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

Consolidated Financial Statements

As of December 31, 2015

(Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANTSH VERSION)

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder
Multibank, Inc.

We have audited the accompanying consolidated financial statements of Multibank, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Multibank, Inc. and Subsidiaries as at December 31, 2015 and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG (SIGNED)

February 1, 2016
Panama, Republic of Panama

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

Consolidated Statement of Financial Position

December 31, 2015

(Amounts expressed in Balboas)

Assets	**Note**	**2015**	**2014**
Cash and cash equivalents		28,639,685	24,811,124
Bank deposits:			
Demand deposits - local banks		18,862,991	19,200,569
Demand deposits - foreign banks		134,226,531	135,975,462
Time deposits - local banks		91,525,272	89,300,272
Time deposits - foreign banks		162,745,000	118,150,067
Total bank deposits		407,359,794	362,626,370
Total cash, cash items and bank deposits	4, 9	435,999,479	387,437,494
Available-for-sale securities	4, 10	543,618,240	520,254,949
Held-to-maturity securities	4, 10	151,354,933	157,984,738
Loans, net	4, 11, 23	2,635,025,066	2,407,939,201
Property, furniture, equipment and leasehold improvements, net	12	51,230,987	51,158,757
Accrued interest receivable	23	23,319,485	22,780,623
Customers' liabilities under acceptances		373,274	3,529,246
Goodwill	13	6,717,198	6,717,198
Deferred tax assets	7	7,753,588	5,529,864
Other assets	14, 22	71,114,138	55,837,561
Total assets		3,926,506,388	3,619,169,631

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	2015	2014
Liabilities:			
Customers' deposits:	4, 23		
Demand deposits - local banks		242,104,383	274,110,359
Demand deposits - foreign banks		420,132,451	376,705,371
Savings deposits		392,349,528	381,270,321
Time deposits - local banks		1,066,033,384	934,938,115
Time deposits - foreign banks		320,831,297	393,350,184
Total customers' deposits		2,441,451,043	2,360,374,350
Securities sold under repurchase agreement	4, 15	132,965,370	112,000,000
Borrowings received	4, 16	773,837,848	603,910,339
Bonds payable	4, 17	70,725,000	38,655,000
Certified and cashier's checks		24,464,370	24,213,922
Accrued interests payable	23	33,842,918	30,711,294
Pending acceptances		373,274	3,529,246
Other liabilities	18	81,758,016	81,577,348
Total liabilities		3,559,417,839	3,254,971,499
Equity:			
Common shares	19	171,617,051	171,046,039
Preferred shares	19	102,000,000	99,000,000
Surplus in acquisition of non-controlling interest	19	(5,606,927)	(5,606,927)
Reserves		(25,681,595)	(4,898,552)
Retained earnings		124,760,020	104,657,572
Total equity		367,088,549	364,198,132
Commitments and contigencies	20		
Total liabilities and equity		3,926,506,388	3,619,169,631

MULTIBANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Income

For the year ended December 31, 2015

(Amounts expressed in Balboas)

	Note	2015	2014
Interest and commissions income:			
Interests from:	24		
Loans		167,421,118	161,463,857
Time deposits		852,719	777,113
Investments		21,053,952	19,523,345
Commissions from loans		18,859,289	17,268,556
Total interest and commission income		208,187,078	199,032,871
Interest expenses:	24		
Deposits		54,255,858	54,420,861
Borrowings		17,201,723	16,121,423
Bonds		1,858,211	1,877,437
Total interest expenses		73,315,792	72,419,721
Total interest and commissions income, net		134,871,286	126,613,150
Allowance for impairment of financial assets:			
Provision for loan losses	11	19,581,028	10,113,094
(Reversal of) provision for impairment of foreclosed assets	14	(35,368)	4,112
Net interests and commission income, after provisions		115,325,626	116,495,944
Income (expenses) from banking services and others:			
Fees and other commissions earned	6	21,303,292	21,715,723
Net gain from sale of securities and valuation of derivatives	8	1,728,012	62,002
Exchange gain		3,003,208	1,767,209
Insurance premiums, net		4,244,336	4,042,003
Commissions incurred		(9,931,761)	(8,377,224)
Other, net		1,147,661	(2,475,198)
Total income from banking services and other, net		21,494,748	16,734,515
General and administration expenses:			
Salaries and other personnel costs	23	46,198,231	46,601,575
Professional fees		6,863,270	6,122,016
Depreciation and amortization	12	4,033,206	4,924,617
Maintenance of equipment and premises		5,411,156	5,705,471
Rental	20, 23	4,053,293	4,929,620
Sundry taxes		3,936,644	4,517,494
Other		9,300,868	10,652,545
Total general and administration expenses		79,796,668	83,453,338
Net income before income tax		57,023,706	49,777,121
Income tax, net	7	(6,699,625)	(7,134,568)
Net income		50,324,081	42,642,553
Attributable to:			
Equity holder of the Bank		50,324,081	42,531,121
Non-controlling interest in subsidiary		0	111,432
Net income		50,324,081	42,642,553

The consolidated statement of 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 Comprehensive Income

For the year ended December 31, 2015

(Amounts expressed in Balboas)

	Note	2015	2014
Net income		50,324,081	42,642,553
Other comprehensive income:			
Items that will never be reclassified to consolidated income statement:			
Property revaluation reserve		(225,814)	7,199,892
Deferred tax		5,418	(360,424)
Items that are or may be classified to consolidated income statement:			
Foreign currency translation effect		(9,903,345)	(10,121,014)
Reserve for valuation of investment securities:			
Net changes in valuation of available-for-sale securities		(28,074,723)	8,362,252
Net gain in available-for-sale securities transfer to profit or loss	10	(749,799)	(81,129)
Amortization to profit or loss of unrealized loss from securities transferred to held-to-maturity investments	10	1,524,867	1,029,904
Net loss (gain) transferred to profit or loss by applying hedge accounting	8	742,995	(5,344,407)
Total other comprehensive (losses) income, net		(36,680,401)	685,074
Total other comprehensive income for the year		13,643,680	43,327,627
Comprehensive income attributable to:			
Equity holder of the Bank		13,643,680	43,216,195
Non-controlling interest in subsidiary		0	111,432
Total comprehensive income		13,643,680	43,327,627

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, 2015

(Amounts expressed in Balboas)

