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

Consolidated Financial Statements

As of December 31, 2016

(Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

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

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KPMG
Apartado Postal 816-1089
Panamá 5, República de Panamá

Teléfono: (507) 208-0700
Fax: (507) 263-9852
Internet: www.kpmg.com

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, 2016, 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, 2016, 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(j) and 10 to the consolidated financial statements

The key audit matter

The allowance for loan losses is considered one of the most significant issues because it requires the application of judgments and the use of subjective assumptions by management. The gross loan portfolio represents 69% of the Bank's total assets. The allowance for loan losses addresses individually and collectively assessed loans.

The individual allowance for impairment is determined by an evaluation of case-by-case exposures based on management judgments and estimates when an impairment event has occurred and the present value of the expected cash flows are uncertain. This is a challenge from the audit perspective in relation to the lending business, because the projected or expected cash flows include time estimates and cash flows arising from the future sale of the assets pledged to secure the loans.

The collective allowance for impairment is determined according to the grouping of loans with similar credit risk characteristics. The grouping uses an estimate of the probability of default and the potential loss based on such default to determine the collective allowance. This is a challenge from an audit perspective due to the use of complex models to perform these calculations and the application of management judgment.

How the matter was addressed in our audit

Our procedures in this area included:

- Control testing on the calculation of delinquencies, internal risk ratings of customers, review of customer risk and models and methodologies used.

- For a sample of corporate and commercial loans with individual allowance and those in watch lists, as well as customers that presented risk rating modifications with respect to the previous period, examination of the credit files of those customers and review of the evaluation of allowance estimates prepared by risk officers.

- For the individual allowance model, an examination of the cash flow calculations taking into account the values of the guarantees with reference to valuations developed by specialists and the contractual payment agreements of customers.

- Assessment of the risk rating for commercial loans and delinquency profiles for the different consumer loan products.

- Assessment of collective allowance models and recalculation of that allowance. Likewise, we tested the allowance based on the country risk model and evaluated the inputs used.

- Assessment of management's judgment on assumptions regarding current economic conditions and credit conditions that may change the actual level of historical inherent losses suggested, based on our experience and industry knowledge

Fair value of investment in securities
See Notes 3(b) and 24 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 available-for-sale represent 13% of total assets as of December 31, 2016. The Bank uses external services to obtain the majority of the prices of these investments in securities and also uses internal valuation methodologies for some investment securities when a price provided by external pricing services is not available. The valuation of these investments in securities using internal valuation models involves judgments by management and the use of some inputs that are not available in active markets. Additionally, the valuation of the investments in securities whose prices are provided by external entities requires additional efforts of the auditors for their validation. Judgment involved in estimating the fair value of an investment in securities when some valuation inputs are not observable (for example, investments in securities classified as level 3 of the fair value hierarchy) is significant. As of December 31, 2016, investments in securities classified as level 3 represent 40% of total investments in securities 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 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.

Deferred income tax
See Notes 3(w) and 6 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Bank has recognized deferred tax assets for deductible temporary differences and unused tax losses from its component in Colombia, that it believes are recoverable. During our audit deferred income tax was considered as a key audit matter because it requires the application of judgments and the use of subjective assumptions by management. The recognized and unrecognized deferred income tax benefit in profit or loss represents 3.65% and 4.57%, respectively, of the Bank's net income for the year 2016. Recoverability of recognized deferred tax assets is in part dependent on the Bank's ability to generate future taxable profits sufficient to utilize deductible temporary differences and accumulated tax losses. This is a challenge from an audit perspective in relation to the component in Colombia that generated the deferred tax due to tax losses incurred, because the projected or expected cash flows to support the use of the benefit include time and cash flow estimates derived from expected business performance.	Our procedures in this area included: • Assessment of historical evidence that supports the criteria for recoverability of the deferred tax asset. • Assessment of the tax strategies that the Bank expects will allow the successful recovery of recognized deferred tax assets. • Assessment of management assumptions applied in the projections, based on our experience and industry knowledge, when applicable, to validate their consistency with business plans. • Verification of the mathematical accuracy of projected future cash flows of the component in Colombia, including calculations of taxable profits for future years.

Other Information

Management is responsible for the other information, that comprises the information attached to the consolidated financial statements, but does not include the consolidated financial statements and our auditors' report thereon.

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 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 otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Luis G. Venegas.

KPMG
(SIGNED)

Panama, Republic of Panama
January 31, 2017

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

Consolidated Statement of Financial Position

December 31, 2016

(Amounts expressed in Balboas)

Assets	Note	2016	2015
Cash and cash items		31,066,071	28,639,685
Deposits due from banks:			
Demand deposits - local banks		18,123,734	18,862,991
Demand deposits - foreign banks		111,762,138	134,226,531
Time deposits - local banks		88,192,634	91,525,272
Time deposits - foreign banks		152,796,918	162,745,000
Total bank deposits		370,875,424	407,359,794
Total cash, cash items and bank deposits	4, 8	401,941,495	435,999,479
Securities at fair value through profit or loss	9	2,771,969	0
Securities available for sale	4, 9	562,928,870	543,618,240
Securities held to maturity	4, 9	210,683,901	151,354,933
Loans, net	4,10, 22	2,903,619,764	2,635,025,066
Property, furniture, equipment and leasehold improvements, net	11	54,701,079	51,230,987
Accrued interest receivable	22	25,275,158	23,319,485
Goodwill	12	6,717,198	6,717,198
Deferred tax assets	6	8,844,583	7,753,588
Other assets	13	90,834,733	71,487,412
Total assets		4,268,318,750	3,926,506,388

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	2016	2015
Liabilities:			
Deposits from customers:	4, 22		
Demand deposits - local banks		270,839,129	242,104,383
Demand deposits - foreign banks		369,870,041	420,132,451
Savings deposits		375,526,195	392,349,528
Time deposits - local banks		1,212,522,664	1,066,033,384
Time deposits - foreign banks		478,136,734	320,831,297
Total deposits from customers		2,706,894,763	2,441,451,043
Securities sold under repurchase agreements	4,14	115,105,743	132,965,370
Borrowings received	4,15	820,518,474	773,837,848
Bonds payable	4,16	61,127,000	70,725,000
Certified and cashier's checks		29,347,393	24,464,370
Accrued interest payable		39,844,910	33,842,918
Other liabilities	17	57,313,110	82,131,290
Total liabilities		3,830,151,393	3,559,417,839
Equity:			
Common shares	18	179,045,885	171,617,051
Preferred shares	18	110,000,000	102,000,000
Excess paid in acquisition of non controlling interests	18	(5,606,927)	(5,606,927)
Reserves		1,554,438	(25,681,595)
Retained earnings		153,173,961	124,760,020
Total equity		438,167,357	367,088,549
Commitments and contingencies	19		
Total liabilities and equity		4,268,318,750	3,926,506,388

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

Consolidated Statement of Profit or Loss

For the year ended December 31, 2016

(Amounts expressed in Balboas)

	Note	2016	2015
Interest and commission income:			
Interest on:	22		
Loans		183,971,156	167,421,118
Time deposits		1,262,289	852,719
Investments		21,707,310	21,053,952
Commissions on loans		19,745,446	18,859,289
Total interest and commission income		226,686,201	208,187,078
Interest expenses:	22		
Deposits		70,107,571	54,255,858
Borrowings		16,847,791	17,201,723
Bonds		2,315,171	1,858,211
Total interest expenses		89,270,533	73,315,792
Total interest and commission income, net		137,415,668	134,871,286
Allowance for impairment of financial assets:			
Provision for loan losses	10	11,972,441	19,581,028
Provision for losses on securities held to maturity	9	5,140,000	0
Net interest and commission income, after provisions		120,303,227	115,290,258
Income (expenses) from banking services and other:			
Fees and other commissions earned		24,926,978	21,303,292
Net gain from sale of securities and valuation of derivatives	7	7,008,830	1,728,012
Foreign exchange gain		2,945,812	3,003,208
Insurance premiums, net		4,149,824	4,244,336
Commissions incurred		(11,969,764)	(9,931,761)
Other, net		(4,724,231)	1,147,661
(Provision for) reversal of impairment of foreclosed assets	13	(153,655)	35,368
Total income from banking services and other, net		22,183,794	21,530,116
General and administration expenses:			
Salaries and other personnel benefits	22	48,580,655	46,198,231
Professional fees		6,181,473	6,863,270
Depreciation and amortization	11	4,343,624	4,033,206
Maintenance of equipment and premises		6,071,502	5,411,156
Rental	19, 22	3,934,563	4,053,293
Taxes, other than income		3,998,086	3,936,644
Other		9,420,461	9,300,868
Total general and administration expenses		82,530,364	79,796,668
Net income before income tax		59,956,657	57,023,706
Income tax, net	6	(7,727,422)	(6,699,625)
Net income		52,229,235	50,324,081

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

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016

(Amounts expressed in Balboas)

	Note	2016	2015
Net income		52,229,235	50,324,081
Other comprehensive income:			
Items that will never be reclassified to the consolidated statement of profit or loss			
Property revaluation reserve		0	(225,814)
Deferred tax		(83,426)	5,418
Items that are or may be classified to the consolidated statement of profit or loss			
Foreign currency translation effect		829,882	(9,903,345)
Net loss on hedge of net investment in foreign operation		(103,150)	0
Reserve for valuation of investment securities:			
Net changes in valuation of available-for-sale securities		14,733,446	(28,074,723)
Net gain on available-for-sale securities transferred to profit or loss	7, 9	(6,629,625)	(749,799)
Amortization to profit or loss of unrealized loss on securities transferred to held-to-maturity investments	9	4,500,733	1,524,867
Realized loss on securities reclassified as held to maturity recognized in profit or loss due to impairment	9	3,372,575	0
Net change in fair value of investments in securities reclassified to profit or loss	7	1,674,586	742,995
Total other comprehensive income (losses), net		18,295,021	(36,680,401)
Total other comprehensive income for the year		70,524,256	13,643,680

