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

Consolidated Financial Statements

As of December 31, 2017

(Independent Auditors' Report)

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

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INDEPENDENT AUDITORS' REPORT

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

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, 2017, 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, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

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

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 68% 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 is 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.

Deferred income tax
See Notes 3(x) 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, which 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 3.54% and 6.27%, respectively, of the Bank's net income for the year 2017. 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. • Assessment of the adequate disclosure in the consolidated financial statements.

Fair value of investment in securities
See Notes 3(b) and 26 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, 2017. 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, 2017, investments in securities classified as level 3 represent 43% 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.

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 29, 2018

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

Consolidated Statement of Financial Position

December 31, 2017

(Amounts expressed in Balboas)

Assets	Note	2017	2016
Cash and cash items		30,517,065	31,066,071
Deposits due from banks:			
Demand deposits - local banks		16,262,539	18,123,734
Demand deposits - foreign banks		152,422,543	111,762,138
Time deposits - local banks		24,022,242	88,192,634
Time deposits - foreign banks		188,697,882	152,796,918
Total bank deposits		381,405,206	370,875,424
Total cash, cash items and bank deposits	4, 8	411,922,271	401,941,495
Securities bought under resale agreement	4, 9	3,132,000	0
Securities at fair value through profit or loss	10	9,074,169	2,771,969
Securities available for sale	4, 10	601,564,297	562,928,870
Securities held to maturity, net	4, 10	249,169,708	210,683,901
Loans:			
Local sector		2,721,618,638	2,449,412,569
Foreign sector		450,057,123	496,250,244
		3,171,675,761	2,945,662,813
Less:			
Allowance for loan losses		33,139,997	36,021,187
Unearned discounted interests and commissions		5,255,230	6,021,862
Loans, net	4, 11, 24	3,133,280,534	2,903,619,764
Property, furniture, equipment and leasehold improvements, net	12	55,789,070	54,701,079
Accrued interest receivable	24	30,971,047	25,275,158
Customers' liabilities under acceptances		75,798,150	1,487,413
Goodwill	13	6,717,198	6,717,198
Deferred tax assets	6	7,711,900	8,844,583
Other assets	14, 24	105,903,807	89,347,320
Total assets		4,691,034,151	4,268,318,750

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**	**2017**	**2016**
Liabilities:			
Deposits from customers:	4, 24		
Demand deposits - local		224,204,344	270,839,129
Demand deposits - foreign		361,529,755	369,870,041
Savings deposits		423,253,636	375,526,195
Time deposits - local		1,294,944,060	1,212,522,664
Time deposits - foreign		495,605,857	478,136,734
Total deposits from customers		2,799,537,652	2,706,894,763
Securities sold under repurchase agreements	4, 15	49,942,156	115,105,743
Borrowings received	4, 16	669,164,132	820,518,474
Bonds payable	4, 17	447,395,813	61,127,000
Negotiable commercial papers	18	11,500,000	0
Certified and cashier's checks		32,180,036	29,347,393
Accrued interest payable	24	48,196,573	39,844,910
Accepances outstanding		75,798,150	1,487,413
Other liabilities	19	58,398,750	55,825,697
Total liabilities		4,192,113,262	3,830,151,393
Equity:			
Common shares	20	183,645,893	179,045,885
Preferred shares	20	110,000,000	110,000,000
Excess paid in acquisition of non controlling interests	20	(5,606,927)	(5,606,927)
Reserves		27,510,015	1,554,438
Retained earnings		183,371,908	153,173,961
Total equity		498,920,889	438,167,357
Commitments and contingencies	21		
Total liabilities and equity		4,691,034,151	4,268,318,750

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

Consolidated Statement of Profit or Loss

For the year ended December 31, 2017

(Amounts expressed in Balboas)

	Note	2017	2016
Interest and commission income:			
Interest on:	24		
Loans		216,846,340	183,971,156
Time deposits		2,333,385	1,262,289
Securities		22,206,273	21,707,310
Commissions on loans		18,678,773	19,745,446
Total interest and commission income		260,064,771	226,686,201
Interest expenses:	24		
Deposits		73,920,442	70,107,571
Borrowings		31,276,813	16,847,791
Bonds		4,981,866	2,315,171
Total interest expenses		110,179,121	89,270,533
Total interest and commission income, net		149,885,650	137,415,668
Allowance for impairment of financial assets:			
Provision for loan losses	11	10,079,066	11,972,441
Provision for losses on securities held to maturity	10	2,043,752	5,140,000
Net interest and commission income, after provisions		137,762,832	120,303,227
Income (expenses) from banking services and other:			
Fees and other commissions earned		26,195,917	24,926,978
Net gain on sale of securities and valuation of derivatives	7	1,454,866	7,008,830
Foreign exchange gain		2,894,856	2,945,812
Insurance premiums, net		6,475,322	4,149,824
Commissions incurred		(12,402,089)	(11,969,764)
Other, net		(4,598,793)	(4,724,231)
Provision for impairment of foreclosed assets	14	(34,273)	(153,655)
Total income from banking services and other, net		19,985,806	22,183,794
General and administration expenses:			
Salaries and other personnel benefits	24	52,641,441	48,580,655
Professional fees		5,835,329	6,181,473
Depreciation and amortization	12	4,403,015	4,343,624
Maintenance of equipment and premises		6,439,936	6,071,502
Rental	21, 24	4,185,602	3,934,563
Taxes, other than income		3,829,007	3,998,086
Other		10,907,500	9,420,461
Total general and administration expenses		88,241,830	82,530,364
Net income before income tax		69,506,808	59,956,657
Income tax, net	6	(11,160,984)	(7,727,422)
Net income		58,345,824	52,229,235

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, 2017

(Amounts expressed in Balboas)

	Note	2017	2016
Net income		58,345,824	52,229,235
Other comprehensive income:			
Items that will never be reclassified to the consolidated statement of profit or loss			
Deferred tax on property revaluation		6,683	(83,426)
Items that are or may be classified to the consolidated statement of profit or loss			
Foreign currency translation effect		396,798	829,882
Net loss on hedge of net investment in foreign operation		(1,232,184)	(103,150)
Reserve for valuation of investment securities:			
Net changes in valuation of securities available for sale		5,740,807	14,733,446
Net gain on securities available for sale transferred to profit or loss	10	(1,050,624)	(6,629,625)
Net change in fair value of investments in securities reclassified to profit or loss for fair value hedge	7	495,835	1,674,586
Amortization to profit or loss of unrealized loss on securities transferred to securities held to maturity	10	1,725,574	4,500,733
Loss recognized in profit or loss due to impairment of securities transferred to securities held to maturity	10	2,502,500	3,372,575
Reclassification of loss due to derecognition of securities held to maturity		4,309,076	0
Cash flow hedge:			
Change in the fair value of the effective portion		(23,477)	0
Total other comprehensive income, net		12,870,988	18,295,021
Total other comprehensive income for the year		71,216,812	70,524,256

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, 2017

(Amounts expressed in Balboas)

	Note	Common shares	Preferred shares	Excess paid in acquisition of non-controlling interests	Reserves: Dynamic provisions	Reserves: Excess of credit reserve	Reserves: Allowance for foreclosed assets	Reserves: Regulatory insurance reserve	Reserves: Regulatory capital reserve	Reserves: Revaluation surplus	Reserves: Reserve for valuation of investment securities	Reserves: Unrealized loss on securities transferred to held to maturity	Reserves: Foreign currency translation effect	Reserves: Cash flow hedge	Retained earnings	Total
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)	0	124,760,020	367,088,549
Comprehensive income:																
Net Income		0	0	0	0	0	0	0	0	0	0	0	0	0	52,229,235	52,229,235
Other comprehensive income:																
Deferred tax on property revaluation		0	0	0	0	0	0	0	0	(83,426)	0	0	0	0	0	(83,426)
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	829,882	0	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	0	(103,150)
Net changes in valuation of securities available for sale		0	0	0	0	0	0	0	0	0	14,733,446	0	0	0	0	14,733,446
Net gain on securities available-for-sale transferred to profit or loss		0	0	0	0	0	0	0	0	0	(6,629,625)	0	0	0	0	(6,629,625)
Transfer of unrealized loss of securities available for sale to held to maturity		0	0	0	0	0	0	0	0	0	19,088,234	(19,088,234)	0	0	0	0
Net change in fair value reclassified to profit or loss for fair value hedge		0	0	0	0	0	0	0	0	0	1,674,586	0	0	0	0	1,674,586
Amortization to profit or loss of realized loss on securities transferred to held to maturity		0	0	0	0	0	0	0	0	0	0	4,500,733	0	0	0	4,500,733
Loss recognized in profit or loss due to impairment of securities transferred to securities held to maturity		0	0	0	0	0	0	0	0	0	0	3,372,575	0	0	0	3,372,575
Dynamic provision	27	0	0	0	7,409,807	0	0	0	0	0	0	0	0	0	(7,409,807)	0
Regulatory credit reserve	27	0	0	0	0	1,110,617	0	0	0	0	0	0	0	0	(1,110,617)	0
Allowance for foreclosed assets		0	0	0	0	0	(6,582)	0	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	0	123,144	0
Regulatory insurance reserve		0	0	0	0	0	0	528,452	0	0	0	0	0	0	(528,452)	0
Capital reserve		0	0	0	0	0	0	0	21,862	0	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	0	(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	0	43,288,223	70,524,256
Contributions, distributions and changes in stockholder's interests:																
Issuance of common shares	20	7,428,834	0	0	0	0	0	0	0	0	0	0	0		0	7,428,834
Issuance of preferred shares	20	0	8,000,000	0	0	0	0	0	0	0	0	0	0		0	8,000,000
Dividends declared - common shares	20	0	0	0	0	0	0	0	0	0	0	0	0	0	(6,494,615)	(6,494,615)
Dividends declared - preferred shares	20	0	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	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	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)	0	153,173,961	438,167,357
Comprehensive income:																
Net Income		0	0	0	0	0	0	0	0	0	0	0	0	0	58,345,824	58,345,824
Other comprehensive income:																
Deferred tax on property revaluation		0	0	0	0	0	0	0	0	6,683	0	0	0	0	0	6,683
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	396,798	0	0	396,798
Net loss on hedge of net investment in foreign operation		0	0	0	0	0	0	0	0	0	0	0	(1,232,184)	0	0	(1,232,184)
Net changes in valuation of securities available-for-sale		0	0	0	0	0	0	0	0	0	5,740,807	0	0	0	0	5,740,807
Net gain on securities available for sale transferred to profit or loss		0	0	0	0	0	0	0	0	0	(1,050,624)	0	0	0	0	(1,050,624)
Net change in fair value reclassified to profit or loss for fair value hedge		0	0	0	0	0	0	0	0	0	495,835	0	0	0	0	495,835
Amortization to profit or loss of realized loss on securities transferred to held to maturity		0	0	0	0	0	0	0	0	0	0	1,725,574	0	0	0	1,725,574
Loss recognized in profit or loss due to impairment of securities transferred to securities held to maturity		0	0	0	0	0	0	0	0	0	0	2,502,500	0	0	0	2,502,500
Reclassification of loss due to derecognition of securities held to maturity		0	0	0	0	0	0	0	0	0	0	4,309,076	0	0	0	4,309,076
Change in the fair value of the effective portion of cash flow hedge		0	0	0	0	0	0	0	0	0	0	0	0	(23,477)	0	(23,477)
Dynamic provision	27	0	0	0	289,940	0	0	0	0	0	0	0	0	0	(289,940)	0
Regulatory credit reserve	27	0	0	0	0	11,842,147	0	0	0	0	0	0	0	0	(11,842,147)	0
Allowance for foreclosed assets		0	0	0	0	0	152,836	0	0	0	0	0	0	0	(152,836)	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(133,697)	0	0	0	0	133,697	0
Regulatory insurance reserve		0	0	0	0	0	0	914,373	0	0	0	0	0	0	(914,373)	0
Capital reserve		0	0	0	0	0	0	0	18,990	0	0	0	0	0	(18,990)	0
Total other comprehensive income		0	0	0	289,940	11,842,147	152,836	914,373	18,990	(127,014)	5,186,018	8,537,150	(835,386)	(23,477)	(13,084,589)	12,870,988
Total of comprehensive income		0	0	0	289,940	11,842,147	152,836	914,373	18,990	(127,014)	5,186,018	8,537,150	(835,386)	(23,477)	45,261,235	71,216,812
Contributions, distributions and changes in stockholder's interests:																
Issuance of common shares	20	4,600,008	0	0	0	0	0	0	0	0	0	0	0	0	0	4,600,008
Dividends declared - common shares	20	0	0	0	0	0	0	0	0	0	0	0	0	0	(6,740,987)	(6,740,987)
Dividends declared - preferred shares	20	0	0	0	0	0	0	0	0	0	0	0	0	0	(7,944,293)	(7,944,293)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	0	(378,008)	(378,008)
Total contributions, distributions and changes in stockholder's interests		4,600,008	0	0	0	0	0	0	0	0	0	0	0	0	(15,063,288)	(10,463,280)
Balance as of December 31, 2017		183,645,893	110,000,000	(5,606,927)	51,504,903	13,756,809	480,670	3,311,104	78,248	6,288,961	(15,103,425)	(11,255,715)	(21,528,063)	(23,477)	183,371,908	498,920,889

