MULTI FINANCIAL GROUP, INC.
AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Financial Statements

As of December 31, 2018

(Independent Auditors' Report Thereon)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

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

MULTI FINANCIAL GROUP, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Table of Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of Multi Financial Group, Inc.

Opinion

We have audited the consolidated financial statements of Multi Financial Group, Inc. and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2018, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Adoption of IFRS 9 Financial Instruments
See Notes 3(ee), 10 and 11 to the consolidated financial statements

Key audit matters	How the key matter was addressed during the audit
As described in the notes to the consolidated financial statements, during the year ended on December 31, 2018, the Group adopted the IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the appropriate classification and measurement and subsequent evaluation of impairment of financial instruments, and that impacts the processes and controls related to the calculation of impairment reserves. Here are some of the areas of judgment involved: • The interpretation of the concepts of impairment established in IFRS 9, especially to determine the significant increase in credit risk of financial instruments, reflected in the expected credit loss model ("ECL") of the Group. • The identification of exposures with a significant impairment in credit quality. • Determination of the assumptions used in the ECL methodologies such as, for example, the financial condition of the counterparty, the expected future cash flows and the prospective analysis, including the growth of the gross domestic product. • The need to apply additional assumptions to reflect current or future external factors that may not be adequately incorporated into the ECL model.	Our audit procedures regarding the classification and measurement of financial assets and liabilities, considering the use of specialists, are detailed below: • We assessed the policies of IFRS 9 adopted by the Group in terms of classification and measurement, based on compliance with the requirements of IFRS 9. • We obtained an understanding and evaluated the reasonableness of the assumptions/ judgments used by management on the classification and measurement of financial instruments, including the business model applied by the Group. • We assessed the contractual terms of the different financial instruments in order to determine the reasonableness of the cash flows that are solely payments of principal and interest ("SPPI"). • We checked that the journal entries for the adoption of IFRS 9 have been properly recorded. Our audit procedures regarding impairment assessment methodology, considering the use of specialists, included: • We assessed that the modeling techniques and methodologies used by the Group to calculate its impairment allowance were in compliance with IFRS 9.

- We assessed the design of the processes and perform tests on the operational efficiency of the relevant controls associated with:
  - The technological environments of the information systems involved in calculating of the estimate according to the ECL model, including the inputs used in the model on the financial instruments at the date of adoption, the transactional data captured at the time the loan was granted, continuous internal evaluations of the credit quality of financial instruments, and the storage of key data.
  - The ELC model, including the development and approval of each methodology, continuous monitoring/validation, governance of the model and its mathematical accuracy.
- We assessed and test the significant assumptions of the ECL model of the different financial instruments.
- We assessed the mathematical accuracy and adequate presentation of the disclosures in the consolidated financial statements for the adoption of this new standard.

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

Key audit matter	How the key matter was addressed during the audit
The allowance for loan losses in loans at amortized cost is considered as one of the most significant matters because it requires the use of judgments and subjective assumptions made by management for the construction of expected credit loss model ("ECL"). The loan portfolio represents 70% of the Group´s total assets. The allowance for loan losses comprised the ECL as a result of the loan rating model and the mechanism to determine the probability of default of the loan according to the impairment stage in which it is assigned.	Our audit procedures, considering the use of specialists, included: • We assessed the key controls over delinquency calculations, internal customer risk ratings, accuracy review of customer and model information and the methodologies used.

The model to estimate the ECL is determined according to the grouping of loans with similar credit risk characteristics, segregated in "Consumer Banking" and "Corporate Banking". Both methodologies are composed of estimates of the probability of default, loss given default, prospective analysis and exposure to default. The evaluation of whether or not a significant increase in the credit risk of the loans has been presented entails the application of important judgments in those methodologies. This is a challenge from an audit perspective due to the complexity in estimating the components used to perform these calculations and the application of management judgment.

- For a sample of corporates loans, classified by type of activity or industry, and debtors with changes in risk classification based on quantitative and qualitative factors, the respective credit files were inspected, including the financial information of the debtors, the values of guarantees, determined by expert appraisers, that support credit operations and other factors that could represent an event that causes losses, to determine the reasonableness of the credit risk

- The methodology applied by the Group in the ECL model were assessed in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals and methodology documented and approved by the Group's corporate government.

- An independent assessment was made of the inputs used by the Consumer Banking and Corporate Banking methodologies, and a recalculation was carried out for both methodologies according to the ECL estimation model.

- We assessed the judgments applied by the management on assumptions related to the current conditions of the economy and the considerations on the prospective analysis that could change the level of ECL, based on our experience and knowledge of the industry.

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

The key audit matter

Investments in securities at fair value through profit or loss and fair value through other comprehensive income represent 15% of total assets as of December 31, 2018. The Group uses external services to obtain the majority of the prices of these investments in securities and also uses internal valuation methodologies for some investment securities when a price provided by external pricing services is not available.

How the matter was addressed in our audit

Our procedures in this area included:

- Assessment of key controls over the process for identification, measurement and management of valuation risk, and assessment of the methodologies, inputs and assumptions used by the Group in determination of fair value.
- Valuation tests of level 1 instruments through comparison of the fair values applied by the Group to public and observable market data.

The valuation of these investments in securities using internal valuation models involves judgments by management and the use of some inputs that are not available in active markets. Additionally, the valuation of the investments in securities whose prices are provided by external entities requires additional efforts of the auditors for their validation.

Judgment involved in estimating the fair value of an investment in securities when some valuation inputs are not observable (for example, investments in securities classified as level 3 of the fair value hierarchy) is significant. As of December 31, 2018, investments in securities classified as level 3 represent 23% of total investments in securities measured at fair value.

- Assessment of the fair value models and inputs used in the valuation of level 3 instruments; we compared observable market inputs against independent sources and external market data.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information identified before and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

KPMG (SIGNED)

Panama, Republic of Panama
March 28, 2019

MULTIFINANCIAL GROUP, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2018

(Amounts expressed in Balboas)

Assets	**Note**	**2018**	**2017**
Cash and cash items		27,171,005	30,517,065
Deposits due from banks:			
Demand deposits - local banks		23,204,003	16,309,412
Demand deposits - foreign banks		117,396,979	152,422,543
Time deposits - local banks		15,160,963	24,022,242
Time deposits - foreign banks		138,950,000	188,697,882
Allowance for expected credit losses on bank deposits		(10,104)	0
Accrued interest receivable		111,474	92,788
Total cash, cash items and bank deposits at amortized cost	4, 8	321,984,320	412,061,932
Securities purchased under resale agreement	4, 9	1,175,072	3,132,718
Derivative financial instruments	24	1,119,743	0
Securities at fair value through profit or loss	10	71,932,575	9,074,169
Securities available for sale	4, 10	0	604,983,656
Debt instruments at fair value through other comprehensive income	4, 10	677,391,682	0
Securities held to maturity, net	4, 10	0	252,729,398
Debt instruments at amortized cost	4, 10	78,786,869	0
Loans:			
Local sector		3,023,391,759	2,721,618,638
Foreign sector		404,590,176	450,057,123
Accrued interest receivable		31,834,877	23,898,492
Allowance for expected credit losses on loans		(44,814,918)	(33,139,997)
Unearned discounted interests and commissions		(3,213,778)	(5,255,230)
Loans at amortized cost	4, 11, 25	3,411,788,116	3,157,179,026
Property, furniture, equipment and leasehold improvements, net	12	71,281,183	79,906,496
Customers' liabilities under acceptances		109,031,124	75,798,150
Goodwill	13	0	6,717,198
Deferred tax assets	6	9,218,407	7,711,900
Other assets	14, 25	150,171,083	86,751,488
Total assets		4,903,880,174	4,696,046,131

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	2018	2017
Liabilities:			
Deposits from customers:	4, 25		
Demand deposits - local		203,307,457	222,488,821
Demand deposits - foreign		313,883,582	361,506,952
Savings deposits		413,389,338	423,253,636
Time deposits - local		1,382,966,128	1,294,944,060
Time deposits - foreign		578,984,363	495,605,857
Accrued interest payable		42,674,341	33,068,003
Total deposits from customers		2,935,205,209	2,830,867,329
Securities sold under repurchase agreements	4, 15	75,475,448	50,512,216
Borrowings received	4, 16	684,613,257	686,235,852
Bonds payable	4, 17	438,380,392	452,348,141
Negotiable commercial papers	18	37,309,849	11,516,068
Acceptances outstanding		109,031,124	75,798,150
Derivative financial instruments	24	3,769,626	4,457,025
Certified and cashier's checks		29,895,014	32,180,036
Other liabilities	19	63,350,068	54,336,210
Total liabilities		4,377,029,987	4,198,251,027
Equity:			
Common shares	20	167,676,545	167,676,545
Preferred shares	20	110,000,000	110,000,000
Excess paid in acquisition of non controlling interests	20	(5,606,927)	(5,606,927)
Reserves		33,267,090	30,672,564
Retained earnings		221,513,479	195,052,922
Total equity		526,850,187	497,795,104
Commitments and contigencies	22		
Total liabilities and equity		4,903,880,174	4,696,046,131

MULTIFINANCIAL GROUP, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Profit or Loss

For the year ended December 31, 2018

(Amounts expressed in Balboas)

	Note	2018	2017
Interest and commission income:			
Interest on:	25		
Loans		233,594,682	216,825,039
Time deposits		3,341,595	2,333,385
Securities		24,826,805	20,794,508
Commissions on loans		13,011,595	10,520,226
Total interest and commission income		274,774,677	250,473,158
Interest expenses:	25		
Deposits		82,521,742	73,920,442
Borrowings		32,821,396	31,722,382
Bonds		16,687,739	4,981,866
Total interest expenses		132,030,877	110,624,690
Total interest and commission income, net		142,743,800	139,848,468
Allowance for impairment of financial assets:			
Provision for loan losses	11	8,695,326	10,079,066
Provision for credit losses on securities held to maturity		0	2,043,752
Provision for credit losses on debt instruments at amortised cost	10	865,346	0
Reversal of provision for credit losses on debt instruments at fair value through other comprehensive income	10	(694,890)	0
Net interest and commission income, after provisions		133,878,018	127,725,650
Income (expenses) from banking services and other:			
Fees and other commissions earned		23,847,021	25,945,917
Net gain on securities and valuation of derivatives	7	8,522,428	1,454,866
Foreign exchange gain		2,766,945	2,894,856
Insurance premiums, net		8,839,080	6,475,322
Commissions incurred		(12,569,178)	(12,402,089)
Other, net		2,907,228	5,289,656
Provision for impairment of foreclosed assets	14	(56,385)	(67,373)
Total income from banking services and other, net		34,257,139	29,591,155
General and administration expenses:			
Salaries and other personnel benefits	25	55,559,300	52,641,441
Professional fees		7,072,405	5,943,439
Depreciation and amortization	12	4,886,826	4,751,719
Maintenance of equipment and premises		7,177,128	6,465,262
Rental	22, 25	3,022,317	2,766,027
Taxes, other than income		4,193,322	4,025,822
Other	13	17,655,861	10,921,811
Total general and administration expenses		99,567,159	87,515,521
Net income before income tax		68,567,998	69,801,284
Income tax, net	6	(12,011,439)	(11,289,328)
Net income		56,556,559	58,511,956
Net earnings per share:	21		
Basic and diluted		2.88	3.00

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

MULTIFINANCIAL GROUP, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of other Comprehensive Income

For the year ended December 31, 2018

(Amounts expressed in Balboas)