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

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

(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	Insurance regulatory reserve	Capital regulatory reserve	Property revaluation	Reserve for valuation of securities available for sale	Unrealized loss on securities transferred to held to maturity	Foreign currency translation effect	Retained earnings	Total
Balance as of December 31, 2014		171,046,039	99,000,000	(5,606,927)	25,380,285	565,116	394,645	1,224,244	3,279,275	6,951,310	(21,074,557)	(10,102,806)	(11,516,064)	104,657,572	364,198,132
Comprehensive income:															
Net income		0	0	0	0	0	0	0	0	0	0	0	0	50,324,081	50,324,081
Other comprehensive income (loss):															
Reserve for property revaluation		0	0	0	0	0	0	0	0	(225,814)	0	0	0	0	(225,814)
Deferred tax		0	0	0	0	0	0	0	0	5,418	0	0	0	0	5,418
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	(9,903,345)	0	(9,903,345)
Net changes in valuation of available-for-sale securities		0	0	0	0	0	0	0	0	0	(28,074,723)	0	0	0	(28,074,723)
Net gain on available-for-sale securities transferred to profit or loss		0	0	0	0	0	0	0	0	0	(749,799)	0	0	0	(749,799)
Amortization to profit or loss of unrealized loss on securities transferred to held-to-maturity investments	9	0	0	0	0	0	0	0	0	0	0	1,524,867	0	0	1,524,867
Net change in fair value of investments in securities reclassified to profit or loss		0	0	0	0	0	0	0	0	0	742,995	0	0	0	742,995
Dynamic provision	25	0	0	0	18,424,871	0	0	0	0	0	0	0	0	(18,424,871)	0
Credit regulatory reserve	25	0	0	0	0	238,929	0	0	0	0	0	0	0	(238,929)	0
Contingency reserve		0	0	0	0	0	(60,229)	0	0	0	0	0	0	60,229	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(108,369)	0	0	0	108,369	0
Insurance regulatory reserve		0	0	0	0	0	0	644,035	0	0	0	0	0	(644,035)	0
Capital reserve		0	0	0	0	0	0	0	(3,241,879)	0	0	0	0	3,241,879	0
Total of other comprehensive losses		0	0	0	18,424,871	238,929	(60,229)	644,035	(3,241,879)	(328,765)	(28,081,527)	1,524,867	(9,903,345)	(15,897,358)	(36,680,401)
Total of comprehensive losses		0	0	0	18,424,871	238,929	(60,229)	644,035	(3,241,879)	(328,765)	(28,081,527)	1,524,867	(9,903,345)	34,426,723	13,643,680
Contributions, distributions and changes in stockholder's interests:															
Issuance of common shares	18	571,012	0	0	0	0	0	0	0	0	0	0	0	0	571,012
Issuance of preferred shares	18	0	3,000,000	0	0	0	0	0	0	0	0	0	0	0	3,000,000
Dividends paid - common shares	18	0	0	0	0	0	0	0	0	0	0	0	0	(6,403,220)	(6,403,220)
Dividends paid - preferred shares	18	0	0	0	0	0	0	0	0	0	0	0	0	(7,344,793)	(7,344,793)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	(576,262)	(576,262)
Total contributions, distributions and changes in stockholder's interests		571,012	3,000,000	0	0	0	0	0	0	0	0	0	0	(14,324,275)	(10,753,263)
Balance as of December 31, 2015		171,617,051	102,000,000	(5,606,927)	43,805,156	804,045	334,416	1,868,279	37,396	6,622,545	(49,156,084)	(8,577,939)	(21,419,409)	124,760,020	367,088,549
Comprehensive income:															
Net income		0	0	0	0	0	0	0	0	0	0	0	0	52,229,235	52,229,235
Other comprehensive income:															
Deferred tax		0	0	0	0	0	0	0	0	(83,426)	0	0	0	0	(83,426)
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	829,882	0	829,882
Net loss on hedge of net investment in foreign operation		0	0	0	0	0	0	0	0	0	0	0	(103,150)	0	(103,150)
Net changes in valuation of available-for-sale securities		0	0	0	0	0	0	0	0	0	14,733,446	0	0	0	14,733,446
Net gain on available-for-sale securities transferred to profit or loss		0	0	0	0	0	0	0	0	0	(6,629,625)	0	0	0	(6,629,625)
Transfer of unrealized loss on available-for-sale securities to held to maturity		0	0	0	0	0	0	0	0	0	19,088,234	(19,088,234)	0	0	0
Amortization to profit or loss of unrealized loss on securities transferred to held to maturity	9	0	0	0	0	0	0	0	0	0	0	4,500,733	0	0	4,500,733
Realized loss on securities reclassified as held to maturity recognized in profit or loss due to impairment		0	0	0	0	0	0	0	0	0	0	3,372,575	0	0	3,372,575
Net changes in fair value of investments in securities reclassified to profit or loss		0	0	0	0	0	0	0	0	0	1,674,586	0	0	0	1,674,586
Dynamic provision	25	0	0	0	7,409,807	0	0	0	0	0	0	0	0	(7,409,807)	0
Credit regulatory reserve	25	0	0	0	0	1,110,617	0	0	0	0	0	0	0	(1,110,617)	0
Contingency reserve		0	0	0	0	0	(6,582)	0	0	0	0	0	0	6,582	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(123,144)	0	0	0	123,144	0
Insurance regulatory reserve		0	0	0	0	0	0	528,452	0	0	0	0	0	(528,452)	0
Capital reserve		0	0	0	0	0	0	0	21,862	0	0	0	0	(21,862)	0
Total other comprehensive income		0	0	0	7,409,807	1,110,617	(6,582)	528,452	21,862	(206,570)	28,866,641	(11,214,926)	726,732	(8,941,012)	18,295,021
Total of comprehensive income		0	0	0	7,409,807	1,110,617	(6,582)	528,452	21,862	(206,570)	28,866,641	(11,214,926)	726,732	43,288,223	70,524,256
Contributions, distributions and changes in stockholder's interests:															
Issuance of common shares	18	7,428,834	0	0	0	0	0	0	0	0	0	0	0	0	7,428,834
Issuance of preferred shares	18	0	8,000,000	0	0	0	0	0	0	0	0	0	0	0	8,000,000
Dividends paid - common shares	18	0	0	0	0	0	0	0	0	0	0	0	0	(6,494,615)	(6,494,615)
Dividends paid - preferred shares	18	0	0	0	0	0	0	0	0	0	0	0	0	(7,436,533)	(7,436,533)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	(943,134)	(943,134)
Total contributions, distributions and changes in stockholder's interests		7,428,834	8,000,000	0	0	0	0	0	0	0	0	0	0	(14,874,282)	554,552
Balance as of December 31, 2016		179,045,885	110,000,000	(5,606,927)	51,214,963	1,914,662	327,834	2,396,731	59,258	6,415,975	(20,289,443)	(19,792,865)	(20,692,677)	153,173,961	438,167,357

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, 2016

(Amounts expressed in Balboas)

	Note	2016	2015
Cash flows in operating activities:			
Net income for the year		52,229,235	50,324,081
Adjustments for:			
Provision for loan losses	10	11,972,441	19,581,028
Provision for losses on securities held to maturity	9	5,140,000	0
Reversal of (provision for) impairment of foreclosed assets	13	153,655	(35,368)
Net gain from sale of securities and valuation of derivatives	7	(7,008,830)	(1,728,012)
Depreciation and amortization	11	4,343,624	4,033,206
Income tax		7,727,422	6,699,625
Interest and commission income, net		(137,415,668)	(134,871,286)
Loss from disposal of property, furniture and equipment		8,958	487,144
Net changes in operating assets and liabilities:			
Deposits with terms over 90 days		35,250,000	(17,960,652)
Loans		(281,312,637)	(272,396,093)
Other assets		(19,517,944)	(12,153,109)
Deposits from customers		265,813,934	92,631,575
Other liabilities		(17,685,607)	(2,660,972)
Securities at fair value through profit or loss		(2,592,726)	112,701
Interest received		224,721,243	207,083,733
Interest paid		(83,259,125)	(70,184,168)
Income tax paid		(9,253,148)	(8,141,426)
Net cash provided by (used in) operating activities		49,314,827	(139,177,993)
Cash flows from investing activities:			
Purchase of available-for-sale securities		(819,551,982)	(573,390,058)
Sales and redemptions of available-for-sale securities	9	772,421,041	522,695,039
Purchase of securities held to maturity		(65,663,183)	(10,000,000)
Amortization of capital and redemption of securities held to maturity		51,621,281	18,154,672
Purchases of property, furniture and equipment	11	(7,822,674)	(4,592,580)
Net cash used in investing activities		(68,995,517)	(47,132,927)
Cash flows from financing activities:			
Securities sold under repurchase agreements		(17,859,627)	20,965,370
Borrowings received		624,516,282	600,371,829
Payment and amortization of borrowings		(577,715,468)	(420,956,840)
Issuance of bonds payable		25,457,000	52,070,000
Redemption of bonds payable		(35,055,000)	(20,000,000)
Issuance of common shares	18	7,428,834	571,012
Issuance of preferred shares	18	8,000,000	3,000,000
Dividends paid on common shares	18	(6,494,615)	(6,403,220)
Dividends paid on preferred shares	18	(7,436,533)	(7,344,793)
Complementary tax		(943,134)	(576,262)
Net cash provided by financing activities		19,897,739	221,697,096
Effect of fluctuation in exchange rates		974,967	(4,784,843)
Net increase in cash and cash equivalents		1,192,016	30,601,333
Cash and cash equivalents at the beginning of the year		383,674,207	353,072,874
Cash and cash equivalents at the end of the year	8	384,866,223	383,674,207
Non-cash generating transactions			
Reclassification of available-for-sale securities to held to maturity	9	42,553,757	0

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. The Bank started operations on July 12, 1990 under a general banking license issued by the Superintendence of Banks of Panama (hereinafter referred to as "the Superintendence"), by means of Resolution N° 918 dated March 28, 1990, which allows 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 business.	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. (formerly Macrofinanciera, S. A. C.F.)	Commercial banking business.	Colombia
Multi Capital Company, Inc.	Provide advisory services abroad.	Nevis Islands
Multibank Seguros, S. A. and Subsidiary	Insurance business.	Panama
Multileasing Financiero, S. A.	Leasing business of movable 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.	British Virgin Islands
MB Creditos, S. A. and subsidiary	Finance leasing of movable assets.	Costa Rica
Multibank Factoring, Inc.	Factoring services.	Panama
Multibank Cayman, Inc.	Commercial banking business.	Cayman Islands
Orbis Real Estate, Inc.	Purchase, sale and administration of real estate.	Panama
Inversiones Prosperidad, S. A.	Purchase, sale and administration of real estate.	Panama

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

By Resolution No.0116, dated February 9, 2015, the Financial Superintendence of Colombia authorized Banco Multibank, S. A. (formerly Macrofinanciera, S.A. C.F.) to operate and develop throughout the territory of the Republic of Colombia, the activities of the business banking.

In the minute of Board of Directors of Multi Facilities Holding Corporation dated December 14, 2015, the transfer of all the shares of the subsidiary MB Creditos, S. A. to Multibank, Inc. was approved effective as of December 17, 2015.

On June 28, 2016, the subsidiary Multibank Seguros, S. A., made the acquisition of 100% of the subsidiary Escarlata International, S. A., which manages the property where its administrative offices are located.

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 International Financial Reporting Standards (IFRS).

These consolidated financial statements were authorized for issuance by the Audit Committee on January 24, 2017 and ratified by the Board of Directors on January 26, 2017.

(2) Basis or Preparation, continued

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis or amortized cost, except for available for sale securities, derivative financial instruments, properties and liabilities at fair value, which are measured at fair value; held to maturity securities that were transferred from available for sale securities whose fair value is assigned as their new cost or amortized cost; and the foreclosed assets held for sale, which are measured at the lower of carrying amount or fair value less cost of sell.

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

(c) Functional and Presentation Currency

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

(3) Summary of Significant Accounting Policies

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

(a) Basis of Consolidation

(a.1) Subsidiaries

The Bank has control on a subsidiary when 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.

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

(a.2) Investment Entities and Separate 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.

(3) Summary of Significant Accounting Policies, continued

(a.4) Conversion of the Financial Statements of Foreign Subsidiaries
The functional currency of the subsidiary Banco Multibank, S. A. (formerly Macrofinanciera, S. A. C.F.), located in Colombia is the Colombian peso. Profit or loss and financial position of the Bank's entities having a functional currency other than presentation currency are converted into presentation currency, as follows:

- Monetary assets and liabilities, at the exchange rate in effect at year end
- Income and expenses, at the average exchange rate
- Equity accounts, at the historical exchange rate
- The resulting conversion adjustment is directly recorded in a separate account in equity, under the caption "Foreign currency translation effect".

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

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

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.

(3) Summary of Significant Accounting Policies, continued

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 Purchased under Resale Agreement*

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

The securities used as collateral will remain recorded in the consolidated statement of financial position, as the counterparty has no right of ownership over the securities unless there is breach of contract by the Bank.

(e) *Derivative 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:

(e.1) Fair Value Hedges

Derivatives under the fair value method are instruments that hedge the exposure to changes in the fair value of: (a) a portion or the total value of 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 available for sale, 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.

(3) Summary of Significant Accounting Policies, continued

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.

(e.2) 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.

(e.3) Other Derivatives
Derivatives not designated to a hedge strategy are classified as assets or liabilities at fair value, and are recognized in the consolidated statement of financial position at their fair value. Changes in the valuation of these derivatives are recorded in the consolidated statement of profit or loss.

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

(f.1) Securities at fair value through profit or loss:
This category includes those securities acquired for the purpose of generating profits from short term fluctuations in the price of the instrument. These securities are presented at fair value and the changes in fair value are presented in the consolidated statement of profit or loss.