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, 2017

(Amounts expressed in Balboas)

	Note	2017	2016
Cash flows from operating activities:			
Net income for the year		58,345,824	52,229,235
Adjustments for:			
Provision for loan losses	11	10,079,066	11,972,441
Provision for impairment of foreclosed assets	14	34,273	153,655
Provision for losses on securities held-to-maturity	10	2,043,752	5,140,000
Net gain from sale of securities and valuation of derivatives	7	(1,454,866)	(7,008,830)
Depreciation and amortization	12	4,403,015	4,343,624
Income tax		11,160,984	7,727,422
Interest and commission income, net		(149,885,650)	(137,415,668)
Loss from disposal of property, furniture and equipment		88,650	8,958
Net changes in operating assets and liabilities:			
Deposits with terms over 90 days		10,771,963	35,250,000
Loans		(247,886,866)	(281,312,637)
Other assets		(17,202,479)	(19,517,944)
Deposits from customers		97,456,170	265,813,934
Other liabilities		7,068,765	(17,685,607)
Securities at fair value through profit or loss	10	(6,226,206)	(2,592,726)
Interest received		254,286,055	224,721,243
Interest paid		(101,722,704)	(83,259,125)
Income tax paid		(10,849,205)	(9,253,148)
Net cash (used in) provided by operating activities		(79,489,459)	49,314,827
Cash flows from investing activities:			
Securities bought under resale agreement		(3,132,000)	0
Purchase of securities available for sale		(677,990,513)	(819,551,982)
Sales and redemptions of securities available for sale	10	645,095,893	772,421,041
Purchase of securities held to maturity		(60,919,924)	(65,663,183)
Amortization of capital and redemption of securities held to maturity		28,927,515	51,621,281
Purchases of property, furniture and equipment	12	(5,579,656)	(7,822,674)
Net cash used in investing activities		(73,598,685)	(68,995,517)
Cash flows from financing activities:			
Securities sold under repurchase agreements, net		(65,163,587)	(17,859,627)
Borrowings received		763,810,566	624,516,282
Payment and amortization of borrowings		(912,925,780)	(577,715,468)
Issuance of bonds payable		417,395,813	25,457,000
Redemption of bonds payable		(31,127,000)	(35,055,000)
Issuance of negotiable commercial papers		11,500,000	0
Issuance of common shares	20	4,600,008	7,428,834
Issuance of preferred shares	20	0	8,000,000
Dividends paid on common shares	20	(6,699,813)	(6,494,615)
Dividends paid on preferred shares	20	(7,227,460)	(7,436,533)
Complementary tax		(378,008)	(943,134)
Net cash provided by financing activities		173,784,740	19,897,739
Effect of exchange rate changes on cash and cash equivalents		56,145	974,967
Net increase in cash and cash equivalents		20,752,740	1,192,016
Cash and cash equivalents at the beginning of year		384,866,223	383,674,207
Cash and cash equivalents at the end of year	8	405,618,963	384,866,223
Non-cash flows generating transactions			
Reclassification of securities available-for-sale to held to maturity	10	0	42,553,757
Dividends declared but not paid on common and preferred shares	20	758,007	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 and started operations on July 12, 1990 under a general banking license issued by the Superintendency of Banks of Panama (hereinafter referred to as "the Superintendency"), by means of Resolution N° 918 dated March 28, 1990, which allows it to provide banking services, indistinctly, in Panama or abroad, and conduct any other activity authorized by the Superintendence.

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

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

Multibank, Inc. owns the entire equity of the following subsidiary companies:

	Activity	Country of Incorporation
Hemisphere Bank Inc., Ltd.	Commercial banking 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.	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”.

On June 28, 2016, the subsidiary Multibank Seguros, S. A. acquired 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 the International Financial Reporting Standards (IFRS).

These consolidated financial statements were authorized for issuance by the Audit Committee and ratified by the Board of Directors on January 23, 2018.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis or amortized cost, except for securities available for sale, derivative financial instruments, properties and liabilities at fair value, which are measured at fair value; securities held to maturity that were transferred from securities available for sale 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 to sell and derivatives financial instruments that are recognized at fair value.

(2) Basis of Preparation, continued

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 Legal Vehicles

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

(a.3) Transactions Eliminated in Consolidation

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

(3) Summary of Significant Accounting Policies, continued

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

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

(a.5) Changes in the 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.

(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 in the principal market, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non – performance risk.

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

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

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 Sold under Repurchase Agreements

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

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

(e) Securities Bought under Resale Agreement

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

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

(f) Derivatives Financial Instruments

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

(f.1) Fair Value Hedges

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

(3) Summary of Significant Accounting Policies, continued

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.

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

(f.2) Cash Flow Hedges

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

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

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

(3) Summary of Significant Accounting Policies, continued

(f.3) Net Investment Hedges

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

(f.4) Other Derivatives

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

(g) Investment Securities

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:

(g.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.

(g.2) Securities available for sale:

This category includes investments acquired with the intent to be maintained for an indefinite period of time and 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 using a reserve account for valuation. When the investment is diposed 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 of profit or loss.

(3) Summary of Significant Accounting Policies, continued

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.

(g.3) Securities held to maturity:
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 an 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 an investment in securities, it is required to be recognized at cost or amortized cost rather than fair value, the carrying amount of the fair value of the investment 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 security held to maturity, 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 the consolidated statement of profit or loss.

(h) Loans

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

(i) Finance Lease Receivables

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.

(j) Factoring Receivables

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.

(k) 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 increases the allowance account.

(3) Summary of Significant Accounting Policies, continued

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.

(k.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.

(k.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.

(k.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.

(3) Summary of Significant Accounting Policies, continued

(k.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.

(l) Offsetting of Financial Assets and Liabilities

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

(m) Property, Furniture, Equipment and Improvements

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

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

Depreciation of property, furniture and equipment and amortization of improvements are calculated using the straight-line method over the estimated useful lives of assets. Land is not subject to depreciation. The useful lives of the assets are as follows:

- Buildings	60 years
- Furniture and equipment	3 - 10 years
- IT Equipment	3 – 7 years
- Vehicles	3 - 7 years
- Property improvements	5 - 10 years

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.

(3) Summary of Significant Accounting Policies, continued

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.

(n) Goodwill

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

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

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

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

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

(p) 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.

(q) Interest income and expenses

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

(3) Summary of Significant Accounting Policies, continued

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

(r) Income from Fees and Commissions

Usually, fees and commissions on short-term loans, letters of credit and other bank services are recognized as income under the cash basis due to their short-term maturity. Income recognized 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.

(s) Dividend income

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

(t) 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.

(u) Insurance Operations

Insurance arrangements correspond to those arrangements whereby the Bank assumes the significant insurance risk of a counterparty (the insurer), committing to compensate the policyholder or other beneficiary when an uncertain future event (the insured event) adversely affects the policyholder or beneficiary. By general rule, the Bank determines if the arrangement has a significant insurance risk by comparing premiums collected for benefits to be paid if the insured event occurs. An insurance arrangement might also transfer financial risks. Insurance arrangements are maintained for the rest of their effective term, notwithstanding if the insurance risk significantly decreases, until all the risks and obligations terminate or expire. During the normal course of operations, the Bank has entered into reinsurance arrangements with reinsurance companies.

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.

(3) Summary of Significant Accounting Policies, continued

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

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

Income and expenses from insurance operations are recorded as follows:

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

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

(v) 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.

(w) Preferred Shares

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

(3) Summary of Significant Accounting Policies, continued

(x) Income Tax

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

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

(y) Assets Classified as Held for Sale

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

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

(z) Segment Information

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

(aa) Foreign Currency

Assets and liabilities maintained in foreign currency are converted into balboas (B/.) at the official exchange rate prevailing at the reporting date. Foreign currency transactions are recorded at the exchange rates prevailing at the date of the transactions, and exchange gains and losses are included in other income or other expenses in the consolidated statement of profit or loss. (See note 3(a.4)).

(3) Summary of Significant Accounting Policies, continued

(ab) Comparative Information

Certain figures of 2016 have been reclassified for comparison purposes to conform to 2017 consolidated financial statements, mainly certain non-material assets and liabilities that were reclassified as part of other assets and other liabilities.

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

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

- IFRS 9 Financial Instruments

  Financial Entities

  In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standard No. 9 (IFRS 9) Financial Instruments, which replaces International Accounting Standard No. 39 (IAS 39).

  IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption was permitted.

  IFRS 9 - Implementation strategy

  The process of implementing IFRS 9 of the Bank is governed by a Committee whose members include representatives from the areas of risk, finance, treasury and information technology (IT) functions. This Committee met weekly during the year 2017, to challenge key assumptions, make decisions and monitor the progress of implementation at all levels of the Bank, including the evaluation of the adequacy of resources.

  The Bank has completed a preliminary impact assessment and accounting analysis; and has completed the work on the design and development of models, systems, processes and controls.

  Classification and measurement - Financial assets

  IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics.

  IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost (AC), at fair value through changes in other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale.

(3) Summary of Significant Accounting Policies, continued

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

1. The asset is maintained within a business model whose objective is achieved by collecting contractual cash flows and selling these financial assets; and;

2. The contractual terms of the financial asset set specific dates for the cash flows derived solely from payments of principal and interest on the current balance.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocable elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

All other financial assets are measured at fair value through profit or loss.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at the time of initial recognition, the evaluation of the business model is based on facts and circumstances to date. Additionally, IFRS 9 allows new elective designations to FVTPL or FVOCI to be made on the date of initial application and allows or requires revocation of prior FVTPL elections on the date of initial application depending on the facts and circumstances as of that date.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(3) Summary of Significant Accounting Policies, continued

Business model assesment

The Bank made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management and other supervisory and reporting entities. The information that was considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the key personnel of Bank's Management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected) and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assesment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank will consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- Charasteristics that modify considerations for the time value of money, for example, periodic review of interest rates.