	Note	2018	2017
Net income for the year		56,556,559	58,511,956
Other comprehensive income:			
Items that will never be reclassified to the consolidated statement of profit or loss			
Reserve for property revaluation		5,645,001	0
Deferred tax on property revaluation		(269,325)	27,293
Deferred tax related to reserve for property revaluation		294,431	0
Impairment of revalued assets		0	(233,826)
Items that are or may be reclassified to the consolidated statement of profit or loss:			
Foreign currency translation effect		(2,437,757)	396,798
Gain (loss) net on hedge of net investment in foreign operation		933,065	(1,232,184)
Reserve for valuation of investment securities:			
Net changes in valuation of securities available for sale		0	5,740,807
Net changes in valuation of debt instruments at fair value through other comprehensive income		(17,016,419)	0
Net gain on securities available for sale transferred to profit or loss	7	0	(1,050,624)
Net gain on debt instruments at fair value through other comprehensive income transferred to profit or loss	7	(1,056,844)	0
Net change in fair value of securities reclassified to profit or loss for fair value hedge	7	0	495,835
Net change in debt instruments at fair value reclassified to profit or loss for fair value hedge		1,071,083	0
Recognized provision in profit or loss for impairment of debt instruments at fair value through other comprehensive income	10	(694,890)	0
Amortization of unrealized loss in securities transferred to held to maturity		0	1,725,574
Loss recognized in profit or loss due to impairment of securities transferred to held-to-maturity securities		0	2,502,500
Reclassification of loss due to derecognition of securities held to maturity		0	4,309,076
Change in fair value of the effective portion of cash flow hedge		895,046	(23,477)
Total other comprehensive (loss) income, net		(12,636,609)	12,657,772
Total other comprehensive income		43,919,950	71,169,728

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

MULTIFINANCIAL GROUP, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

(Amounts expressed in Balboas)

					Reserves											
	Note	Common Shares	Preferred shares	Excess paid in acquisition of non-controlling interests	Dynamic provisions	Excess of credit reserve	Allowance for foreclosed assets	Regulatory insurance reserve	Regulatory capital reserve	Revaluation surplus	Reserve for valuation of securities at fair value with changes in other comprehensive income	Unrealized loss on securities transferred to held to maturity	Foreign currency translation effect	Cash flow hedge	Retained earnings	Total
Balance as of December 31, 2016		163,076,537	110,000,000	(5,606,927)	51,214,963	1,914,662	2,609,599	2,396,731	59,258	6,321,783	(20,289,443)	(19,792,865)	(20,692,677)	0	165,912,691	437,124,312
Comprehensive income:																
Net Income		0	0	0	0	0	0	0	0	0	0	0	0	0	58,511,956	58,511,956
Other comprehensive income:																
Deferred tax on property revaluation		0	0	0	0	0	0	0	0	27,293	0	0	0	0	0	27,293
Impairment on revalued assets		0	0	0	0	0	0	0	0	(233,826)	0	0	0	0	0	(233,826)
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	396,798	0	0	396,798
Net loss on hedge of net investment in foreign operation		0	0	0	0	0	0	0	0	0	0	0	(1,232,184)	0	0	(1,232,184)
Net changes in valuation of securities available for sale		0	0	0	0	0	0	0	0	0	5,740,807	0	0	0	0	5,740,807
Net gain on securities available-for-sale transferred to profit or loss		0	0	0	0	0	0	0	0	0	(1,050,624)	0	0	0	0	(1,050,624)
Amortization to profit or loss of unrealized loss on securities transferred to held to maturity		0	0	0	0	0	0	0	0	0	0	1,725,574	0	0	0	1,725,574
Net change in fair value of investments securities reclassified to profit or loss for fair value hedge		0	0	0	0	0	0	0	0	0	495,835	0	0	0	0	495,835
Loss recognized in profit or loss due to impairment of securities transferred to held-to-maturity securities		0	0	0	0	0	0	0	0	0	0	2,502,500	0	0	0	2,502,500
Reclassification of loss due to recognition of securities held-to-maturity		0	0	0	0	0	0	0	0	0	0	4,309,076	0	0	0	4,309,076
Change in fair value of the effective portion of cash flow hedge		0	0	0	0	0	0	0	0	0	0	0	0	(23,477)	0	(23,477)
Dynamic provision	28	0	0	0	289,940	0	0	0	0	0	0	0	0	0	(289,940)	0
Regulatory credit reserve	28	0	0	0	0	11,842,147	0	0	0	0	0	0	0	0	(11,842,147)	0
Allowance for foreclosed assets		0	0	0	0	0	1,539,329	0	0	0	0	0	0	0	(1,539,329)	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(331,998)	0	0	0	0	331,998	0
Regulatory insurance reserve		0	0	0	0	0	0	914,373	0	0	0	0	0	0	(914,373)	0
Regulatory capital reserve		0	0	0	0	0	0	0	18,990	0	0	0	0	0	(18,990)	0
Total other comprehensive income		0	0	0	289,940	11,842,147	1,539,329	914,373	18,990	(538,531)	5,186,018	8,537,150	(835,386)	(23,477)	(14,272,781)	12,657,772
Total of comprehensive income		0	0	0	289,940	11,842,147	1,539,329	914,373	18,990	(538,531)	5,186,018	8,537,150	(835,386)	(23,477)	44,239,175	71,169,728
Contributions, distributions and changes in stockholder's interests:																
Issuance of common shares	20	4,600,008	0	0	0	0	0	0	0	0	0	0	0	0	0	4,600,008
Dividends paid - common shares	20	0	0	0	0	0	0	0	0	0	0	0	0	0	(6,699,805)	(6,699,805)
Dividends paid - preferred shares	20	0	0	0	0	0	0	0	0	0	0	0	0	0	(7,944,293)	(7,944,293)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	0	(454,846)	(454,846)
Total contributions, distributions and changes in stockholder's interests		4,600,008	0	0	0	0	0	0	0	0	0	0	0	0	(15,098,944)	(10,498,936)
Balance as of December 31, 2017		167,676,545	110,000,000	(5,606,927)	51,504,903	13,756,809	4,148,928	3,311,104	78,248	5,783,252	(15,103,425)	(11,255,715)	(21,528,063)	(23,477)	195,052,922	497,795,104
Adjustment for initial application of IFRS 9	4	0	0	0	0	0	0	0	0	0	3,926,622	11,255,715	0	0	(14,535,362)	646,975
Balance adjusted to January 1, 2018		167,676,545	110,000,000	(5,606,927)	51,504,903	13,756,809	4,148,928	3,311,104	78,248	5,783,252	(11,176,803)	0	(21,528,063)	(23,477)	180,517,560	498,442,079
Net income		0	0	0	0	0	0	0	0	0	0	0	0	0	56,556,559	56,556,559
Other comprehensive income:																
Reserve for property revaluation		0	0	0	0	0	0	0	0	5,645,001	0	0	0	0	0	5,645,001
Deferred tax on property revaluation		0	0	0	0	0	0	0	0	(269,325)	0	0	0	0	0	(269,325)
Deferred tax related to reserve for property revaluation		0	0	0	0	0	0	0	0	294,431	0	0	0	0	0	294,431
Foreign currency translation effect		0	0	0	0	0	0	0	0	0	0	0	(2,437,757)	0	0	(2,437,757)
Net gain on hedge of net investment in foreign operation		0	0	0	0	0	0	0	0	0	0	0	933,065	0	0	933,065
Net changes in valuation of debt instruments at fair value through comprehensive income		0	0	0	0	0	0	0	0	0	(17,016,419)	0	0	0	0	(17,016,419)
Net gain in debt instruments at fair value through comprehensive income transferred to profit or loss		0	0	0	0	0	0	0	0	0	(1,056,844)	0	0	0	0	(1,056,844)
Net change in debt instruments at fair value reclassified to profit or loss for fair value hedge		0	0	0	0	0	0	0	0	0	1,071,083	0	0	0	0	1,071,083
Recognized provision in profit or loss for impairment of debt instruments at fair value through comprehensive income		0	0	0	0	0	0	0	0	0	(694,890)	0	0	0	0	(694,890)
Change in fair value of the effective portion of cash flow hedge		0	0	0	0	0	0	0	0	0	0	0	0	895,046	0	895,046
Dynamic provision	28	0	0	0	1,942,242	0	0	0	0	0	0	0	0	0	(1,942,242)	0
Regulatory credit reserve	28	0	0	0	0	619,623	0	0	0	0	0	0	0	0	(619,623)	0
Allowance for foreclosed assets		0	0	0	0	0	2,541,170	0	0	0	0	0	0	0	(2,541,170)	0
Transfer to retained earnings		0	0	0	0	0	0	0	0	(6,147,432)	0	0	0	0	6,147,432	0
Regulatory insurance reserve		0	0	0	0	0	0	993,674	0	0	0	0	0	0	(993,674)	0
Regulatory capital reserve		0	0	0	0	0	0	0	99,521	0	0	0	0	0	(99,521)	0
Total other comprehensive income		0	0	0	1,942,242	619,623	2,541,170	993,674	99,521	(477,325)	(17,697,070)	0	(1,504,692)	895,046	(48,798)	(12,636,609)
Total other comprehensive income		0	0	0	1,942,242	619,623	2,541,170	993,674	99,521	(477,325)	(17,697,070)	0	(1,504,692)	895,046	56,507,761	43,919,950
Contributions, distributions and changes in stockholder's interests:																
Dividends paid - common shares	20	0	0	0	0	0	0	0	0	0	0	0	0	0	(7,377,454)	(7,377,454)
Dividends paid - preferred shares	20	0	0	0	0	0	0	0	0	0	0	0	0	0	(7,944,833)	(7,944,833)
Complementary tax		0	0	0	0	0	0	0	0	0	0	0	0	0	(189,555)	(189,555)
Total contributions, distributions and changes in stockholder's interests		0	0	0	0	0	0	0	0	0	0	0	0	0	(15,511,842)	(15,511,842)
Balance as of December 31, 2018		167,676,545	110,000,000	(5,606,927)	53,447,145	14,376,432	6,690,098	4,304,778	177,769	5,305,927	(28,873,873)	0	(23,032,755)	871,569	221,513,479	526,850,187

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.

MULTIFINANCIAL GROUP, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

(Amounts expressed in Balboas)

	Note	2018	2017
Cash flows from operating activities:			
Net income for the year		56,556,559	58,511,956
Adjustments for:			
Provision for loan losses	11	8,695,326	10,079,066
Provision for impairment of foreclosed assets	14	56,385	67,373
Provision for losses in securities held to maturity		0	2,043,752
Reserve for expected credit losses on debt instruments at amortized cost	10	865,346	0
Reversal of reserve for expected credit losses on debt instruments at fair value through other comprehensive income	10	(694,890)	0
Net gain on securities and valuation of derivatives	7	(8,522,428)	(1,454,866)
Depreciation and amortization	12	4,886,826	4,751,719
Income tax	6	12,011,439	11,289,328
Goodwill impairment	13	6,717,198	0
Interest and commission income, net		(142,743,800)	(149,418,780)
Loss on disposal of property, furniture and equipment		713	88,650
Net changes in operating assets and liabilities:			
Deposits with terms over 90 days		(13,436,588)	10,771,963
Loans		(267,467,737)	(247,886,866)
Other assets		(64,045,555)	(15,088,021)
Deposits from customers		92,823,743	97,025,556
Other liabilities		5,113,691	6,108,331
Securities at fair value through profit of loss, net	10	1,626,193	(6,226,206)
Interest received		267,606,283	254,264,754
Interest paid		(119,309,126)	(102,168,273)
Income tax paid		(7,561,481)	(10,977,549)
Net cash used in operating activities		(166,821,903)	(78,218,113)
Cash flows from investing activities:			
Securities bought under resale agreements		1,958,623	(3,132,000)
Purchase of debt instruments at fair value through other comprehensive income	10	(187,495,254)	0
Purchase of securities available for sale	10	0	(677,990,513)
Sales and redemptions of securities available for sale	10	0	645,095,893
Sales and redemptions of debt instruments at fair value through other comprehensive income	10	250,931,756	0
Purchase of held-to-maturity securities		0	(60,919,924)
Purchase of debt instruments at amortised cost		(45,661,811)	0
Amortization of capital and redemption of held-to-maturity securities		0	28,927,515
Amortization of capital and redemptions of instruments at amortized cost		37,745,384	0
Purchases of property, furniture and equipment	12	(7,695,454)	(6,337,535)
Net cash provided by (used in) investing activities		49,783,244	(74,356,564)
Cash flows from financing activities:			
Securities under repurchase agreements		24,828,620	(65,163,587)
Borrowings received		499,565,288	763,378,627
Borrowings canceled and amortizations		(507,620,765)	(912,925,780)
Issuance of bonds payable		(14,081,808)	417,395,813
Redemption of bonds payable		1,000,000	(31,127,000)
Issuance of negotiable commercial papers		25,837,562	11,500,000
Issuance of common shares	20	0	4,600,008
Dividends paid on common shares	20	(7,377,454)	(6,658,631)
Dividends paid on preferred shares	20	(7,228,000)	(7,227,460)
Complementary tax		(189,555)	(454,846)
Net cash provided by financing activities		14,733,888	173,317,144
Effect of exchange rate changes on cash held		(1,218,011)	56,146
Net (decrease) increase in cash and cash equivalents		(103,522,782)	20,798,613
Cash and cash equivalents at the beginning of year		405,665,836	384,867,223
Cash and cash equivalents at the end of year	8	302,143,054	405,665,836
Non-cash flows generating transactions			
Revaluation of properties, furniture and equipment	12	5,645,001	0
Transfer of assets		17,078,229	0
Dividends declared but not paid on common and preferred shares	20	716,833	758,007
Impairment on revalued assets		0	233,826
Effect on initial adoption of IFRS 9	4	646,975	0

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

Index to the notes to the consolidated financial statements

(1) General Information

Multi Financial Group, Inc., is incorporated under the laws of the Republic of Panama. The Group started operations on November 9, 2007 through Public Deed No.27,702. Its main activity is investments business. Multi Financial Group, Inc. and Subsidiaries should be hereinafter jointly referred to as the "Group".