(3) Summary of Significant Accounting Policies, continued

(f.2) Available for sale securities:
This category includes investments acquired with the intent to be maintained for indefinite time, that may be sold in the event of liquidity needs, changes in interest rates, exchange rates or stock prices. These investments are recorded at their fair value and changes in their carrying value are recognized in other comprehensive income as a reserve for valuation of securities available for sale. When the investment is disposed of (derecognized) or is determined to be impaired, the cumulative gain or loss formerly recognized in other comprehensive income is reclassified to the consolidated statement profit or loss.

Impairment of available for sale financial assets
The Bank assesses at each reporting date, if there is any objective evidence of impairment in investment securities. In the event that the investments are classified as available for sale, a significant and prolonged decrease in the fair value below its cost is considered to determine whether the assets are impaired.

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

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

(f.3) Held to maturity securities:
This category includes those securities that the Bank has the intention and ability to hold to maturity. These securities are mainly comprised of debt instruments, which are presented on the amortized cost basis. Any security presenting a significant or prolonged decline in the value is decreased to its fair value by recording a specific investment reserve against profit or loss for the year.

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

Transfers among categories
The Bank reviews in each reporting period, the classification of its investments and assesses whether there is any change in its intention or ability to maintain them in the same category.

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

(3) Summary of Significant Accounting Policies, continued

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

- In the case of a financial asset not having a fixed maturity date, when the financial asset is disposed of, the unrealized gain or loss will be recognized in profit or loss for the year.

(g) 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 through the term of the loans by using the effective interest rate method.

(h) Finance lease receivable

Finance leases are mainly comprised of vehicles lease arrangements, which are reported as part of the loan portfolio at the present value of the lease. The difference between the gross amount receivable and the present value of the amount receivable is recorded as unearned interest, which is amortized as operating income by using the effective interest rate method.

(i) Factoring receivable

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

(j) Allowances for loan losses

The Bank assesses at each reporting date, if there is any objective evidence of impairment of a loan or loan portfolio, finance lease receivable or factoring receivable (hereinafter, jointly referred as "loans"). The amount of loan losses determined during the period is recognized as a provision expense in profit or loss for the period by increasing the allowance for loan losses. The allowance is presented deducted from loans receivable in the consolidated statement of financial position. When a loan is deemed as uncollectible, the uncollected amount is decreased from the corresponding allowance account. The recovery of loans that were formerly written-down as uncollectible increase the allowance account.

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

(3) Summary of Significant Accounting Policies, continued

(j.1) Individually Assessed Loans

Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is no objective evidence of impairment for an individually significant loan, it is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated by comparing the present value of expected future cash flows, discounted at the actual rate of the loan, to its current carrying value. The amount of any loss is recognized as an allowance for loan losses in the consolidated statement of profit or loss. Write-offs of the carrying value of impaired loans is made through the use of the allowance for loan losses.

(j.2) Collectively Assessed Loans

The collective allowance for groups of homogeneous loans is established using statistical analysis of historical data on delinquency, timing of recoveries and the amount of incurred losses, which is appropriately adjusted to reflect current economic and lending conditions if it is probable that actual losses may be greater or less than those suggested by historical trends. Delinquency rates, loss rates and expected timing of future recoveries are regularly benchmarked against actual loss experience. It is expected that economic factor adjustments consider the following:

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

(j.3) Reversal of impairment

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the formerly recognized impairment loss is reversed by decreasing the allowance for loan losses. The amount of any reversal is recognized in the consolidated statement of profit or loss.

(j.4) Restructured loans

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

(k) 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.

(3) Summary of Significant Accounting Policies, continued

(l) Property, Furniture, Equipment and Improvements

Property, furniture, equipment and improvements comprise buildings, furniture and improvements used by branches and offices. Property, furniture, equipment and improvements are presented at their historical cost, less accumulated depreciation and amortization, except for land and buildings, which since December 31, 2014 are recognized at 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 corresponds, when it is probable that the economic benefits associated with the transaction will flow to the Bank; and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Costs for maintenance and repairs are charged directly to expenses when incurred.

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

- Buildings	60 years
- Furniture and office equipment	3 - 10 years
- IT equipment	3 - 7 years
- Vehicles	3 - 7 years
- Property improvements	5 - 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.

(m) 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, in not amortized, but is tested for impairment at least once a year and when there is indication of impairment.

The impairment test requires that fair value of each cash-generating unit to be compared to its carrying value. Goodwill is presented at cost less any accumulated impairment loss. Any impairment loss for goodwill is recognized directly in profit or loss.

(3) Summary of Significant Accounting Policies, continued

(n) Deposits, Bonds payable, Borrowings received and Trading Commercial Securities

These instruments result from the funds received by the Bank, which are initially measured at fair value, net of transaction costs. Subsequently, they are measured at amortized cost, using the effective interest method, except for liabilities that the Bank decides to measure at fair value through profit or loss.

(o) 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.

(p) Interest income and expenses

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

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income over the relevant period. The calculation includes all the commissions and installments paid or received by the counterparties which form integral part of the effective interest rate, transaction costs and any other premium or discount. Transaction costs are 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.

(q) 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.

(r) Dividend income

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

(3) Summary of Significant Accounting Policies, continued

(s) 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.

(t) 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 to 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.

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 instalment, 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.

(3) Summary of Significant Accounting Policies, continued

(u) Trust Operations

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

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

(v) 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.

(w) 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 deferred tax asset cannot be realized in the future, it would be totally or partially reduced.

(x) 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 of 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.

(y) Segment Information

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

(3) Summary of Significant Accounting Policies, continued

(z) 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)).

(aa) Comparative Information

Certain figures of 2015 have been reclassified for comparison purposes to conform to 2016 consolidated financial statements, mainly certain non-material assets and liabilities that were reclassified as part of other assets and other liabilities.

(ab) 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:

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

  - New requirements for the classification and measurement of financial assets. Among other things, this standard contains two primary categories of measurement for financial assets: amortized cost and fair value. IFRS 9 eliminates the existing IAS 39 categories of securities held to maturity, available for sale securities, loans and accounts receivable.

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

- IFRS 15 *Revenue from Contracts with Customers.* IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted.

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

- IFRS 16 *Leases.* IFRS 16, issued in January 13, 2016, replaces the existing guidance in IAS 17 Leases. IFRS 16 eliminates classification of leases, either as operating leases or finance leases for the leasee. Instead, all leases are recognized similarly to finance leases under IAS 17. Leases are measured at the present value of future lease payments and are presented as either leased assets (rights of use assets) or together with property, plant and equipment. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier adoption is permitted for entities that apply IFRS 15 – *Revenue from Contracts with Customers.*

  At the date of the consolidated financial statements, the Bank has not assessed the impact that the adoption of this standard will have on the financial statements.

- Amendments to IAS 7 *Cash Flow Statements.* The amendment requires disclosures that allow users of the consolidated financial statements to evaluate the changes in the financial liabilities from financing activities, including cash flows and the changes than do not affect cash.

  This amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

  In order to satisfy the new information requirements, the Bank intends to present the reconciliation between the opening and final balances of the financial liabilities with changes from the flows of financing activities.

(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 integral management approach maximizing the risk-return ratio and enhancing the allocation of economic capital.

The Bank has a Comprehensive Risk Management System (SIAR, for its initials 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 a 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.

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

(4) Financial Risk Management, continued

- 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 interrelation and recommend mitigating strategies as required.

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

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

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

- Management of individual risks shall be uniform.

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

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

Additionally, the Bank is subjected to regulations from the Superintendence of Banks and the Superintendence of Securities of Panama, with respect to concentrations of risk, liquidity and capitalization, among other. Moreover, the Bank is subject to the regulations applicable in the various countries where it operates.

The Bank's Audit Committee supervises the form 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.

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.

(4) Financial Risk Management, continued

- 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 assumed 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 Board of Directors' members 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 the Credit Risk, Business and Consumer Managements, always considering:

- Changes in market conditions
- Risk factors
- Changes in laws and regulations
- Changes in financial conditions and in the 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 through internal channels to be available to 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.

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.

(4) Financial Risk Management, continued

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.

Review of Policy Compliance:
Each business unit is responsible for the quality and performance of their loan portfolios, as well as for the control and monitoring of risks. However, through 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 observed in their installment payments, and the particular characteristics of such portfolios.

Analysis of Credit Quality
The following table analyses the credit quality of financial assets and the impairment allowance maintained by the Bank for these assets.

(4) Financial Risk Management, continued

	Loans Receivable		Debt Security Investments	
	2016	2015	2016	2015
Maximum exposure				
Carrying value	2,903,619,764	2,635,025,066	765,318,847	687,102,172
At amortized cost				
Level 1: Pass	2,793,760,714	2,583,034,719	208,584,072	151,354,933
Level 2: Special Mention	94,652,706	55,480,954	0	0
Level 3: Substandard	24,166,659	13,307,868	0	0
Level 4: Doubtful	11,163,717	13,993,295	3,867,254	0
Level 5: Loss	21,919,017	9,643,200	0	0
Gross amount	2,945,662,813	2,675,460,036	212,451,326	151,354,933
Allowance for impairment loss	(36,021,187)	(32,189,252)	(1,767,425)	0
Unearned discounted interest and commissions	(6,021,862)	(8,245,718)	0	0
Carrying value, net	2,903,619,764	2,635,025,066	210,683,901	151,354,933
Securities at fair value through profit or loss and available for sale				
Level 1: Low risk	0	0	554,634,946	535,747,239
Carrying value	0	0	554,634,946	535,747,239
Allowance for impairment loss	0	0	0	0
Carrying value, net	0	0	554,634,946	535,747,239
Not past-due nor impaired				
Level 1	2,793,760,714	2,583,034,719	763,219,019	0
Level 2	94,652,706	55,480,954	0	0
Sub-total	2,888,413,420	2,638,515,673	763,219,019	0
Individually impaired				
Level 3	24,166,659	13,307,868	0	0
Level 4	11,163,717	13,993,295	3,867,254	0
Level 5	21,919,017	9,643,200	0	0
Sub-total	57,249,393	36,944,363	3,867,254	0
Allowance for impairment loss				
Individual	13,529,688	12,000,074	1,767,425	0
Collective	22,491,499	20,189,178	0	0
Total allowance for impairment loss	36,021,187	32,189,252	1,767,425	0
Off-balance sheet operations (note 25)				
Level 1:				
Letters of credit	11,465,210	7,147,842		
Guarantees issued	158,090,314	131,963,322		
Promissory notes	230,637,697	147,669,983		
Level 2:				
Letters of credit	0	0		
Guarantees issued	944,602	0		
Promissory notes	204,793	0		
Level 4:				
Promissory notes	118,065	0		
Level 5:				
Guarantees issued	500,000	0		
	401,960,681	286,781,147		

The Bank maintains deposits in banks for the amount of B/.370,875,424 (2015: B/.407,359,794). Deposits are maintained in financial institutions applying the limits established in the risk policy for each counterparty.

(4) Financial Risk Management, continued

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

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

  - Breach of contract, such as a default or delinquency in interest or principal payments;
  - 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.

- Loans past-due but not impaired:
  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.

- 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 if the debtor's capacity improves after Bank's restructuring (see note 25).

- Write-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 the means were exhausted to recover the loan through collection procedures.

The Bank maintains collateral for loans granted to customers corresponding to mortgages on properties and other guarantees. Fair value estimates are based on the collateral value depending on the effective date of the loan and they are not usually updated except if the loan is individually impaired.

Collateral and their Financial Effect

The Bank maintains 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		
	2016	**2015**	**Type of Collateral**
Loans receivable	87%	72%	Cash, Properties and Equipment

(4) Financial Risk Management, continued

Residential Mortgage Loans

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

	2016	**2015**
Residential mortgage loans:		
% LTV		
Less than 50%	377,491,452	20,278,837
51% - 70%	11,080,597	48,534,563
71% - 90%	26,337,732	128,237,876
91% - 100%	17,331,060	165,275,263
More than 100%	127,531	4,451,496
Total	432,368,372	366,778,035

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 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 demandable upon occurrence of future events determined by the parties.