		Attributable to the Controlling Company														
					Reserves											
	Note	Common shares	Preferred shares	Surplus in acquisition of non-controlling interest	Dynamic provisions	Surplus of credit reserve	Allowance for foreclosed assets	Insurance regulatory reserve	Capital regulatory reserve	Property revaluation	Reserve for valuation of available-for-sale securities	Unrealized loss in securities transferred to held-to-maturity	Foreign currency translation effect	Retained earnings	Non-controlling interest in subsidiary	Total
Balance as of December 31, 2013		167,047,099	73,370,300	(5,454,054)	0	0	412,648	734,749	398,527	111,842	(24,011,273)	(11,132,710)	(1,395,050)	102,813,037	1,210,692	304,105,807
Comprehensive income:																
Net income		0	0	0	0	0	0	0	0	0	0	0	0	42,531,121	111,432	42,642,553
Other comprehensive income (loss):																
Reserve for property revaluation		0	0	0	0	0	0	0	0	7,199,892	0	0	0	0	0	7,199,892
Deferred tax		0	0	0	0	0	0	0	0	(360,424)	0	0	0	0	0	(360,424)
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	(10,121,014)	0	0	(10,121,014)
Reserve for valuation of investment securities:																
Net changes in valuation of available-for-sale securities		0	0	0	0	0	0	0	0	0	8,362,252	0	0	0	0	8,362,252
Net gain from available-for-sale securities transferred to profit or loss		0	0	0	0	0	0	0	0	0	(81,129)	0	0	0	0	(81,129)
Amortization to profit or loss of unrealized loss from held-to-maturity securities transferred		0	0	0	0	0	0	0	0	0	0	1,029,904	0	0	0	1,029,904
Net gain transferred to profit or loss for application of hedge accounting		0	0	0	0	0	0	0	0	0	(5,344,407)	0	0	0	0	(5,344,407)
Dynamic provision		0	0	0	25,380,285	0	0	0	0	0	0	0	0	(25,380,285)	0	0
Credit regulatory reserve		0	0	0	0	565,116	0	0	0	0	0	0	0	(565,116)	0	0
Contingency reserve		0	0	0	0	0	(18,003)	0	0	0	0	0	0	319,200	0	301,197
Insurance regulatory reserve		0	0	0	0	0	0	489,495	0	0	0	0	0	(489,495)	0	0
Capital reserve		0	0	0	0	0	0	0	2,880,748	0	0	0	0	(2,880,748)	0	0
Total other comprehensive income		0	0	0	25,380,285	565,116	(18,003)	489,495	2,880,748	6,839,468	2,936,716	1,029,904	(10,121,014)	(28,996,444)	0	986,271
Total of comprehensive income		0	0	0	25,380,285	565,116	(18,003)	489,495	2,880,748	6,839,468	2,936,716	1,029,904	(10,121,014)	13,534,677	111,432	43,628,824
Contributions, distributions and changes in stockholders' interests:																
Issuance of common shares		3,998,940	0	0	0	0	0	0	0	0	0	0	0	0	0	3,998,940
Issuance of preferred shares		0	25,629,700	0	0	0	0	0	0	0	0	0	0	0	0	25,629,700
Dividends paid - common shares	19	0	0	0	0	0	0	0	0	0	0	0	0	(6,112,609)	0	(6,112,609)
Dividends paid - preferred shares	19	0	0	0	0	0	0	0	0	0	0	0	0	(6,080,804)	0	(6,080,804)
Acquisition of non-controlling interest in subsidiary not resulting in change of control		0	0	(152,873)	0	0	0	0	0	0	0	0	0	777,738	(1,322,124)	(697,259)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	(274,467)	0	(274,467)
Total contributions, distributions and changes in stockholders' interests:		3,998,940	25,629,700	(152,873)	0	0	0	0	0	0	0	0	0	(11,690,142)	(1,322,124)	16,463,501
Balance as of December 31, 2014		171,046,039	99,000,000	(5,606,927)	25,380,285	565,116	394,645	1,224,244	3,279,275	6,951,310	(21,074,557)	(10,102,806)	(11,516,064)	104,657,572	0	364,198,132
Comprehensive income:																
Net income		0	0	0	0	0	0	0	0	0	0	0	0	50,324,081	0	50,324,081
Other comprehensive income:																
Reserve for property revaluation		0	0	0	0	0	0	0	0	(225,814)	0	0	0	0	0	(225,814)
Deferred tax		0	0	0	0	0	0	0	0	5,418	0	0	0	0	0	5,418
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	(9,903,345)	0	0	(9,903,345)
Reserve for valuation of investment securities:																
Net changes in valuation of available-for-sale securities		0	0	0	0	0	0	0	0	0	(28,074,723)	0	0	0	0	(28,074,723)
Net gain from available-for-sale securities transferred to profit or loss		0	0	0	0	0	0	0	0	0	(749,799)	0	0	0	0	(749,799)
Amortization to profit or loss of unrealized loss from held-to-maturity securities transferred		0	0	0	0	0	0	0	0	0	0	1,524,867	0	0	0	1,524,867
Loss transferred to profit or loss for application of hedge accounting		0	0	0	0	0	0	0	0	0	742,995	0	0	0	0	742,995
Dynamic provision	26	0	0	0	18,424,871	0	0	0	0	0	0	0	0	(18,424,871)	0	0
Credit regulatory reserve	26	0	0	0	0	238,929	0	0	0	0	0	0	0	(238,929)	0	0
Contingency reserve		0	0	0	0	0	(60,229)	0	0	0	0	0	0	60,229	0	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(108,369)	0	0	0	108,369	0	0
Insurance regulatory reserve		0	0	0	0	0	0	644,035	0	0	0	0	0	(644,035)	0	0
Capital reserve		0	0	0	0	0	0	0	(3,241,879)	0	0	0	0	3,241,879	0	0
Total other comprehensive income		0	0	0	18,424,871	238,929	(60,229)	644,035	(3,241,879)	(328,765)	(28,081,527)	1,524,867	(9,903,345)	(15,897,358)	0	(36,680,401)
Total of comprehensive income		0	0	0	18,424,871	238,929	(60,229)	644,035	(3,241,879)	(328,765)	(28,081,527)	1,524,867	(9,903,345)	34,426,723	0	13,643,680
Contributions, distributions and changes in stockholders' interests:																
Issuance of common shares	19	571,012	0	0	0	0	0	0	0	0	0	0	0	0	0	571,012
Issuance of preferred shares	19	0	3,000,000	0	0	0	0	0	0	0	0	0	0	0	0	3,000,000
Dividends paid - common shares	19	0	0	0	0	0	0	0	0	0	0	0	0	(6,403,220)	0	(6,403,220)
Dividends paid - preferred shares	19	0	0	0	0	0	0	0	0	0	0	0	0	(7,344,793)	0	(7,344,793)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	(576,262)	0	(576,262)
Total contributions, distributions and changes in stockholders' interests:		571,012	3,000,000	0	0	0	0	0	0	0	0	0	0	(14,324,275)	0	(10,753,263)
Balance as of December 31, 2015		171,617,051	102,000,000	(5,606,927)	43,805,156	804,045	334,416	1,868,279	37,396	6,622,545	(49,156,084)	(8,577,939)	(21,419,409)	124,760,020	0	367,088,549

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, 2015

(Amounts expressed in Balboas)

	Notes	2015	2014
Cash flows in operating activities:			
Net income		50,324,081	42,642,553
Adjustments for:			
Provision for loan losses	11	19,581,028	10,113,094
(Reversal of) provision for impairment of foreclosed assets	14	(35,368)	4,112
Net gain from sale of securities and derivatives valuation	8	(1,728,012)	(62,002)
Depreciation and amortization	12	4,033,206	4,924,617
Income tax	7	6,699,625	7,134,568
Interest and commissions income, net		(134,871,286)	(126,613,150)
Loss from disposal of property, furniture and equipment		487,144	108,415
Net changes in operating assets and liabilities:			
Deposits over 90 days		(17,960,652)	(24,610,081)
Loans		(272,396,093)	(309,976,617)
Other assets		(12,153,109)	11,548,165
Customers' deposits		92,631,575	353,839,366
Other liabilities		(2,660,972)	9,533,366
Purchases and sales of trading securities, net		112,701	0
Interests received		207,083,733	179,290,434
Interests paid		(70,184,168)	(69,852,574)
Income tax paid		(8,141,426)	(8,409,805)
Net cash (used in) from operating activities		(139,177,993)	79,614,461
Cash flows from investing activities:			
Securities purchased under resale agreement		0	1,281,000
Purchase of available-for-sale securities		(573,390,058)	(607,516,658)
Sale and redemption of available-for-sale securities	10	522,695,039	509,873,309
Purchase of securities held-to-maturity		(10,000,000)	(221,464)
Amortization of capital and redemption of securities held-to-maturity		18,154,672	2,945,020
Purchases of property, furniture and equipment	12	(4,592,580)	(19,155,477)
Net cash used in investing activities		(47,132,927)	(112,794,270)
Cash flows from financing activities:			
Securities sold under repurchase agreements		20,965,370	21,922,000
Borrowings received		600,371,829	436,400,596
Borrowings paid and amortizations		(420,956,840)	(375,995,454)
Issuance of bonds payable		52,070,000	0
Redemption of bonds payable		(20,000,000)	(3,629,000)
Issuance of common shares	19	571,012	3,998,940
Issuance of preferred shares	19	3,000,000	25,629,700
Adquisition of non-controlling interest in subsidiaries		0	(1,474,997)
Complementary tax		(576,262)	(274,467)
Dividends paid on common shares	19	(6,403,220)	(6,112,609)
Dividends paid on preferred shares	19	(7,344,793)	(6,080,804)
Net cash from financing activities		221,697,096	94,383,905
Effect of fluctuation in exchange rates		(4,784,843)	(4,272,695)
Net increase in cash and cash equivalents		30,601,333	56,931,401
Cash and cash equivalents at the beginning of the year		353,072,874	296,141,473
Cash and cash equivalents at the end of the year	9	383,674,207	353,072,874
Non-cash generating transactions			
Revaluation of property, furniture and equipment	12	0	7,208,489

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

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(1) General Information

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

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

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

Multibank, Inc. owns the following subsidiaries:

	Activity	Country of incorporation
Hemisphere Bank Inc., Ltd.	Commercial bank 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 an investment portfolio.	Panama
Multi Trust, Inc.	Foster, establish, administrate and management of trust funds and render trust services.	Panama
Banco Multibank, S. A. (formerly Macrofinanciera, S. A. C.F.)	Banking business.	Colombia
Multi Capital Company, Inc.	Render advisory services abroad.	Nevis Islands
Multibank Seguros, S. A.	Insurance business.	Panama
Multileasing Financiero, S. A.	Finance leasing of movable goods.	Panama

(1) General Information, continued

	Activity	Country of incorporation
Multi Facilities Holding Corporation and subsidiaries	Collection and recovery of special loans and activities related to financial loans through subsidiaries.	British Virgin Islands
MB Creditos, S. A.	Subsidiary of Multibank Inc, in 2015 (2014: Multi Facilities Holding Corporation). Its activity is to offer car and mortgages financing services.	Costa Rica
MB Leasing, S. A.	Subsidiary of MB Creditos, S.A.; finance leasing of movable property.	Costa Rica
Multibank Factoring, Inc.	Factoring services.	Panama
Multibank Cayman, Inc.	Commercial banking business.	Cayman Islands
Orbis Real Estate, Inc.	Purchase, sale and administration of real estate.	Panama
Inversiones Prosperidad, S. A.	Purchase, sale and administration of real estate.	Panama

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

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

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

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

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

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

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

(2) Basis of Preparation

(a) Statement of Compliance

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were authorized the issuance by the Audit Committee on January 21, 2016.

(b) Basis of Measurement

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

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

(c) Functional and Presentation Currency

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

(d) Changes in Accounting Policies

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

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

(3) Summary of Significant Accounting Policies

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

(a) Basis of Consolidation

(a.1) Subsidiaries

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

(3) Summary of Significant Accounting Policies, continued

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

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

(a.2) Investment Entities and Separate Vehicles

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

(a.3) Transactions Eliminated on Consolidation

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

(a.5) Changes in the Bank's ownership interests in existing subsidiaries

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

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

(b) Fair Value Measurement

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

(c) Cash and Cash Equivalents

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

(d) Securities Purchased under Resale Agreement

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

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

(e) Derivative Financial Instruments

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

(e.1) Fair Value Hedges

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

(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. At the inception of the hedge relationship, the revaluation of such asset will begin to be recorded in the consolidated statement of income and the revaluation balance, previously recorded in the provision shall be maintained until sale or maturity date of the asset.