The Group provides a wide range of financial services, mainly related to corporate, investment, mortgage and consumer banking as well as insurance, factoring and leasing services, remittance services, and real estate.

The Group owns and controls the following subsidiaries:

	Activity	Country of Incorporation
Multibank, Inc. and Subsidiaries	Domestic and foreign banking business	Panama, Colombia and Costa Rica
Multi Investment, Inc. and Subsidiaries	Real estate	Panama
Instituto de Microfinanzas, S. A.	Technical training in management of small and medium companies	Panama
Promotora Prosperidad, S. A. and Subsidiaries	Real estate management	Panama

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

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

The main office of Multi Financial Group, 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 Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

These consolidated financial statements were authorized for issuance by the Audit Committee on February 18, 2019 ratified by the Board of Directors on February 21, 2019.

(2) Basis of Preparation, continued

(b) Basis of Measurment

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

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

(c) Functional and Presentation Currency

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

(3) Summary of Significant Accounting Policies

Except for the incorporated in sections (g), (h), (l) and (m); the accounting policies detailed below have been consistently applied by the Group for all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

(a.1) Subsidiaries

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

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

(a.2) Investment Entities and Separate Legal Vehicles

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

(a.3) Transactions Eliminated in Consolidation

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

(3) Summary of Significant Accounting Policies, continued

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

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

(a.5) Changes in the Group's Ownership Interests in Existing Subsidiaries
Changes in the Group's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions.

(b) Fair Value Measurement

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

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

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

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

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

The Group recognizes transfers between levels of the fair value hierarchy at the end of the period during which the change has occurred.

(3) Summary of Significant Accounting Policies, continued

(c) Cash and Cash Equivalents

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

(d) Securities Sold Under Repurchase Agreements

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

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

(e) Securities Bought under Resale Agreement

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

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

(f) Derivatives Financial Instruments

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

(f.1) Fair Value Hedges

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

If a hedged asset is classified as fair value through other comprehensive income, the revaluation of this category of investments is recorded in equity. Since inception of the hedge relationship, the revaluation of such asset will begin to be recorded in the consolidated statement of profit or loss and the revaluation balance, previously recorded in equity, shall be maintained until sale or maturity date of the asset.

(3) Summary of Significant Accounting Policies, continued

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

(f.2) Cash Flow Hedges

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

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

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

(f.3) Net Investment Hedges

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

(f.4) Other Derivatives

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

(3) Summary of Significant Accounting Policies, continued

(g) Investment Securities ***after January 1, 2018***

As of January 1, 2018, the Group classifies all its financial instruments based on the business models for the management of these financial assets and in accordance with the contractual terms. These financial assets are measured as follows:

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

Classification and Measurement – Financial assets

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

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

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

- The asset is held within a business model which objective is achieved by both collecting contractual cash flows and selling financial assets; and;
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

(3) Summary of Significant Accounting Policies, continued

Evaluation of the business model

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

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

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

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

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

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

- Contingent events that will change the amount and periodicity of cash flows;
- Leverage conditions;
- Terms of prepayment and extension;
- Terms that limit the Group to obtain cash flows from specific assets (e.g. asset agreements without recourse); and

(3) Summary of Significant Accounting Policies, continued

- Characteristics that modify the considerations of the time value of money, for example, periodic review of interest rates.

Reclassification between categories of financial assets and liabilities
The Group does not reclassify its financial assets after its initial designation, unless there is any exceptional circumstance in which the Group can, but is not limited to, acquire, sell any investment portfolio or market conditions arise that merit a revaluation of the business models. Financial liabilities will never be reclassified. The Group has not reclassified any of its financial assets and liabilities in 2018.

(h) Investement Securities ***until December 31, 2017***
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 Group are as follows:

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

(i) Loans
Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, which are generally originated by lending funds to a debtor. The loans are measured initially at its fair value plus those incremental direct costs; subsequently, they are measured at amortized cost using the effective interest rate method.

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

(3) Summary of Significant Accounting Policies, continued

(k) Factoring Receivables

Factoring mainly consists of the purchase of invoices, which are presented at their principal amount pending collection, less unearned interest and commissions and the reserve for loan losses. These invoices receivable reflect the present value of the contract.

(l) Impairment of financial assets ***after January 1, 2018***

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

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

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

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

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

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

ECL measurement

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

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

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

- Financial assets that do not show credit impairment at the reporting date: the present value of all past due contractual cash payments (e.g., the difference between the cash flows owed to the Group according to the contract and the cash flows that the Bank expects to receive);

(3) Summary of Significant Accounting Policies, continued

- Financial assets that are impaired at the reporting date: the difference between the book value and the present value of the estimated future cash flows;
- Outstanding loan commitments: the present value of the difference between the contractual cash flows that are owed to the Group in the event that the commitment is executed and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the payments expected to reimburse the holder less any amount that the Group expects to recover.

Definition of default
Group considers a financial asset in default when:

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

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

(m) Allowances for Loan Losses ***until December 31, 2017***

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

(3) Summary of Significant Accounting Policies, continued

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

(m.1) Individually Assessed Loans

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

(m.2) Collectively Assessed Loans

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

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

(m.3) Reversal of Impairment

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

(m.4) Restructured loans

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

(3) Summary of Significant Accounting Policies, continued

(n) Offsetting of Financial Assets and Liabilities

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

(o) Property, Furniture, Equipment and Improvements

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

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

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

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

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

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

(p) Goodwill

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

(3) Summary of Significant Accounting Policies, continued

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

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

(q) Investment properties

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

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

These instruments result from the funds received by the Group, 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 Group decides to measure at fair value through profit or loss.

(s) Financial Guarantees

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

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

(t) Interest income and expenses

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

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

(3) Summary of Significant Accounting Policies, continued

(u) Income from Fees and Commissions

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

Commissions on loans and other mid-term and long-term transactions, net of some direct costs are deferred and amortized over the life of the respective financial instrument.

(v) Dividend Income

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

(w) Defined Contribution Plan

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

(x) Insurance Operations

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

Income and expenses from insurance operations are recorded as follows:

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

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

(y) Trust Operations

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

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

(z) Preferred Shares

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

(aa) Income Tax

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

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

(bb) Assets Classified as Held for Sale

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

(3) Summary of Significant Accounting Policies, continued

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

(cc) Segment Information

An operating segment is a component of the Group, 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.

(dd) Foreign Currency

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

(ee) Impact on the adoption of International Financial Reporting Standards (IFRS)

The Group has adopted IFRS 9 Financial Instruments with initial application date of January 1, 2018. The requirements of IFRS 9 represent a significant change with respect to IAS 39 Financial Instruments: Recognition and Measurement.

The nature and effects of the key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarized below.

Classification of financial assets and liabilities

IFRS 9 includes three main classification categories for financial assets: measured at amortized cost (AC), at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates existing categories of IAS 39 from held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts in which the principal is a financial asset within the scope of the standard are never separated. Instead, the classification of the hybrid financial instrument taken as a whole is evaluated.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

Impairment of the financial assets

IFRS 9 replaces the 'incurred loss' model of IAS 39 with a model of 'expected credit loss' (ECL). The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity securities. Under IFRS 9, credit losses are recognized before they would be under IAS 39.

(3) Summary of Significant Accounting Policies, continued

Accounting for hedges
The Group has chosen to maintain IAS 39 policy for its hedges accounting.

Transition
The changes in the accounting policies resulting from the adoption of IFRS 9 have been made by applying the exemption that allows it not to restate the comparative information of previous periods with respect to changes in classification and measurement (including impairment). The differences in the carrying amounts of the financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognized in undistributed earnings and reserves as of January 1, 2018. The impacts are summarized below:

- The information presented for 2017 does not reflect the requirements of IFRS 9 and, therefore, is not comparable with the information presented for 2018 under IFRS 9.

- The following evaluations have been made based on the facts and circumstances that existed at the date of initial application.

  - The determination of the business model in which a financial asset is held.
  - The designation and revocation of prior designation of certain financial assets and financial liabilities now measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading now measured at FVOCI.

- If an investment in a debt security had a low credit risk at the date of initial application of IFRS 9, the Group assumed that the asset's credit risk had not increased significantly since its initial recognition.

- The Group maintained the policies on hedge accounting according to the previous standard, which means that all hedge relationships designated under IAS 39 are held to date.

(3) Summary of Significant Accounting Policies, continued

The following table summarizes the impact of the transition to IFRS 9, net of deferred taxes, on reserves and retained earnings as of January 1, 2018.

Impact of the adoption of IFRS 9 as of January 1, 2018

	B/.
Allowance for valuation of available-for-sale investments	
Ending balance under IAS 39 (December 31, 2017)	(15,103,425)
Remeasurement of financial assets at FVOCI	2,077,323
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	1,849,299
Initial balance under IFRS 9 (January 1, 2018)	(11,176,803)
Unrealized loss of securities transferred to held to maturity	
Ending balance under IAS 39 (December 31, 2017)	(11,255,715)
Remeasurement of financial securities at AC at purchase price	11,255,715
Initial balance under IFRS 9 (January 1, 2018)	0
Retained earnings	
Ending balance under IAS 39 (December 31, 2017)	195,052,922
Recognition of expected credit losses for the loan portfolio under IFRS 9	(15,015,350)
Recognition of expected credit losses for debt instruments at amortized costs under IFRS 9	(314,799)
Recognition of the expected credit losses under IFRS 9 for debt financial assets at FVOCI	(1,849,299)
Recognition of the expected credit losses for the irrevocable loan commitments and contingencies under IFRS 9	(431,036)
Recognition of the expected credit losses for cash and cash equivalents under IFRS 9	(10,104)
Remeasurement of financial securities at FVTPL	35,219
Related deferred tax	3,050,007
Initial balance under IFRS 9 (January 1, 2018)	180,517,560

(3) Summary of Significant Accounting Policies, continued

The table below shows the original measurement categories under IAS 39 and the new measurement categories under the IFRS 9 for each class of financial assets and financial liabilities as of January 1, 2018.