(3) Summary of Significant Accounting Policies, continued

- Securities held to maturity measured at amortized cost under IAS39 will in general also be measured at amortized cost under IFRS 9 unless the segmentation of the business model does not comply for its permanence in that category;
- Debt instruments classified as held to maturity under IAS 39 amounting to B/.177 million, as of December 31, 2017, which under IFRS 9 will be measured at fair value with changes in other comprehensive income for an amount of B/.188 million, due to the fact that their business model is achieved by collecting contractual cash flows and selling these financial assets, obtaining a net effect that incorporates the reversal of the unrealized loss held by these securities by B/.9 million and the valuation at fair value for B/.2 million.
- Instruments securities measured at FVTPL under IAS 39 will generally maintain this measurement under IFRS 9; and
- Investments in equity classified as available for sale under IAS 39 will generally be measured at FVTPL under IFRS 9.

Impairment on financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- Debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss will be recognized on equity investments.

Preliminary impact assesment
Based on the high-level preliminary assesment over possible changes in the classification and measurement of financial assets held as of December 31, 2017, the following was decided:

- Trading and derivative assets held for risk management, which are classified as held for trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and bank deposits that are classified as loans and receivables and measured at amortized cost under IAS 39 will, in general, also be measured at amortized cost under IFRS 9.

(3) Summary of Significant Accounting Policies, continued

Under IFRS 9, a loss allowance will be recognized at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

The assesment of whether there has been a significant increase in the credit risk of a financial asset is one of the critical judgments implemented in the impairment model of IFRS 9.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The 12-month ECLs is the portion of the ECLs that results from loss events on a financial instrument that are possible within a period of 12 months after the reporting date.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default

Under IFRS 9, the Bank will consider a financial asset in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or

(3) Summary of Significant Accounting Policies, continued

- The borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

This definition is largely consistent with the definition that will be used for regulatory purposes from January 1, 2018.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- Qualitative – e.g. breaches of covenants;
- Quantitative – e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant Increase in Credit Risk
Under IFRS 9, when determining whether the credit risk on a financial asset has increased significantly since its initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Credit Risk Grades
The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank will use these grades for identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

(3) Summary of Significant Accounting Policies, continued

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Bank will collect performance and default information about its credit risk exposures analyzed by jurisdiction or region, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Bank designed and tested statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis is expected to include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators are likely to include GDP growth, the monthly index of economic activity growth (IMAE, for its acronym in Spanish) and reference interest rate.

For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

The Bank intends to formulate a "case by case" view of the future projections of the relevant economic variables as well as a representative range of other projection scenarios based on the recommendations of the Comprehensive Risk Committee, the Treasury and Investment Committee and the Bank's ALCO Committee and experts in economics, taking into consideration a variety of current and projected external information. The Bank plans to use these projections to adjust its PD estimates.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly will vary by portfolio and should include quantitative changes in PD and qualitative factors, including a limit based on delinquency.

(3) Summary of Significant Accounting Policies, continued

The Bank expects to determine the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's quantitative modeling, the remaining lifetime PD reflects a higher increase than a certain percentage or range.

In certain instances, using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those factors may not be fully captured by its quantitative analysis on a timely basis.

As a limit, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs not later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due;
- There is no unexpected volatility in loss allowance from transfer between the PD to 12-month (stage 1) and lifetime PD during the lifetime of the instrument (stage 2).

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- Probability of default (PD),
- Loss given default (LGD); and
- Exposure at default (EAD).

In general, the Bank expects these parameters will be derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

(3) Summary of Significant Accounting Policies, continued

LGD is the magnitude of the likely loss if there is a default. The Bank will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. The scenarios will be calculated on a discounted cash flows basis using the effective interest rate as the discounting factor. The LGD may differ from that used for regulatory purposes. The main differences are related to: the elimination of regulatory impositions and calibration assumptions in cases of recession, including information with future projections and the use of multiple economic scenarios and the discount rate used.

EAD represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including any amortization. The EAD of a financial asset will be the gross carrying amount at default. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, the Bank will determine EAD by modeling the range of possible exposures outcomes at various points in time using scenario and statistical techniques. The main differences are related to: only pending irrevocable commitments included for accounting purposes, elimination of adjustments of conservative bias, assumptions of calibration by recession, and adjustments to eliminate any excess over the maximum contractual amount.

As a described above, and subject to using a maximum of a PD to 12 months for financial assets for which credit risk has not significantly increased, the Bank will measure ECLs over a period longer than ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For commercial overdrafts and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Bank will measure ECLs over a period longer than the maximum contractual period if the Bank´s ability to demand repayment and cancel the undrawn commitment does not limit the Bank´s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis.

(3) Summary of Significant Accounting Policies, continued

The Bank can cancel them immediately, but this contractual right is not used in the normal day-to-day management, since it is only used when the Bank becomes aware of an increase in credit risk at the facility level. The longest period will be estimated taking into account the credit risk management that the Bank expects to realize and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facilities and/or conversion of the remaining balance into a loan with a periodicity of fixed payments.

Projection of future conditions

Under the IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs, based on the recommendations of the Comprehensive Risk Committee, the Treasury and Investment Committee and the Bank's ALCO Committee, economic experts and consideration of a variety of current and projected external information. The Bank intends to formulate a projection of the relevant economic variables as well as a representative range of other possible projected scenarios. This process involves the development of two or more additional economic scenarios and considers the relative probabilities of each result.

External information may include economic data and forecasts published by government entities and authorities in the countries where the Bank operates, supranational organizations such as the OECD (Organization for Economic Co-operation and Development) and the International Monetary Fund, and academic and private sector forecasters.

It is expected that the baseline scenario represents the most probable outcome and aligned with the information used by the Bank for other purposes, such as strategic planning and budget. The other scenarios would represent a more optimistic and pessimistic results. The Bank also plans to periodically perform extreme impact stress tests to gauge the determination of these other representative scenarios.

The Bank is in the process of identifying and documenting key credit risk and credit loss guidelines for each portfolio of financial instruments and, using an analysis of historical data, to estimate the relationships between macroeconomic variables, credit risk and credit losses.

Preliminary Impact assesement

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 corresponds to the new impairment requirements.

The Bank considers that impairment losses will increase and become more volatile for the financial instruments in the scope of the IFRS 9 impairment model.

(3) Summary of Significant Accounting Policies, continued

The Bank's preliminary assessment indicates that the application of the IFRS 9 impairment requirements at December 31, 2017 will result in an increase of approximately B/.14 million on the loss allowance of financial instruments, which includes the loan portfolio and securities at amortized cost as of January 1, 2018, compared to the impairment allowance as per IAS 39 of B/.33.1 million.

The evaluation indicated above is preliminary and could change because:

- IFRS 9 will require the Bank to review its accounting processes and these changes are susceptible to improvements once work begins under the new methodology;
- Although parallel executions were carried out in parallel in the third quarter of 2017, the new tools and controls have not been operational for a longer period;
- The Bank has not completed testing and evaluation of controls over its new IT systems and changes in its data management and validation policies;
- The Bank is perfecting and finalizing its models for the calculation of the PD and LGD; and
- The new accounting policies, assumptions, judgments and estimation techniques put forward for consideration are subject to change until the Bank presents its first consolidated financial statements on March 31, 2018 with the initial application of IFRS 9.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- The remaining amount of the changes in the fair value will be presented in profit or loss.

The Bank has not designated financial liabilities as FVTPL and does not intend to do it. The Bank's preliminary assessment shows no material impact if the requirements of IFRS 9 related to the classification of financial liabilities as of January 1, 2018 were applied.

Hedge accounting

When initially applying IFRS 9, the Bank may choose as an accounting policy to continue applying the hedge accounting requirements of IAS 39 instead of those included in IFRS 9. The Bank´s current plan is to continue applying hedge accounting under IAS 39.

(3) Summary of Significant Accounting Policies, continued

The IFRS 9 will require extensive new disclosures, in particular with respect to hedge accounting, credit risk and expected credit losses. The Bank's preliminary evaluation included an analysis to identify data gaps in the currente processes and the Bank plans to implement changes in the system and the controls it believes will be necessary to capture the required data, before the issuance of the first set of consolidated financial statements that include the adoption of IFRS 9.

Impact on capital planning

The main impact on the Bank's regulatory capital arises from the new requirements for impairment in accordance with IFRS 9, which is affected through retained earnings in the Tier 1 Capital. According to the analyzes carried out, our regulatory capital will remain within the same ranges as of December 31, 2017.

Transition

Changes in accounting policies that result from the adoption of IFRS 9 will generally be applied retrospectively, with the exception of the following:

The Bank plans to take advantage of the exemption that allows it not to re-express the comparative information of previous periods in terms of classification and measurement changes (including impairment). The differences in the carrying amounts of the financial assets and liabilities resulting from the adoption of IFRS 9, will generally be recognized in retained earnings and reserves as of January 1, 2018.

- 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 concluded the evaluation and for the type of operations it carries out, it does not identify any impact with the adoption of this standard.

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

(3) Summary of Significant Accounting Policies, continued

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

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

(4) Financial Risk Management

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

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

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

- Approve the strategies to assume risks, ensuring that they produce an adequate risk-return ratio optimizing the use of the Bank's economic capital.
- Approve the maximum exposure limits allowed, reflecting the Bank's risk appetite.
- Approve the management policies and framework for any type of risks.
- Analyze the Bank's exposure to different risks and their interrelationship and recommend mitigating strategies as required.
- Inform the Board of Directors about the Bank's risk behavior.

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

- The management approach shall be comprehensive, incorporating any risk and all operations of the Bank and its subsidiaries.
- Management of individual risks shall be uniform.
- The risk management framework shall be based on international best practices and shall incorporate past experiences.
- The function of the risk unit shall be independent from the business.

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

(4) Financial Risk Management, continued

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

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

(a) Credit Risk

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

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

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

- The approval process takes place within different levels of the Bank, considering approval limits for each level.

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

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

Formulating Credit Policies:

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

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

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

(4) Financial Risk Management, continued

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.

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

Policy Compliance Review:
Each business unit is responsible for the quality and performance of their loan portfolios, as well as for the control and monitoring of risks. However, through Loan Management and Control, the debtor's financial position and payment capacity are periodically assessed. For loans that are not individually material, monitoring is made through delinquency ranges as observed in their installment payments, and the particular characteristics of such portfolios.