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

(e.2) Other Derivatives

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

(f) Investment Securities

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

(f.1) Securities at fair value through profit or loss:

This category includes those securities acquired for the purpose to generate a profit in the short term fluctuations in the price of the instrument. These values are presented at fair value and the changes in fair value are presented in the consolidated statement of income.

(f.2) Available for sale securities

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

(3) Summary of Significant Accounting Policies, continued

Impairment of available for sale financial assets

The Bank assesses at the date of each reporting, 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 lowered from equity and recognized in the consolidated statement of income.

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 to through the consolidated statement of income.

(f.3) Held to maturity securities

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

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

Transfer among categories

The Bank reviews in each reporting period, the classification of its investments and evaluates if there is any change in its intention or ability to maintain the same category.

If due to a change in the intention or ability over a financial asset or liability, it is required to be recognized at cost or amortized cost rather than fair value, the carrying amount of the fair value of the financial asset or liability at that date shall be converted into its new cost or amortized cost, as applicable. Any effect resulting from this asset, 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 for the period through the remaining useful life of the held-to-maturity investment, using the effective interest method. Any difference between the new amortized cost and the amount upon maturity shall be also amortized through the remaining useful life of the financial asset using the effective interest method, similarly to the amortization of a premium or discount. In case of a subsequent impairment, any gain or loss that was formerly recognized in other comprehensive income shall be reclassified from equity to the consolidated statement of income.

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

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

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

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

(j) Allowance for loan losses
The Bank assesses at each reporting date, if there any objective evidence of a loan or loan portfolios impairment, finance lease receivable or factoring receivables (hereinafter, will be 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 increasing the allowance for loan losses. The allowance is presented deducted from loans receivable in the consolidated statement of financial position. In case of a bad debt, the amount not recovered is charged off against the corresponding allowance account. The recovery of loans that were formerly written-down as bad debts are credited to 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 loans individually material and collectively for loans not individually material.

(j.1) Individually Assessed Loans
Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the actual rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the consolidated statement of income. The carrying value of impaired loans is decreased through the use of the allowance for loan losses account.

(j.2) Collectively Assessed Loans
For purposes of a collective assessment for impairment, loans are grouped based on similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for the groups of such assets, being an indicator of the payment capacity of debtors for all the amounts owed as per the contractual terms of assessed assets. Future cash flows for a loan group collectively assessed for impairment are estimated based on contractual cash flows of the group's assets, the historical loss experience for assets with similar credit risk characteristics and adjusted by an economic factor showing the following:

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

(j.3) Reversal due to impairment
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the 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 income.

(j.4) Restructured loans
Restructured loans are those for which a restructuring has been made due to any impairment in the financial condition of the counterparty, and where the Bank considers to change the loan parameters. These loans, after restructuring, are maintained in the corresponding category, regardless if the debtor presents any improvement in its condition after restructuring

(3) Summary of Significant Accounting Policies, continued

(k) Offsetting of financial assets and financial liabilities

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

(l) Property, Furniture, Equipment and Improvements

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

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

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

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

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

(m) Goodwill

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

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

(3) Summary of Significant Accounting Policies, continued

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

(n) Deposits, Bonds payable, Borrowings Received and Trading Securities and Capital Instruments

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

(o) Financial Guarantees

Financial guarantees are contracts that required the Bank to make specific payments on behalf of its clients for purposes of reimbursing the guarantee beneficiary, in case that the client is unable to honor the payment at the date agreed, in conformity with the terms and conditions of the arrangement.

Liabilities arising from financial guarantees are initially measured at fair value, which is amortized throughout the term of the financial guarantee. Subsequently, guarantee is carried at the highest amount between the amortized amount and the present value of expected future payments. Financial guarantees are included in the consolidated statement of financial position within other liabilities.

(p) Interest income and expenses

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

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

(q) Income from Fees and Commissions

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

(3) Summary of Significant Accounting Policies, continued

(r) Dividend income

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

(s) Defined Contribution Plan

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

(t) Insurance operations

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

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

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

Any gain or loss from the reinsurance arrangement is recognized in the consolidated statements of income 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 premium corresponding to the period contracted in the policy is recognized upon the inception of the hedge without considering the payment status of the premium. Hedging begins with the acceptance of the insurance request by the client and payment of the premium, which may be fractioned or deferred when, paid in one sole portion.

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

(3) Summary of Significant Accounting Policies, continued

(u) Trust Operations

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

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

(v) Preferred Shares

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

(w) Income tax

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

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

(x) Assets classified as Held for Sale

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

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

(y) Segment Information

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

(3) Summary of Significant Accounting Policies, continued

(z) Foreign Currency

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

(aa) Comparative Information

Certain figures of 2014 have been reclassified for comparison purposes to conform to 2015 consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

(4) Financial Risk Management

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

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

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

- Approve the strategies to assume risks, ensuring that they represent a proper risk-return ratio optimizing the use of the Bank's economic capital.
- Approve the maximum exposure limits allowed, showing the Bank's risk appetite.
- Approve the management policies and framework for any type of risks.
- Analyze the Bank's exposure to different risks and their interrelation and recommend mitigation strategies as required.
- Inform the Board of Directors as to the Bank's risk behavior.

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

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

(4) Financial Risk Management, continued

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

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

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

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

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

(a) Credit Risk

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

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

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

- The 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.

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

(4) Financial Risk Management, continued

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

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

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

Established the Authorization Limits:
Approval limits for credits are established depending on the amount that it represents to the Bank's equity. These limits levels are submitted before the consideration of the Risk Management 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 assessment and the approved risk appetite.

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

(4) Financial Risk Management, continued

Analysis of Credit Quality

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

	Loans Receivable		Debt Securities Investments	
	2015	**2014**	**2015**	**2014**
Maximum exposure				
Carrying value	2,635,025,066	2,407,939,201	687,102,172	672,632,999
At amortized cost				
Level 1: Pass	2,583,034,719	2,370,005,085	151,354,933	157,984,738
Level 2: Special Mention	55,480,954	37,385,308	0	0
Level 3: Substandard	13,307,868	13,543,238	0	0
Level 4: Doubtful	13,993,295	13,321,317	0	0
Level 5: Loss	9,643,200	17,506,391	0	0
Gross amount	2,675,460,036	2,451,761,339	151,354,933	157,984,738
Allowance for impairment loss	(32,189,252)	(35,011,937)	0	0
Unearned discounted interests and commissions	(8,245,718)	(8,810,201)	0	0
Carrying value, net	2,635,025,066	2,407,939,201	151,354,933	157,984,738
Available for sale securities				
Level 1: Low risk	0	0	535,747,239	514,648,261
Carrying value	0	0	535,747,239	514,648,261
Allowance for impairment loss	0	0	0	0
Carrying value, net	0	0	535,747,239	514,648,261
Not past-due nor impaired				
Level 1	2,583,034,719	2,370,005,085	0	0
Level 2	55,480,954	37,385,308	0	0
Sub-total	2,638,515,673	2,407,390,393	0	0
Individually impaired				
Level 3	13,307,868	13,543,238	0	0
Level 4	13,993,295	13,321,317	0	0
Level 5	9,643,200	17,506,391	0	0
Sub-total	36,944,363	44,370,946	0	0
Allowance for impairment loss				
Individual	12,000,074	7,653,833	0	0
Collectively	20,189,178	27,358,104	0	0
Total allowance for impairment loss	32,189,252	35,011,937	0	0
Off-balance operations				
Level 1: Low risk				
Letters of credit	7,147,842	22,777,317	0	0
Guarantees issued	131,963,322	94,319,231	0	0
Promissory notes	147,669,983	103,558,880	0	0
	286,781,147	220,655,428	0	0

The Bank maintains deposits in banks for the amount of B/.407,359,794 (2014: B/.362,626,370). Deposits are maintained in financial institutions applying the limits established in the risk policy for the 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;
  - Cash flows of the debtor or issuer with difficulty experience;
  - Non-compliance with contractual terms and conditions;
  - Start in a 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 collaterals and/or payment sources sufficient to cover the carrying value of such loans and investments are considered past-due but not impaired.

- Restructured Loans:
  It corresponds to loans restructured due to any impairment in the debtor's financial condition and when the Bank considers to grant any variation with respect to the credit original terms (balance, term, payment plan, rate and collaterals). These loans after restructured, are maintained in this category, notwithstanding if the debtor's capacity improves after Bank's restructuring. (See Note 26).