Assets received as Collateral

Total collateral foreclosed during the period by the Bank to guarantee the collection or the execution of credit facilities is as follows:

	2016	**2015**
Properties	1,894,166	289,852
Vehicles and others	1,020,542	511,896
Total	2,914,708	801,748

(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 date of the consolidated financial statements is as follows:

	Loans Receivable		Debt Security Investments	
	2016	2015	2016	2015
Sector:				
Corporate	1,804,458,140	1,704,787,662	213,210,956	193,754,662
Consumption	1,076,924,231	907,937,887	0	0
Government	22,237,393	22,299,517	552,107,891	493,347,510
	2,903,619,764	2,635,025,066	765,318,847	687,102,172
Geographic concentration:				
Panama	2,392,047,829	2,043,884,857	210,283,540	148,502,468
Latin America and the Caribbean	494,909,167	577,025,102	143,488,590	193,757,583
United States of America	4,276,443	8,425,823	389,989,161	332,150,587
Other	12,386,325	5,689,284	21,557,556	12,691,534
	2,903,619,764	2,635,025,066	765,318,847	687,102,172

	Letters of Credit		Guarantees Issued		Promissory Notes	
	2016	2015	2016	2015	2016	2015
Sector:						
Corporate	10,699,948	6,304,708	18,069,183	131,447,539	22,500,665	20,114,104
Consumption	765,262	843,134	141,465,733	515,783	208,459,890	127,555,879
	11,465,210	7,147,842	159,534,916	131,963,322	230,960,555	147,669,983
Geographic concentration:						
Panama	10,307,295	5,151,369	154,308,224	40,903,318	226,747,626	147,669,983
Latin America and the Caribbean	159,430	1,996,473	606,090	7,016,345	856,023	0
United States of America	0	0	0	2,242,469	0	0
Other	998,485	0	4,620,602	81,801,190	3,356,906	0
	11,465,210	7,147,842	159,534,916	131,963,322	230,960,555	147,669,983

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.

(b) *Liquidity or Financial Risk*

Liquidity risk is defined as the risk that the Bank might be unable to meet all 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.

(4) Financial Risk Management, continued

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 and on a periodical basis by the Risk Management (Market and Liquidity) area. 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 by the Board of Directors.

Exposure to Liquidity Risk:

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

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

	2016	2015
At end of the year	36.84%	40.77%
Average for the year	36.30%	36.22%
Maximum for the year	41.92%	40.88%
Minimum for the year	31.46%	31.63%

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.

(4) Financial Risk Management, continued

2016	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	(1,950,919,761)	(533,915,955)	(242,561,289)	0	(2,727,397,005)	2,706,894,763
Repurchase agreements	(87,606,752)	(32,865,096)	0	0	(120,471,848)	115,105,743
Borrowings received	(534,235,798)	(219,020,160)	(74,148,377)	(115,912,964)	(943,317,299)	820,518,474
Bonds payable	(3,720,561)	(42,686,753)	(37,429,151)	0	(83,836,465)	61,127,000
Letters of credit	(11,465,210)	0	0	0	(11,465,210)	0
Financial guarantees issued	(115,416,310)	(24,639,189)	0	(19,479,417)	(159,534,916)	0
Loan arrangements	(53,494,464)	(177,466,091)	0	0	(230,960,555)	0
	(2,756,858,856)	(1,030,593,244)	(354,138,817)	(135,392,381)	(4,276,983,298)	3,703,645,980
Financial Assets						
Cash and cash equivalents	401,434,097	1,077,606	0	0	402,511,703	401,941,495
Securities at fair value through profit or loss	160,500	321,000	321,000	2,862,027	3,664,527	2,771,969
Available-for-sale securities	62,661,501	161,729,578	89,420,125	435,325,968	749,137,172	562,928,870
Held-to-maturity securities	14,991,632	45,569,443	55,540,477	182,280,326	298,381,878	210,683,901
Loans, net	917,362,062	775,847,902	633,225,124	1,670,972,977	3,997,408,065	2,903,619,764
	1,396,609,792	984,545,529	778,506,726	2,291,441,298	5,451,103,345	4,081,945,999

2015	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	(1,871,717,501)	(458,927,509)	(114,732,150)	(64,448,737)	(2,509,825,897)	2,441,451,043
Repurchase agreements	(133,065,309)	0	0	0	(133,065,309)	132,965,370
Borrowings received	(519,703,951)	(198,818,755)	(46,497,746)	(118,106,098)	(883,126,550)	773,837,848
Bonds payable	(42,226,574)	(10,775,209)	(32,463,411)	0	(85,465,194)	70,725,000
Letters of credit	(7,147,842)	0	0	0	(7,147,842)	0
Financial guarantees issued	(95,975,511)	(19,444,644)	(16,543,167)	0	(131,963,322)	0
Loan arrangements	(142,275,743)	(5,394,240)	0	0	(147,669,983)	0
	(2,812,112,431)	(693,360,357)	(210,236,474)	(182,554,835)	(3,898,264,097)	3,418,979,261
Financial Assets						
Cash and cash equivalents	435,406,577	1,859,746	0	0	437,266,323	435,999,479
Available-for-sale securities	0	154,994,855	64,001,745	389,251,914	608,248,514	543,618,240
Held-to-maturity securities	0	21,699,754	64,002,641	133,003,813	218,706,208	151,354,933
Loans, net	1,040,454,645	529,162,862	549,688,924	1,436,688,374	3,555,994,805	2,635,025,066
	1,475,861,222	707,717,217	677,693,310	1,958,944,101	4,820,215,850	3,765,997,718

The Bank uses derivative financial instruments to reduce certain identified risks, which could generate asset or liability undiscounted cash flows (see note 21).

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 reporting date:

(4) Financial Risk Management, continued

	2016	2015
Assets:		
Banks deposits	1,000,000	1,714,248
Securities at fair value through profit or loss	2,771,969	0
Available-for-sale securities	514,364,597	512,449,485
Held-to-maturity securities	207,574,841	151,354,933
Loans, net	2,123,247,969	1,749,473,175
Total assets	2,848,959,376	2,414,991,841
Liabilities:		
Time deposits	729,716,680	608,223,316
Repurchase agreements	31,000,000	0
Borrowings received	342,888,374	310,846,732
Bonds payable	30,000,000	35,670,000
Total liabilities	1,133,605,054	954,740,048

(c) Market Risk

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.

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.

(4) Financial Risk Management, continued

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 reaction of market participants to political and economic events.

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

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

2016	Colombian pesos expressed in B/.	Euros expressed in B/.	Other Currency expressed in B/.	Total
Exchange rate	**3,002.00**	**1.05**		
Assets:				
Cash and due from banks	6,237,975	57,988,969	7,242,369	71,469,313
Available-for-sale securities	2,402,814	4,247,549	0	6,650,363
Held-to-maturity securities	1,109,060	0	0	1,109,060
Loans, net	87,738,227	2,881,468	0	90,619,695
Total financial assets	97,488,076	65,117,986	7,242,369	169,848,431
Liabilities:				
Customers' deposits	43,570,788	72,345,933	7,192,374	123,109,095
Borrowings received	14,145,043	0	0	14,145,043
Total financial liabilities	57,715,831	72,345,933	7,192,374	137,254,138
Net position in the consolidated statement of financial position	39,772,245	(7,227,947)	49,995	32,594,293

(4) Financial Risk Management, continued

2015	Colombian pesos expressed in B/.	Euros expressed in B/.	Other Currency expressed in B/.	Total
Exchange rate	**3,174.50**	**1.09**		
Assets:				
Cash and due from banks	7,478,220	44,830,194	8,168,666	60,477,080
Available-for-sale securities	1,937,306	11,310,440	0	13,247,746
Held-to-maturity securities	822,474	0	0	822,474
Loans, net	76,900,372	6,963,766	74	83,864,212
Total financial assets	87,138,372	63,104,400	8,168,740	158,411,512
Liabilities:				
Customers' deposits	33,794,245	62,677,857	8,108,335	104,580,437
Borrowings received	27,747,759	305,736	0	28,053,495
Total financial liabilities	61,542,004	62,983,593	8,108,335	132,633,932
Net position in the consolidated statement of financial position	25,596,368	120,807	60,405	25,777,580

- *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 basic points (bp) in financial assets and liabilities. The table below shows the effect of applying such variations to the interest rates.

(4) Financial Risk Management, continued

Sensitivity of net income due to projected interest rates:	**50 bp of increase**	**50 bp of decrease**	**100 bp of increase**	**100 bp of decrease**
2016				
As of December 31	11,432,229	(11,432,229)	22,864,458	(22,864,458)
Average for the year	11,241,772	(11,241,772)	22,483,544	(22,483,544)
Maximum for the year	11,432,229	(11,432,229)	22,864,458	(22,864,458)
Minimum for the year	10,887,124	(10,887,124)	21,774,249	(21,774,249)
2015				
As of December 31	10,485,901	(10,485,901)	20,971,802	(20,971,802)
Average for the year	10,179,277	(10,179,277)	20,358,554	(20,358,554)
Maximum for the year	10,618,819	(10,618,819)	21,237,637	(21,237,637)
Minimum for the year	9,556,689	(9,556,689)	19,113,379	(19,113,379)

Sensitivity of net equity due to interest rate fluctuation:	**50 bp of increase**	**50 bp of decrease**	**100 bp of increase**	**100 bp of decrease**
2016				
As of December 31	866,677	(866,677)	1,733,353	(1,733,353)
Average for the year	1,324,125	(1,324,125)	2,648,251	(2,648,251)
Maximum for the year	2,215,075	(2,215,075)	4,430,149	(4,430,149)
Minimum for the year	321,572	(321,572)	643,144	(643,144)
2015				
As of December 31	(756,837)	756,837	(1,513,675)	1,513,675
Average for the year	(1,966,100)	1,966,100	(3,932,200)	3,932,200
Maximum for the year	(2,465,162)	2,465,162	(4,930,325)	4,930,325
Minimum for the year	(1,686,049)	1,686,049	(3,372,098)	3,372,098

(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.

2016	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	0	0	0	0	0	31,066,071	31,066,071
Bank deposits	360,125,424	9,750,000	1,000,000	0	0	0	370,875,424
Securities at fair value	0	0	0	0	2,771,969	0	2,771,969
Available-for-sale securities	360,431,838	121,020,094	6,250,901	9,138,601	55,021,543	11,065,893	562,928,870
Held-to-maturity securities	63,471,756	19,724,081	17,879,033	22,766,927	86,842,104	0	210,683,901
Loans, net	347,908,691	432,463,104	564,004,151	475,396,733	1,083,847,085	0	2,903,619,764
Total financial assets	1,131,937,709	582,957,279	589,134,085	507,302,261	1,228,482,701	42,131,964	4,081,945,999
Financial liabilities:							
Demand deposits	0	0	0	0	0	640,709,170	640,709,170
Savings deposits	375,526,195	0	0	0	0	0	375,526,195
Time deposits	386,045,492	568,897,226	500,976,519	233,306,761	1,433,400	0	1,690,659,398
Repurchase agreements	84,105,743	0	31,000,000	0	0	0	115,105,743
Borrowings received	127,210,317	350,419,783	193,526,124	49,694,999	99,667,251	0	820,518,474
Bonds payable	17,670,000	13,457,000	0	30,000,000	0	0	61,127,000
Total financial liabilities	990,557,747	932,774,009	725,502,643	313,001,760	101,100,651	640,709,170	3,703,645,980
Total sensitivity to interest rates	141,379,962	(349,816,730)	(136,368,558)	194,300,501	1,127,382,050	(598,577,206)	378,300,019

2015	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	0	0	0	0	0	28,639,685	28,639,685
Bank deposits	387,151,404	18,494,142	1,714,248	0	0	0	407,359,794
Securities at fair value	7,586,198	15,711,556	152,507,642	60,130,933	299,810,910	7,871,001	543,618,240
Available-for-sale securities	0	0	11,518,683	20,045,272	119,790,978	0	151,354,933
Held-to-maturity securities	389,472,431	496,079,460	350,811,157	412,804,747	985,857,271	0	2,635,025,066
Total financial assets	784,210,033	530,285,158	516,551,730	492,980,952	1,405,459,159	36,510,686	3,765,997,718
Financial liabilities:							
Demand deposits	0	0	0	0	0	662,236,834	662,236,834
Savings deposits	392,349,528	0	0	0	0	0	392,349,528
Time deposits	253,452,115	525,179,250	409,390,303	129,887,437	68,955,576	0	1,386,864,681
Repurchase agreements	132,965,370	0	0	0	0	0	132,965,370
Borrowings received	110,287,576	352,703,540	147,715,583	43,131,149	120,000,000	0	773,837,848
Bonds payable	17,070,000	17,985,000	5,670,000	30,000,000	0	0	70,725,000
Total financial liabilities	906,124,589	895,867,790	562,775,886	203,018,586	188,955,576	662,236,834	3,418,979,261
Total sensitivity to interest rates	(121,914,556)	(365,582,632)	(46,224,156)	289,962,366	1,216,503,583	(625,726,148)	347,018,457

- *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.