(4) Financial Risk Management, continued

Analysis of Credit Quality

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

	Securities under Resale Agreement		Loans Receivable		Debt Security Investments	
	2017	2016	2017	2016	2017	2016
Maximum exposure						
Carrying value	3,132,000	0	3,133,280,534	2,903,619,764	851,311,169	765,318,847
At amortized cost						
Level 1: Pass	3,132,000	0	2,926,348,147	2,793,760,714	243,536,375	208,584,072
Level 2: Special Mention	0	0	164,826,452	94,652,706	0	0
Level 3: Substandard	0	0	43,748,741	24,166,659	5,633,333	0
Level 4: Doubtful	0	0	18,041,283	11,163,717	0	3,867,254
Level 5: Loss	0	0	18,711,138	21,919,017	0	0
Gross amount	3,132,000	0	3,171,675,761	2,945,662,813	249,169,708	212,451,326
Allowance for impairment loss	0	0	(33,139,997)	(36,021,187)	0	(1,767,425)
Unearned discounted interest and commissions	0	0	(5,255,230)	(6,021,862)	0	0
Carrying value, net	3,132,000	0	3,133,280,534	2,903,619,764	249,169,708	210,683,901
Securities at fair value through profit or loss and available for sale						
Level 1: Low risk	0	0	0	0	602,141,461	554,634,946
Carrying value	0	0	0	0	602,141,461	554,634,946
Allowance for impairment loss	0	0	0	0	0	0
Carrying value, net	0	0	0	0	602,141,461	554,634,946
Not past due nor impaired						
Level 1	0	0	2,926,348,147	2,793,760,714	851,311,169	763,219,019
Level 2	0	0	164,826,452	94,652,706	0	0
Sub-total	0	0	3,091,174,599	2,888,413,420	851,311,169	763,219,019
Individually impaired						
Level 3	0	0	43,748,741	24,166,659	5,633,333	0
Level 4	0	0	18,041,283	11,163,717	0	3,867,254
Level 5	0	0	18,711,138	21,919,017	0	0
Sub-total	0	0	80,501,162	57,249,393	5,633,333	3,867,254
Allowance for impairment loss						
Individual	0	0	14,066,159	13,529,688	0	1,767,425
Collective	0	0	19,073,838	22,491,499	0	0
Total allowance for impairment loss	0	0	33,139,997	36,021,187	0	1,767,425
Off – balance sheet operations (note 27)						
Level 1:						
Letters of credit			4,961,227	11,465,210		
Guarantees issued			129,995,470	158,090,314		
Promissory notes			312,269,188	230,637,697		
Level 2:						
Guarantees issued			670,962	944,602		
Promissory notes			606,902	204,793		
Level 3:						
Promissory notes			290,647	0		
Level 4:						
Guarantees issued			20,000	0		
Promissory notes			0	118,065		
Level 5:						
Guarantees issued			450,000	500,000		
Promissory notes			282,781	0		
			449,547,177	401,960,681		

The Bank maintains deposits with banks for the amount of B/.381,405,206 (2016: B/.370,875,424). Deposits are held 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 of whether the debtor's capacity improves after Bank's restructuring (see note 27).

- 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 means were used to recover the loan through collection procedures.

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

(4) Financial Risk Management, continued

Collateral and their Financial Effect

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

	% of exposure subjected to Collateral		
	2017	**2016**	**Type of Collateral**
Securities bought under resale agreements	100%	N/A	Securities
Loans receivable	87%	87%	Cash, Properties and Equipment

Residential Mortgage Loans

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

	2017	**2016**
Residential mortgage loans:		
% LTV		
Less than 50%	23,875,535	13,927,814
51% - 70%	39,739,144	42,105,909
71% - 90%	160,081,182	148,421,311
91% - 100%	310,941,266	224,139,001
More than 100%	5,334,825	3,774,337
Total	539,971,952	432,368,372

Derivatives, Margin Loans, Securities under Repurchase and Resale Agreements

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

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

(4) Financial Risk Management, continued

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

Assets received as Collateral

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

	2017	2016
Properties	1,326,217	1,894,166
Vehicles and others	1,574,373	1,020,542
Total	2,900,590	2,914,708

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 reporting is as follows:

	Securities under Resale Agreements		Loans Receivable		Debt Security Investments	
	2017	2016	2017	2016	2017	2016
Sector:						
Corporate	3,132,000	0	1,856,093,915	1,804,458,140	166,079,810	213,210,956
Consumption	0	0	1,266,585,644	1,076,924,231	0	0
Government	0	0	10,600,975	22,237,393	685,231,359	552,107,891
	3,132,000	0	3,133,280,534	2,903,619,764	851,311,169	765,318,847
Geographic concentration:						
Panama	3,132,000	0	2,672,203,144	2,392,047,829	277,695,968	210,283,540
Latin America and the Caribbean	0	0	447,390,649	494,909,167	120,273,168	143,488,590
United States of America	0	0	3,172,275	4,276,443	437,725,386	389,989,161
Other	0	0	10,514,466	12,386,325	15,616,647	21,557,556
	3,132,000	0	3,133,280,534	2,903,619,764	851,311,169	765,318,847

	Letters of Credit		Guarantees Issued		Promissory Notes	
	2017	2016	2017	2016	2017	2016
Sector:						
Corporate	4,961,227	10,699,948	128,100,423	18,069,183	11,454,556	22,500,665
Consumption	0	765,262	3,036,009	141,465,733	301,994,962	208,459,890
	4,961,227	11,465,210	131,136,432	159,534,916	313,449,518	230,960,555
Geographic concentration:						
Panama	4,920,979	10,307,295	85,721,815	154,308,224	313,449,518	226,747,626
Latin America and the Caribbean	40,248	159,430	1,175,740	606,090	0	856,023
Others	0	998,485	44,238,877	4,620,602	0	3,356,906
	4,961,227	11,465,210	131,136,432	159,534,916	313,449,518	230,960,555

(4) Financial Risk Management, continued

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 of Financial Risk

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

Liquidity Risk Management:

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

The Bank is exposed to daily requirements with respect to its available funds due to withdrawals from demand and savings deposits, maturity of fixed-term deposits and borrowings, and disbursements of loans, guarantees, commitments and operating expenses.

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

Exposure to Liquidity Risk:

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

(4) Financial Risk Management, continued

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

	2017	**2016**
At year end	36.42%	36.84%
Average for the year	37.34%	36.30%
Maximum for the year	44.64%	41.92%
Minimum for the year	32.27%	31.46%

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:

2017	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total nominal gross amount inflow/(outflow)**	**Carrying Value**
Financial Liabilities						
Customers' deposits	(2,082,341,520)	(504,407,018)	(241,662,856)	(633,689)	(2,829,045,083)	2,799,537,652
Repurchase agreements	(18,961,991)	(32,894,100)	0	0	(51,856,091)	49,942,156
Borrowings received	(479,731,532)	(130,019,273)	(62,507,915)	(95,032,655)	(767,291,375)	669,164,132
Bonds payable	(44,067,108)	(64,058,520)	(423,526,887)	0	(531,652,515)	447,395,813
Commercial papers	(11,746,167)	0	0	0	(11,746,167)	11,500,000
Letters of credit	(4,961,227)	0	0	0	(4,961,227)	0
Financial guarantees issued	(67,880,561)	(41,247,704)	(22,008,167)	0	(131,136,432)	0
Loan commitments	(126,119,463)	(187,330,055)	0	0	(313,449,518)	0
	(2,835,809,569)	(959,956,670)	(749,705,825)	(95,666,344)	(4,641,138,408)	3,977,539,753
Financial Assets						
Cash and cash equivalents	408,520,230	3,784,477	0	0	412,304,707	411,922,271
Securities purchases under resale agreements	3,138,938	0	0	0	3,138,938	3,132,000
Securities at fair value though profit or loss	4,887	6,670,048	1,835,695	576,155	9,086,785	9,074,169
Securities available for sale	90,228,062	124,612,137	136,842,239	419,105,374	770,787,812	601,564,297
Securities held to maturity	24,282,721	53,794,966	92,616,793	163,582,752	334,277,232	249,169,708
Loan, net	1,008,807,067	812,211,098	673,781,731	1,904,205,112	4,399,005,008	3,133,280,534
	1,534,981,905	1,001,072,726	905,076,458	2,487,469,393	5,928,600,482	4,408,142,979

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 commitments	(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
Securities available for sale	62,661,501	161,729,578	89,420,125	435,325,968	749,137,172	562,928,870
Securities held to maturity	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

(4) Financial Risk Management, continued

The Bank uses derivative financial instruments to reduce certain identified risks, which could generate liability or asset undiscounted cash flows (see note 23).

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

	2017	**2016**
Assets:		
Banks deposits	3,500,000	1,000,000
Securities at fair value through profit or loss	9,074,169	2,771,969
Securities available for sale	517,513,293	514,364,597
Securities held to maturity securities	236,283,632	207,574,841
Loans, net	2,252,803,091	2,123,247,969
Total assets	3,019,174,185	2,848,959,376
Liabilities:		
Time deposits	720,572,621	729,716,680
Repurchase agreements	0	31,000,000
Borrowings received	246,260,376	342,888,374
Bonds payable	431,425,507	30,000,000
Total liabilities	1,398,258,504	1,133,605,054

(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.

(4) Financial Risk Management, continued

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

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

Following is a breakdown and analysis of each type of market risk:

- *Foreign Exchange Rate Risk*:
  It refers to the risk that the value of a financial instrument fluctuates due to changes in the exchange rates of foreign currency and other financial variables, as well as the 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:

2017	Colombian pesos expressed in B/.	Euros expressed in B/.	Other currencies expressed in B/.	Total
Exchange rate	**2,984.00**	**1.20**		
Assets:				
Cash and due from banks	12,451,936	69,894,840	9,722,563	92,069,339
Securities at fair value through profit or loss	9,074,169	0	0	9,074,169
Securities available for sale	1,160,433	23,777	0	1,184,210
Securities held to maturity	1,383,901	0	0	1,383,901
Loans, net	94,552,430	1,063,393	32	95,615,855
Total financial assets	118,622,869	70,982,010	9,722,595	199,327,474
Liabilities:				
Customers' deposits	55,861,761	79,780,468	6,947,116	142,589,345
Borrowings received	25,986,776	0	0	25,986,776
Bonds payable	0	0	101,950,681	101,950,681
Total financial liabilities	81,848,537	79,780,468	108,897,797	270,526,802
Net position in the consolidated statement of financial position	36,774,332	(8,798,458)	(99,175,202)	(71,199,328)

(4) Financial Risk Management, continued

2016	Colombian pesos expressed in B/.	Euros expressed in B/.	Other currencies 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
Securities available for sale	2,402,814	4,247,549	0	6,650,363
Securities held to maturity	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

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

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

(4) Financial Risk Management, continued

Sensitivity of net income due to projected interest rates:	**50 bps of increase**	**50 bps of decrease**	**100 bps of increase**	**100 bps of decrease**
2017				
As of December 31	12,556,345	(12,556,345)	25,112,690	(25,112,690)
Average for the year	12,065,340	(12,065,340)	24,130,680	(24,130,680)
Maximum for the year	12,556,345	(12,556,345)	25,112,690	(25,112,690)
Minimum for the year	11,567,572	(11,567,572)	23,135,144	(23,135,144)
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)

Sensitivity of net equity due to interest rate fluctuation:	**50 bps of increase**	**50 bps of decrease**	**100 bps of increase**	**100 bps of decrease**
2017				
As of December 31	329,374	(329,374)	658,748	(658,748)
Average for the year	942,979	(942,979)	1,885,958	(1,885,958)
Maximum for the year	2,123,332	(2,123,332)	4,246,664	(4,246,664)
Minimum for the year	659,399	(659,399)	1,318,798	(1,318,798)
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)

(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.