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

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

(4) Financial Risk Management, continued

Collaterals and their Financial Effect

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

	% of exposure subjected to Collaterals		
	2015	**2014**	**Type of Collaterals**
Loans receivable	72%	67%	Cash, Property and Equipment

Residential Mortgage Loans

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

	2015	**2014**
Residential mortgage loans:		
% LTV		
Less than 50%	20,278,837	22,188,775
51% - 70%	48,534,563	49,486,666
71% - 90%	128,237,876	114,369,023
91% - 100%	165,275,263	117,303,557
More than 100%	4,451,496	1,798,464
Total	366,778,035	305,146,485

Derivatives, Margin Loans, Securities under Repurchase and Resale Agreements

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

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

(4) Financial Risk Management, continued

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

Assets received as Collateral

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

	2015	2014
Properties	289,852	140,853
Vehicles and others	511,896	243,192
Total	801,748	384,045

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

Concentration of Credit Risk

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

	Loans Receivable		Debt Securities Investments	
	2015	2014	2015	2014
Sector:				
Corporate	1,727,087,179	1,580,093,303	193,754,662	224,425,776
Consumption	907,937,887	827,845,898	0	0
Government	0	0	493,347,510	448,207,223
	2,635,025,066	2,407,939,201	687,102,172	672,632,999
Geographic concentration				
Panama	2,043,884,857	1,740,780,805	148,502,468	148,293,272
Latin America and the Caribbean	577,025,102	654,007,799	193,757,583	235,212,791
United States of America	8,425,823	8,121,685	332,150,587	267,625,989
Others	5,689,284	5,028,912	12,691,534	21,500,947
	2,635,025,066	2,407,939,201	687,102,172	672,632,999

	Letters of Credit		Guarantees Received		Promissory Notes	
	2015	2014	2015	2014	2015	2014
Sector:						
Corporate	6,304,708	22,777,317	131,447,539	91,374,540	20,114,104	13,204,347
Consumption	843,134	0	515,783	2,944,691	127,555,879	90,354,533
	7,147,842	22,777,317	131,963,322	94,319,231	147,669,983	103,558,880
Geographic concentration						
Panama	5,151,369	4,774,092	40,903,318	20,515,338	147,669,983	103,553,080
Latin America and the Caribbean	1,996,473	491,574	7,016,345	3,511,386	0	0
United States of America	0	11,341,875	2,242,469	7,138,777	0	5,800
Others	0	6,169,776	81,801,190	63,153,730	0	0
	7,147,842	22,777,317	131,963,322	94,319,231	147,669,983	103,558,880

(4) Financial Risk Management, continued

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

(b) Liquidity or Financial Risk

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

Liquidity Risk Management:

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

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

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

Exposure to Liquidity Risk:

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

(4) Financial Risk Management, continued

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

	2015	**2014**
At end of the year	40.77%	38.29%
Average for the year	36.22%	34.87%
Maximum for the year	40.88%	38.29%
Minimum for the year	31.63%	31.79%

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

2015	Until 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total nominal gross amount (inflow/outflow	Carrying Value
Financial liabilities						
Customers' deposits	(1,871,717,501)	(458,927,509)	(114,732,150)	(64,448,737)	(2,509,825,897)	2,441,451,043
Repurchase securities	(133,065,309)	0	0	0	(133,065,309)	132,965,370
Borrowings received	(519,703,951)	(198,818,755)	(46,497,746)	(118,106,098)	(883,126,550)	773,837,848
Bonds payable	(42,226,574)	(10,775,209)	(32,463,411)	0	(85,465,194)	70,725,000
Letters of credit	(7,147,842)	0	0	0	(7,147,842)	0
Financial guarantees issued	(95,975,511)	(19,444,644)	(16,543,167)	0	(131,963,322)	0
Loans arrangements	(142,275,743)	(5,394,240)	0	0	(147,669,983)	0
Derivatives	0	0	0	(6,191,682)	(6,191,682)	5,519,689
	(2,812,112,431)	(693,360,357)	(210,236,474)	(188,746,517)	(3,904,455,779)	3,424,498,950
Financial Assets						
Cash and cash equivalents	435,406,577	1,859,746	0	0	437,266,323	435,999,479
Available-for-sale securities	0	154,994,855	64,001,745	389,251,914	608,248,514	543,618,240
Held-to-maturity securities	0	21,699,754	64,002,641	133,003,813	218,706,208	151,354,933
Loans, net	1,040,454,645	529,162,862	549,688,924	1,436,688,374	3,555,994,805	2,635,025,066
	1,475,861,222	707,717,217	677,693,310	1,958,944,101	4,820,215,850	3,765,997,718

2014	Until 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total nominal gross amount (inflow/outflow	Carrying Value
Financial liabilities						
Customers' deposits	(1,934,316,993)	(440,357,904)	(109,156,584)	(3,222,708)	(2,487,054,189)	2,360,374,350
Repurchase securities	(112,034,418)	0	0	0	(112,034,418)	112,000,000
Borrowings received	(395,697,698)	(155,642,366)	(64,958,801)	(68,145,263)	(684,444,128)	603,910,339
Bonds payable	(21,813,635)	(19,182,716)	0	0	(40,996,351)	38,655,000
Letters of credit	(19,682,011)	(2,992,651)	(102,655)	0	(22,777,317)	0
Financial guarantees issued	(16,194,444)	(46,016,936)	(32,107,851)	0	(94,319,231)	0
Loans arrangements	(31,977,044)	(71,581,836)	0	0	(103,558,880)	0
Derivatives	0	0	0	(6,250,292)	(6,250,292)	6,250,292
	(2,531,716,243)	(735,774,409)	(206,325,891)	(77,618,263)	(3,551,434,806)	3,121,189,981
Financial Assets						
Cash and cash equivalents	381,929,362	8,249,725	0	0	390,179,087	387,437,494
Available-for-sale securities	38,510,422	55,125,000	78,538,571	352,981,176	525,155,169	520,254,949
Held-to-maturity securities	10,382,711	5,500,000	17,625,000	129,495,200	163,002,911	157,984,738
Loans, net	942,397,842	473,148,291	467,495,718	1,318,828,594	3,201,870,445	2,407,939,201
	1,373,220,337	542,023,016	563,659,289	1,801,304,970	4,280,207,612	3,473,616,382

(4) Financial Risk Management, continued

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

	2015	2014
Assets:		
Banks deposits	1,714,248	0
Available-for-sale securities	512,449,485	487,509,556
Held-to-maturity securities	151,354,933	150,087,188
Loans, net	1,749,473,175	1,476,183,345
Total assets	2,414,991,841	2,113,780,089
Liabilities:		
Time deposits	608,233,316	524,637,513
Borrowings received	310,846,732	237,924,517
Bonds payable	35,670,000	18,655,000
Total liabilities	954,750,048	781,217,030

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

	2015						
	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Past Due	Total
Financial assets:							
Cash and cash equivalents	28,639,685	0	0	0	0	0	28,639,685
Bank deposits	387,151,404	18,494,142	1,714,248	0	0	0	407,359,794
Available-for-sale securities	7,586,198	15,711,556	152,507,642	60,130,933	299,810,910	7,871,001	543,618,240
Held-to-maturity securities	0	0	11,518,683	20,045,272	119,790,978	0	151,354,933
Loans, net	389,472,431	496,079,460	350,811,157	412,804,747	985,857,271	0	2,635,025,066
Total financial assets	812,849,718	530,285,158	516,551,730	492,980,952	1,405,459,159	7,871,001	3,765,997,718
Financial liabilities:							
Demand deposits	662,236,834	0	0	0	0	0	662,236,834
Savings deposits	392,349,528	0	0	0	0	0	392,349,528
Time deposits	253,452,115	525,179,250	409,390,303	129,887,437	68,955,576	0	1,386,864,681
Repurchase securities	132,965,370	0	0	0	0	0	132,965,370
Borrowings received	110,287,576	352,703,540	147,715,583	43,131,149	120,000,000	0	773,837,848
Bonds payable	17,070,000	17,985,000	5,670,000	30,000,000	0	0	70,725,000
Total financial liabilities	1,568,361,423	895,867,790	562,775,886	203,018,586	188,955,576	0	3,418,979,261
Commitments and contingencies	58,570,011	183,362,592	44,848,544	0	0	0	286,781,147

(4) Financial Risk Management, continued

	2014						
	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Past Due	Total
Financial assets:							
Cash and cash equivalents	24,811,124	0	0	0	0	0	24,811,124
Bank deposits	362,626,370	0	0	0	0	0	362,626,370
Available-for-sale securities	7,680,869	19,457,837	55,106,719	78,400,044	354,002,794	5,606,686	520,254,949
Held-to-maturity securities	6,808,866	1,088,684	5,500,407	19,408,141	125,178,640	0	157,984,738
Loans, net	523,310,502	404,374,668	292,490,912	345,479,666	834,142,079	0	2,407,939,201
Total financial assets	925,237,731	424,921,189	353,098,038	443,287,851	1,313,323,513	5,606,686	3,473,616,382
Financial liabilities:							
Demand deposits	650,815,730	0	0	0	0	0	650,815,730
Savings deposits	381,270,321	0	0	0	0	0	381,270,321
Time deposits	315,864,714	487,786,072	414,903,674	104,117,539	5,616,300	0	1,328,288,299
Repurchase securities	112,000,000	0	0	0	0	0	112,000,000
Borrowings received	129,642,435	236,343,387	127,924,517	50,000,000	60,000,000	0	603,910,339
Bonds payable	0	20,000,000	18,655,000	0	0	0	38,655,000
Total financial liabilities	1,589,593,200	744,129,459	561,483,191	154,117,539	65,616,300	0	3,114,939,689
Commitments and contingencies	67,853,499	120,591,422	32,210,507	0	0	0	220,655,428

(c) Market Risk

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

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

Market Risk Management:

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

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

(4) Financial Risk Management, continued

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

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

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

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

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

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

(4) Financial Risk Management, continued

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

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

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

(4) Financial Risk Management, continued

Sensitivity of the net income of projected interests:	**50 pb of increase**	**50 pb of decrease**	**100 pb of increase**	**100 pb of decrease**
2015				
As of December 31	10,485,901	(10,485,901)	20,971,802	(20,971,802)
Average for the year	10,179,277	(10,179,277)	20,358,554	(20,358,554)
Maximum for the year	10,618,819	(10,618,819)	21,237,637	(21,237,637)
Minimum for the year	9,556,689	(9,556,689)	19,113,379	(19,113,379)
2014				
As of December 31	8,708,153	(8,708,153)	17,416,305	(17,416,305)
Average for the year	8,249,391	(8,249,391)	16,498,783	(16,498,783)
Maximum for the year	8,708,153	(8,708,153)	17,416,305	(17,416,305)
Minimum for the year	7,751,070	(7,751,070)	15,502,139	(15,502,139)

Sensitivity of net equity due to interest rate fluctuation:	**50 pb of increase**	**50 pb of decrease**	**100 pb of increase**	**100 pb of decrease**
2015				
As of December 31	(756,837)	756,837	(1,513,675)	1,513,675
Average for the year	(1,966,100)	1,966,100	(3,932,200)	3,932,200
Maximum for the year	(2,465,162)	2,465,162	(4,930,325)	4,930,325
Minimum for the year	(1,686,049)	1,686,049	(3,372,098)	3,372,098
2014				
As of December 31	(3,207,427)	3,207,427	(6,414,854)	6,414,854
Average for the year	(5,244,460)	5,244,460	(10,488,920)	10,488,920
Maximum for the year	(7,143,753)	7,143,753	(14,287,505)	14,287,505
Minimum for the year	(3,207,427)	3,207,427	(6,414,854)	6,414,854

(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.

2015	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Interest rate free	Total
Financial assets:							
Cash and cash equivalents	0	0	0	0	0	28,639,685	28,639,685
Bank deposits	387,151,404	18,494,142	1,714,248	0	0	0	407,359,794
Available-for-sale securities	7,586,198	15,711,556	152,507,642	60,130,933	299,810,910	7,871,001	543,618,240
Held-to-maturity securities	0	0	11,518,683	20,045,272	119,790,978	0	151,354,933
Loans, net	389,472,431	496,079,460	350,811,157	412,804,747	985,857,271	0	2,635,025,066
Total financial assets	784,210,033	530,285,158	516,551,730	492,980,952	1,405,459,159	36,510,686	3,765,997,718
Financial liabilities:							
Demand deposits	0	0	0	0	0	662,236,834	662,236,834
Savings deposits	392,349,528	0	0	0	0	0	392,349,528
Time deposits	253,452,115	525,179,250	409,390,303	129,887,437	68,955,576	0	1,386,864,681
Repurchase securities	132,965,370	0	0	0	0	0	132,965,370
Borrowings received	110,287,576	352,703,540	147,715,583	43,131,149	120,000,000	0	773,837,848
Bonds payable	17,070,000	17,985,000	5,670,000	30,000,000	0	0	70,725,000
Total financial liabilities	1,568,361,423	895,867,790	562,775,886	203,018,586	188,955,576	0	3,418,979,261
Total sensitivity to interest rates	(784,151,390)	(365,582,632)	(46,224,156)	289,962,366	1,216,503,583	36,510,686	347,018,457

2014	Until 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Interest rate free	Total
Financial assets:							
Cash and cash equivalents	0	0	0	0	0	24,811,124	24,811,124
Bank deposits	362,626,370	0	0	0	0	0	362,626,370
Available-for-sale securities	130,938,278	19,457,837	55,106,718	76,513,932	232,631,496	5,606,688	520,254,949
Held-to-maturity securities	15,933,866	1,088,684	407	15,783,141	125,178,640	0	157,984,738
Loans, net	1,508,234,480	165,500,894	154,096,192	168,038,592	412,069,043	0	2,407,939,201
Total financial assets	2,017,732,994	186,047,415	209,203,317	260,335,665	769,879,179	30,417,812	3,473,616,382
Financial liabilities:							
Demand deposits	0	0	0	0	0	650,815,730	650,815,730
Savings deposits	381,270,321	0	0	0	0	0	381,270,321
Time deposits	315,864,715	487,786,071	414,903,674	104,117,539	5,616,300	0	1,328,288,299
Repurchase securities	112,000,000	0	0	0	0	0	112,000,000
Borrowings received	129,642,434	236,343,388	127,924,517	50,000,000	60,000,000	0	603,910,339
Bonds payable	0	20,000,000	18,655,000	0	0	0	38,655,000
Total financial liabilities	938,777,470	744,129,459	561,483,191	154,117,539	65,616,300	650,815,730	3,114,939,689
Total sensitivity to interest rates	1,078,955,524	(558,082,044)	(352,279,874)	106,218,126	704,262,879	(620,397,918)	358,676,694

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

(4) Financial Risk Management, continued

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

(d) Operational Risk and Business Continuity

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

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

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

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

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

(4) Financial Risk Management, continued

(e) Capital Management

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

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

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

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

	2015	**2014**
Primary Capital (pillar 1)		
Common shares	171,617,051	171,046,039
Preferred shares	102,000,000	99,000,000
Surplus of acquisition of non-controlling interest	(5,606,927)	(5,606,927)
Dynamic provision	43,805,156	25,380,285
Retained earnings	124,760,020	104,657,572
Less: goodwill	(6,717,198)	(6,717,198)
Total regulatory capital	429,858,102	387,759,771
Total weighted assets	2,662,169,868	2,465,400,426
Capital ratios		
Total regulatory capital expressed in percentage over the weighted assets	16.15%	15.73%
Total pillar 1 expressed in percentage over the weighted assets	16.15%	15.73%

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

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

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

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

(a) Determination of Control over Investees:

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

- *Investment companies and Separate Vehicles*

  The Bank acts as administrator of assets in favor of third parties through investment companies and separate vehicles. When evaluating if the Bank controls those investment funds, we have considered the following factors such as the reach of its authority to make decisions on behalf of the investee, the rights maintained by third parties, the consideration vested in conformity with the consideration agreements and its exposure to return fluctuations. Accordingly, the Bank has concluded that it acts as investment agent for all cases and therefore, it does not consolidate these investment companies and separate 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 Integral Management Committee and establishes specific provisions for loans for which a risk higher than normal has been identified. These provisions are classified into individual provisions for loans, that by its nature and amount have an effect on creditworthiness and other financial indicators of the Bank and collective provision for loans, which are those related to group of loans of the same nature, geographic area or common purpose or that were granted under the same loan program.

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

(c) Fair Value of Derivatives Instruments:

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

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

(d) Impairment of Available for sale securities:

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

(e) Impairment of Goodwill

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

(f) Income Tax:

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

(6) Commissions Earned on Remittances

Commissions earned on remittances, included in the fees and other commissions category for B/.100,737 (2014: B/.1,887,076), were generated by the subsidiary Banco Multibank, S. A. (formerly Macrofinanciera, S.A.C.F.), incorporated in the Republic of Colombia. During July 2014, the Bank decided to discontinue these operations in that country so that the subsidiary undertakes the financial intermediation business.

(7) Income tax

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

Tax income for legal persons in the Republic of Panama must calculate income taxes at the rate of 25%.Additionally, companies with annual taxable income over one million five hundred thousand Balboas (B/.1,500,000) will pay income tax on the greater of:

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

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

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

Country	Income tax rate	Reviewed period
Colombia	39%	2015 onwards
Costa Rica	30%	2013 onwards

(7) Income Tax, continued

The income tax expense is as follows:

	2015	2014
Current tax:		
Estimated income tax	8,831,341	6,964,288
Tax adjustment from prior periods	92,008	22,452
Deferred tax:		
Origin and reversal of temporary differences	(2,223,724)	147,828
Total income tax expense	6,699,625	7,134,568

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

	2015	2014
Net income before income taxes	57,023,706	49,777,121
Exempted and non-taxable income from foreign source	(110,931,639)	(79,177,620)
Non-deductible costs and expenses	86,330,362	54,303,264
Tax loss carryforwards from prior years	(51,886)	(17,239)
Net taxable income	32,370,543	24,885,526
25% income tax at local rate	8,092,636	6,221,381
Effects of application of different local tax rates	738,705	742,907
Current income tax	8,831,341	6,964,288

The effective income tax rate is as follows:

	2015	2014
Income before income taxes	57,023,706	49,777,121
Current income tax expense and tax rate applicable to book income	6,699,625	7,134,568
Effective income tax rate	11.75%	14.33%

(7) Income Tax, continued

The deferred income tax asset and liability is detailed below:

	2015			2014		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Allowance for loan losses	6,737,546	0	6,737,546	5,456,302	0	5,456,302
Revaluation of properties	0	(355,006)	(355,006)	0	(360,424)	(360,424)
Prepaid expenses	167,447	0	167,447	0	0	0
Tax loss carryforwards	848,595	0	848,595	73,562	0	73,562
Total	7,753,588	(355,006)	7,398,582	5,529,864	(360,424)	5,169,440

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

The Bank kept a cumulative tax loss balance for B/.2,104,249 (2014: B/.294,247). Accumulated tax losses may be used by 20% every year, for up to five years, provided that they not exceed 50% of taxable income.