(4) Financial Risk Management, continued

The Bank is exposed to the price risk of equity instruments classified as available for sale or as at fair value through profit or loss. 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.

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 of the critical areas.

(e) Capital Management

The Bank's regulators are the Superintendence of Banks of Panama and the Superintendence of the Securities Market of Panama, which require the Bank to maintain a total capital ratio measured based on average risk-weighted assets. The Bank is in compliance with the requirements of regulatory capital required.

(4) Financial Risk Management, continued

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 rulings of the Superintendence.

Based on Rule No.1-2015 and its amendments and No.3-2016, issued by the Superintendency of Banks of Panama, as of December 31, 2016, the Bank maintains a regulatory capital position that is detailed as follows:

	2016
Ordinary Primary Capital	
Common shares	179,045,885
Excess paid in acquisition of non-controlling interests	(5,606,927)
Retained earnings	145,423,989
Other items of comprehensive income	
Loss on available-for-sale securities	(40,082,308)
Foreign currency translation effect	(20,692,677)
Less: Deferred tax assets	(1,903,834)
Less: Goodwill	(6,717,198)
Total of Ordinary Primary Capital	249,466,930
Additional Ordinary Primary Capital	
Preferred shares	110,000,000
Total of Additional Ordinary Primary Capital	110,000,000
Dynamic provision	51,214,963
Total Regulatory Capital Funds	410,681,893
Total risk weighted assets	2,781,038,446

Indicators:		**Minimum required**
Capital Adequacy Ratio	14.76%	8%
Ordinary Primary Capital Index	8.97%	3.75%
Primary Capital Index	12.91%	5.25%
Leverage Ratio	5.96%	3%

(4) Financial Risk Management, continued

As of December 31, 2015, the Bank determined its regulatory capital position by applying the rules of the Superintendency of Banks of Panama established for general license banks, based on Rule No.5-2008 of October 1, 2008 as modified by Rule No.4-2009 of July 9, 2009, which is detailed as follows:

	2015
Primary Capital (pillar 1)	
Common shares	171,617,051
Preferred shares	102,000,000
Excess paid in acquisition of non-controlling interests	(5,606,927)
Dynamic provision	43,805,156
Retained earnings	124,760,020
Less: Goodwill	(6,717,198)
Total regulatory capital	429,858,102
Total risk-weighted assets	2,662,169,868
Capital ratios	
Total regulatory capital expressed in percentage over risk-weighted assets	16.15%
Total pillar 1 expressed in percentage over risk-weighted assets	16.15%

(5) Use of Estimates and Judgments 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 subjected to management's judgment and may have a significant effect on the Bank's interests or participation in investment companies and separate vehicles.

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

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

(c) *Fair Value of Derivative 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 staff independent from the responsible 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 comparatible 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) *Impairment of Available-for-Sale and Held-to-Maturity Securities:*
The Bank determines that available-for-sale and held-to-maturity investments are impaired when there is a significant or prolonged decline in the fair value of the security below its cost. This determination of significant or prolonged requires professional judgment. Additionally, impairment might be determined when there is evidence of impairment in the issuer's financial position, industry and sector performance, technology changes and variations in operating and financial cash flows.

(e) *Impairment of Goodwill:*
The Bank shall determine if goodwill is impaired annually or when there is any evidence of impairment. This requires an estimate of the value in use of the cash-generating units to which goodwill is attributed. Computation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and select a suitable discount rate in order to calculate present value of such expected cash flows.

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

(f) Income Tax:

The Bank is subjected 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 the last tax is uncertain during the normal course of business. The Bank recognizes the obligations based on anticipated tax audits. Whenever the final tax result differs from the amounts initially determined, such differences shall have an effect on the provisions for income taxes and deferred taxes for the period in which the determination was made.

(6) Income Tax

Under current tax regulations, the income tax returns of the Bank and its subsidiaries incorporated in the Republic of Panama are subject to examinations by local tax authorities for the last three (3) years. Under current tax regulations, the companies incorporated in Panama are exempted from income taxes on profits derived from foreign operations, from interest earned on time deposits at local banks, from debt securities issued by the Government of Panama and from investments in bonds listed with the Superintendence of the Securities Market, and traded through the Panamanian Stock Exchange.

Legal entities in the Republic of Panama must calculate income taxes at the 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 total taxable income.

Law 52 of August 28, 2012 reestablished the anticipated payment of estimated income taxes starting on 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	Income tax rate	Reviewed period
Colombia	40%	2017
	37%	2018
	33%	2019 and on
Costa Rica	30%	2013 and on

(6) Income tax, continued

Income tax expense is detailed as follows:

	2016	2015
Current tax:		
Estimated income tax	8,837,441	8,831,341
Prior-period tax adjustments	(19,024)	92,008
Deferred tax:		
Origin and reversal of temporary differences	(1,090,995)	(2,223,724)
Total income tax expense	7,727,422	6,699,625

In addition, the decrease in the deferred income tax liability as of December 31, 2016 for B/.438,432 (2015: B/.355,006), corresponding to the depreciation expense from revaluation of property in 2016, was recognized in other comprehensive loss for the year.

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

	2016	2015
Net income before income taxes	59,956,657	57,023,706
Exempted and non-taxable income from foreign source	(118,116,765)	(110,931,639)
Non-deductible costs and expenses	89,762,677	77,803,498
Tax loss carryforwards from prior years	(87,632)	(51,886)
Net taxable income	31,514,937	23,843,679
25% income tax at local rate	7,878,734	5,960,920
Effects of tax rates in foreign juristictions	(151,312)	738,705
Current income tax	7,727,422	6,699,625

The effective income tax rate is determined as follows:

	2016	2015
Income before income taxes	59,956,657	57,023,706
Income tax	7,727,422	6,699,625
Effective income tax rate	12.89%	11.75%

(6) Income tax, continued

Deferred income tax asset and liability are detailed below:

	2016			2015		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Allowance for loan losses	6,187,090	0	6,187,090	6,737,546	0	6,737,546
Revaluation of properties	0	(438,432)	(438,432)	0	(355,006)	(355,006)
Prepaid expenses	753,659	0	753,659	167,447	0	167,447
Tax loss carryforwards	1,903,834	0	1,903,834	848,595	0	848,595
Total	8,844,583	(438,432)	8,406,151	7,753,588	(355,006)	7,398,582

The recognition of deferred tax assets for B/.8,844,583 (2015: B/.7,753,588) 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/.2,387,648 from accumulated tax losses for B/.7,235,297, because there is not enough evidence that indicate 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 2028.

The Bank kept a cumulative tax loss balance of tax loss carryforwards of B/.12,776,981 (2015: B/.2,104,249). 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.

These tax loss carryforwards are distributed as follows:

Year	**Tax loss to be used per year in Panama**
2018	35,746
2019	1,100
2020	1,100

Tax loss carryforwards by incurred companies incorporated in Colombia could be used within 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.

These tax loss carryforwards are distributed as follows:

Year	**Tax loss to be used per year in Colombia**
2018	2,128,108
2019	3,626,335
2020	6,896,960

(7) Net Gain on Sale of Securities and Derivatives Valuation

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

	2016	2015
Net gain on sale of securities at fair value through profit or loss	179,243	112,701
Net gain on sale of available-for-sale securities	6,629,625	749,799
Unrealized loss transferred to profit or loss due to application of hedge accounting	(1,674,586)	(742,995)
Net gain on revaluation of derivative instruments	1,652,556	730,604
Net gain on sale of other financial instruments	221,992	877,903
	7,008,830	1,728,012

(8) Cash and Cash Equivalents

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

	2016	2015
Cash and cash equivalents	31,066,071	28,639,685
Demand deposits	129,885,872	153,089,522
Time deposits	240,989,552	254,270,272
Total cash and due from banks	401,941,495	435,999,479
Less: interest-bearing deposits due over 90 days and pledges	17,075,272	52,325,272
Cash and cash equivalents in the consolidated statement of cash flows	384,866,223	383,674,207

(9) Investment in Securities

Investment in securities are detailed below:

Securities at fair value through profit or loss

As of December 31, 2016, the Bank maintains securities at fair value through profit or loss for B/.2,771,969 (2015: B/.0), and has made sales of securities for B/.29,876,033 (2015: B/.6,192,000), generating a gain of B/.179,243 (2015: gain of B/.112,701).

(9) Investment in Securities, continued

Available-for-sale securities

The fair value of available-for-sale securities are detailed as follows:

	2016	2015
Foreign common stock	20,849	21,559
Preferred stock	29,455	25,835
Local stock	11,015,589	7,823,607
Foreign corporate bonds	80,146,104	102,592,171
Corporate bonds and local fixed income funds	40,633,036	53,131,726
Bonds of the Republic of Panama	38,660,284	1,349,292
Bonds from other governments	13,376,929	68,009,198
Bonds from US Government and Agencies	352,396,842	269,125,483
Negotiable certificates of participation	26,649,782	29,818,568
Negotiable certificates of deposit – thirteenth – month bonus	0	6,741,894
Commercial paper and treasury bills, foreign	0	4,978,907
	562,928,870	543,618,240

The Bank has equity instruments amounting to B/.190,207 (2015: B/.190,207), which are kept at cost due to the Bank's inability to reliably determine their fair value. The Bank performs annual reviews to assess for any impairment in the value of such investments that may require adjustments to the investment value.

The Bank made sales of its portfolio of investments in available-for-sale securities for B/.772,421,041 (2015: B/.522,695,039) generating a gain on sale of B/.6,629,625 (2015: gain of B/.749,799).

Securities with nominal value of B/.112,049,974 (2015: B/.146,080,000) guarantee securities sold under repurchase agreements for the amount of B/.115,105,743 (2015: B/.132,965,370). See Note 14.

Securities with nominal value of B/.146,393,000 (2015: B/.204,837,000) guarantee borrowings received. See Note 15.

Held-to-Maturity Securities

The portfolio of held-to-maturity securities amounted to B/.210,683,901 (2015: B/.151,354,933).

(9) Investment in Securities, continued

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

	2016	2015
Foreign corporate bonds	30,132,612	13,414,073
Corporate bonds and local fixed income funds	57,741,221	25,439,164
Bonds of the Republic of Panama	37,707,249	41,931,527
Bonds from other governments	62,524,689	26,623,615
Bonds from US Government and Agencies	16,668,871	36,322,048
Commercial paper and treasury bills, foreign	7,676,684	7,624,506
Total	212,451,326	151,354,933
Impairment reserve	(1,767,425)	0
Total, net	210,683,901	151,354,933

Securities with nominal value of B/.43,501,000 (2015: B/.28,000,000) guarantee securities sold under repurchase agreements for the amount of B/.115,105,743 (2015: B/.132,965,370). See Note 14.