2017	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	30,517,065	30,517,065
Bank deposits	376,905,206	1,000,000	3,500,000	0	0	0	381,405,206
Securities bought under resale agreements	3,132,000	0	0	0	0	0	3,132,000
Securities at fair value through profit or loss	0	0	6,665,598	1,833,294	575,277	0	9,074,169
Securities available for sale	227,721,993	52,679,635	71,230,153	51,149,616	190,285,895	8,497,005	601,564,297
Securities held to maturity	80,060,579	6,956,698	20,658,468	69,336,089	72,157,874	0	249,169,708
Loans, net	1,337,827,866	258,305,234	308,739,712	151,433,015	1,076,974,707	0	3,133,280,534
Total financial assets	2,025,647,644	318,941,567	410,793,931	273,752,014	1,339,993,753	39,014,070	4,408,142,979
Financial assets:							
Demand deposits	0	0	0	0	0	585,734,099	585,734,099
Savings deposits	423,253,636	0	0	0	0	0	423,253,636
Time deposits	439,133,085	630,844,211	502,701,731	214,553,443	3,317,447	0	1,790,549,917
Repurchase agreements	18,942,156	31,000,000	0	0	0	0	49,942,156
Borrowings received	150,071,904	272,831,852	159,154,074	22,636,632	64,469,670	0	669,164,132
Bonds payable	13,000,000	2,970,306	31,200,000	400,225,507	0	0	447,395,813
Commercial papers	0	11,500,000	0	0	0	0	11,500,000
Total financial liabilities	1,044,400,781	949,146,369	693,055,805	637,415,582	67,787,117	585,734,099	3,977,539,753
Total sensitivity to interest rates	981,246,863	(630,204,802)	(282,261,874)	(363,663,568)	1,272,206,636	(546,720,029)	430,603,226

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 through profit or loss	0	0	0	0	2,771,969	0	2,771,969
Securities available for sale	360,431,838	121,020,094	6,250,901	9,138,601	55,021,543	11,065,893	562,928,870
Securities held to maturity	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 assets:							
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

(4) Financial Risk Management, continued

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

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

(d) Operational Risk and Business Continuity

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

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

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

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

(4) Financial Risk Management, continued

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

(e) Capital Management

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

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

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

Based on Rules No. 1-2015 and its amendments and No. 3-2016, issued by the Superintendency of Banks of Panama, as of December 31, 2017, the Bank maintains a position of regulatory capital that is composed as follows for its financial subsidiaries:

	2017	2016
Common Tier 1 Capital		
Common shares	183,645,893	179,045,885
Excess paid in acquisition of non-controlling interests	(5,606,927)	(5,606,927)
Retained earnings	174,858,834	145,423,989
Other items of		
Loss on securities available for sale	(26,359,140)	(40,082,308)
Foreign currency translation effect	(21,528,064)	(20,692,677)
Less: Deferred income tax	(2,064,255)	(1,903,834)
Less: Reserve cash flow hedge	(23,477)	0
Less: Goodwill	(6,717,198)	(6,717,198)
Total of Common Tier 1 Capital	296,205,666	249,466,930
Additional Tier 1 Capital		
Preferred shares	110,000,000	110,000,000
Total of Additional Tier 1 Capital	110,000,000	110,000,000
Dynamic provision	51,504,901	51,214,963
Total Regulatory Capital Funds	457,710,567	410,681,893
Total risk weighted assets	2,913,477,708	2,781,038,446
Ratios:		
Capital Adecuacy Ratio	15.71%	14.76%
Common Tier 1 Capital Ratio	10.17%	8.97%
Tier 1 Capital Ratio	13.94%	12.91%
Leverage Ratio	6.52%	5.96%

(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 subject to management's judgment and may have a significant effect on the Bank's interests or participation in investment companies and separate vehicles.

- *Investment Entities and Separate Legal Vehicles*

  The Bank acts as an asset manager on behalf of third parties through investment companies and separate vehicles. When evaluating if the Bank controls those investment companies and vehicles, factors such as the following have been considered: the reach of its authority to make decisions on behalf of the investee, the rights maintained by third parties, the consideration vested in conformity with the compensation agreements and its exposure to return fluctuations. Accordingly, the Bank has concluded that it acts as investment agent for all cases; therefore, it does not consolidate these investment companies and separate vehicles.

(b) 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 their nature and amount have an effect on the 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. By 2018, these criteria have been revised by the adoption of IFRS 9. See note 3 (ac).

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

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

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

(d) Impairment of Securities Available for Sale and Held to Maturity:

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 what is significant or prolonged requires professional judgment. Additionally, impairment might be determined when there is evidence of impairment in the issuer's financial position, industry or 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.

(f) Income Tax:

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

(6) Income Tax

The income tax returns of the Bank and its subsidiaries incorporated in the Republic of Panama, in accordance with current tax regulations, are subject to review by the tax authorities for up to the last three (3) years. The statute of standard limitations for tax reviews applicable to the income tax of the subsidiary incoporated in the Republic of Colombia, is three years (2016: up to two years), from the due date or date on which the tax return was filed. Income tax returns in which they use or incur losses will have a statute of limitations of six years (2016: up to five years). A statute of limitations of three additional years applies if losses are used in the last two years (2016: loss used in the fifth or sixth year). The income tax return prescription law for the tax returns file by tax payers subject to the transfer pricing regime will be six years starting from the date of filling. In accordance with the income tax law applicable to the subsidiary incorporated in the Republic of Costa Rica, annual income tax returns must be presented at December 31 of each year. The fiscal authorithies can review the tax returns of the years 2014, 2015, 2016 and 2017.

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

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

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

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

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

Country	Income tax rate	Effective fiscal year
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:

	2017	2016
Current tax:		
Estimated income tax	10,214,187	8,837,441
Prior period tax adjustments	(185,886)	(19,024)
Deferred tax:		
Origination and reversal of temporary differences	1,132,683	(1,090,995)
Total income tax expense	11,160,984	7,727,422

In addition, the deferred tax as of December 31, 2017 for B/.431,747 (2016: B/.438,432), corresponding to the depreciation expense from revaluation of property in 2016, was recognized in other comprehensive loss for the year for B/.6,683 (2016: B/.(2016: B/.83,426)).

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

	2017	2016
Net income before income tax	69,506,808	59,956,657
Income tax applying the current rate (25%)	17,376,702	14,989,164
Effects of rates on operations in other jurisdictions and exchange rates	(628,233)	(151,312)
Foreign, exempted and non-taxable income	(30,963,216)	(29,529,191)
Non-deductible costs and expenses	25,397,639	22,440,669
Tax loss carryforwards	(21,908)	(21,908)
Total income tax expense	11,160,984	7,727,422

The effective income tax rate is determined as follows:

	2017	2016
Income before income tax	69,506,808	59,956,657
Income tax	11,160,984	7,727,422
Effective income tax rate	16.06%	12.89%

(6) Income tax, continued

Deferred income tax asset and liability are detailed below:

	2017 Asset	2017 Liability	2017 Net	2016 Asset	2016 Liability	2016 Net
Allowances for loan losses	5,166,512	0	5,166,512	6,187,090	0	6,187,090
Revaluation of properties	0	(431,749)	(431,749)	0	(438,432)	(438,432)
Prepaid expenses	481,133	0	481,133	753,659	0	753,659
Tax loss carry forwards	2,064,255	0	2,064,255	1,903,834	0	1,903,834
Total	7,711,900	(431,749)	7,280,151	8,844,583	(438,432)	8,406,151

The reconciliation of deferred income tax is as follows:

2017	Beginning balance	Recognition in profit or loss	Recognition in other comprehensive income	Ending balance
Allowances for loan losses	6,187,090	(1,020,578)	0	5,166,512
Revaluation of properties	(438,432)	0	6,683	(431,749)
Prepaid expenses	753,659	(272,526)	0	481,133
Tax loss carry forwards	1,903,834	160,421	0	2,064,255
Total	8,406,151	(1,132,683)	6,683	7,280,151

2016	Beginning balance	Recognition in profit or loss	Recognition in other comprehensive income	Ending balance
Allowances for loan losses	6,737,546	(550,456)	0	6,187,090
Revaluation of properties	(355,006)	0	(83,426)	(438,432)
Prepaid expenses	167,447	586,212	0	753,659
Tax loss carry forwards	848,595	1,055,239	0	1,903,834
Total	7,398,582	1,090,995	(83,426)	8,406,151

The recognition of deferred tax assets for B/.7,280,151 (2016: B/.8,406,151) 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/.3,656,092 from accumulated tax losses for B/.11,079,067 because there is not enough evidence that indicates that there will be sufficient future taxable income for the Bank to use the corresponding taxable benefits. These accumulated tax losses expire between 2021 and 2028

The Bank kept a cumulative tax loss balance of available tax loss carryforwards of B/.17,293,246 (2016: B/.12,776,981), originated by companies incorporated both in Panama and Colombia.

(6) Income tax, continued

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 incurred by companies incorporated in Colombia could be used up to 12 subsequent years and without cap of amount per fiscal period. Losses generated by excess of presumptive income over ordinary income may be applied up to 5 subsequent years without cap of amount per year.

These tax loss carryforwards are distributed as follows:

Year	Tax loss to be used per year in Colombia
2018	115,245
2019	4,421,714
2020	2,119,964
2021	799,726
2022	9,798,651

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

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

	2017	2016
Net gain on sale of securities with changes in profit or loss	75,994	179,243
Net gain on sale of securities available for sale	1,050,624	6,629,625
Unrealized loss transferred to profit or loss due to application of hedge accounting	(495,835)	(1,674,586)
Net gain on revaluation of derivative instruments	424,853	1,652,556
Net gain in cash flow hedging	86,030	0
Net gain on sale of other financial instruments	313,200	221,992
	1,454,866	7,008,830

(8) Cash and Cash Equivalents

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

	2017	**2016**
Cash and cash equivalents	30,517,065	31,066,071
Demand deposits	168,685,082	129,885,872
Time deposits	212,720,124	240,989,552
Total cash and due from banks	411,922,271	401,941,495
Less: interest-bearing deposits due over 90 days and pledges	6,303,308	17,075,272
Cash and cash equivalents in the consolidated statement of cash flows	405,618,963	384,866,223

(9) Securities Purchased under Resale Agreements

As of December 31, 2017, the securities purchased under resale agreements amounted to B/.3,132,000, which have a maturity date in January, 2018.

(10) Investment in Securities

Investment in securities is detailed below:

Securities at fair value through profit or loss

As of December 31, 2017, the Bank maintains securities at fair value through profit or loss for B/.9,074,169 (2016: B/.2,771,969), and made sales of its securities for B/.9,214,945 (2016: B/.29,876,033), generating a net gain of B/.75,994 (2016: net gain B/.179,243).

Securities Available for sale

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

	2017	**2016**
Foreign common shares	23,777	20,849
Preferred shares	27,055	29,455
Local common shares	8,446,173	11,015,589
Foreign corporate bonds	31,106,984	80,146,104
Corporate bonds and local fixed income funds	43,718,463	40,633,036
Bonds of the Republic of Panama	74,388,062	38,660,284
Bonds from other governments	11,321,575	13,376,929
Bonds from US Government and Agencies	406,635,005	352,396,842
Negotiable certificates corresponding to the second installment of the XIII-month salary	197,731	0
Negotiable certificates of participation	25,699,472	26,649,782
	601,564,297	562,928,870

(10) Investment in Securities, continued

The Bank has equity instruments amounting to B/.190,207 (2016: 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 securities available for sale for B/.645,095,893 (2016: B/.772,421,041) generating a gain on sale of B/.1,050,624 (2016: net gain of B/.6,629,625).