Said accumulated losses available for use are distributed as follows:

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

Tax loses by companies incorporated in Colombia could be used until finished their existence, without due time and without cap amount for fiscal period.

Said accumulated losses available for use are distributed as follows:

Year	**Tax loss to be used per year in Colombia**
2016	295,354
2017	1,551,080
2018	50,105

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

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

	2015	2014
Net (loss) gain on sale of securities through profit or loss	112,701	(105,163)
Net gain on sale of available-for-sale securities	749,799	81,129
Unrealized (loss) gain transferred to profit or loss from the application of hedge accounting	(742,995)	5,344,407
Net (loss) gain on revaluation of derivatives instruments	730,604	(5,355,847)
Net gain on sale of other financial instruments	877,903	97,476
	1,728,012	62,002

(9) Cash and Cash Equivalents

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

	2015	2014
Cash and cash equivalents	28,639,685	24,811,124
Demand deposits	153,089,522	155,176,031
Time deposits	254,270,272	207,450,339
Total cash and due from banks	435,999,479	387,437,494
Less: interest-bearing deposits due over 90 days and pledges	52,325,272	34,364,620
Cash and cash equivalents in the consolidated statement of cash flows	383,674,207	353,072,874

(10) Investment in Securities

Investment in securities are detailed below:

Securities at fair value through profit or loss

During 2015, the Bank sold all of its securities at fair value through profit or loss for B/.6,192,000 (2014: B/.18,820,000), generating a gain of B/.112,701 (2014: loss of B/.105,163).

(10) Investment in Securities, continued

Available for Sale Securities

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

	2015	**2014**
Foreign common stock	21,559	78,059
Preferred stock	25,835	30,635
Local stock	7,823,607	5,497,994
Foreign Corporate Bonds	102,592,171	146,846,172
Corporate Bonds and Local Fixed Income Funds	53,131,726	45,321,981
Bonds of the Republic of Panama	1,349,292	0
Bonds from Other Governments	68,009,198	80,131,898
Bonds from US Government and Agencies	269,125,483	206,786,260
Negotiable Certificate of Participation	29,818,568	31,742,595
Negotiable Certificate of Deposit – Thirteenth Month	6,741,894	3,819,355
Commercial Paper and Treasury, Foreign	4,978,907	0
	543,618,240	520,254,949

The Bank keeps capital shares amounting to B/.190,207 (2014: B/.190,207), which are kept at cost due to the Bank inability to reliably determine their fair value. The Bank performs annual reviews to check for any permanent impairment in the value of such investments that warrants adjustments to the investment value.

The Bank made sales of its portfolio of investment in available for sale securities for B/.522,695,039 (2014: B/.509,873,309) generating a gain on sale of B/.749,799 (2014: gain B/.81,129).

Securities with nominal value at B/.146,080,000 (2014: B/.113,080,000) guarantee sold under repurchase agreements for the amount of B/.132,965,370 (2014: B/.112,000,000). See Note 15.

Securities with nominal value at B/.204,837,000 (2014: B/.167,737,000) guarantee borrowings received. See Note 16.

Held to Maturity Securities

The portfolio of held to maturity securities amounted to B/.151,354,933 (2014: B/.157,984,738).

(10) Investment in Securities, continued

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

	2015	2014
Foreign Corporate Bonds	13,414,073	15,157,477
Corporate Bonds and Local Fixed Income Funds	25,439,164	19,786,200
Bonds of the Republic of Panama	41,931,527	47,623,141
Bonds from Other Governments	26,623,615	26,892,534
Bonds from US Government and Agencies	36,322,048	40,951,648
Commercial Paper and Treasury, Foreign	7,624,506	7,573,738
	151,354,933	157,984,738

Securities with nominal value of B/.28,000,000 (2014: B/.26,850,000) guarantee securities sold under repurchase agreements for the amount of B/.132,965,370 (2014: B/.112,000,000). See Note 15.

Securities with nominal value of B/.70,475,000 (2014: B/.49,825,000) guarantee borrowings received. See Note 16.

Reclassification from available for sale securities to held to maturity securities

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 Bank made this reclassification considering the creditworthiness of the issuer and the intent and ability to hold them in that category.

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

		2015		2014	
	Reclassified amount	Carrying value	Fair value	Carrying value	Fair value
Foreign Corporate Bonds	13,971,147	12,591,599	12,973,960	12,471,422	13,388,227
Foreign Public Bonds	73,616,215	70,570,169	72,219,225	75,417,921	79,209,050
Local Public Bonds	48,609,703	41,931,527	43,343,359	47,471,257	48,506,845
Total	136,197,065	125,093,295	128,536,544	135,360,600	141,104,122

(10) Investment in Securities, continued

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

	2015		2014	
	Profit or loss	Comprehensive income	Profit or loss	Comprehensive income
Interest income	5,567,307	0	5,941,649	0
Net change in fair value	0	(10,102,795)	0	(11,132,710)
Amount transferred from the allowance for unrealized loss to profit or loss for the year	(1,524,867)	1,524,867	(1,029,904)	1,029,904

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

	2015		2014	
	Profit or loss	Comprehensive income	Profit or loss	Comprehensive income
Interest income	5,567,307	0	5,941,649	0
Net change in fair value	0	(5,580,475)	0	(6,644,420)

The effective interest rate of the reclassified assets is between 0.98% and 4.62% and is expected to recover the total cash flows for B/.136 millions.

(11) Loans

The loan portfolio by product is as follows:

	2015	2014
Commercial	944,506,066	870,726,987
Personal, cars and credit cards	439,668,651	440,904,484
Residential mortgage	366,778,035	305,146,485
Interim financing and construction	317,270,033	237,086,196
Pledge	154,717,785	179,682,011
Agricultural	151,200,617	124,257,441
Industrial	99,447,088	81,796,332
Factoring	59,974,812	84,889,979
Pensioners	69,114,508	56,710,304
Tourism and services	25,046,974	27,443,238
Leasing	35,612,896	27,349,047
Commercial mortgage	12,122,571	15,768,835
Total	2,675,460,036	2,451,761,339
Less:		
Allowance for loan losses	32,189,252	35,011,937
Unearned discounted interests and commissions	8,245,718	8,810,201
Total loans, net	2,635,025,066	2,407,939,201

(11) Loans, continued

On April 11, 2014, the Bank incorporated, jointly with other financial institutions, a syndicated loan for B/.37,670,000. At December 31, 2015, the total of loan principal has been granted for B/.8,386,247.

The allowance for loan losses is detailed as follows:

	2015	**2014**
Balance at the beginning of year	35,011,937	34,945,571
Provision charged to expenses	19,581,028	10,113,094
Written-off loans	(24,423,774)	(12,531,092)
Collections	2,020,061	2,484,364
Balance at the end of year	32,189,252	35,011,937

Management of the Bank has set aside an specific reserve amounting to B/.12,000,074 (2014: B/.7,653,833) based on the estimate of classified loan losses, considering the estimate of the value of the existing guarantees. It also recorded a collectively reserve amounting to B/.20,189,178 (2014: B/.27,358,104) so that the total reserve amounts to B/.32,189,252 (2014: B/.35,011,937).

The loan portfolio includes finance leases with the following maturities:

	2015	**2014**
Minimum payments up to 1 year	11,805,962	8,552,556
Minimum payments from 1 to 5 years	23,806,934	18,796,491
Total minimum payments	35,612,896	27,349,047
Less: Unearned discounted interests and commissions	187,872	168,881
Total finance leasing	35,425,024	27,180,166

During May 2015, the subsidiary Banco Multibank S. A., (Formerly Macrofinanciera, S.A.C.F.) conducted partial sale of the loan portfolio by B/.26,792,565 (67,846,141,810 pesos COP), which generated a gain of B/.2,911,282, to align the composition of the loan portfolio of the subsidiary to the strategic guidelines of the group in the region.

(12) Property, Furniture, Equipment and Improvements

Property, furniture, equipment and improvements are summarized below:

2015

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

2014

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

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

	2015	2014
Land	19,728,771	19,728,771
Building and improvements	11,585,186	12,099,513
	31,313,957	31,828,284

On December 31, 2014, the Bank made technical appraisal of its lands and buildings by independent specialist. The revaluation adjustment is recorded in a separate account in the consolidated statement of changes in equity as of property revaluation.

On October 2014, Multibank, Inc. acquired by cash payment, lands, buildings and improvements for a net book value of B/.12,827,404, by buying of Inversiones Prosperidad, S. A. to its holding.

(13) Goodwill

The management makes the valuation of goodwill in the acquired subsidiary, applying the future cash flows method based on the profitability of its operations.

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

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

No goodwill movements have been recorded during the year.

To value its acquired assets and businesses, the net flows expected from such assets or businesses in the corresponding cash generating unit, for periods of 5 years, and also a perpetual growth or flows multiples were defined at the end of period for the projected flows to determine the final flow. The growth rates of assets or businesses fluctuate based on their nature, with the current range being between 20% and 30%, whereas the perpetual growth rate ranges between 10% and 15%.