Securities with nominal value of B/.83,450,000 (2015: B/.70,475,000) guarantee borrowings received. See Note 15.

The movement of the provision for impairment of securities held to maturity is detailed as follows:

	2016
Balance at the beginning of year	0
Realized loss transferred to profit or loss due to impairment of securities	3,372,575
Provision for losses recognized directly in profit or loss	1,767,425
Balance at the end of year	5,140,000

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

On January 28, 2016, the ALCO Committee of the Bank approved the strategy to reclassify a group of investments that remained available-for-sale to held-to-maturity. Those investments amounting to B/.42,553,757 were reclassified from available for sale to held to maturity on February 22, 2016.

On September 24, 2013, the ALCO Committee of the Bank approved the transfer of part of available-for-sale securities to held-to-maturity securities.

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

(9) Investment in Securities, continued

	2016			2015		
	Reclassified amount	**Carrying value**	**Fair value**	**Reclassified amount**	**Carrying value**	**Fair value**
Foreign corporate bonds	34,335,658	24,178,924	28,112,858	13,971,147	12,591,599	12,973,960
Foreign public bonds	95,805,461	72,221,840	77,760,557	73,616,215	70,570,169	72,219,225
Local public bonds	48,609,703	36,347,681	37,972,539	48,609,703	41,931,527	43,343,359
Total	178,750,822	132,748,445	143,845,954	136,197,065	125,093,295	128,536,544

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

	2016		2015	
	Profit or loss	**Comprehensive income**	**Profit or loss**	**Comprehensive income**
Interest income	8,490,944	0	5,567,37	0
Net change in fair value	0	(27,666,173)	0	(10,102,806)
Amount transferred from the allowance for unrealized losses to profit or loss during the year	(4,500,73)	4,500,733	(1,524,867	1,524,867
Realized loss from securities transferred to held to maturity, recognized in profit or loss for the year	(3,372,575)	3,372,575	0	0

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

	2016		2015	
	Profit or loss	**Comprehensive income**	**Profit or loss**	**Comprehensive income**
Interest income	8,490,944	0	5,567,307	0
Net change in fair value	0	1,046,370	0	(5,580,475)

The effective interest rate of the reclassified assets ranges between 0.98% and 4.62%; their total cash flows which are deemed as collectible, amount to B/.173 million (2015: B/.136 million), including principal and interest.

(10) Loans

The loan portfolio by product is detailed as follows:

	2016	2015
Commercial	996,070,559	944,506,066
Personal, vehicles and credit cards	529,993,158	439,668,651
Residential mortgage	432,368,372	366,778,035
Interim financing and construction	401,334,475	317,270,033
Pledge on movable assets	111,276,768	154,614,009
Agricultural	169,553,186	151,200,617
Industrial	111,217,088	99,447,088
Factoring	47,596,440	59,974,812
Pensioners	84,611,795	69,114,508
Tourism and services	18,558,803	25,046,974
Finance leases	35,404,348	35,716,672
Commercial mortgage	7,677,821	12,122,571
Total	2,945,662,813	2,675,460,036
Less:		
Allowance for loan losses	36,021,187	32,189,252
Unearned discounted interest and commissions	6,021,862	8,245,718
Total loans, net	2,903,619,764	2,635,025,066

On April 11, 2014, the Bank entered into a syndicated loan with other financial institutions for B/.37,670,000. At December 31, 2016, the Bank has granted B/.7,798,520, of the total amount of this loan.

The allowance for loan losses is detailed as follows:

	2016	2015
Balance at the beginning of year	32,189,252	35,011,937
Provision charged to expenses	11,972,441	19,581,028
Written-off loans	(15,394,241)	(24,423,774)
Recoveries	7,253,735	2,020,061
Balance at the end of year	36,021,187	32,189,252

Management of the Bank has set aside an individual reserve amounting to B/.13,529,688 (2015: B/.12,000,074) based on the estimate of losses from classified loans, considering the estimated available collateral. It also recorded a collective reserve amounting to B/.22,491,499 (2015: B/.20,189,178); consequently, that the total reserve amounts to B/.36,021,187 (2015: B/.32,189,252).

(10) Loans, continued

The loan portfolio includes finance leases with the following maturities:

	2016	2015
Minimum payments up to 1 year	12,992,867	11,871,413
Minimum payments from 1 to 5 years	19,795,780	21,364,632
Payments over 5 years	2,615,701	2,480,627
Total of minimum payments	35,404,348	35,716,672
Less: unearned commissions	173,381	187,872
Net investment in financial leases	35,230,967	35,528,800

The following table shows the total of future minimum payments:

	2016	2015
Minimum payments up to 1 year	14,632,132	13,593,094
Minimum payments from 1 to 5 years	23,361,787	25,559,472
Payments over 5 years	4,517,350	4,207,963
Total of minimum payments	42,511,269	43,360,529
Less: unearned discounted interests	7,106,921	7,643,857
Total finance leases, net of unearned discounted interest	35,404,348	35,716,672

During May 2015, the subsidiary Banco Multibank S. A., (formerly Macrofinanciera, S.A. C.F.), made a partial sale of the loan portfolio for B/.26,792,565 (67,846,141,810 colombian pesos), which generated a gain of B/.2,911,282, to align the composition of the loan portfolio of the subsidiary to the strategic guidelines of the Bank within the region.

(11) Property, Furniture, Equipment and Improvements

Property, furniture, equipment and improvements are summarized below:

2016	Land and buildings	Improvements	Furniture	Office equipment	Vehicles	Total
Cost:						
At the beginning of year	34,344,179	17,643,921	2,867,973	23,936,578	873,534	79,666,185
Purchases	2,493,668	1,734,908	309,285	3,222,363	62,450	7,822,674
Disposals	0	0	(141)	(29,902)	(6,800)	(36,843)
At the end of year	36,837,847	19,378,829	3,177,117	27,129,039	929,184	87,452,016
Accumulated depreciation::						
At the beginning of year	1,926,602	9,580,121	1,359,962	15,047,795	520,718	28,435,198
Expense for the year	435,591	788,533	348,315	2,640,094	131,091	4,343,624
Disposals	0	0	(8)	(22,550)	(5,327)	(27,885)
At the end of year	2,362,193	10,368,654	1,708,269	17,665,339	646,482	32,750,937
Net balance	34,475,654	9,010,175	1,468,848	9,463,700	282,702	54,701,079

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

2015

	Land and buildings	Improvement	Furniture	Office equipment	Vehicles	Total
Cost:						
At the beginning of year	34,235,526	17,667,185	3,060,755	20,364,771	918,456	76,246,693
Purchases	108,653	754,948	86,366	3,574,558	68,055	4,592,580
Disposals	0	(778,212)	(279,148)	(2,751)	(112,977)	(1,173,088)
At the end of year	34,344,179	17,643,921	2,867,973	23,936,578	873,534	79,666,185
Accumulated depreciation:						
At the beginning of year	1,503,301	9,155,760	1,255,418	12,668,589	504,868	25,087,936
Expense for the year	423,301	718,863	383,692	2,381,789	125,561	4,033,206
Disposals	0	(294,502)	(279,148)	(2,583)	(109,711)	(685,944)
At the end of year	1,926,602	9,580,121	1,359,962	15,047,795	520,718	28,435,198
Net balance	32,417,577	8,063,800	1,508,011	8,888,783	352,816	51,230,987

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

	2016	**2015**
Land	20,614,318	19,728,771
Building and improvements	12,669,273	11,585,186
	33,283,591	31,313,957

On December 31, 2014, land and buildings were technically appraised by independent appraisers. The revaluation adjustment is recorded in a separate account in the consolidated statement of changes in equity as property revaluation.

On June 2016, Multibank, Inc. acquired in cash, land, buildings and improvements for a net book value of B/.2,493,668, through the acquisition of Escarlata International, S. A., currently a subsidiary of Multibank Seguros, S. A.

(12) Goodwill

Management assesses goodwill in the acquired subsidiary, by applying the future cash flows method based on the profitability of its operations.

The balance of goodwill generated from the acquisition of the following company is summarized as follows:

Entity	**Acquisition Date**	**Acquired Interest**	**Balance**
Banco Multibank, S. A. (formerly Macrofinanciera, S. A. C.F.)	September 2007	70%	6,717,198

No goodwill movements have been recorded during the year.

(12) Goodwill, continued

To value its acquired assets and businesses, the net cash flows expected from such assets or businesses in the cash-generating unit representing the Colombian component, for a 5 - year term, were projected and also a perpetual growth or multiple of cash flows was defined at the end of the projected period to determine the terminal cash flows. The growth rates of assets or businesses fluctuate based on their nature, and they currently range between 20% and 30%, whereas the perpetual growth rate ranges between 10% and 15%.

Growth rates of the assets or businesses were determined based on the growth, performance, and actual historical metrics of the relevant assets or businesses, their future perspectives, the projected country macroeconomic growth, the segments or business analyzed, as well as the Bank's business plans, and the expected growth rates in an overall and those of the specific businesses assessed.

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

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

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

(13) Other Assets

The detail of other assets is as follows:

	2016	2015
Accounts receivable	39,284,931	39,314,603
Accounts receivable, from related companies	28,031,497	13,096,052
Prepaid expenses	11,330,400	13,133,436
Prepaid taxes	5,344,744	1,855,855
Foreclosed assets, net	2,768,621	951,084
Guarantee deposits	1,088,102	1,789,023
Customers' liabilities under acceptances	1,487,413	373,274
Other	1,499,025	974,085
Total	90,834,733	71,487,412

(13) Other assets, continued

The assets foreclosed in satisfaction of loans at December 31, 2016 have a balance of B/.2,779,921 (2015: B/.958,145), net of fair value adjustments of B/.11,300 (2015: B/.7,061).

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

	2016	**2015**
Balance at the beginning of year	7,061	37,421
(Reversal of) provision recognized in profit or loss	153,655	(35,368)
Sale of assets	(149,416)	5,008
Balance at the end of year	11,300	7,061

(14) Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements amounted to B/.115,105,743 (2015: B/.132,965,370) with maturities from January 2017 to September 2019 (2015: January 2016) and annual interest rates from 0.94% to 3.60% (2015: from 0.38% to 1.92%). Such securities are guaranteed with available-for-sale and held-to-maturity securities amounting to B/.112,049,974 and B/.43,501,000, respectively (2015: available-for-sale and held-to-maturity securities for B/.146,080,000 and B/.28,000,000, respectively). See Note 9.

(15) Borrowings Received

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

Financial liability	Interest rate	Due date	2016 Carrying Value	2015 Carrying Value
Line of credit	1.89% to 11.28%	Various, up to December 2017	471,363,562	85,184,257
Line of credit	2.61% to 10.14%	Various, up to December 2018	126,264,578	87,442,026
Line of credit	5.75% to 11.65%	Various, up to November 2019	66,848,581	18,133,078
Line of credit	3.62% to 5.31%	April 2024	65,735,895	29,684,726
Line of credit	1.44%	June 2025	40,000,000	40,000,000
Line of credit	3.30%	March 2021	39,755,564	39,638,428
Line of credit	3.90% to 8.20%	Various, up to December 2020	9,695,743	10,000,000
Line of credit	5.77%	April 2026	854,551	0
Line of credit	2.02% to 11.23%	Various, up to December 2016	0	463,755,333
Total			820,518,474	773,837,848

Borrowings for B/.152,500,000 (2015: B/.199,500,000) are guaranteed with available-for-sale and held-to-maturity securities amounting to B/.146,393,000 and B/.83,450,000 (2015: B/.204,837,000 and B/.70,475,000), respectively. See Note 9.