Securities with nominal value of B/.15,500,500 (2016: B/.112,049,974) guarantee securities sold under repurchase agreements for the amount of B/.49,942,156 (2016: B/.115,105,743). See Note 15.

Securities with nominal value of B/.191,050,831 (2016: B/.146,393,000) guarantee borrowings received. See Note 16.

Securities Held to Maturity Securities

The portfolio of held to maturity securities amounted to B/.249,169,708 (2016: B/.210,683,901).

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

	2017	**2016**
Foreign corporate bonds	28,500,968	30,132,612
Corporate bonds and local fixed income funds	74,240,434	57,741,221
Bonds of the Republic of Panama	59,451,805	37,707,249
Bonds from other governments	62,404,257	62,524,689
Bonds from US Government and Agencies	24,572,244	16,668,871
Commercial paper and treasury bills, foreign	0	7,676,684
Total	249,169,708	212,451,326
Impairment reserve	0	(1,767,425)
Total neto	249,169,708	210,683,901

Securities with nominal value of B/.52,901,000 (2016: B/.43,501,000) guarantee securities sold under repurchase agreements for the amount of B/.49,942,156 (2016: B/.115,105,743). See Note 15.

Securities with nominal value of B/.114,300,000 (2016: B/.83,450,000) guarantee borrowings received. See Note 16.

(10) Investment in Securities, continued

The effect of the loss transferred to profit or loss due to impairment of securities held to maturity is detailed as follows:

	2017	**2016**
Balance at the beginning of the year	5,140,000	0
Realized loss transferred to profit or loss due to impairment of securities	2,043,752	3,372,575
Provision for losses recognized directly in profit or loss	0	1,767,425
Sale of impaired securities	(7,183,752)	0
Balance at the end of the period	0	5,140,000

Reclassification from securities available for sale to held to maturity

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:

	2017			**2016**		
	Reclassified amount	**Carrying Value**	**Fair Value**	**Reclassified amount**	**Carrying Value**	**Fair Value**
Foreing corporate bonds	34,335,658	19,480,676	21,648,703	34,335,658	24,178,924	28,112,858
Foreing public bonds	95,805,461	73,362,911	81,024,266	95,805,461	72,221,840	77,760,557
Local public bonds	48,609,703	35,958,047	38,518,867	48,609,703	36,347,681	37,972,539
Total	178,750,822	128,801,634	141,191,836	178,750,822	132,748,445	143,845,954

(10) Investment in securities, continued

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:

	2017		2016	
	Profit or loss	Comprehensive Income	Profit or loss	Comprehensive Income
Interest income	9,137,521	0	8,490,944	0
Net change in fair value	0	(19,792,865)	0	(27,666,173)
Amount transferred from the allowance for unrealized losses to profit or loss during the period	(1,725,574)	1,725,574	(4,500,733)	4,500,733
Realized loss from securities transferred to held to maturity, recognized in profit or loss for impairment	(2,502,500)	2,502,500	(3,372,575)	3,372,575
Reclassification of loss due to derecognition of securities held-to-maturity	0	4,309,076	0	0

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

	2017		2016	
	Profit or loss	Comprehensive Income	Profit or loss	Comprehensive Income
Interest income	9,137,521	0	8,490,944	0
Net change in fair value	0	1,292,693	0	1,046,370

The effective interest rate of the reclassified assets ranges between 0.98% and 4.62% and it is expected to recover all of the cash flows, including principal and interest, for B/.135 million (2016: B/.173 million).

(11) Loans

The loan portfolio by product is detailed as follows:

	2017	2016
Commercial	933,709,812	996,070,559
Personal, vehicles and credit cards	594,395,233	529,993,158
Residential mortgage	539,971,952	432,368,372
Interim financing and construction	459,669,352	401,334,475
Pledge loan	188,056,006	111,276,768
Agricultural	178,181,068	169,553,186
Industrial	99,064,405	111,217,088
Retirees	91,449,948	84,611,795
Finance leases	37,248,684	35,404,348
Factoring	30,967,873	47,596,440
Tourism and services	11,950,217	18,558,803
Commercial mortgage	7,011,211	7,677,821
Total	3,171,675,761	2,945,662,813

The allowance for loan losses is detailed as follows:

	2017	2016
Balance at the beginning of year	36,021,187	32,189,252
Provision charged to expenses	10,079,066	11,972,441
Loans written-off	(17,861,765)	(15,394,241)
Recoveries	4,901,509	7,253,735
Balance at the end of year	33,139,997	36,021,187

Management of the Bank has set aside an individual reserve amounting to B/.14,066,159 (2016: B/.13,529,688) based on the estimate of losses from classified loans, considering the estimated collateral available. It also recorded a collective reserve amounting to B/.19,073,838 (2016: B/.22,491,499); therefore, the total reserve amounts to B/.33,139,997 (2016: B/.36,021,187).

The loan portfolio includes finance leases with the following maturities:

	2017	2016
Minimum payments up to 1 year	14,670,985	12,992,867
Minimum payments from 1 to 5 years	19,782,424	19,795,780
Payments over 5 years	2,795,275	2,615,701
Total of minimum payments	37,248,684	35,404,348
Less: unearned commissions	192,791	173,381
Net investment in finance leases	37,055,893	35,230,967

(11) Loans, continued

The following table shows the total future minimum payments:

	2017	2016
Minimum payments up to 1 year	16,309,884	14,632,132
Minimum payments from 1 to 5 years	23,065,311	23,361,787
Payments over 5 years	4,752,177	4,517,350
Total of minimum payments	44,127,372	42,511,269
Less: unearned discounted interest	6,878,688	7,106,921
Total finance leases, net of unearned discounted interest	37,248,684	35,404,348

(12) Property, Furniture, Equipment and Improvements

Properties, furniture, equipment and improvements are summarized below:

2017	Land and buildings	Improvements	Furniture	Office Equipment	Vehicles	Total
Cost:						
At the beginning of the year	36,837,847	19,378,829	3,177,117	27,129,039	929,184	87,452,016
Purchases	0	1,760,308	293,645	3,290,907	234,796	5,579,656
Disposals	(87,314)	(31,754)	(129,860)	(921,285)	(120,650)	(1,290,863)
At the end of the year	36,750,533	21,107,383	3,340,902	29,498,661	1,043,330	91,740,809
Accumulated depreciation:						
At the beginning of the year	2,362,193	10,368,654	1,708,269	17,665,339	646,482	32,750,937
Expense for the year	458,396	717,242	404,898	2,692,903	129,576	4,403,015
Disposals	(710)	(31,754)	(129,860)	(919,238)	(120,651)	(1,202,213)
At the end of the year	2,819,879	11,054,142	1,983,307	19,439,004	655,407	35,951,739
Net balance	33,930,654	10,053,241	1,357,595	10,059,657	387,923	55,789,070

2016	Land and buildings	Improvements	Furniture	Office Equipment	Vehicles	Total
Cost:						
At the beginning of the 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 the year	36,837,847	19,378,829	3,177,117	27,129,039	929,184	87,452,016
Accumulated depreciation:						
At the beginning of the 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 the 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

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

	2017	2016
Land	20,614,318	20,614,318
Building and improvements	12,202,474	12,669,273
	32,816,792	33,283,591

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

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 a revaluation surplus.

In 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.

(13) Goodwill

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

The following table summarizes the balance of the Bank's goodwill, generated by the acquisition in the following Company:

Entity	Acquisition Date	Acquired Interest	Balance
Banco Multibank, S. A.	September 2007	70%	6,717,198

No changes in goodwill have been recorded during the year.

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 10 - 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 5% and 20%, while the perpetual growth rate range is 2.5% according to the expectations and projections of growth of the GDP according to mostly acceptable sources.

Growth rates of the assets or businesses were determined based on market research, products, segments and specific niches with advisors and leading consulting firms in the market, in which the Bank researched the growth, performance, and actual historical indicators of the relevant assets or businesses, their future perspectives, the projected country macroeconomic growth, the segments or business analyzed, as well as the component'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 return required by the stockholder was used as discount rate. Additionally, a comparative calculation was made of the weighted average cost capital of the Bank, weighing the country risk premium, the expected return for similar institutions, but if it fell below the shareholder-required rate of return; the stricter rate is used to remain conservative. The calculated cost of capital ranges from 12% to 18% and changes through time.

(13) Goodwill, continued

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.

(14) Other Assets

The detail of other assets is as follows:

	2017	2016
Accounts receivable	64,333,489	39,284,931
Accounts receivable, from related companies	18,532,747	28,031,497
Prepaid expenses	12,720,484	11,330,400
Prepaid taxes	1,262,591	5,344,744
Foreclosed assets, net	4,330,788	2,768,621
Guarantee deposits	1,375,296	1,088,102
Other	3,348,412	1,499,025
Total	105,903,807	89,347,320

The assets received through foreclosure at December 31, 2017 have a balance of B/.4.330,788 (2016: B/.2,768,621), net of adjustments for impairment of B/.0 (2016: B/.11,300).

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

	2017	2016
Balance at the beginning of the period	11,300	7,061
Provision recognized in profit or loss	30,661	153,655
Sale of assets	(41,961)	(149,416)
Total, net at the end of the period	0	11,300

(15) Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements amounted to B/.49,942,156 (2016: B/.115,105,743) with maturities from January 2018 to March 2019 (2016: January 2017 to September 2019) and annual interest rates from 2.36% to 3.60% (2016: from 0.94% to 3.60%). Such securities are guaranteed with securities available for sale and held to maturity amounting to B/.15,500,000 and B/.52,901,000, respectively (2016: available for sale securities and held to maturity for B/.112,049,974 and B/.43,501,000, respectively). See Note 10.

(16) Borrowings Received

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

Financial liability	Interest rate	Due date	2017 Carrying Value	2016 Carrying Value
Line of credit	2.49% to 8.40%	Up to December 2017	0	471,363,562
Line of credit	2.63% to 8.48%	Up to December 2018	386,762,530	126,264,578
Line of credit	2.08% to 8.33%	Up to November 2019	59,955,633	66,848,581
Line of credit	2.92% to 8.28%	Up to August 2020	86,760,190	9,695,743
Line of credit	4.76%	March 2021	34,612,052	39,755,564
Line of credit	3.25%	July 2022	12,500,000	12,500,00
Line of credit	5.31%	April 2024	22,774,646	65,735,895
Line of credit	2.46% to 5.06%	June 2025	65,000,000	40,000,000
Line of credit	6.57%	April 2026	799,081	854,551
Total			669,164,132	820,518,474

Borrowings for B/.207,642,316 (2016: B/.152,500,000) are guaranteed with available for sale and held to maturity securities amounting to B/.191,050,831 and B/.114,300,000 (2016: B/.146,393,000 and B/.83,450,000), respectively. See Note 10.