Financial assets	**Note**	**Original Classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Cash and cash equivalents	8	Held to maturity	AC	411,969,144	411,959,040
Fixed income funds	9	Fair value through profit and loss	FVTPL	3,132,000	3,132,000
Debt instruments	10	Fair value through profit and loss	FVTPL	9,074,169	9,074,169
Equity securities and fixed income funds	10	Available for sale	FVTPL	34,394,208	34,394,208
Debt instruments	10	Available for sale	FVTPL	1,160,432	1,160,432
Debt instruments	10	Available for sale	FVOCI	566,009,657	566,009,657
Debt instruments	10	Held to maturity	AC	72,568,365	72,253,566
Debt instruments	10	Held to maturity	FVOCI	170,968,010	184,336,273
Debt instruments	10	Held to maturity	FVTPL	5,633,333	5,633,333
Loans	11	Loans, net	AC	3,133,280,534	3,118,265,184
Other assets	14	Amortized Cost	AC	53,551,397	53,551,397
Total financial assets				4,461,741,249	4,459,769,259

Financial Liabilities	**Note**	**Original Classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Customer deposits	4	Amortized cost	AC	2,797,799,326	2,797,799,326
Securities sold under repurchase agreements	15	Amortized cost	AC	49,942,156	49,942,156
Borrowings received	16	Amortized cost	AC	676,645,738	676,645,738
Bonds payable	17	Amortized cost	AC	447,395,813	447,395,813
Negotiable commercial securities	18	Amortized cost	AC	11,500,000	11,500,000
Derivative liabilities held for risk management	23	Fair value through profit and loss	FVTPL	4,457,025	4,457,025
Other liabilities	19	Amortized cost	AC	25,973,367	25,973,367
Total financial liabilities				4,013,713,425	4,013,713,425

(3) Summary of Significant Accounting Policies, continued

The Group's accounting policies for the classification of financial instruments under IFRS 9 are set out in Note 3 (g). The application of these policies resulted in assignments to the new categories established in the previous table and explained below:

a. All equity securities, fixed income funds and some debt instruments that did not pass the measurement test in accordance with the SPPI methodology were designated to the new fair value category through profit or loss (FVTPL) under IFRS 9.

b. These debt instruments, segmented into a specific business model, represent investments that are held by the Treasury unit of the Group in a separate portfolio to collect interests income, but can be sold to satisfy liquidity requirements that arise in the normal course of the business. The Group considers that these securities are maintained within the business model whose objective is achieved through the collection of the effective contractual cash flows and the sale of the securities. In consequence, these assets have been classified as financial assets at fair value through other comprehensive income under IFRS 9.

(3) Summary of Significant Accounting Policies, continued

The following table presents a reconciliation between the carrying amount of financial assets under IAS 39 and the carrying amounts under IFRS 9 in the transition to IFRS 9 on January 1, 2018.

Financial assets	Carrying amount under IAS 39 at December 31, 2017	Transfers	Remeasurement	Carrying amount under IFRS 9 at January 1, 2018
Amortized cost:				
Cash and cash equivalents				
Beginning balance:	411,969,144			
Remeasurement			(10,104)	
Closing balance:				411,959,040
Loans receivable				
Beginning balance:	3,133,280,534			
Remeasurement			(15,015,350)	
Closing balance:				3,118,265,184
Investment held to maturity				
Beginning balance:	249,169,708			
Remeasurement			10,940,915	
Transfers:				
FVOCI - debt		(182,223,725)		
FVTPL		(5,633,333)		
AC		(72,253,565)		
Closing balance:				0
Debt instruments at amortized cost				
Beginning balance:				
Remeasurement				
Transfers:				
Held to maturity		72,253,565		
Closing balance:				72,253,565
Total financial assets at amortized cost	3,794,419,386	(187,857,058)	(4,084,539)	3,602,477,789
Available for sale				
Beginning balance:	601,564,297			
Transfers:				
FVTPL		(35,554,640)		
FVOCI - debt		(566,009,657)		
Closing balance:				0
Debt instruments at FVOCI				
Transfers:				
From held to maturity		182,223,725		
From available for sale		566,009,657		
Remeasurement			2,112,548	
Closing balance:				750,345,930
Total financial assets at fair value through other comprehensive income	601,564,297	146,669,085	2,112,548	750,345,930
Fair value through profit or loss				
Beginning balance:	12,206,169			
Transfers:				
From held to maturity		5,633,333		
From available for sale		35,554,640		
Closing balance:				53,394,142
Total financial assets at fair value through profit or loss	12,206,169	41,187,973	0	53,394,142

(3) Summary of Significant Accounting Policies, continued

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

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

- IFRS 16 *Leases*, The Group must adopt it as of January 1, 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impact of adopting the standard on January 1, 2019 may change for the following reasons:

  - The Group has not finalized the testing and assessment of controls on its new IT systems; and
  - The new accounting policies are subject to change until the Group presents its first financial statements, which include the date of the initial application.

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

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

  Leases in which the Group is a lessee

  The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on the future economic conditions, the development of the Group's leasing portfolio, the evaluation of whether it will exercise any lease renewal option and the extent to which the Group chooses to use practical expedients and recognition exemptions.

  The Group will recognize new assets and liabilities for its operating leases of branches and office premises. The nature of the expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right to use the asset and interest expenses on lease liabilities.

(3) Summary of Significant Accounting Policies, continued

Previously, the Group recognized the operating lease expense on a straight-line basis over the term of the lease and recognized assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the recognized expense.

As of December 31, 2018, the future minimum lease payments of the Group under a non-cancellable operating leases amounted between B/.5 million and B/.8 million, on a undiscounted basis, which the Group estimates that it will recognize as additional lease liabilities.

No significant impacts are expected for the Group's financial leases.

Transition
The Group plans to apply IFRS 16 initially on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019, with no restatement comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease in transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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

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

(4) Financial Risk Management

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

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

(4) Financial Risk Management, continued

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

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

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

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

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

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

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

(a) Credit Risk

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

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

(4) Financial Risk Management, continued

- A control area responsible for validating that proposals are framed within the Group's policies and limits, obtain the required approval based on the risk level taken and meet the conditions agreed in the approval upon settling the operation.
- The approval process takes place within different levels of the Group, considering approval limits for each level.
- A portfolio management process aimed at monitoring the risk trends for the Group in order to proactively anticipate any evidence of impairment in the portfolio.
- Oversight by the members of Board of Directors through their participation in various Committees (Credit, Portfolio Quality, Risk Policies and Assessment (CPER), Assets and Liabilities (ALCO)).

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

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

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

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

Exposure Limits:
In order to limit the exposure, maximum limits have been established for an individual debtor or economic group, based on the Group'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 Group 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 Group's strategic plan; also, credit and investment exposure limits have been implemented in such countries, based on their credit risk rating and the approved risk appetite.

(4) Financial Risk Management, continued

Policy Compliance Review:

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

Analysis of Credit Quality

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

	Securities under Resale Agreement		Loans Receivable and Other Accounts Receivable		Debt Security Investments	
	2018	2017	2018	2017	2018	2017
Maximum exposure						
Carrying value	1,175,072	3,132,718	0	3,210,730,423	756,178,551	858,290,218
At amortized cost						
Level 1: Pass	1,173,377	3,132,000	0	2,979,899,544	79,789,899	243,536,375
Level 2: Special Mention	0	0	0	164,826,452	0	0
Level 3: Substandard	0	0	0	43,748,741	0	5,633,333
Level 4: Doubtful	0	0	0	18,041,283	0	0
Level 5: Loss	0	0	0	18,711,138	0	0
Gross amount	1,173,377	3,132,000	0	3,225,227,158	79,789,899	249,169,708
Accrued interest receivable	1,695	718	0	23,898,492	177,115	3,559,690
Allowance for impairment loss	0	0	0	(33,139,997)	(1,180,145)	0
Unearned discounted interest and commissions	0	0	0	(5,255,230)	0	0
Carrying value, net	1,175,072	3,132,718	0	3,210,730,433	78,786,869	252,729,398
Carrying value	0	0	3,504,421,656	0	0	0
At amortized cost						
Levels 1-3 (Low risk)	0	0	3,473,347,870	0	0	0
Level 4 (Watch list)	0	0	3,837,711	0	0	0
Level 5 (Substandard)	0	0	3,771,889	0	0	0
Level 6 (Doubtful)	0	0	2,132,408	0	0	0
Level 7 (Loss)	0	0	37,525,597	0	0	0
Gross amount	0	0	3,520,615,475	0	0	0
Accrued interest receivable	0	0	31,834,877	0	0	0
Allowance for expected loss	0	0	(44,814,918)	0	0	0
Unearned discounted interest and commissions	0	0	(3,213,778)	0	0	0
Carrying value, net	0	0	3,504,421,656	0	0	0
Securities at fair value through other comprehensive income (2017: Available-for-sale)	0	0	0	0	671,391,523	602,141,461
Level 1: Low Risk	0	0	0	0	671,391,523	602,141,461
Carrying value	0	0	0	0	6,000,159	3,419,359
Accrued interest receivable	0	0	0	0	0	0
Allowance for impairment loss	0	0	0	0	677,391,682	605,560,820
Not past due nor impaired						
Level 1	0	0	0	2,979,899,544	751,181,422	851,311,169
Level 2	0	0	0	164,826,452	0	0
Sub-total	0	0	0	3,144,725,996	751,181,422	851,311,169
Individually impaired						
Level 3	0	0	0	43,748,741	0	5,633,333
Level 4	0	0	0	18,041,283	0	0
Level 5	0	0	0	18,711,138	0	0
Sub-total	0	0	0	80,501,162	0	5,633,333
Allowance for impairment loss						
Individual	0	0	0	14,066,159	0	0
Collective	0	0	0	19,073,838	0	0
Total allowance for impairment loss	0	0	0	33,139,997	0	0
No past due nor impaired						
Level 1-3	0	0	3,473,347,870	0	0	0
With evidence of impairment						
Level 4-7	0	0	47,267,605	0	0	0
Allowance for expected loss						
Stage 1	0	0	14,590,328	0	270,391	0
Stage 2	0	0	2,167,210	0	909,754	0
Stage 3	0	0	28,057,380	0	0	0
Total reserve for expected loss	0	0	44,814,918	0	1,180,145	0

(4) Financial Risk Management, continued

	2018	**2017**
Off balance sheet operations (note 28)		
Level 1:		
Letters of credit	5,770,923	4,961,227
Guarantees issued	128,347,330	129,995,470
Promissory notes	236,151,593	312,269,188
Level 2:		
Guarantees issued	5,000	670,962
Promissory notes	936,594	606,902
Level 3:		
Guarantees issued	0	0
Promissory notes	0	290,647
Level 4:		
Guarantees issued	0	20,000
Promissory notes	61,740	0
Level 5:		
Guarantees issued	450,000	450,000
Promissory notes	547,739	282,781
	372,270,919	449,547,177
Allowance for expected loss (note 19)	(487,357)	0
Carrying value net	371,783,562	449,547,177

The Group maintains deposits with banks for the amount of B/.294,701,841 (2017: B/.381,452,079). Deposits are held in financial institutions applying the limits established in the risk policy for each counterparty.

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

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

  - Breach of contract, such as a default or delinquency in interest or principal payments;
  - Experienced difficulty in cash flows of the debtor or issuer;
  - Non-compliance with contractual terms and conditions;
  - Beginning of bankruptcy procedures;
  - Decline in the borrower's competitive position; and
  - Impairment of the collateral value.
  - Changes in the original rating
  - Significant increases in the PD in relation to the original PD.

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

(4) Financial Risk Management, continued

- Restructured loans:
  It corresponds to loans restructured due to any impairment in the debtor's financial condition and when the Group considers to grant any modification to the original loan terms (balance, term, payment plan, rate or collateral). These loans once restructured, are maintained in this category, regardless of whether the debtor's capacity improves after Group's restructuring (see note 28).