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

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

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

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

(14) Other Assets

The detail of other assets is as follows:

	2015	2014
Accounts receivable	39,314,603	31,560,886
Accounts receivable from related companies	13,096,052	10,306,620
Prepaid expenses	13,133,436	8,555,686
Prepaid taxes	1,855,855	3,140,047
Foreclosed assets	951,084	899,916
Guarantee deposits	1,789,023	787,490
Others	974,085	586,916
Total	71,114,138	55,837,561

Available-for-sale foreclosed assets are as follows:

	2015	2014
Real estate	702,112	681,704
Vehicles and other	256,033	255,633
	958,145	937,337

The foreclosed assets in payment of loans at December 31, 2015 have a balance of B/.958,145 (2014: B/.937,337), net of fair value adjustments of B/.7,061 (2014: B/.37,421).

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

	2015	2014
Beginning balance of the year	37,421	33,309
(Reversal of) provision registered in profit or loss	(35,368)	4,112
Sale of assets	5,008	0
Total, net	7,061	37,421

(15) Securities Sold under Repurchase Agreement

Securities sold under repurchase agreements amounted to B/.132,965,370 (2014: B/.112,000,000) with maturity in January 2016 (2014: January 2015) and annual interest rates from 0.38% to 1.92% (2014: 0.36% to 0.40%). Such securities are guaranteed with available-for-sale and held-to-maturity securities amounting to B/.146,080,000 y B/.28,000,000, respectively (2014: available for sale and held to maturity securities for B/.113,080,000 y B/.26,850,000, 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	2015 Carrying value	2014 Carrying value
Line of Credit	1.32% to 5.78%	Multiple, up to December 2015	0	348,734,393
Line of Credit	1.67% to 8.29%	Multiple, up to December 2016	463,755,333	47,460,969
Line of Credit	2.44% to 7.75%	Multiple, up to October 2017	85,184,257	85,544,624
Line of Credit	2.28% to 7.27%	Multiple, up to December 2018	87,442,026	53,078,105
Line of Credit	2.58% a 7.40%	Multiple, up to September 2019	18,133,078	9,092,248
Line of Credit	3.90%	Multiple, up to December 2020	10,000,000	30,000,000
Line of Credit	3.84% to 3.90%	March 2021	39,638,428	0
Line of Credit	5.31%	April 2024	29,684,726	30,000,000
Line of Credit	1.45%	June 2025	40,000,000	0
Total			773,837,848	603,910,339

Borrowings for B/.199,500,000 (2014: B/.144,500,000) are guaranteed with available-for-sale and held-to-maturity securities amounting to B/.204,837,000 and B/.70,475,000 (2014: B/.167,737,000 and B/.49,825,000), respectively. See Note 10.

(17) Bonds Payable

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

Series	Interest rates	Due date	2015	2014
A Series – June 2013 issue	4.13%	Jun 2016	12,985,000	12,985,000
B Series – September 2013 issue	4.00%	July 2015	0	20,000,000
C Series – September 2013 issue	4.45%	February 2017	5,670,000	5,670,000
D Series – January 2015 issue	2.88%	January 2016	17,070,000	0
E Series – September 2015 issue	2.88%	September 2016	5,000,000	0
F Series – November 2013 issue	4.35%	November 2020	30,000,000	0
			70,725,000	38,655,000

Following are the characteristics and guarantees of the aforementioned series:

December 2012 issue (placed in 2013 and 2015)

Public offering of the Rotate Program of Corporate Bond for a value of up to B/.150,000,000 divided into B/.100,000,000 of Corporate Revolving Class A Bonds and B/.50,000,000 of Corporate Rotate Class B Bonds, authorized by the Superintendence of Securities of Panama, in CNV Decision No.436-12 of December 27, 2012 and by the Panama Stock Exchange. During 2013 placements under this authorization were made in the month of June and September. In 2015 additional placement of this issue were made.

(17) Bonds Payable, continued

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

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

(18) Other Liabilities

The detail of other liabilities are as follows:

	2015	**2014**
Accounts payable	26,693,699	26,432,886
Customers' deposits	1,642,500	1,553,049
Items in transit	41,945,620	42,399,585
Fair value of interest rate swaps	5,519,689	6,250,292
Severance indemnities payable	1,538,074	1,491,451
Other labor liabilities	3,237,132	2,774,588
Deferred tax	355,006	360,424
Other	826,296	315,073
Total	81,758,016	81,577,348

(19) Equity

Common Shares:

	Number of shares	
	2015	**2014**
Authorized shares without nominal value	50,000,000	50,000,000
Issued and paid-in shares at the:		
Beginning of year	16,529,590	16,177,254
Issued and paid-in shares during the year	46,762	352,336
Total issued and outstanding shares at the end of year	16,576,352	16,529,590

The Bank issued 46,762 (2014: 352,336) common shares at a par value of B/.571,012 (2014: B/.3,998,940).

Dividends declared and paid on common shares are as follows:

	2015	**2014**
Total dividends declared and paid on common shares	6,403,220	6,112,609

(19) Equity, continued

Preferred Shares:

The Bank is authorized to issue 1,500,000 preferred shares with nominal value of B/.100 each. At December 31, 2015, the Bank issued B/.3,000,000 (2014: B/.25,629,700) and the number of preferred shares outstanding amount to 1,020,000 (2014: 990,000). These were public preferred stock issues.

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

Multibank Inc.

Issuances	2015	2014	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	0	6.70%	Non-cumulative	E
2015	800,000	0	6.70%	Non-cumulative	E
2015	1,200,000	0	6.70%	Non-cumulative	E
	102,000,000	99,000,000			

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

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

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

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

(19) Equity, continued

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

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

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

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

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

During the year 2015 dividends were paid on preferred shares for a total of B/.7,344,793 (2014: B/.6,080,804).

Surplus of Capital Stock:

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

Entity	Acquisition date	Acquired interest	Balance
Banco Multibank, S. A. (Formerly Macrofinanciera, S.A. C.F.)	April 2011	30%	(5,454,054)
MB Credito, S. A.	April 2014	25%	(152,873)
			(5,606,927)

(20) Commitments and Contingencies

Commitments

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

	2015	2014
Letters of credit	7,147,842	22,777,317
Guarantees issued	131,963,322	94,319,231
Promissory notes	147,669,983	103,558,880
	286,781,147	220,655,428

(20) Commitments and Contingencies, continued

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

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

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

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

Contingencies:

Common proceedings against the Bank are in place in the amount of B/.15,780,050 (2014: B/.5,437,277). Bank management and its legal counsel estimate a favorable outcome from these procedures have a material adverse effect on the consolidated financial position, the consolidated results of operations or business of the Bank. For those cases where there is probabilities of an unfavorable ruling, the Bank maintains an allocated reserve for these contingencies for B/.864,231 (2014: B/.260,978).

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

Years	Total
2016	2,943,443
2017	2,635,715
2018	2,348,117
2019	2,070,793
2020	1,252,378

During the year ended December 31, 2015, in lease expenses amounted to B/.4,053,293 (2014: B/.4,929,620), property rental expense is recorded of B/.3,360,496 (2014: B/.4,157,111).

(21) Trust Agreement Administration and Asset Administration

The subsidiary Multi Trust, Inc. administered trust agreements at customer risk and expense, amounting to B/.98,161,787 (2014: B/.200,601,993); for which collateralized trust agreements are in place amounting to B/.98,161,787 (2014: B/.193,951,806).

The subsidiary Multi Securities, Inc. administered cash and investment portfolios at customer risk and expense amounting to B/.571,982,898 (2014: B/.535,230,827).

(22) Derivative Financial Instruments

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

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

2015	**Remaining maturity of nominal value**	**Fair value**	
Accounting Methods	**Over 1 year**	**Assets**	**Liabilities**
Fair value	77,056,000	0	5,519,689

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

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

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

The Bank has measured the effects of the credit risk of its counterparties and its own credit risk to determine the fair value of its derivatives. Some of the contracts made with our counterparties include early termination clauses.

The Bank calculates credit risk adjustments incorporating inputs from the credit default swaps ("Credit Default Swaps" or CDS).

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

Measurement of derivative fair value

	2015	**2014**
Financial liabilities at fair value	5,519,689	6,250,292

See Levels' description in Note 25.

(22) Derivative Financial Instruments, continued

During the month of August 2015, the management makes the sale of securities and the cancellation of derivative hedging securities of B/.10,000,000, given an almost perfect relation that existed between them.

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

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

(23) Balances and Transactions with Related Parties

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

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

(23) Balances and Transactions with Related Parties, continued

	2014	
	Related companies	Stockholders, Directors and Key executives
Assets:		
Loans	11,240,515	7,970,474
Accrued interests receivable	50,191	9,842
Accounts receivable	10,306,620	0
Liabilities		
Demand deposits	1,638,879	307,368
Savings deposits	399,670	634,825
Fixed-term deposits	24,136,211	40,000
Accrued interests payable	520,100	4,729
Commitments and contingencies		
Guarantees issued	0	712,740
Interests earned on:		
Loans	466,011	170,337
Interest expenses:		
Deposits	441,262	82,472
General and administration expenses:		
Allowances	0	115,131
Salaries and other benefits	0	2,077,466
Rents	1,632,773	0

Loans with related parties have multiples maturities between December 2016 and November 2044 (2014: from January 2015 to November 2044) and bear annual interest ranging from 1.50% to 24.00% (2014: 2.25% to 24.00%).

These loans are backed with cash collateral amounting to B/.6,344,000 (2014: B/.4,855,000), by real estate collaterals for B/.14,417,485 (2014: B/.7,218,503) and property guarantees for B/.372,270 (2014: B/.246,733).