(17) Bonds Payable

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

Series	Interest Rate	Due date	2017	2016
Corporate bonds – November 2017 issue	4.38%	November 2022	297,745,132	0
Corporate bonds – June 2017 issue (CHF 100MM)	2.02%	January 2021	101,950,681	0
Serie F- November 2015 issue	4.35%	November 2020	30,000,000	30,000,000
Serie L- February 2017 issue	4.19%	August 2020	1,200,000	0
Serie M- February 2017 issue	3.00%	February 2018	9,000,000	0
Serie K- January 207 issue	3.00%	January 2018	4,000,000	0
Serie N- July 2017 issue	3.00%	July 2018	1,500,000	0
Serie O- August 2017 issue	3.00%	August 2018	2,000,000	0
Serie J- November 2016 issue	2.88%	November 2017	0	3,717,000
Serie I- October 2016 issue	2.88%	October 2017	0	4,740,000
Serie H- September 2016 issue	2.88%	September 2017	0	5,000,000
Serie G- February 2016 issue	2.88%	February 2017	0	12,000,000
Serie C- September 2013 issue	4.45%	February 2017	0	5,670,000
			447,395,813	61,127,000

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

December 2012 (placed in 2013, 2015, 2016 y 2017)

Public offering of the Corporate Bond Revolving Program for a value of up to B/.150,000,000 divided into B/.100,000,000 of Revolving Corporate Class A Bonds and B/.50,000,000 of Revolving Corporate Class B Bonds, authorized by the Superintendency of the Securities Market of Panama, through CNV 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.

(17) Bond Payable, continued

Bonds are issued as nominative, revolving, registered, without coupons, and denominated in thousands of Balboas, in different series, with the maturity of Revolving Corporate Class A Bonds being determined by the "Issuer", whereas Corporate Class B Bonds will be issued for a 20-year term; however, after 15 years, they will be renewed automatically for additional 20-year terms each, from the date of maturity of the original 20-year term. Revolving Corporate Class A Bonds were issued during 2013, as Series A, B and C; during 2015; as Series D, E and F; during 2016 as Series G, H, I and J and during 2017 were issued as Series K, L, M, N and O.

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

Corporate Bond Issuance of June 2017

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

Corporate Bond Issuance of November 2017

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

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

(18) Negotiable Commercial Papers (NCPs)

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

(18) Negotiable Commercial Papers (NCPs), continued

The detail of the Negotiable Commercial Papers are summarized below:

Series	Date of issue	Interest rate	Maturity	2017
Serie A	August 30, 2017	3.00%	August 2018	4,000,000
Serie B	September 15, 2017	3.00%	September 2018	6,000,000
Serie C	October 19, 2017	3.00%	September 2018	1,500,000
				11,500,000

During the year 2017 series A, B and C, NCPs have been issued.

(19) Other Liabilities

The detail of other liabilities is as follows:

	2017	2016
Accounts payable	26,043,942	28,092,275
Items subject to clearance	17,870,776	15,335,110
Fair value of interest rate swaps (Note 23)	4,457,025	4,433,063
Other fringe benefits	3,907,785	3,605,820
Dividends payable (Note 20)	758,007	0
Customers' deposits	1,548,480	1,553,498
Severance and indemnity payable	1,710,860	1,461,054
Deferred tax	431,749	438,432
Others	1,670,126	906,445
Total	58,398,750	55,825,697

(20) Equity

	Number of shares	
	2017	2016
Common shares:		
Authorized shares without par value	50,000,000	50,000,000
Issued and paid-in shares:		
Beginning of the year	16,753,229	16,576,352
Issued and paid during the year	109,524	176,877
Total issued and outstanding shares, at the end of the year	16,862,753	16,753,229

During 2017, the Bank issued 109,524 common shares for an amount of B/.4,600,008 (2016: 176,877 for an amount of B/.7,428,834).

In previous years, the subsidiaries of the Bank had made capitalization of retained earnings of B/.550,000; therefore, these retained earnings are not available for distribution in dividends.

(20) Equity, continued

Dividends declared and paid on common shares are as follows:

	2017	2016
Total dividends declared and paid on common shares	6,740,987	6,494,615
Total dividends paids on common shares	(6,699,813)	(6,494,615)
Total dividends declared and payable on common shares	41,174	0

Preferred shares:

The Bank is authorized to issue 1,500,000 preferred shares with par value of B/.100 each. At December 31, 2017, the Bank has not issued preferred shares (2016: B/.8,000,000) and the number of preferred shares outstanding amount to B/.1,100,000 (2016: B/.1,100,000). These preferred shares are publicly traded.

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

Multibank, Inc.

Issuances	2017	2016	Dividends	Type	Series
2007	20,000,000	20,000,000	8.00%	Non-cumulative	A
2008	15,000,000	15,000,000	7.00%	Non-cumulative	B
2008	3,270,000	3,270,000	7.50%	Non-cumulative	C
2009	2,911,700	2,911,700	7.50%	Non-cumulative	C
2010	3,818,300	3,818,300	7.50%	Non-cumulative	C
2011	7,000,000	7,000,000	7.00%	Non-cumulative	A
2011	6,323,700	6,323,700	6.70%	Non-cumulative	B
2011	15,046,600	15,046,600	7.00%	Non-cumulative	C
2014	3,676,300	3,676,300	6.70%	Non-cumulative	B
2014	4,953,400	4,953,400	7.00%	Non-cumulative	C
2014	11,269,700	11,269,700	6.70%	Non-cumulative	D
2014	899,000	899,000	6.70%	Non-cumulative	E
2014	1,101,000	1,101,000	6.70%	Non-cumulative	E
2014	3,730,300	3,730,300	6.70%	Non-cumulative	D
2015	1,000,000	1,000,000	6.70%	Non-cumulative	E
2015	800,000	800,000	6.70%	Non-cumulative	E
2015	1,200,000	1,200,000	6.70%	Non-cumulative	E
2016	8,000,000	8,000,000	6.70%	Non-cumulative	F
	110,000,000	110,000,000			

The Offering Memorandum (OM) of the public offerings provide for the following conditions:

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

(20) Equity, continued

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

  Dividends on preferred shares will be paid to the registered holder on a quarterly basis until redemption of the issue (4 times a year), until the issuer decides to redeem such preferred shares. The OM of the public offerings provide for the following: i) for the Series "A" issued under 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 for Series "A", "B", "C", "E" and "F" issued under Release No.47-11 of the February 25, 2011, the dates set for dividend payment are February 28, May 28, August 28, and November 28 of each year.

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

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

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

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

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

As of December 31, 2017, dividends on preferred shares were declared and paid for a total of B/.7,944,293 (2016: B/.7,436,533) and dividends for B/.716,833 remain declared but unpaid.

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 month	Acquired interest	Excess Paid
Banco Multibank, S. A	Abril 2011	30%	(5,454,054)
MB Credito, S. A.	Abril 2014	25%	(152,873)
			(5,606,927)

(21) Commitments and Contingencies

Commitments:

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

	2017	**2016**
Letters of credit	4,961,227	11,465,210
Guarantees issued	131,136,432	159,534,916
Commitment letters	313,449,518	230,960,555
	449,547,177	401,960,681

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

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

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

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

Contingencies:

Common legal proceedings against the Bank are in place in the amount of B/.17,287,131 (2016: B/.12,351,031). 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/.810,731 (2016: B/.864,231).

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

Years	**Total**
2018	2,871,196
2019	2,428,340
2020	1,772,703
2021	2,029,376
2022	1,942,290

(21) Commitments and Contingencies, continued

During the year ended December 31, 2017, lease expenses amounting to B/.4,185,602 (2016: B/.3,934,563), include property rental expenses of B/.3,517,309 (2016: B/.3,303,108).

(22) Investment Entities and Separate Legal Vehicles

The subsidiary Multi Trust, Inc. administered trust agreements at customers' risk and expense, amounting to B/.164,181,309 (2016: B/.148,438,656); from which collateralized trust agreements amount to B/.126,953,243 and administration trust contracts amount to B/.37,228,066 (2016: B/.148,438,656).

The subsidiary Multi Securities, Inc. administered cash and investment portfolios at customers' risk and expense amounting to B/.353,877,259 (2016: B/.339,556,417).

At December 31, 2017, the Bank manages customer discretionary accounts for B/.2,738,882 (2016: B/.3,994,599).

The Bank maintains a total of B/.217,389,786, corresponding to investments of the Board of Directors of the Savings & Capitalization Pension System for Public Sector Employees (SIACAP). The administration of SIACAP was awarded to the Multibank/Multi Securities Joint Venture, (The "Administrator") through Service Contract No. 008-2017 published in the Official Gazette No.28379 of October 4, 2017. Some important clauses of this Contract establish the following:

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

The Administrator maintains a compliance bond in the amount of B/.2,500,000 on behalf of the Board of Directors of the SIACAP-Panama General Comptroller.

(23) Derivative Financial Instruments

Fair value hedges of interest rate risk

As of December 31, 2017, the Bank uses interest rate swap agreements ("interest rate swaps") to mitigate the interest rate risk of financial assets and liabilities. Such agreements are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, where appropriate.

(23) Derivative Financial Instruments, continued

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

2017 Type of instrument	Nominal Amount Over 1 year	Fair value Assets	 Liabilities
Exchange rate of interest	35,500,000	0	3,442,579

2016 Type of instrument	Nominal Amount Over 1 year	Fair value Assets	 Assets
Exchange rate of interest	61,893,000	0	3,867,133

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 counterparties include early termination clauses.

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

Cash flow hedges of the exchange rate risk

As of December 31, 2017, the Bank uses interest rate swap and cross currency swap agreements to reduce the risk of the exchange rate of financial liabilities. These contracts are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, as appropriate.

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

2017 Type of instrument	Outstanding balance of notional value Over 3 years	Fair Value Assets	 Liabilities
Cross-currency swaps	CHF 100,000,000	0	969,167

(23) Derivative Financial Instruments, continued

Net investment hedge

As of December 31, 2017, 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:

2017	Nominal Amount	Fair Value	
Accounting method	1 year	Assets	Liabilites
Foreign exchange forward	35,000,000	0	45,579

2016	Nominal Amount	Fair Value	
Accounting method	1 year	Assets	Liabilities
Foreign exchange forward	18,424,396	0	103,150

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 compensation. As of December 31, 2016, the nominal value of these contracts was for 61,500,000 thousand of Colombian pesos and 19,536,213 US dollars with a fair value of B/.462,780 recognized as a liability. During 2017, these contracts were canceled.

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

	Measurement of fair value of derivatives instruments	
	2017	2016
Financial liabilities at fair value	4,457,025	4,433,063

See description of levels in Note 26.

During the months of August and September 2017, the Bank made sales of securities and settlement of derivatives hedging those securities with notional values of B/.16,393,000, given the perfect economic relationship that existed between them.

(23) Derivatives Financial Instruments, continued

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

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

(24) Balances and Transactions with Related Parties

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

	2017	
	Related companies	**Shareholders, directors and key executives**
Assets:		
Loans	35,673,193	4,938,849
Accrued interest receivable	213,847	7,191
Accounts receivable	18,532,747	0
Securities held to maturity	16,000,000	0
Liabilities		
Demand deposits	6,015,846	55,576
Savings deposits	786,789	800,571
Time deposits	21,331,911	479,750
Accrued interest payable	246,798	17,776
Commitments and contingencies		
Guarantees issued	0	502,843
Promissory notes	2,182,157	0
Interest earned on:		
Loans	2,268,141	160,794
Interest expenses:		
Deposits	784,321	19,905
General and administration expenses:		
Allowance	0	422,230
Salaries and other benefits	0	4,371,146
Rental	1,345,869	0

(24) Balances and Transactions with Related Parties, continued

	2016	
	Related parties	**Shareholders, Directors and Key executives**
Assets:		
Loans	49,119,187	5,076,832
Accrued interest receivable	252,569	11,811
Accounts receivable	28,031,497	0
Liabilities		
Demand deposits	10,999,349	75,964
Savings deposits	442,343	1,312,597
Time 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

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

These loans are backed with cash collateral amounting to B/.5,696,550 (2016: B/.4,795,283), by real estate collateral for B/.88,316,355 (2016: B/.47,765,834), other assets pledged for B/.431,309 (2016: B/.791,995) and guarantees of securities by B/.2,182,156.