(16) Bonds Payable

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

Series	Interest rate	Due date	2016	2015
Series F - November 2015 issue	4.35%	November 2020	30,000,000	30,000,000
Series G - February 2016 issue	2.88%	February 2017	12,000,000	0
Series C - September 2013 issue	4.45%	February 2017	5,670,000	5,670,000
Series H - September 2016 issue	2.88%	September 2017	5,000,000	0
Series I - October 2016 issue	2.88%	October 2017	4,740,000	0
Series J - November 2016 issue	2.88%	November 2017	3,717,000	0
Series D - January 2015 issue	2.88%	January 2016	0	17,070,000
Series E - September 2015 issue	2.88%	September 2016	0	5,000,000
Series A - June 2013 issue	4.13%	June 2016	0	12,985,000
			61,127,000	70,725,000

Following are the characteristics and guarantees of the aforementioned bonds issued:

December 2012 issue (placed in 2013, 2015 and 2016)

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 Superintendence of the Securities Market of Panama, through CNV Release 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 and during 2016 as Series G, H, I and J.

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 equal to 3-month LIBOR plus a spread determined by the "Issuer" based on market demand.

(17) Other Liabilities

The detail of other liabilities is as follows:

	2016	2015
Accounts payable	28,092,275	26,693,699
Customer´s deposits	1,553,498	1,642,500
Items subject to clearance	15,335,110	41,945,620
Fair value of interest rate swaps (Note 21)	4,433,063	5,519,689
Severance indemnities payable	1,461,054	1,538,074
Other fringe benefits	3,605,820	3,237,132
Deferred tax	438,435	355,006
Outstanding acceptances	1,487,413	373,274
Other	906,442	826,296
Total	57,313,110	82,131,290

(18) Equity

Common shares:

	Number of shares	
	2016	2015
Authorized shares without par value	50,000,000	50,000,000
Issued and paid-in shares at the:		
Beginning of year	16,576,352	16,529,590
Issued and paid in shares during the year	176,877	46,762
Total issued and outstanding shares at the end of year	16,753,229	16,576,352

During 2016, the Bank issued 176,877 common shares for an amount of B/.7,428,834 (2015: 46,762 for an amount of B/.571,012).

Dividends declared and paid on common shares are as follows:

	2016	2015
Total dividends declared and paid on common shares	6,494,615	6,403,220

Preferred Shares:

The Bank is authorized to issue 1,500,000 preferred shares with par value of B/.100 each. At December 31, 2016, the Bank issued preferred shares for an amount of B/.8,000,000 (2015: B/.3,000,000) and the number of preferred shares outstanding amount to 1,100,000 (2015: B/.1,020,000). These preferred shares are publicly traded.

(18) Equity, continued

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

Multibank Inc.

Issuances	2016	2015	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	0	6.70%	Non-cumulative	F
	110,000,000	102,000,000			

The Information Prospectus 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 Prospectus. However, Ruling No. 5-2008 of October 1, 2008, issued by the Superintendence of Banks of Panama sets forth that redemptions should be authorized by the Superintendence.

- 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 Information Prospectus of the public offerings provide for the following: i) for the Series "A" issued under Release 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 Release 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 the Series "A," "B," "C" and "E" issued under Release No.47-11 of February 25, 2011, the dates set for dividend payment are February 28, May 28, August 28, and November 28 of each year.

(18) 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 declaring 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 up by the Bank's general creditworthiness and are entitled to preferred rights over common shares for payment of dividends declared.

During 2016 dividends paid on preferred shares amounted to B/.7,436,533 (2015: B/.7,344,793).

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. (formerly Macrofinanciera, S. A. C.F.)	April 2011	30%	(5,454,054)
MB Credito, S. A.	April 2014	25%	(152,873)
			(5,606,927)

(19) Commitments and Contingencies

Commitments:
In the normal course of business, the Bank maintains 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:

	2016	2015
Letters of credit	11,465,210	7,147,842
Guarantees issued	159,534,916	131,963,322
Promissory notes	230,960,555	147,669,983
	401,960,681	286,781,147

(19) 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 pose a significant liquidity risk.

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

Promissory notes 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.

Contingencies:

Common proceedings against the Bank are in place in the amount of B/.12,351,031 (2015: B/.15,780,050). 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/.864,231 (2015: B/.864,231).

The Bank has commitments with third parties originating from operating lease contracts, which expire in the upcoming years. The annual lease instalments of such contracts for the next five years are as follows:

Years	Total
2017	3,352,257
2018	2,989,855
2019	2,779,211
2020	1,998,819
2021	1,929,580

During the year ended December 31, 2016, lease expenses amounting to B/.3,934,563 (2015: B/.4,053,293), include property rental expenses of B/.3,303,108 (2015: B/.3,360,496).

(20) Trust Management Agreement and Asset Management

The subsidiary Multi Trust, Inc. administered trust agreements at customer's risk and expense, amounting to B/.147,704,199 (2015: B/.98,161,787); from which collateralized trust agreements amount to B/.147,704,199 (2015: B/.98,161,787).

The subsidiary Multi Securities, Inc. administered cash and investment portfolios at customer's risk and expense amounting to B/.339,556,417 (2015: B/.435,834,221).

At December 31, 2016, the Bank manages customer discretionary accounts for B/.3,994,599 (2015: B/.11,341,009).

(21) Derivative Financial Instruments

Fair value hedges of interest rate risk

As of December 31, 2016, the Bank uses interest rate swap agreements 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 contracts by maturity and accounting method:

2016 Accounting method	Outstanding balance of notional value Over 1 year	Fair value Assets	Fair value Liabilities
Fair value	61,893,000	0	3,867,133

2015 Accounting method	Outstanding balance of notional value Over 1 year	Fair Value Assets	Fair Value Liabilities
Fair value	77,056,000	0	5,519,689

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 into with our counterparties include early termination clauses.

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

Net investment hedge

As of December 31, 2016, the Bank uses non-delivery forward contracts with maturities of one year, to reduce the risk of currency translation in a net investment made in one of its subsidiaries abroad. These contracts are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, as applicable.

The fair value of the derivative designated as net investment hedge is as follows:

2016 Accounting method	Outstanding balance of notional value 1 year	Fair Value Assets	Fair Value Liabilities
Fair value	18,424,396	0	103,150

(21) Derivatives Financial Instruments, continued

Other derivatives:

The Bank uses other derivatives, not designated in a hedging relationship, to manage its currency exposure. The instruments used include forward contracts for such purpose. At December 31, 2016, the nominal value of these contracts was for 61,500,000 thousand Colombian pesos and 19,536,213 US dollars with a fair value of B/.462,780 recognized as a liability.

Derivative financial instruments have been categorized at level 2 of the fair value hierarchy, as follows:

Measurement of fair value of derivatives	2016	2015
Financial liabilities at fair value	4,433,063	5,519,689

See description of levels in Note 24.

During the months of June and September 2016 and August 2015, the Bank made sales of securities and settlement of derivatives hedging securities with notional values of B/.15,163,000 and B/.10,000,000, respectively, given an almost perfect relationship that existed between them.

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

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

(22) 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:

	2016	
	Related companies	Shareholders, Directors and Key executives
Assets:		
Loans	49,119,187	5,076,832
Accrued interest receivable	252,569	11,811
Accounts receivable	28,031,495	0
Liabilities:		
Demand deposits	10,999,349	75,964
Savings deposits	442,343	1,312,597
Fixed-term deposits	31,435,788	320,000
Accrued interest payable	1,963,929	9,959
Commitments and contingencies		
Guarantees issued	50,000	678,973
Interest earned on:		
Loans	1,345,363	167,530
Interest expenses:		
Deposits	1,191,902	11,847
General and administration expenses:		
Allowances	0	401,091
Salaries and other benefits	0	3,184,554
Rental	2,040,966	0

(22) Balances and Transactions with Related Parties, continued

	2015	
	Related companies	Shareholders, Directors and Key executives
Assets:		
Loans	27,220,090	5,557,481
Accrued interest receivable	385,931	12,501
Accounts receivable	13,096,052	0
Liabilities:		
Demand deposits	2,436,937	62,912
Savings deposits	1,077,929	1,035,381
Fixed-term deposits	27,423,295	859,877
Accrued interest payable	1,173,286	26,289
Commitments and contingencies		
Guarantees issued	7,963,420	1,091,077
Interest earned on:		
Loans	1,151,189	182,118
Interest expenses:		
Deposits	979,101	25,606
General and administration expenses:		
Allowances	0	414,190
Salaries and other benefits	0	2,186,960
Rental	1,632,773	0

Loans granted to related parties have various maturities from January 2017 to November 2044 (2015: from December 2016 to November 2044) and bear annual interest ranging from 2.25% and 24% (2015: 1.50% and 24%).

These loans are backed with cash collateral amounting to B/.4,795,283 (2015: B/.6,344,000), by real estate collateral for B/.47,765,834 (2015: B/.14,417,485) and other assets pledged for B/.791,995 (2015: B/.372,270).

There are fixed term deposits with related parties for B/.2,000,000, assigned as collateral for lending operations.

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

(23) Segment information

Composition of the business segments are as follows:

2016	Financial Services	Fund Management	Insurance	Eliminations	Total Consolidated
Interest income and commissions	226,252,572	42,707	390,922	0	226,686,201
Interest expenses	89,270,699	541	26,260	(26,967)	89,270,533
Other income, net	16,174,476	2,191,554	3,721,966	249,453	22,337,449
Provisions for impairment of financial assets	17,266,096	0	0	0	17,266,096
General and administrative expenses	78,693,963	1,730,986	2,294,515	(189,100)	82,530,364
Net income before income tax	57,196,290	502,734	1,792,113	465,520	59,956,657
Total assets	4,248,836,241	4,804,643	21,415,223	(6,737,357)	4,268,318,750
Total liabilities	3,813,780,351	1,364,027	9,260,381	5,746,634	3,830,151,393

2015	Financial Services	Fund Management	Insurance	Eliminations	Total Consolidated
Interest income and commissions	207,692,900	45,539	448,639	0	208,187,078
Interest expenses	73,337,287	0	0	(21,495)	73,315,792
Other income, net	15,977,835	1,878,916	3,877,247	(239,250)	21,494,748
Provisions for impairment of financial assets	19,545,660	0	0	0	19,545,660
General and administrative expenses	76,299,044	1,756,571	1,827,284	(86,231)	79,796,668
Net income before income tax	54,488,744	167,884	2,498,602	(131,524)	57,023,706
Total assets	3,913,449,583	3,482,162	16,209,926	(6,635,283)	3,926,506,388
Total liabilities	3,557,070,860	499,308	5,580,054	(3,732,383)	3,559,417,839

(24) 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.

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.

(24) Fair Value of Financial Instruments, continued

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

	2016		2015	
	Carrying Values	**Fair Value**	**Carrying Values**	**Fair Value**
Assets				
Time deposits	240,989,552	240,989,552	254,270,272	254,012,970
Securities at fair value through profit or loss	2,771,969	2,771,969	0	0
Available-for-sale securities	562,928,870	562,928,870	543,618,240	543,618,240
Held-to-maturity securities	210,683,901	219,639,071	151,354,933	154,918,061
Loans, net	2,903,619,764	2,932,135,663	2,635,025,066	2,731,514,531
	3,920,994,056	3,958,465,125	3,584,268,511	3,684,063,802
Liabilities				
Time deposits	1,690,659,398	1,696,123,220	1,386,864,681	1,415,464,166
Repurchase agreements	115,105,743	116,224,948	132,965,370	132,901,835
Borrowings received	820,518,474	827,280,801	773,837,848	783,319,632
Bonds payable	61,127,000	62,872,406	70,725,000	69,225,060
	2,687,410,615	2,702,501,375	2,364,392,899	2,400,910,693

(24) Fair Value of Financial Instruments, continued

It is not necessary to disclose information about financial instruments, for wich book value approximates fair value, due to their short-term nature.

