
Multibank Inc.	45,538,479	45,538,479
Banco Multibank, S. A.	2,317,575	2,317,575
MB Créditos, S. A. and Subsidiaries	2,644,106	2,644,106
Multibank Cayman, Inc.	1,298,224	1,298,224
Multileasing Financiero, S. A.	955,993	955,993
Multibank Factoring, Inc.	516,503	516,503
Gran Financiera, S. A.	176,265	176,265
	53,447,145	53,447,145

The Bank, as per requirements of Rule No.4-2013, in 2019 constituted a regulatory reserve of B/.13,687,318 (2018: B/.14,376,432) which represents the excess of the regulatory credit reserve over the balance of the allowance for loan losses recognized as per IFRS.

Capital Adequacy Ratio

Rule No. 1-2015 "establishes the rules of Capital Adequacy applicable to banks and banking groups", Rule No. 3-2016 "sets rules for the determination of assets weighted by credit risk and counterparty risk" and Bulletins Nos. 0058-2016 and 0072-2016 related to these agreements, surrogated Rules Nos. 4-2009 and No 5-2008. The application of these Rules came into effect for the quarter ended September 30, 2016, with some exceptions to certain articles that were effective on January 1, 2017. As of December 31, 2019, risk-weighted assets for this concept include B/.2,855,120,810 (2018: B/.3,053,577,621).

Issuance of Rule No 3-2018 "which establishes capital requirements for financial instruments registered in the trading portfolio". This rule will enter into force on December 1, 2019, corresponding to the compliance with the agreement for the quarter ending on December 31, 2019. Banks are bound by the minimum capital requirements for market risks calculated as set out in the Technical Annex. Banks must meet the required capital requirements on a daily basis. As of 31 December 2019, no impact was determined for this concept.

(28) Main Applicable Laws and Regulations, continued

Issuance of Rule No 11-2018 "through which new provisions on operational risk are issued". This rule will take effect on December 31, 2019. Among its new provisions is the calculation of the weighted assets by operational risk, which will be determined by multiplying a factor of 0.75,by the amount of the Business Index (BI) as defined in the Technical Annex, and by the capital coefficient in force on the date of compliance. The frequency of the calculation is quarterly, following the operational rules established by the Superintendency. As of December 31, 2019, risk-weighted assets for this concept include B/.135,495,902.

Regulatory rules issued by the Superintendency of Banks effective in 2019:

Liquidity risk and short-term liquidity coverage ratio

The Superintendency of Banks issued Rule No. 2-2018 "whereby the provisions on liquidity risk management and liquidity coverage ratio are established", and its amendments through Rule No. 4-2018 "whereby Article 35 of Rule No. 2-2018 on the management of liquidity risk and the short-term liquidity coverage ratio is modified." The application of these Rules became effective as of July 1, 2018, with its first reporting date being the first 5 business days of the month after January 31, 2019. This rule seeks to establish the Short-Term Liquidity Coverage of the month in order to ensure that banks have an adequate fund of unencumbered high-quality liquid assets that can easily and immediately be converted into cash in the public markets, in order to cover their liquidity needs under a 30-calendar day liquidity stress scenario.

For the purposes of the information to be disclosed to the Superintendency of Banks, the short-term liquidity coverage ratio will be calculated at the end of each month, and the presentation of the Report with the relevant data and calculations, will be adjusted to the criteria and procedures determined by the Superintendency of Banks. Since the liquidity ratio must be met on a daily basis, the entity failing to comply with the ratio must immediately inform the Superintendency and provide a substantiated explanation for the non-compliance.

During 2019, the Bank implemented Rule 2-2018 (Note 28), which establishes the Short-Term-Liquidity Coverage Ratio (LCR), which ensure that the Bank maintains an adequate funding of unencumbered high-quality liquid and free of liens assets that can easily be converted and immediately become cash in a public market, in order to meet its liquidity needs under a 30-calendar day liquidity stress scenario. Since its implementation, this indicator has been monitored by the Risk Committee and the Assets and Liabilities Committee (ALCO) which has established a minimum limit of 100%.