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

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

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

	% of exposure subjected to Collateral		Type of Collateral
	2018	2017	
Securities bought under resale agreement	100%	100%	Securities
Loans receivable	87%	87%	Cash, Properties and Equipment

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

	2018	2017
Residential mortgage loans:		
% LTV		
Less than 50%	20,787,497	23,875,535
51% - 70%	41,149,130	39,739,144
71% - 90%	164,999,103	160,081,182
91% - 100%	479,701,565	310,941,266
More than 100%	3,724,785	5,334,825
Total	710,362,080	539,971,952

(4) Financial Risk Management, continued

Derivatives, Margin Loans, Securities under Repurchase and Resale Agreements

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

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

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

Assets Received as Collateral

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

	2018	2017
Properties	9,089,193	2,232,342
Vehicles and others	1,947,406	1,574,373
Total	11,036,599	3,806,715

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

(4) Financial Risk Management, continued

Concentration of Credit Risk

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

	Securities under Resale Agreement		Loans Receivable and Other Accounts Receivable		Debt Security Investments	
	2018	2017	2018	2017	2018	2017
Sector:						
Corporate	1,173,377	3,132,000	1,968,206,259	1,909,645,312	180,521,931	166,079,810
Consumer	0	0	1,494,154,638	1,266,585,644	0	0
Government	0	0	10,225,882	10,600,975	570,659,491	685,231,359
	1,173,377	3,132,000	3,472,586,779	3,186,831,931	751,181,422	851,311,169
Accrued interest receivable	1,695	718	31,834,877	23,898,492	6,177,274	3,419,359
	1,175,072	3,132,718	3,504,421,656	3,210,730,423	757,358,696	854,730,528
Geographic concentration:						
Panama	1,173,377	3,132,000	3,058,432,232	2,725,754,541	250,385,344	277,695,968
Latin America and the Caribbean	0	0	398,784,465	447,390,649	85,365,672	120,273,168
United States of America	0	0	2,702,781	3,172,275	407,494,805	437,725,386
Others	0	0	12,667,301	10,514,466	7,935,601	15,616,647
	1,173,377	3,132,000	3,472,586,779	3,186,831,931	751,181,422	851,311,169
Accrued interest receivable	1,695	718	31,834,877	23,898,492	6,177,274	6,979,049
	1,175,072	3,132,718	3,504,421,656	3,210,730,423	757,358,696	858,290,218

	Letters of Credit		Guarantees Issued		Promissory Notes	
	2018	2017	2018	2017	2018	2017
Sector:						
Corporate	5,770,923	4,961,227	125,304,605	128,100,423	19,019,021	11,454,556
Consumer	0	0	3,497,725	3,036,009	218,678,645	301,994,962
	5,770,923	4,961,227	128,802,330	131,136,432	237,697,666	313,449,518
Geographic concentration:						
Panama	5,069,235	4,920,979	115,183,004	85,721,815	230,283,916	313,449,518
Latin America and the Caribbean	701,688	40,248	253,000	1,175,740	7,413,750	0
Others	0	0	13,366,326	44,238,877	0	0
	5,770,923	4,961,227	128,802,330	131,136,432	237,697,666	313,449,518

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

(b) Liquidity of Financial Risk

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

(4) Financial Risk Management, continued

Liquidity Risk Management:

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

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

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

Exposure to Liquidity Risk:

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

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

	2018	2017
At the end of the year	36.36%	37.59%
Average for the year	38.22%	38.08%
Maximum for the year	44.33%	45.47%
Minimum for the year	34.17%	33.22%

(4) Financial Risk Management, continued

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

2018	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total nominal gross amount inflow/(outflow)	Carrying Value
Financial Liabilities						
Customers' deposits	(2,318,667,839)	(606,595,179)	(122,747,860)	(2,638,900)	(3,050,649,778)	2,935,205,209
Repurchase agreements	(76,281,825)	0	0	0	(76,281,825)	75,475,448
Borrowings received	(486,391,519)	(114,859,636)	(76,876,184)	(151,674,539)	(829,801,878)	684,613,257
Bonds payable	(20,097,431)	(155,622,788)	(308,225,000)	0	(483,945,219)	438,380,392
Negotiable commercial papers	(38,225,391)	0	0	0	(38,225,391)	37,309,849
Acceptances outstanding	(109,031,124)	0	0	0	(109,031,124)	109,031,124
Other accounts payables	(33,274,239)	0	0	0	(33,274,239)	33,274,239
Letters of credit	(5,770,923)	0	0	0	(5,770,923)	0
Financial guarantees issued	(68,495,072)	(35,395,769)	(24,911,489)	0	(128,802,330)	0
Loan commitments	(110,105,582)	(127,592,084)	0	0	(237,697,666)	0
	(3,266,340,945)	(1,040,065,456)	(532,760,533)	(154,313,439)	(4,993,480,373)	4,313,289,518
Financial Assets						
Cash, cash effects and bank´s deposits	320,999,377	1,595,979	0	0	322,595,356	321,984,320
Securities purchased under resale agreements	1,175,072	0	0	0	1,175,072	1,175,072
Securities at fair value though profit or loss	19,471,651	5,422,041	6,773,084	44,339,121	76,005,897	71,932,575
Debt instruments at fair value through other comprehensive income	76,372,263	133,805,256	200,269,712	474,350,168	884,797,399	677,391,682
Debt instruments at amortized cost	10,090,541	15,640,090	32,061,286	46,107,248	103,899,165	78,786,869
Loans, net	1,089,721,982	796,947,498	722,645,405	2,140,570,797	4,749,885,682	3,411,788,116
Customers' liabilities under acceptances	109,031,124	0	0	0	109,031,124	109,031,124
Other accounts receivables	92,633,540	0	0	0	92,633,540	92,633,540
	1,719,495,550	953,410,864	961,749,487	2,705,367,334	6,340,023,235	4,764,723,298

2017	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total nominal gross amount inflow/(outflow)	Carrying Value
Financial Liabilities						
Customers' deposits	(2,163,772,974)	(504,407,018)	(241,662,856)	(633,689)	(2,910,476,537)	2,830,867,329
Repurchase agreements	(19,532,051)	(32,894,100)	0	0	(52,426,151)	50,512,216
Borrowings received	(496,803,252)	(130,019,273)	(62,507,915)	(95,032,655)	(784,363,095)	686,235,852
Bonds payable	(49,019,436)	(64,058,520)	(423,526,887)	0	(536,604,843)	452,348,141
Negotiable commercial papers	(11,762,235)	0	0	0	(11,762,235)	11,516,068
Acceptances outstanding	(75,798,150)	0	0	0	(75,798,150)	75,798,150
Other accounts payables	(25,973,367)	0	0	0	(25,973,367)	25,973,367
Letters of credit	(4,961,227)	0	0	0	(4,961,227)	0
Financial guarantees issued	(67,880,561)	(41,247,704)	(22,008,167)	0	(131,136,432)	0
Loan commitments	(126,119,463)	(187,330,055)	0	0	(313,449,518)	0
	(3,041,622,716)	(959,956,670)	(749,705,825)	(95,666,344)	(4,846,951,555)	4,133,251,123
Financial Assets						
Cash, cash effects and bank´s deposits	408,613,018	3,784,477	0	0	412,397,495	412,061,932
Securities purchased under resale agreements	3,138,938	0	0	0	3,138,938	3,132,718
Securities at fair value through profit or loss	4,887	6,670,048	1,835,695	576,155	9,086,785	9,074,169
Securities available for sale	90,228,062	124,612,137	136,842,239	419,105,374	770,787,812	604,983,656
Securities held to maturity	24,282,721	53,794,966	92,616,793	163,582,752	334,277,232	252,729,398
Loans, net	1,032,705,559	812,211,098	673,781,731	1,904,205,112	4,422,903,500	3,157,179,026
Customers' liabilities under acceptances	75,798,150	0	0	0	75,798,150	75,798,150
Other accounts receivables	53,551,397	0	0	0	53,551,397	53,551,397
	1,688,322,732	1,001,072,726	905,076,458	2,487,469,393	6,081,941,309	4,568,510,446

(4) Financial Risk Management, continued

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

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

	2018	**2017**
Assets:		
Banks deposits	1,500,000	3,500,000
Securities at fair value through profit or loss	26,515,885	9,074,169
Debt instruments at fair value through other comprehensive income	623,248,409	517,513,293
Debt instruments at amortized cost	74,581,736	236,283,632
Loans, net	2,447,959,165	2,252,803,091
Total assets	3,173,805,195	3,019,174,185
Liabilities:		
Time deposits	683,610,637	720,572,621
Borrowings received	313,366,189	253,741,982
Bonds payable	431,289,244	431,425,507
Total liabilities	1,428,266,070	1,405,740,110

(c) Market Risk

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

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

Market Risk Management:

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

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

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

(4) Financial Risk Management, continued

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

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

  The sensitivity analysis for the foreign exchange risk is mainly considered in the measurement of the position within a specific currency. The analysis consists of verifying how much would the position in the functional currency represent over the currency being translated; thus, generating the mix of the foreign exchange risk. The Group manages this risk for certain operations through the use of hedge derivatives that mitigate the exposure to exchange rate fluctuations. (See Note 24).

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

2018	Colombian pesos expressed in B/.	Euros expressed in B/.	Other currencies expressed in B/.	Total
Exchange rate	**3,249.75**	**1.14**		
Assets:				
Cash and due from banks	15,919,430	55,725,728	6,370,867	78,016,025
Debt instruments at fair value through other comprehensive income	9,466,677	22,634	0	9,489,311
Debt instruments at amortized cost, net	1,526,745	0	0	1,526,745
Loans at amortized cost	68,257,704	0	0	68,257,704
Total financial assets	95,170,556	55,748,362	6,370,867	157,289,785
Liabilities:				
Customers' deposits	43,738,909	54,868,793	6,294,337	104,902,039
Borrowings received	27,962,463	0	0	27,962,463
Bonds payable	0	0	102,865,136	102,865,136
Total financial liabilities	71,701,372	54,868,793	109,159,473	235,729,638
Net position in the consolidated statement of financial position	23,469,184	879,569	(102,788,606)	(78,439,853)

(4) Financial Risk Management, continued

2017	Colombian pesos expressed in B/.	Euros expressed in B/.	Other currencies expressed in B/.	Total
Exchange rate	2,894.00	1.20		
Assets:				
Cash and due from banks	12,451,936	69,894,840	9,722,563	92,069,339
Securities at fair value through profit or loss	9,074,169	0	0	9,074,169
Securities available for sale	1,160,433	23,777	0	1,184,210
Securities held to maturity	1,383,901	0	0	1,383,901
Loans at amortized cost	94,552,430	1,063,393	32	95,615,855
Total financial assets	118,622,869	70,982,010	9,722,595	199,327,474
Liabilities:				
Customers' deposits	55,861,761	79,780,468	6,947,116	142,589,345
Borrowings received	25,986,776	0	0	25,986,776
Bonds payable	0	0	101,950,681	101,950,681
Total financial liabilities	81,848,537	79,780,468	108,897,797	270,526,802
Net position in the consolidated statement of financial position	36,774,332	(8,798,458)	(99,175,202)	(71,199,328)

- *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 Group's net interest margin may change as a result of unexpected changes in interest rates. In order to mitigate this risk, the Integrated Risk Management Department has set limits to exposure to interest rate risks that might be assumed, which are approved by the Board of Directors. Compliance with these limits is monitored by the Assets and Liabilities Committee (ALCO) and the Risk Committee.

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

Sensitivity of net income due to projected interest rates:	50 bps of increase	50 bps of decrease	100 bps of increase	100 bps of decrease
2018				
As of December, 31	13,530,373	(13,530,373)	27,060,746	(27,060,746)
Average for the year	13,184,278	(13,184,278)	26,368,556	(26,368,556)
Maximum for the year	13,530,373	(13,530,373)	27,060,746	(27,060,746)
Minimum for the year	12,711,675	(12,711,675)	25,423,350	(25,423,350)
2017				
As of December, 31	12,556,345	(12,556,345)	25,112,690	(25,112,690)
Average for the year	12,065,340	(12,065,340)	24,130,680	(24,130,680)
Maximum for the year	12,556,345	(12,556,345)	25,112,690	(25,112,690)
Minimum for the year	11,567,572	(11,567,572)	23,135,144	(23,135,144)

(4) Financial Risk Management, continued

Sensitivity of net equity due to interest rate fluctuation:	50 bps of increase	50 bps of decrease	100 bps of increase	100 bps of decrease
2018				
As of December 31	(1,570,349)	1,570,349	(3,140,698)	3,140,698
Average for the year	(2,200,507)	2,200,507	(4,401,014)	4,401,014
Maximum for the year	(2,307,346)	2,307,346	(4,614,692)	4,614,692
Minimum for the year	(2,389,047)	2,389,047	(4,778,094)	4,778,094
2017				
As of December 31	329,374	(329,374)	658,748	(658,748)
Average for the year	942,979	(942,979)	1,885,958	(1,885,958)
Maximum for the year	2,123,332	(2,123,332)	4,246,664	(4,246,664)
Minimum for the year	659,399	(659,399)	1,318,798	(1,318,798)

The table presented below summarizes the Group's exposure to interest rate risks. The Group'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.