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

2016	Level 1	Level 2	Level 3	Total
Available for sale securities:				
Foreign common shares	0	0	20,849	20,849
Local shares and fixed income funds	0	0	10,825,382	10,825,382
Preferred shares	29,455	0	0	29,455
Foreign corporate bonds	45,973,249	29,669,702	4,503,153	80,146,104
Local corporate bonds and fixed income funds	4,397,828	8,751,218	27,483,991	40,633,037
Bonds of the Republic of Panama	0	2,439,460	36,220,824	38,660,284
Other governments' bonds	0	7,814,913	5,562,016	13,376,929
Bonds of US Government and Agencies	11,712,405	227,092,559	113,591,877	352,396,841
Negotiable Certificates of Participation	0	0	26,649,782	26,649,782
Total available-for-sale securities measured at fair value	62,112,937	275,767,852	224,857,874	562,738,663

2015	Level 1	Level 2	Level 3	Total
Available for sale securities:				
Foreign common shares	0	0	21,559	21,559
Local shares and fixed income funds	0	4,917,321	2,906,285	7,823,606
Preferred shares	25,835	0	0	25,835
Foreign corporate bonds	48,859,984	54,267,101	2,470,136	105,597,221
Local corporate bonds and fixed income funds	0	9,909,702	43,222,025	53,131,727
Bonds of the Republic of Panama	0	1,349,292	0	1,349,292
Other governments' bonds	25,276,513	41,330,034	1,402,653	68,009,200
Bonds of US Government and Agencies	0	182,346,950	83,773,482	266,120,432
Negotiable Certificates of Participation	0	0	29,818,568	29,818,568
Negotiable Certificates of Deposit – Thirteenth – month bonus	0	0	6,741,894	6,741,894
Commercial papers and Treasury bills, foreign	0	4,978,906	0	4,978,906
Total available-for-sale securities measured at fair value	74,162,332	299,099,306	170,356,602	543,618,240

During 2016, 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 2016, no instruments were reclassified from Level 2 to Level 1

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

	2016	2015
Beginning balance of the year	170,356,602	53,121,029
Purchases	44,330,128	2,922,539
Sales and redemptions	(9,910,680)	(1,924,027)
Changes in fair value	(9,736,571)	(56,379,165)
Category reclassifications	29,818,395	172,616,226
Ending balance of the year	224,857,874	170,356,602

(24) Fair Value of Financial Instruments, continued

During 2016 and 2015, certain available-for-sale securities 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 a similar remaining maturity.	2 and 3
Shares and bonds of the US Government and Agencies	Quoted prices for identical instruments in non-active markets.	2
Mutual funds	Net Asset Value	2

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

Financial Instrument	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 risks of each instrument.	2.34% - 5.99% (4.83%)	An increase or (decrease) in the unobservable input alone would lead to lower (higher) fair value measurement.
Negotiable Certificates of Participation / Negotiable Certificates of Deposit – Thirteenth – month bonus	Discounted cash flows	Discounted cash flows at a rate to adjusted the liquidity risk of each instrument.	0.20% - 1.00% (0.92%)	An increase or (decrease) in the unobservable input alone would lead to lower (higher) fair value measurement.

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

The Bank has determined that the net carrying amount of 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.

(24) Fair Value of Financial Instruments, continued

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 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. The results of such reviews are reported to the Audit Committee.

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

		2016		
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Time deposits	0	0	240,989,552	240,989,552
Held-to-maturity securities	33,659,000	100,622,770	85,357,301	219,639,071
Loans, nets	0	0	2,932,135,663	2,932,135,663
	33,659,000	100,622,770	3,258,482,516	3,392,764,286
Liabilities:				
Time deposits	0	0	1,696,123,220	1,696,123,220
Repurchase agreements	0	0	116,224,948	116,224,948
Borrowings received	0	0	827,280,801	827,280,801
Bonds payable	0	0	62,872,406	62,872,406
	0	0	2,702,501,375	2,702,501,375

		2015		
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Time deposits	0	0	254,012,970	254,012,970
Held-to-maturity securities	23,132,074	8,654,661	123,131,326	154,918,061
Loans, nets	0	0	2,731,514,531	2,731,514,531
	23,132,074	8,654,661	3,108,658,827	3,140,445,562
Liabilities:				
Time deposits	0	0	1,415,464,166	1,415,464,166
Repurchase agreements	0	0	132,901,835	132,901,835
Borrowings received	0	0	783,319,632	783,319,632
Bonds payable	0	0	69,225,060	69,225,060
	0	0	2,400,910,693	2,400,910,693

(24) Fair Value of Financial Instruments, continued

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
Held-to-maturity securities	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	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.

(25) Main Applicable Laws and Regulations

Laws and Regulations

(a) *Banking Law in Republic of Panama*

Banking operations in the Republic of Panama are regulated and supervised by the Superintendence of Banks of the Republic of Panama, pursuant to the regulations established in Executive Decree No.52 of 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 Superintendence of Banks and its regulations.

For purposes of compliance with the prudential norms issued by the Superintendence 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, that requires allocation of 5% of the liquid earnings of each business year, for constitution of the reserve, until this reserve becomes equivalent to 20% of the capital stock of the each individual company.

(25) Main Applicable Laws and Regulations, continued

(b) *Financial Companies Law*
Financial companies in Panama are regulated by the Financial Corporation Department of the Ministry of Trade and Industry pursuant to the regulations established by Law No.42 of July 23, 2001.

(c) *Law for Finance Leases*
Leasing operations in Panama are regulated by the Financial Corporation Department 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 Superintendence of Insurance and Reinsurance of Panama pursuant to the regulations established by Insurance Law No.12 of April 3, 2012 and Reinsurance Law No.63 of 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 indicates 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 the paid capital.

(e) *Securities Law*
Broker-dealer operations in Panama are regulated by the Superintendence of Securities pursuant to the regulations established by Decree-Law No.1 of July 8, 1999, 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 Ruling No. 4-2011, as amended in certain provisions by Ruling No. 8-2013, issued by the Superintendence 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 Superintendence of Banks of Panama pursuant to the regulations established by Law No.1 of January 5, 1984.

(25) Main Applicable Laws and Regulations, continued

(g) Foreclosed Assets

Based on Ruling No. 3-2009, for regulatory purposes the Superintendence of Banks of Panama sets a term of five (5) years, effective the date of registration before the Public Registry, to sell real estate acquired in satisfaction of past due loans. If after that term the Bank has not sold the property acquired, it shall conduct an independent appraisal to determine if its value has decreased, by applying in such case the provisions of IFRS.

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

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

The aforementioned 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/.327,834 (2015: B/.334,416) under Ruling No. 3-2009.

Regulations issued by the Superintendence of Banks effective since 2014:

General Resolution of the Board of Directors SBP-GJD-003-2013 dated July 9, 2013, which establishes the accounting treatment for differences arising between prudential standards issued by the Superintendence of Banks and International Financial Reporting Standards (IFRS), so that 1) the accounting records and financial statements be prepared in conformity with IFRS as required by Ruling No. 6-2012 dated December 18, 2012 and 2) in the event that the calculation of a provision or reserve in conformity with prudential standards applicable to banks presenting specific accounting aspects in addition to those required by IFRS, results to be higher than the corresponding calculation as per IFRS, the excess of the provision or reserve under prudential standards shall be recognized in a regulatory reserve in equity.

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

(25) Main Applicable Laws and Regulations, continued

Ruling 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

Ruling 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 Ruling, 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 per type of collateral in this Ruling, 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 Agreement, 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 indices or ratios mentioned in this Ruling.

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

	2016		2015	
	Loans	Reserves	Loans	Reserves
Individual impairment assessment:				
Special mention	94,652,706	7,869,808	55,480,954	6,391,225
Substandard	24,166,659	5,319,721	13,307,868	2,015,138
Doubtful	11,163,717	5,652,228	13,993,295	7,151,345
Loss	21,919,017	17,089,013	9,643,200	5,672,826
Gross amount	151,902,099	35,930,770	92,425,317	21,230,534
Collective impairment assessment:				
Pass	2,793,760,714	0	2,583,034,719	0
Total	2,945,662,813	35,930,770	2,675,460,036	21,230,534

(25) Main Applicable Laws and Regulations, continued

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

2016	Letters of Credit	Reserves	Guarantees Received	Reserves
Pass	11,465,210	0	158,090,314	0
Special mention	0	0	944,602	188,920
Substandard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	500,000	500,000
Total	11,465,210	0	159,534,916	688,920

2015	Letters of Credit	Reserves	Guarantees Received	Reserves
Pass	7,147,841	0	130,535,129	0
Special mention	0	0	20,000	4,000
Substandard	0	0	0	0
Doubtful	0	0	500,000	400,000
Loss	0	0	0	0
Total	7,147,841	0	131,055,129	404,000

For regulatory purposes, the Bank has the policy of classifying loans as non-accrual 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/.27,447,560 (2015: B/.15,868,318) and had unrecognized accrued interest for B/.948,644 (2015: B/.785,878).

Ruling 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 to 90 days, from the date set for payment.

Ruling 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.

(25) Main Applicable Laws and Regulations

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

2016		
Non-performing loans	**Past due**	**Total**
9,199,898	35,784,619	44,984,517

2015		
Non-performing loans	**Past due**	**Total**
11,720,627	21,783,476	33,504,103

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

The balance of restructured loans at December 31, 2016, amounted to B/.38,056,406 (2015: B/.6,409,981).

Furthermore, based on the Ruling No. 8-2014, which amends Ruling 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 is in arrears for more than 90 days; and
b) For residential mortgage loans, if payment is in arrears for more than 120 days.

Dynamic Provision

Ruling No.4-2013 sets forth that a dynamic provision is a reserve incorporated to face future needs of specific provisions, which is ruled by prudential criteria inherent to banking regulations. The dynamic provision is incorporated on a quarterly basis on credit facilities lacking a specific provision assigned, i.e., on credit facilities classified under the pass category.

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

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

(25) Main Applicable Laws and Regulations, continued

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

Entity	2016	2015
Multibank, Inc.	44,327,152	37,421,149
Hemisphere Bank Inc., Ltd.	167,730	145,613
Gran Financiera, S. A.	176,265	176,265
Banco Multibank, S. A. (formerly, Macrofinanciera, S. A. C.F.)	2,317,575	2,317,575
Multileasing Financiero, S. A.	779,409	779,409
MB Creditos, S. A. and Subsidiaries	1,632,105	1,395,803
Multibank Factoring, Inc.	516,503	516,503
Multibank Cayman, Inc.	1,298,224	1,052,839
	51,214,963	43,805,156

The Bank, as per requirements of Ruling No.4-2013, has recognized a regulatory reserve for B/.1,110,617 (2015: B/.804,045) 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

Issue of Ruling No. 1-2015 "establishes the rules of Capital Adequacy applicable to banks and banking groups", Ruling 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, repealed Rulings Nos. 4-2009 and No 5-2008. The application of these Rulings came into effect for the quarter ended September 30, 2016, with some exceptions to certain articles that were effective on January 1, 2017. The application of these new Rulings gave rise to relevant changes such as:

- Classification of regulatory capital funds, establishing new concepts as primary capital (ordinary and additional).
- Additional features for compliance with the primary capital and inclusion of new components as part of primary capital such as: unrealized gains or losses on available-for-sale investments, translation adjustments of subsidiaries abroad, among others.
- Incorporation as regulatory adjustments of items of deferred taxes assets, reserve for cash flow hedges, treasury stock, among others.
- Concept of leverage ratio.
- Application for all units when a financial group exists (bank, bank and subsidiaries and holding companies that own banks).
- Establishment of new weighting factors for financial assets (cash, investments, loan portfolio, etc.).
- Establishment of additional concepts of acceptable collateral.