Securities held to maturity acquired from a related party have an availability period of ten (10) years from the date of the offering on November 15, 2017 and accrue an annual interest rate of LIBOR - 6 months plus a spread of 5.5%. In no event, the interest rate shell be lower than 8.5%. These securities are 100% guaranteed with the properties acquired with the funds received which are placed in a Guarantee Trust.

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

(25) Operating Segments

Composition of the operating segments are as follows:

2017	Financial Services	Fund Management	Insurance	Eliminations	Total Consolidated
Interest income and commissions	259,549,828	90,085	424,858	0	260,064,771
Interest expenses	110,197,675	144	50,284	(68,982)	110,179,121
Other income, net	11,965,942	2,044,199	6,182,413	252,000	20,444,554
Provisions for impairment of financial assets	12,581,566	0	0	0	12,581,566
General and administrative expenses	84,176,061	1,448,452	2,875,651	(258,335)	88,241,830
Net income before income tax	64,560,468	685,688	3,681,336	579,317	69,506,808
Total assets	4,664,509,623	4,507,108	25,708,671	(3,691,251)	4,691,034,151
Total liabilities	4,171,831,347	479,740	10,474,332	9,327,844	4,192,113,263

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

(26) Fair Value of Financial Instruments

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

(26) Fair Value of Financial Instruments, continued

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

	2017		2016	
	Carrying Values	Fair Value	Carrying Values	Fair Value
Assets				
Time deposits	212,720,124	212,720,124	240,989,552	240,989,552
Securities purchased under resale agreements	3,132,000	3,132,000	0	0
Securities at fair value through profit or loss	9,074,169	9,074,169	2,771,969	2,771,969
Securities available for sale	601,564,297	601,564,297	562,928,870	562,928,870
Securities held to maturity	249,169,708	260,476,471	210,683,901	219,639,071
Loans, net	2,935,097,322	3,144,504,440	2,903,619,764	2,932,135,663
	4,010,757,620	4,231,471,501	3,920,994,056	3,958,465,125
Liabilities				
Time deposits	1,790,549,917	1,790,549,917	1,690,659,398	1,696,123,220
Repurchase agreements	49,942,156	50,554,494	115,105,743	116,224,948
Borrowings received	669,164,132	660,308,980	820,518,474	827,280,801
Bonds payable	447,395,813	446,319,415	61,127,000	62,872,406
Negotiable commercial papers	11,500,000	11,425,306	0	0
	2,968,552,018	2,959,158,112	2,687,410,615	2,702,501,375

(26) Fair Value of Financial Instruments, continued

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

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

2017	Level 1	Level 2	Level 3	Total
Available for sale securities:				
Foreign common shares	0	0	23,777	23,777
Local shares and fixed income funds	0	0	8,255,966	8,255,966
Preferred shares	27,055	0	0	27,055
Foreign corporate bonds	8,100,080	18,170,119	4,836,785	31,106,984
Local corporate bonds and fixed income funds	0	17,577,023	26,141,440	43,718,463
Bonds of the Republic of Panama	0	69,947,233	4,440,829	74,388,062
Other governments' bonds	4,636,225	6,685,350	0	11,321,575
Bonds of US Government and Agencies	7,004,330	211,663,904	187,966,771	406,635,005
Negotiable certificates corresponding to the second installment of the XIII- month salary	0	0	197,731	197,731
Negotiable certificates of participation	0	0	25,699,472	25,699,472
Total securities available for sale measured at fair value	19,767,690	324,043,629	257,562,771	601,374,090

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	32,441,671	4,503,153	82,918,073
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 securities available for sale measured at fair value	62,112,937	278,539,821	224,857,874	565,510,632

During 2017, 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 2017, no instruments were reclassified from Level 2 to Level 1.

(26) Fair Value of Financial Instruments, continued

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

	2017	2016
Beginning balance of the year	224,857,874	170,356,602
Purchases	40,223,214	44,330,128
Sales and redemptions	(5,225,456)	(9,910,680)
Changes in fair value	578,362	(9,736,571)
Category reclassifications	(1,342,551)	29,818,395
Ending balance of the year	257,562,771	224,857,874

During 2017 and 2016, certain securities available for sale were transferred to Level 3, since certain inputs used to determine their fair value were not observable.

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

Financial Instrument	Valuation technique and inputs used	Level
Corporate bonds and bonds of the Republic of Panama.	Discounted cash flows using a discount rate composed of the risk-free rate, an issuer's risk spread and a liquidity spread, for an instrument with 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 and 3
Mutual funds	Net asset value	2

(26) Fair Value of Financial Instruments, continued

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 risk of each instrument.	1.60% - 8.50% (4.53%)	An increase or (decrease) in the unobservable input alone would lead to lower (higher) fair value measurement.
Negotiable certificates of participation / Negotiable certificates corresponding to the second installment of the XIII-month salary	Discounted cash flows	Discounted cash flows at a rate adjusted to the liquidity risk of each instrument.	0.18% - 1.00% (0.78%)	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 alternative assumptions would not result in significant changes in the estimated fair value.

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

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

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

(26) Fair Value of Financial Instruments, continued

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.

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Time deposits	0	0	212,720,124	212,720,124
Securities held to maturity	21,811,107	125,226,581	113,438,783	260,476,471
Loans, net	0	0	3,144,504,440	3,144,504,440
	21,811,107	125,226,581	3,470,663,347	3,617,701,035
Liabilities:				
Time deposits	0	0	1,790,549,917	1,790,549,917
Repurchase agreements	0	0	50,554,494	50,554,494
Borrowings received	0	0	660,308,980	660,308,980
Bonds payable	0	0	446,319,415	446,319,415
Commercial papers	0	0	11,425,306	11,425,306
	0	0	2,959,158,112	2,959,158,112

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Time deposits	0	0	240,989,552	240,989,552
Securities held to maturity	33,659,000	100,622,770	85,357,301	219,639,071
Loans, net	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

(26) 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
Securities held to maturity	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.

(27) Main Applicable Laws and Regulations

Laws and Regulations

(a) *Banking Law in the Republic of Panama*

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

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

Regulation in the Republic of Colombia

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

Law of the Republic of Costa Rica

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

(27) 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 Superintendency of Insurance and Reinsurance of Panama pursuant to the regulations established by Insurance Law No.12 of April 3, 2012 and Reinsurance Law No.63 of September 19, 1996.

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

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

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

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

(27) Main Applicable Laws and Regulations, continued

(g) Foreclosed Assets

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

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

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/.480,670 (2016: B/.327,834) under Rule No.3-2009.

Regulations issued by the Superintendency of Banks effective since 2014:

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

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

(27) Main Applicable Laws and Regulations, continued

Rule No. 4-2013 dated May 28, 2013 sets forth the provisions for credit risk management and administration inherent to the loan portfolio and off-balance sheet operations, including general classification criteria for credit facilities in order to determine the specific and dynamic provisions to cover the Bank's credit risk. Additionally, this Ruling establishes certain minimum required disclosures, in line with IFRS disclosure requirements about credit risk management and administration.

Specific Provisions

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 by type of collateral, and a table of estimates applied to the net balance of credit facilities exposed to losses.

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

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

	2017		2016	
	Loans	**Reserves**	**Loans**	**Reserves**
Individual impairment assessment:				
Special mention	164,826,452	14,349,676	94,652,706	7,869,808
Substandard	43,748,741	8,625,921	24,166,659	5,319,721
Doubtful	18,041,283	7,933,549	11,163,717	5,652,228
Loss	18,711,138	13,997,155	21,919,017	17,089,013
Gross amount	245,627,314	44,906,301	151,902,099	35,930,770
Collective impairment assessment:				
Performing	2,926,348,761	0	2,793,760,714	0
Total	3,171,675,761	44,906,301	2,945,662,813	35,930,770

(27) 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 Rule No. 4-2013 issued by the Superintendency of Banks of Panama, as shown below:

2017	Letters of Credit	Reserves	Guarantees Received	Reserves
Pass	6,106,089	0	133,258,321	0
Special mention	78,324	15,665	977,182	195,437
Doubtful	0	0	20,000	16,000
Loss	0	0	450,000	450,000
Total	6,184,413	15,665	134,705,503	661,437

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
Loss	0	0	500,000	500,000
Total	11,465,210	0	159,534,916	688,920

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

Loans in non-accrual status amounted to B/.19,786,508 (2016: B/.27,447,560) and had unrecognized accrued interest for (2016: B/.948,644).

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

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

(27) Main Applicable Laws and Regulations, continued

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

2017		
Non-performing loans	Past due	Total
15,239,171	28,945,275	44,184,446

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

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

The balance of restructured loans at December 31, 2017, amounted to B/.58,233,807 (2016: B/.46,683,707).

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

a) For consumer and corporate loans, if payment 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

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

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

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

(27) Main Applicable Laws and Regulations, continued

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

Entity	2017	2016
Multibank, Inc.	44,327,152	44,327,152
Banco Multibank, S. A.	2,317,575	2,317,575
MB Creditos, S. A. and Subsidiaries	1,745,461	1,632,105
Multibank Cayman, Inc.	1,298,224	1,298,224
Multileasing Financiero, S. A.	955,993	779,409
Multibank Factoring, Inc.	516,503	516,503
Gran Financiera, S. A.	176,265	176,265
Hemisphere Bank Inc., Ltd.	167,730	167,730
	51,504,903	51,214,963

The Bank, as per requirements of Rule No.4-2013, constituted a regulatory reserve for B/.13,756,809 (2016: B/.1,914,662), which represents the excess of the regulatory credit reserve over the balance of the allowance for loan losses recognized as per IFRS.

Capital Adequacy Ratio

Rule No. 1-2015 "establishes the rules of Capital Adequacy applicable to banks and banking groups", Rule No. 3-2016 "sets rules for the determination of assets weighted by credit risk and counterparty risk" and Bulletins Nos. 0058-2016 and 0072-2016 related to these agreements, surrogated Rules Nos. 4-2009 and No 5-2008. The application of these Rules came into effect for the quarter ended September 30, 2016, with some exceptions to certain articles that were effective on January 1, 2017. The application of these new Rules gave rise to relevant changes such as:

- Classification of regulatory capital funds, establishing new concepts as Tier 1 capital (common and additional Tier 1 capital).
- 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 securities available for sale, 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.

(28) Consolidated Cash Flows of Financial Liabilities

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

			Non-cash generating Transactions			
	2017	**Cash flows**	**Acquisitions**	**Effects of fluctuation in exchange rates**	**Changes in fair value**	**2016**
Financial liabilities						
Securities sold under repurchase agreements	49,942,156	(65,163,587)	0	0	0	115,105,743
Borrowings received	669,164,132	(149,115,214)	0	(2,239,128)	0	820,518,474
Bonds payable	447,395,813	387,310,826	0	(1,042,013)	0	61,127,000
Commercial papers	11,500,000	11,500,000	0	0	0	0
	1,178,002,101	184,532,025	0	(3,281,141)	0	996,751,217