	2018						
	Less than 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Non-interest bearing	Total
Financial assets:							
Cash and cash equivalents	0	0	0	0	0	27,171,005	27,171,005
Bank deposits	287,163,315	6,150,000	1,500,000	0	0	0	294,813,315
Securities purchased under resale agreements	1,175,072	0	0	0	0	0	1,175,072
Securities at fair value through profit or loss	24,996,445	4,146,079	3,838,314	1,337,678	2,952,103	34,661,956	71,932,575
Debt instruments at fair value through other comprehensive income	134,214,609	49,759,586	59,706,669	132,895,872	300,814,946	0	677,391,682
Debt instruments at amortized cost, net	69,177,709	727,766	0	0	8,881,394	0	78,786,869
Loans, net	2,286,491,480	236,041,278	228,330,844	58,329,807	592,057,706	10,537,001	3,411,788,116
Customers' liabilities under acceptances	0	0	0	0	0	109,031,124	109,031,124
Other accounts receivables	0	0	0	0	0	92,633,540	92,633,540
Total financial assets	2,803,218,630	296,824,709	293,375,827	192,563,357	904,706,149	274,034,626	4,764,723,298
Financial liabilities:							
Demand deposits	0	0	0	0	0	517,191,039	517,191,039
Savings deposits	413,389,338	0	0	0	0	0	413,389,338
Time deposits	487,238,225	833,775,970	567,016,609	114,765,128	1,828,900	0	2,004,624,832
Repurchase agreements	44,475,448	31,000,000	0	0	0	0	75,475,448
Borrowings received	181,435,767	196,923,267	110,349,814	54,470,178	141,434,231	0	684,613,257
Bonds payable	0	0	140,633,940	297,746,452	0	0	438,380,392
Negotiable Commercial papers	3,809,849	33,500,000	0	0	0	0	37,309,849
Acceptances outstanding	0	0	0	0	0	109,031,124	109,031,124
Other accounts payables	0	0	0	0	0	53,551,397	53,551,397
Total financial liabilities	1,130,348,627	1,095,199,237	818,000,363	466,981,758	143,263,131	679,773,560	4,333,566,676
Total sensitivity to interest rate	1,672,870,003	(798,374,528)	(524,624,536)	(274,418,401)	761,443,018		

(4) Financial Risk Management, continued

	2017						
	Less than 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Non-interest bearing	Total
Financial assets:							
Cash and cash equivalents	0	0	0	0	0	30,517,065	30,517,065
Bank deposits	377,044,867	1,000,000	3,500,000	0	0	0	381,544,867
Securities purchased under resale agreements	3,132,718	0	0	0	0	0	3,132,718
Securities at fair value through profit or loss	0	0	6,665,598	1,833,294	575,277	0	9,074,169
Securities available for sale	231,141,352	52,679,635	71,230,153	51,149,616	190,285,895	8,497,005	604,983,656
Securities held to maturity	83,620,269	6,956,698	20,658,468	69,336,089	72,157,874	0	252,729,398
Loans, net	1,361,726,358	258,305,234	308,739,712	151,433,015	1,076,974,707	0	3,157,179,026
Total financial assets	2,056,665,564	318,941,567	410,793,931	273,752,014	1,339,993,753	39,014,070	4,439,160,899
Financial liabilities:							
Demand deposits	0	0	0	0	0	583,995,773	583,995,773
Savings deposits	423,253,636	0	0	0	0	0	423,253,636
Time deposits	472,201,088	630,844,211	502,701,731	214,553,443	3,317,447	0	1,823,617,920
Repurchase agreements	19,512,216	31,000,000	0	0	0	0	50,512,216
Borrowings received	159,662,018	272,831,852	159,154,074	22,636,632	64,469,670	0	678,754,246
Bonds payable	17,952,328	2,970,306	31,200,000	400,225,507	0	0	452,348,141
Negotiable Commercial papers	0	11,516,068	0	0	0	0	11,516,068
Total financial liabilities	1,092,581,286	949,162,437	693,055,805	637,415,582	67,787,117	583,995,773	4,023,998,000
Total sensitivity to interest rate	964,084,278	(630,220,870)	(282,261,874)	(363,663,568)	1,272,206,636		

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

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

(d) Operational Risk and Business Continuity

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

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

(4) Financial Risk Management, continued

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

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

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

(e) Capital Management

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

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

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

(4) Financial Risk Management, continued

Based on Rules No. 1-2015 and its amendments and No. 3-2016, issued by the Superintendency of Banks of Panama, as of December 31, 2018, the Group maintains a position of regulatory capital that is composed as follows for its financial subsidiaries:

	2018	2017
Common shares	167,676,545	167,676,545
Excess paid in acquisition of non-controlling interests	(5,606,927)	(5,606,927)
Retained earnings	220,291,052	191,788,799
Other items of other comprehensive income		
Loss on securities at fair value through other Comprehensive income (2017: securities available for sale) and others	(28,873,873)	(26,359,140)
Foreign currency translation effect	(23,032,755)	(21,528,063)
Less: Deferred income tax	0	(2,064,255)
Less: Reserve cash flow hedge	871,569	(23,477)
Less: Goodwill	0	(6,717,198)
Total of Common Tier 1 Capital	331,325,611	297,166,284
Additional Tier 1 Capital		
Preferred shares	110,000,000	110,000,000
Total of Additional Tier 1 Capital	110,000,000	110,000,000
Dynamic provision	53,447,145	51,504,903
Total Regulatory Capital Funds	494,772,756	458,671,187
Total risk weighted assets	3,053,577,621	2,913,477,708
Ratios:		
Capital Adecuacy Ratio	16.20%	15.74%
Common Tier 1 Capital Ratio	10.85%	10.20%
Tier 1 Capital Ratio	14.45%	13.98%
Leverage Ratio	7.17%	6.54%

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

In the preparation of these consolidated financial statements in accordance with International Financial Reporting Standards, the Group's management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses during the reporting period. Actual results may differ from these estimates.

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

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

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

(a) Determination of Control Over Investees:
Control indicators mentioned in Note 3(a) are subject to management's judgment and may have a significant effect on the Group's interests or participation in investment companies and separate vehicles.

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

(b) Impairment losses on financial assets ***after January 1, 2018:***
The Group reviews its main financial assets such as cash and cash equivalents, assets at amortized cost and assets at fair value through other comprehensive income to assess impairment based on the criteria established by the Comprehensive Risk Committee, which establishes reserves under the expected credit loss methodology. These are divided into reserves for 3 different stages, losses at 12 months, losses for the lifetime of the loan and credits at default. See Note 3 (l).

(c) Allowances for loan losses ***until December 31, 2017:***
The Group reviews its loan portfolio on a periodical basis for purposes of assessing impairment based on criteria established by the Risk Committee and establishes specific provisions for loans for which a risk higher than normal has been identified. These provisions are classified into individual provisions for loans, that by their nature and amount have an effect on the creditworthiness and other financial indicators of the Bank and collective provision for loans, which are those relating to groups of loans of the same nature, geographic area or common purpose or that were granted under the same loan program. By 2018, these criteria have been revised by the adoption of IFRS 9. See note 3 (l).

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

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

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

(e) *Impairment of Securities Available for Sale and Held to Maturity* ***until December 31, 2017:***

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

(f) *Impairment of Goodwill:*

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

(g) *Income Tax:*

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

(6) Income Tax

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

(6) Income tax, continued

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

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

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

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

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

Country	Income tax rated	Effective Fiscal year
Colombia	40%	2017
	37%	2018
	33%	2019 and on
Costa Rica	30%	

Income tax expense is detailed as follows:

	2018	2017
Current tax:		
Estimated income tax	11,213,654	10,342,578
Prior period tax adjustments	(745,715)	(185,933)
Deferred tax:		
Origination and reversal of temporary differences	1,543,500	1,132,683
Total income tax expense	12,011,439	11,289,328

In addition, the deferred tax as of December 31, 2018 for B/.381,075 (2017: B/.406,181), corresponding to the depreciation expense from revaluation of property in 2017, was recognized in other comprehensive income for the year for (B/.269,325) (2017: B/.27,293).

(6) Income tax, continued

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

	2018	**2017**
Net income before income tax	68,567,998	69,801,284
Income tax applying the current rate (25%)	17,142,000	17,450,321
Effects of rates on operations in other jurisdictions and exchange rates	1,047,630	1,176,581
Foreign, exempted and non-taxable income	(34,033,290)	(32,650,016)
Non-deductible costs and expenses	26,250,823	25,334,350
Tax loss carryforwards	1,604,276	(21,908)
Total income tax expense	12,011,439	11,289,328

The effective income tax rate is determined as follows:

	2018	**2017**
Income before income tax	68,567,998	69,801,284
Current tax expense	12,011,439	11,289,328
Effective income tax rate	17.52%	16.17%

Deferred income tax asset and liability are detailed below:

		2018			**2017**	
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Cash and cash equivalents	2,526	0	2,526	0	0	0
Allowances for loan losses	8,906,847	0	8,906,847	5,166,512	0	5,166,512
Allowance for other accounts receivables	187,195	0	187,195	0	0	0
Revaluation of properties	0	(381,075)	(381,075)	0	(406,181)	(406,181)
Prepaid expenses	0	0	0	481,133	0	481,133
Irrevocable commitments and letters of credit	121,839	0	121,839	0	0	0
Tax loss carry forwards	0	0	0	2,064,255	0	2,064,255
Total	9,218,407	(381,075)	8,837,332	7,711,900	(406,181)	7,305,719

Deferred income tax asset and liability are detailed below:

2018	**Beginning balance**	**Adjustment for adoption of IFRS 9**	**Recognition in profit or loss**	**Recognition in other comprehensive income**	**Ending balance**
Cash and cash equivalents	0	2,526	0	0	2,526
Allowances for loan losses	5,166,512	2,939,722	800,613	0	8,906,847
Allowance for other accounts receivables	0	0	187,195	0	187,195
Revaluation of properties and derecognized revalued properties	(406,181)	0	0	25,106	(381,075)
Prepaid expenses	481,133	0	(481,133)	0	0
Irrevocable commitments and letters of credit	0	107,759	14,080	0	121,839
Tax loss carry forwards	2,064,255	0	(2,064,255)	0	0
Total	7,305,719	3,050,007	(1,543,500)	25,106	8,837,332

(6) Income tax, continued

2017	Beginning balance	Adjustment for adoption of IFRS 9	Recognition in profit or loss	Recognition in other comprehensive income	Ending balance
Allowances for loan losses	6,187,090	0	(1,020,578)	0	5,166,512
Revaluation of properties	(433,474)	0	0	27,293	(406,181)
Prepaid expenses	753,659	0	(272,526)	0	481,133
Tax loss carry forwards	1,903,834	0	160,421	0	2,064,255
Total	8,411,109	0	(1,132,683)	27,293	7,305,719

The recognition of deferred tax assets for B/.9,218,407 (2017: B/.7,711,900) is based on the Management's forecasted profit (which is based on the available evidence including historical level of profitability), which indicates that it is probable that the companies of the Group will generate future taxable income against which these assets may be used.

Deferred taxes assets have not been recognized for B/.7,711,541 (2017: B/.3,656,092) from accumulated tax losses for B/.23,368,305 (2017: B/.11,079,067) because there is not enough evidence that indicates that there will be sufficient future taxable income for the Group to use the corresponding taxable benefits. These accumulated tax losses expire between 2021 and 2029.

The Group kept a cumulative tax loss balance of available tax loss carryforwards of B/.23,370,505 (2017: B/.17,293,246), originated by companies incorporated in Panama and Colombia.

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

These tax loss carryforwards are distributed as follows:

Year	Tax loss to be used per year in Panama
2019	1,100
2020	1,100

Tax loss carryforwards for B/.23,368,305 incurred by companies incorporated in Colombia could be used for up to 12 subsequent years and without cap amount per fiscal period. Losses generated by excess of presumptive income over ordinary income may be applied up to 5 subsequent years without cap of amount per year.