The Bank's short-term liquidity coverage ratio measured at the reporting date is detailed as follows:

	2019
As of December. 31	402.42%
Average for the year	303.87%
Maximum for the year	443.92%
Minimum for the year	194.64%

(28) Main Applicable Laws and Regulations, continued

Country Risk Management

Superintendency of Banks issued the Rule No. 7-2018 "through which provisions on country risk management are established". The application of this agreement became effective as of June 3, 2019. Country risk is the possibility of incurring losses caused by adverse effects in the economic, social, political or natural disasters of the countries where the regulated subject or your customers do business. Country risk includes, among others, transfer risk, political risk and sovereign risk. The Banks will develop and maintain at request of the Superintendency of Banks i) method of analysis of each country assessed, as well as the report containing all the relevant information and the conclusions that determine the classification category assigned to the respective country, ii) methodology used to calculate the country risk provision, iii) file of each country in which it maintains exposure, when applicable, in accordance with the provisions of the Superintendency and iv) any other information that this Superintendency determines appropriate to request.

The following items are subject to country risk:

- Assets, risk contingencies and derivative trading transactions resulting from transactions with individuals or legal entities domiciled abroad.
- Assets, risk contingencies and derivative trading transactions resulting from transactions with individuals or legal entities domiciled in Panama whose main source of payment comes from abroad.
- Assets, risk contingencies and derivative trading transactions resulting from transactions with individuals or legal entities domiciled in Panama, when they have guarantees registered abroad, provided that said guarantee has been decisive for loan approval.

Taking into consideration the elements detailed in the Rule, regulated entities will classify exposures subject to country risk, as follows:

- Group 1. Low-risk countries
- Group 2. Normal risk countries
- Group 3. Moderate risk countries
- Group 4. Countries with difficulties
- Group 5. Doubtful countries
- Group 6. Countries with serious problems

During the period ended December 31, 2019, the Bank, in compliance with Rule 7-2018 and its subsequent amendments, incorporated in its credit risk models the methodology for calculating the country risk provision. As a result of the incorporation of this methodology, the Bank recognized an increase in its allowance for expected credit losses on loans of B/.1,504,561.

(28) Main Applicable Laws and Regulations, continued

Investments in Securities

Issuance of Rule No. 12-2019 "whereby provisions on the management of investments in securities responsibilities are established. The implementation of this rule entered into effect as of December 1, 2019.

(29) Cash Flows of Financial Liabilities

The following shows the effect on the cash flows of financial liabilities and equity originated by financing activities due to operations that did not generate cash flows.

			Non-cash generating Transactions			
	2019	Cash flows	Application IFRS 16	Effects of fluctuation in Exchange rates	Interest payable	2018
Financial liabilities						
Securities sold under repurchase agreements	31,093,230	(44,724,436)	0	0	342,218	75,475,448
Borrowings received	600,723,767	(98,647,875)	22,240,555	25,862	(396,066)	677,501,291
Bonds payable	447,110,798	6,000,000	0	2,053,786	676,620	438,380,392
Negotiable commercial papers	55,098,511	17,812,324	0	0	(23,662)	37,309,849
Total	1,134,026,306	(119,559,987)	22,240,555	2,079,648	599,110	1,228,666,980

			Non-cash generating Transactions			
	2018	Cash flows	Application IFRS 16	Effects of fluctuation in Exchange rates	Interest payable	2017
Financial liabilities						
Securities sold under repurchase agreements	75,475,448	24,828,620	0	0	134,612	50,512,216
Borrowings received	677,501,291	(7,685,837)	0	1,239,091	5,193,791	678,754,246
Bonds payable	438,380,392	(13,081,808)	0	1,252,879	(2,138,820)	452,348,141
Negotiable commercial papers	37,309,849	25,837,562	0	0	(43,781)	11,516,068
Total	1,228,666,980	29,898,537	0	2,491,970	3,145,802	1,193,130,671

			Non-cash generating Transactions			
	2019	Cash flows	Approval of retained earnings	Net Income	Adjustment for application of IFRS 9	2018
Equity						
Common shares	183,645,893	0	0	0	0	183,645,893
Preferred shares	110,000,000	0	0	0	0	110,000,000
Retained earnings	244,781,405	(12,914,849)	(1,481,506)	48,499,760	0	210,678,000
Total	538,427,298	(12,914,849)	(1,481,506)	48,499,760	0	504,323,893

			Non-cash generating Transactions			
	2018	Cash flows	Approval of retained earnings	Net Income	Adjustment for application of IFRS 9	2017
Equity						
Common shares	183,645,893	0	0	0	0	183,645,893
Preferred shares	110,000,000	0	0	0	0	110,000,000
Retained earnings	213,646,370	(16,862,791)	4,792,572	56,880,044	(14,535,362)	183,371,908
Total	507,292,263	(16,862,791)	4,792,572	56,880,044	(14,535,362)	477,017,801