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

(24) Segment Information

Composition of the business segments are as follows:

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

2014	Financial Services	Fund Administration	Insurance	Elimination	Total Consolidated
Interest income and commissions	198,709,666	33,489	289,716	0	199,032,871
Interest expenses	72,419,389	332	0	0	72,419,721
Other income, net	12,010,379	1,879,488	3,032,076	(187,428)	16,734,515
Allowance for loan losses and foreclosed assets	10,117,206	0	0	0	10,117,206
General and administration expenses	80,541,821	1,667,668	1,452,025	(208,176)	83,453,338
Net profit before income tax	47,641,629	244,977	1,869,767	20,748	49,777,121
Total assets	3,609,637,807	3,330,587	12,881,161	(6,679,924)	3,619,169,631
Total liabilities	3,253,627,729	479,067	4,217,041	(3,352,338)	3,254,971,499

(25) Fair Value of Financial Instruments

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

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

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

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

(25) Fair Value of Financial Instruments, continued

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

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

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

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

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

	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Time deposits	254,270,272	254,012,970	207,450,339	205,874,090
Available-for-sale securities	543,618,240	543,618,240	520,254,949	520,254,949
Held-to-maturity securities	151,354,933	154,918,061	157,984,738	163,785,170
Loans, net	2,635,025,066	2,731,514,531	2,407,939,201	2,425,835,991
	3,584,268,511	3,684,063,802	3,293,629,227	3,315,750,200
Liabilities				
Time deposits	1,386,864,681	1,415,464,166	1,328,288,299	1,338,990,892
Repurchase securities	132,965,370	132,901,835	112,000,000	111,918,987
Borrowings received	773,837,848	783,319,632	603,910,339	605,080,305
Bonds payable	70,725,000	69,225,060	38,655,000	39,654,205
	2,364,392,899	2,400,910,693	2,082,853,638	2,095,644,389

(25) Fair Value of Financial Instruments, continued

Is not necessary to disclosure information about financial instruments, that for their nature with the short term, their book value is approximate of 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 fair value hierarchy based on the inputs and valuation techniques used.

2015	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Foreign common shares	0	0	21,559	21,559
Local shares and Fixed income funds	0	4,917,321	2,906,285	7,823,606
Preferred shares	25,835	0	0	25,835
Foreign corporate bonds	48,859,984	54,267,101	2,470,136	105,597,221
Corporate Bonds and Local Fixed Income Funds	0	9,909,702	43,222,025	53,131,727
Bonds of the Republic of Panama	0	1,349,292	0	1,349,292
Other Governments' Bonds	25,276,513	41,330,034	1,402,653	68,009,200
Bonds from US Government and Agencies	0	182,346,950	83,773,482	266,120,432
Negotiable Certificate of Participation	0	0	29,818,568	29,818,568
Negotiable Certificate of Deposit – Thirteenth Month	0	0	6,741,894	6,741,894
Commercial Papers and Treasury Bills, Foreign	0	4,978,906	0	4,978,907
Total available-for-sale securities measured at fair value	74,162,332	299,099,306	170,356,602	543,618,240

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

During 2015, 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 2015, no instruments were reclassified from Level 2 to Level 1

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

	2015	2014
Beginning balance	53,121,029	49,020,750
Purchases	2,922,539	6,216,867
Sales and redemptions	(1,924,027)	(2,094,922)
Changes in fair value	(56,379,165)	(21,666)
Category reclassification	172,616,226	0
Ending balance	170,356,602	53,121,029

(25) Fair Value of Financial Instruments, continued

During 2015, certain available-for-sale securities were transferred to Level 3, since certain inputs used to determine their fair value shall not be observable.

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

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

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

Financial Instrument	Valuation technique	Significant non-observable inputs	Weighted Average range	Sensitivity of the fair value measurement of significant non-observable inputs
Corporate bonds	Discounted cash flows.	Discounted cash flows with an adjusted rate to credit and liquidity risk of each instrument.	2.28% - 4.75% (3.40%)	An increase or (decrease) in the non-observable input alone would lead to lower (higher) fair value measurement).
Negotiable Certificate of Participation / Negotiable Certificate of Deposit – Thirteenth Mont	Discounted cash flows	To estimate the yield of each discounted instrument with an adjustment rate to liquidity risk of each instrument.	1.00% - 1.02% + 0.15% (1.51%)	An increase or (decrease) in the non-observable input alone would lead to lower (higher) fair value measurement).

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

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

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

(25) Fair Value of Financial Instruments, continued

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

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

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

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

(25) Fair Value of Financial Instruments, continued

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

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

(26) Main Applicable Laws and Regulations

<u>Laws and Regulations</u>

(a) *Banking Law in Republic of Panama*

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

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

Law of the Republic of Colombia

Operations of the Colombia subsidiary are regulated by the Superintendence of Bank of Colombia, by means of Law 510 of 1999, which detail the dispositions relate with the financial system.

Law of the Republic of Costa Rica

They must to make a capital reserve, for compliance with article 143 of the Commerce Code of Costa Rica, that dispose to establish a 5% of the liquid earning of each business exercises, for constitution of the reserve, until this reserve will be an equivalent of 20% of the capital stock of the each individual company.

(26) Main Applicable Laws and Regulations, continued

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

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

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

Insurance Reserves
Corresponding to establish the legal and catastrophic risks reserves and/or contingencies and provision for statistical deviations according to Article 213 of the Insurance Law of the Republic of Panama, which indicates that insurers in Panama are required to make and maintain in the country, a fund of reserve equivalent to 20% of its net profits before applying the income tax, until to establish a fund of two million dollars (B/. 2,000,000), and thereafter 10%, until reaching 50% of the paid capital.

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

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

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

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

(26) Main Applicable Laws and Regulations, continued

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

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

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

The Bank maintains a regulatory reserve for B/.334,416 (2014: B/.394,645) under Agreement No.3-2009.

Regulations issued by the Superintendence of Banks effective during 2014:

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

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

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

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

(26) Main Applicable Laws and Regulations, continued

Specific Provisions

Agreement 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 risk categories named: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

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

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

The table below summarizes the classification on the loan portfolio of the Bank based on the Agreement 4-2013 as of December 31, 2015 and 2014:

	2015 Agreement 4-2013		2014 Agreement 4-2013	
	Loans	Reserves	Loans	Reserves
Individual Impairment Analysis:				
Special mention	55,480,954	6,391,225	37,385,307	5,065,519
Substandard	13,307,868	2,015,138	13,543,238	2,638,021
Doubtful	13,993,295	7,151,345	13,321,317	6,586,360
Loss	9,643,200	5,672,826	17,509,242	9,213,233
Gross amount	92,425,317	21,230,534	81,759,104	23,503,133
Collective Impairment Analysis:				
Pass	2,583,034,719	0	2,370,002,235	0
Total	2,675,460,036	21,230,534	2,451,761,339	23,503,133

(26) 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 Agreement 4-2013 issued by the Superintendence of Banks of Panama, which is shown below:

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

2014	Letters of credit	Reserves	Guarantees Received	Reserves
Pass	22,777,317	0	94,309,231	0
Special mention	0	0	0	0
Substandard	0	0	10,000	0
Doubtful	0	0	0	0
Loss	0	0	0	0
Total	22,777,317	0	94,319,231	0

Bank has the policy for regulatory purposes of the non-accruals on loans 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 likely.

The loans in non-accrual category amounted to B/.15,868,318 (2014: B/.14,187,569) and kept interests for B/.785,878 (2014: B/.851,556).

The Agreement 4-2013, defined past due loans any credit facility with any unpaid amount for principal, interest or fees agreed contractually, with a length of more than 30 days to 90 days, from the date set for compliance with payments.

The Agreement 4-2013, defined non-performing loans as any credit facility whose failure to pay the amounts contractually agreed present older than 90 days. This period shall be calculated from the date set for compliance with the payments. Operations with a single payment at maturity and overdrafts, will mature when the age of the non-payment exceeding 30 days from the date on which is established the liability.

The balance of defaults and past due based on Agreement 4-2013 loans are detailed below:

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

(26) Main Applicable Laws and Regulations, continued

	2014	
Past Due Loans	**Non-performing loans**	**Total**
10,234,146	20,084,372	30,318,518

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

The balance of restructured loans at December 31, 2015, amounted to B/.6,409,981 (2014: B/.4,948,193).

Furthermore, based on the Agreement 8-2014, recognition of interest income based on days late in paying principal and/or interest and the type of credit transaction according to the following is suspended:

a) For consumer loans and business, if there are overdue more than 90 days; and
b) For mortgage loans for housing, if overdue more than 120 days.

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

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

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

(26) 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	2015	2014
Multibank, Inc.	37,421,149	19,929,172
Hemisphere Bank Inc., Ltd.	145,613	145,613
Gran Financiera, S. A.	176,265	159,148
Banco Multibank, S. A. (formerly Macrofinanciera, S. A. C.F.)	2,317,575	2,583,365
Multileasing Financiero, S. A.	779,409	334,216
MB Créditos, S. A. and Subs.	1,395,803	957,270
Multibank Factoring, Inc.	516,503	218,662
Multibank Cayman, Inc.	1,052,839	1,052,839
	43,805,156	25,380,285

The subsidiary Multileasing Financiero, S. A. as per requirements of Agreement No.4-2013, a regulatory reserve for B/.804,405 was incorporated, which represents the surplus of the regulatory credit reserve over the balance of credit reserves recognized as per IFRS.