(7) Net Gain on Securities and Valuation of Derivatives

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

	2018	2017
Net gain on sale of securities with changes in profit or loss	6,168,669	75,994
Gain on valuation of investment properties (Note 14)	479,338	0
Net gain on sale of the debt instruments at fair value through other comprehensive income	1,860,470	0
Net gain on sale of securities available for sale	0	1,050,624
Unrealized loss transferred to profit or loss due to application of hedge accounting	(1,071,083)	(495,835)
Gain net on revaluation of derivative instruments	1,105,139	424,853
Net (loss) gain in cash flow hedging	(24,838)	86,030
Net gain on sale of other financial instruments	4,733	313,200
	8,522,428	1,454,866

(8) Cash and Cash Equivalents

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

	2018	2017
Cash and cash equivalents	27,171,005	30,517,065
Demand deposits	140,600,982	168,731,955
Time deposits	154,110,963	212,720,124
Allowance for impairment of cash equivalents	(10,104)	0
Interest receivable	111,474	92,788
Total cash and due from banks	321,984,320	412,061,932
Less: interest-bearing deposits due over 90 days, pledges and allowance for impairment and interest receivable	19,841,266	6,396,096
Cash and cash Equivalents in the consolidated statement of cash flows	302,143,054	405,665,836

(9) Securities Purchased under Resale Agreements

As of December 31, 2018, the securities purchased under resale agreements were for B/.1,173,377 (2017: B/.3,132,000) with interest receivable of B/.1,695 (2017: B/.718); and maturity date on January 2019.

(10) Investment in Securities

Securities Available for sale *until December 31, 2017*

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

	2017
Foreign common shares	23,777
Preferred shares	27,055
Local common shares	8,446,173
Foreign corporate bonds	31,106,984
Corporate bonds and local fixed income funds	43,718,463
Bonds of the Republic of Panama	74,388,062
Bonds from other governments	11,321,575
Bonds from US Government and Agencies	406,635,005
Negotiable certificates corresponding to the second installment of the XIII-month salary	197,731
Negotiable certificates of participation	25,699,472
Sub-total	601,564,297
Interest receivable	3,419,359
Total	604,983,656

As of December 31, 2017, the Group has equity instruments amounting to B/.190,207, which are kept at cost due to the Group's inability to reliably determine their fair value. The Group performs annual reviews to assess for any impairment in the value of such investments that may require adjustments to the investment value.

As of December 31. 2017, the Group made sales of its portfolio of investments in securities available for sale for B/.645,095,893 generating a gain on sale of B/.1,050,624.

As of December 31, 2017, securities with nominal value of B/.15,500,500 guarantee securities sold under repurchase agreements for the amount of B/.49,942,156. See Note 15. Additionally, securities with nominal value of B/.191,050,831 guarantee borrowings received. See Note 16.

Securities Held to Maturity until December *31, 2017*

The portfolio of held-to-maturity securities amounted to B/.252,729,398.

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

	2017
Foreign corporate bonds	28,500,968
Corporate bonds and local fixed income funds	74,240,434
Bonds of the Republic of Panama	59,451,805
Bonds from other governments	62,404,257
Bonds from US Government and Agencies	24,572,244
Sub-total	249,169,708
Interest receivables	3,559,690
Total	252,729,398

(10) Investment in Securities, continued

As of December 31, 2017, securities with nominal value of B/.52,901,000 guarantee securities sold under repurchase agreements for the amount of B/.49,942,156. See Note 15. Additionally, securities with nominal value of B/.114,300,000 guarantee borrowings received. See Note 16.

The changes of impairment losses on securities held to maturity is detailed as follows:

	2017
Balance at the beginning of the year	5,140,000
Realized loss transferred to profit or loss due to impairment of securities	2,043,752
Provision for losses recognized directly in profit or loss	0
Reversal for sale of impaired securities	(7,183,752)
Balance at the end of the year	0

Reclassification from securities available for sale to held to maturity

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

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

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

		2017	
	Reclassified amount	**Carrying Value**	**Fair Value**
Foreign corporate bonds	34,335,658	19,480,676	21,648,703
Foreign public bonds	95,805,461	73,362,911	81,024,266
Local public bonds	48,609,703	35,958,047	38,518,867
Total	178,750,822	128,801,634	141,191,836

(10) Investment in Securities, continued

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

	2017	
	Profit or Loss	Other Comprehensive Income
Interest income	9,137,521	0
Net change in fair value	0	(19,792,865)
Amount transferred from the allowance for unrealized losses to profit or loss during the period	(1,725,574)	1,725,574
Realized loss from securities transferred to held to maturity, recognized impairment in profit or loss	(2,502,500)	2,502,500
Reclassification of loss due to derecognition of securities held to maturity	0	4,309,076

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

	2017	
	Profit or Loss	Other Comprehensive Income
Interest income	9,137,521	0
Net change in fair value	0	1,292,693

The effective interest rate of the reclassified assets ranges between 0.98% and 4.62% and it is expected to recover all of the cash flows, including principal and interests, for B/.135 millions.

Investment in securities is detailed below:

Securities at fair value through profit or loss

As of December 31, 2018, the Group maintains securities at fair value through profit or loss of B/.71,882,846 (2017: B/.9,074,169) and accrued interest receivable for B/.49,729 (2017: B/.0) and sales and redemptions of its securities for B/.23,512,093 (2017: B/.9,214,945), realizing a net gain of B/.6,168,669 (2017: net gain of B/.75,994).

(10) Investment in Securities, continued

Debt instruments at fair value through other comprehensive income as of January 1, 2018:

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

	2018
Foreign corporate bonds	75,083,511
Corporate bonds and local fixed income funds	37,851,559
Bonds of the Republic of Panama	146,827,234
Bonds from other governments	43,741,403
Bonds from US Government and Agencies	367,887,816
	671,391,523
Accrued interest receivable	6,000,159
Total net	677,391,682

The Group sold portfolio of debt instruments at fair value through other comprehensive income for B/.250,931,756 generating a gain on sale of B/.1,860,470.

Securities with nominal value of B/.91,655,000 guarantee securities sold under repurchase agreements for the amount of B/.75,040,000. See Note 15. Additionally, securities with nominal value of B/.329,722,000 guarantee borrowings received. See note 16.

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

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

Debt instruments at amortized cost as of January 1, 2018

The amortized cost of the portfolio is as follows:

	2018
Foreign corporate bonds	7,045,480
Corporate bonds and local fixed income funds	68,200,342
Bonds from other governments	4,544,077
Total	79,789,899
Accrued interest receivable	177,115
Allowance for expected credit losses	(1,180,145)
Net total	78,786,869

(10) Investment in Securities, continued

Securities with nominal value of B/.3,000,000 guarantee borrowings received. See Note 16.

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

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

(11) Loans

The loan portfolio by product is detailed as follows:

	2018	2017
Commercial	930,951,732	933,709,812
Residential mortgage	710,362,080	539,971,952
Personal, vehicles and credit cards	640,614,891	594,395,233
Interim financing and construction	455,634,096	459,669,352
Pledged loan	201,155,039	188,056,006
Agricultural	193,615,907	178,181,068
Industrial	126,744,629	99,064,405
Retirees	100,132,637	91,449,948
Financial leases	29,371,911	37,248,684
Factoring	21,821,116	30,967,873
Tourism and services	10,965,515	11,950,217
Commercial mortgage	6,612,382	7,011,211
	3,427,981,935	3,171,675,761
Accrued interest receivable	31,834,877	23,898,492
Allowance for expected loss	(44,814,918)	(33,139,997)
Unearned discounted interest and commissions	(3,213,778)	(5,255,230)
Total	3,411,788,116	3,157,179,026

(11) Loans, continued

The movement of the reserve for loan losses is detailed below (2018: expected credit loss model) (2017 incurred loss model):

	2018				2017
	Level 1	**Level 2**	**Level 3**	**Total**	
Balance as of December 31, 2017				33,139,997	
Adjustment due to initial adoption of IFRS 9				15,015,351	
Allowance for expected credit losses at January 1, 2018	13,488,832	13,142,021	21,524,495	48,155,348	36,021,187
Transfer to expected credit losses during the next 12 months	1,050,418	(1,023,754)	(26,664)	0	0
Transfer to expected losses during the lifetime	(1,406,053)	1,442,082	(36,029)	0	0
Transfer to financial instruments with credit impairment	(8,844,686)	(6,485,436)	15,330,122	0	0
Net effect of changes in the allowance for expected credit losses	9,049,409	(2,811,096)	(5,358,517)	879,796	0
Financial instruments that have been written-off during the year	(1,726,385)	0	0	(1,726,385)	0
Changes due to financial instruments recognized at January 1, 2018	(1,877,297)	(8,878,204)	9,908,912	(846,589)	10,079,066
Origination or purchase of new financial assets	6,853,591	799,654	1,888,670	9,541,915	0
Loans written-off	(3,874,798)	(2,896,260)	(14,351,253)	(21,122,311)	(17,861,765)
Recoveries	0	0	9,086,555	9,086,555	4,901,509
Allowance for expected credit losses at December 31, 2018	14,590,328	2,167,211	28,057,379	44,814,918	33,139,997

The credit risk concentration for each stage is detailed below:

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

As of December 31, 2017, the Group established an individual reserve amounting to B/.14,066,159 based on the estimate of losses from classified loans, considering the estimated collateral available. It also recorded a collective reserve amounting to B/.19,073,838. The total reserve amounts to B/.33,139,997.

As indicated in Note 3, the Group adopted a new impairment model based on the requirements of IFRS 9, using the modified retrospective approach; therefore, the cumulative effect of the adoption is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018.

(11) Loans, continued

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

The loan portfolio includes finance leases with the following maturities:

	2018	**2017**
Minimum payments up to 1 year	12,405,593	14,670,985
Minimum payments from 1 to 5 years	14,097,885	19,782,424
Payments over 5 years	2,868,433	2,795,275
Total of minimum payments	29,371,911	37,248,684
Plus: accrued interest receivable	132,807	122,282
	29,504,718	37,370,966
Less: unearned commissions	135,845	192,791
Net Investment in finance leases	29,368,873	37,178,175

The following table shows the total future minimum payments:

	2018	**2017**
Minimum payments up to 1 year	13,593,570	16,309,884
Minimum payments from 1 to 5 years	16,580,098	23,065,311
Payments over 5 years	4,433,143	4,752,177
Total of minimum payments	34,606,811	44,127,372
Plus: accrued interest receivable	132,807	122,282
Less: unearned discounted interest	5,234,900	6,878,688
Total finance leases, net of unearned discounted interest	29,504,718	37,370,966

(12) Property, Furniture, Equipment and Improvements

Properties, furniture, equipment and improvements are summarized below:

2018	Land and buildings	Building in progress	Improvements	Furniture	Office Equipment	Vehicles	Total
Cost							
At the beginning of the year	61,376,852	0	21,143,502	3,345,447	29,596,860	1,057,321	116,519,982
Transfer of assets	(18,742,946)	0	(2,101,982)	0	(88,533)	0	(20,933,461)
Assets revaluation	5,768,914	0	0	0	0	0	5,768,914
Impaired assets	(123,914)	0	0	0	0	0	(123,914)
Purchases	0	2,906,232	1,445,910	556,998	2,606,420	179,895	7,695,455
Sales and disposals	0	0	0	0	(23,526)	(67,000)	(90,526)
At the end of the year	48,278,906	2,906,232	20,487,430	3,902,445	32,091,221	1,170,216	108,836,450
Accumulated depreciation and amortization							
At the beginning of the year	3,335,877	0	11,088,685	1,985,007	19,534,518	669,399	36,613,486
Transfers of assets	(3,072,834)	0	(712,865)	0	(69,533)	0	(3,855,232)
Expense for the year	823,036	0	790,751	325,526	2,786,651	160,862	4,886,826
Sales and Disposals	0	0	0	0	(22,813)	(67,000)	(89,813)
At the end of the year	1,086,079	0	11,166,571	2,310,533	22,228,823	763,261	37,555,267
Net balance	47,192,827	2,906,232	9,320,859	1,591,912	9,862,398	406,955	71,281,183

2017	Land and buildings	Improvements	Furniture	Office Equipment	Vehicles	Total
Cost						
At the beginning of the year	60,942,993	19,414,947	3,178,784	27,227,237	943,175	111,707,136
Impaired assets	(233,827)	0	0	0	0	(233,827)
Purchases	755,000	1,760,309	296,523	3,290,907	234,796	6,337,535
Sales and disposals	(87,314)	(31,754)	(129,860)	(921,284)	(120,650)	(1,290,862)
At the end of the year	61,376,852	21,143,502	3,345,447	29,596,860	1,057,321	116,519,982
Accumulated depreciation and amortization						
At the beginning of the year	2,534,022	10,400,400	1,709,782	17,759,304	660,472	33,063,980
Expense of the year	802,565	720,039	405,085	2,694,453	129,577	4,751,719
Sales and Disposals	(710)	(31,754)	(129,860)	(919,239)	(120,650)	(1,202,213)
At the end of the year	3,335,877	11,088,685	1,985,007	19,534,518	669,399	36,613,486
Net balance	58,040,975	10,054,817	1,360,440	10,062,342	387,922	79,906,496

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

	2018	2017
Land	15,585,547	20,614,318
Building and improvements	5,806,044	12,202,474
	21,391,591	32,816,792

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

As of December 31 2018, land and buildings were technically appraised by independent appraisers for B/. B/.5,645,001. The revaluation adjustment is recorded in a separate account in the consolidated statement of changes in equity as a revaluation surplus.

As of December 31, 2017, the Group made a technical appraisal for one of its lands and buildings as it was presenting signs of deterioration; thus proceeding to recognize B/.233,827 against the previously recorded revaluation surplus.

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

(13) Goodwill

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

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

Entity	Acquisition date	Acquired interes	2018 Balance	2017 Balance
Banco Multibank, S. A.	September 2007	70%	0	6,717,198

To value its acquired assets and businesses, the net cash flows expected from such assets or businesses in the cash-generating unit representing the Colombian component, for a 10 - year term, were projected and also a perpetual growth or multiple of cash flows was defined at the end of the projected period to determine the terminal cash flows. The growth rates of assets or businesses fluctuate based on their nature, and they currently range between 5% and 20%, while the perpetual growth rate range is 2.5% according to the expectations and projections of growth of the GDP according to mostly acceptable sources.

Growth rates of the assets or businesses were determined based on market research, products, segments and specific niches with advisors and leading consulting firms in the market, in which the Group researched the growth, performance, and actual historical indicators of the relevant assets or businesses, their future perspectives, the projected country macroeconomic growth, the segments or business analyzed, as well as the component's business plans, and the expected growth rates in an overall and those of the specific businesses assessed.

(13) Goodwill, continued

To calculate the present value of future cash flows and determine the value of assets or businesses assessed, the free cash flow return required by the stockholder was used as discount rate. Additionally, a comparative calculation was made of the weighted average cost capital of the Group, weighing the country risk premium, the expected return for similar institutions, but if it fell below the shareholder-required rate of return; the stricter rate is used to remain conservative. The calculated cost of capital ranges from 12% to 18% and changes through time.

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

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

During the year 2018, the Group derecognized goodwill for B/.6,717,198 as its value in use lower than the net fair value.

(14) Other Assets

The detail of other assets is as follows:

	2018	**2017**
Accounts receivable	92,633,540	53,551,397
Foreclosed assets, net	28,238,031	14,126,898
Prepaid expenses	17,796,571	12,930,704
Prepaid taxes	4,803,209	1,415,772
Investment properties	2,388,166	0
Guarantee deposits	1,636,383	1,378,305
Others	2,675,183	3,348,412
Total	150,171,083	86,751,488

The assets received through foreclosure at December 31, 2018, have a balance of B/.28,238,031 (2017: B/.14,126,898).

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

	2018	**2017**
Balance at the beginning of the year	0	41,800
Provision recognized in profit or loss	56,385	67,373
Sales of assets	(56,385)	(109,173)
Total, net at the end of the year	0	0

(15) Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements amounted to B/.75,040,000 (2017: B/.49,942,156) and accrued interest payable for B/.435,448 (2017: B/.570,060) with maturities to April 2019 (2017: January 2018 to March 2019) and annual interest rates ranging from 1.96% to 3.60% (2017: from 2.36% to 3.60%). Such securities are guaranteed with debt instruments at fair value through other comprehensive income for B/.91,655,000 (2017: available for sale securities and held to maturity for B/.15,500,000 and B/.52,901,000, respectively). See Note 10.

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

(16) Borrowings Received

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

Financial liability	Interest rate	Due date	2018	2017
Line of credit	2.49% to 8.40%	Up to December 2018	0	386,762,530
Line of credit	2.08% to 7.79%	Up to December 2019	367,263,497	59,955,633
Line of credit	2.92% to 8.28%	Up to December 2020	82,871,036	86,760,190
Line of credit	5.61% to 7.36%	Up to November 2021	27,225,176	34,612,052
Line of credit	3.25% to 7.87%	Up to November 2022	38,057,337	12,500,000
Line of credit	4.16% to 7.46%	Up to October 2023	16,697,408	0
Line of credit	4.16% to 5.31%	January 2024	29,294,583	22,774,646
Line of credit	2.88% to 5.92%	June 2025	111,695,931	65,000,000
Line of credit	7.50%	April 2026	2,860,242	3,837,006
Line of credit	7.50%	April 2028	2,856,103	3,006,304
Line of credit	7.50%	June 2031	1,395,621	1,437,377
			680,216,934	676,645,738
Accrued interest payable			4,396,323	9,590,114
			684,613,257	686,235,852

Borrowings for B/.155,995,167 (2017: B/.207,642,316) are guaranteed with debt instruments at fair value through other comprehensive income and debt instruments at amortized cost for B/.329,722,000 and B/.3,000,000 (2017: B/.191,050,831 and B/.114,300,000), respectively. See Note 10.

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

(17) Bonds Payable

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

Serie	Interest rate	Due date	2018	2017
Corporate bonds – November 2017 issue	4.38%	November 2022	298,194,662	297,745,132
Corporate bonds – June 2017 issue (CHF 100MM)	2.00%	January 2021	100,894,582	101,950,681
Serie F- November 2015 issue	4.35%	November 2020	30,000,000	30,000,000
Serie L- February 2017 issue	4.19%	August 2020	1,200,000	1,200,000
Serie Q – March 2018 issue	3.25%	March 2020	1,000,000	0
Serie M- February 2017 issue	3.00%	February 2018	0	9,000,000
Serie K- January 2017 issue	3.00%	January 2018	0	4,000,000
Serie N- July 2017 issue	3.00%	July 2018	0	1,500,000
Serie O- August 2017 issue	3.00%	August 2018	0	2,000,000
			431,289,244	447,395,813
Accrued interest payable			7,091,148	4,952,328
			438,380,392	452,348,141

The characteristics and guarantees for these issuances are described below:

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

Bonds are issued as nominative, revolving, registered, without coupons, and denominated in thousands of Balboas, in different series, with the maturity of Revolving Corporate Class A Bonds being determined by the "Issuer", whereas Corporate Class B Bonds will be issued for a 20-year term; however, after 15 years, they will be renewed automatically for additional 20-year terms each, from the date of maturity of the original 20-year term. Revolving Corporate Class A Bonds were issued during 2013, as Series A, B and C; during 2015; as Series D, E and F; during 2016 as Series G, H, I and J; during 2017 were issued as Series K, L, M, N and O and during 2018 were issued as Series Q

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

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

(17) Bonds Payable, continued

Corporate Bond Issuance of November 2017

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

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

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

(18) Negotiable Commercial Papers (NCPs)

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

The details of the Negotiable Commercial Papers are summarized below:

Serie	Date of issue	Interest rate	Maturity	2018	2017
Serie K	December 4,18	3.50%	Dec-19	2,000,000	0
Serie J	October 8,18	3.50%	Oct-19	25,000,000	0
Serie I	September 18,18	3.50%	Sep-19	1,500,000	0
Serie H	August 30, 18	3.50%	Aug-19	4,000,000	0
Serie G	August 6, 18	3.00%	Feb-19	750,000	0
Serie F	August 30, 18	3.50%	Jul-19	1,000,000	0
Serie E	February 23, 18	3.00%	Feb-19	2,000,000	0
Serie D	February 6,18	3.00%	Feb-19	1,000,000	0
Serie C	October 19,17	3.00%	Oct-18	0	1,500,000
Serie B	September 15, 17	3.00%	Sep-18	0	6,000,000
Serie A	August 30, 17	3.00%	Aug-18	0	4,000,000
				37,250,000	11,500,000
Accrued interest payable				59,849	16,068
				37,309,849	11,516,068

(18) Negotiable Commercial Papers (NCPs)

During the year 2018, series D, E, F, G, H, I, J and K have been issued; for the year 2017 series A, B and C were issued

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

(19) Other Liabilities

The detail of other liabilities is as follows:

	2018	2017
Accounts payable	33,224,171	25,973,367
Items subject to clearance	18,491,436	17,870,776
Other fringe benefits	4,514,268	3,907,785
Customers' deposits	1,644,010	1,548,480
Severance and indemnity payable	1,639,965	1,710,860
Deferred tax	872,971	896,807
Dividends payable (Note 20)	716,833	758,007
Allowance for expected credit losses in irrevocable commitments and letters of credit	487,357	0
Others	1,759,057	1,670,128
Total	63,350,068	54,336,210

(20) Equity

	Number of shares	
	2018	2017
Common shares:		
Authorized shares without par value	50,000,000	50,000,000
Issued and paid-in-shares:		
Beginning of the year	16,862,753	16,753,229
Issued and paid during the year	0	109,524
Total issued and outstanding shares, at the end of the year	16,862,753	16,862,753

During the year ended on December 31, 2018, the Group has not issued common shares (2017: 109,524 for an amount of B/.4,600,008).

As of December 31, 2018, the subsidiaries of the Group had made capitalization of retained earnings of B/.711,765; and in previous years B/.15,969,347, accumulating a total of B/.16,681,112 therefore, these retained earnings are not available for distribution in dividends.

(20) Equity, continued

Dividends declared and paid on common shares are as follows:

	2018	2017
Total dividends declared on common shares	7,377,454	6,740,987
Total dividends paid on common shares	7,377,454	6,699,813
Total dividends declared and pending payable on common shares	0	41,174

Preferred shares:

The subsidiary Multibank, Inc. is authorized to issue 1,500,000 preferred shares with par value of B/.100 each. At December 31, 2018, Multibank, Inc. has not issued preferred shares and the number of preferred shares outstanding amount to 1,100,000 (2017: 1,100,000). These preferred shares are publicly traded.

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

Multibank Inc.

Issuances	2018	2017	Dividends	Type	Serie
2007	20,000,000	20,000,000	8.00%	Non-cumulative	A
2008	15,000,000	15,000,000	7.00%	Non-cumulative	B
2008	3,270,000	3,270,000	7.50%	Non-cumulative	C
2009	2,911,700	2,911,700	7.50%	Non-cumulative	C
2010	3,818,300	3,818,300	7.50%	Non-cumulative	C
2011	7,000,000	7,000,000	7.00%	Non-cumulative	A
2011	6,323,700	6,323,700	6.70%	Non-cumulative	B
2011	15,046,600	15,046,600	7.00%	Non-cumulative	C
2014	3,676,300	3,676,300	6.70%	Non-cumulative	B
2014	4,953,400	4,953,400	7.00%	Non-cumulative	C
2014	11,269,700	11,269,700	6.70%	Non-cumulative	D
2014	899,000	899,000	6.70%	Non-cumulative	E
2014	1,101,000	1,101,000	6.70%	Non-cumulative	E
2014	3,730,300	3,730,300	6.70%	Non-cumulative	D
2015	1,000,000	1,000,000	6.70%	Non-cumulative	E
2015	800,000	800,000	6.70%	Non-cumulative	E
2015	1,200,000	1,200,000	6.70%	Non-cumulative	E
2016	8,000,000	8,000,000	6.70%	Non-cumulative	F
	110,000,000	110,000,000			

(20) Equity, continued

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

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

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

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

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

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

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

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

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

As of December 31, 2018, dividends on preferred shares were declared and paid for a total of B/.7,944,833 (2017: B/.7,994,293) and dividends declared but unpaid for B/.716,833.

(20) Equity, continued

Surplus of Capital Stock:

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

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

(21) Earnings per share

The calculation of basic earnings per share is based on net income attributable to common shareholders and the weighted average number of common shares outstanding.

Net income attributable to common shareholders and the earnings per share and diluted, are as follows:

	2018	2017
Net income	56,556,559	58,511,956
Less:		
Dividends paid – preferred shares	(7,944,833)	(7,944,293)
Net income attributable to common shares	48,611,726	50,567,663
Weighted average number of common shares:		
Common shares issued on January 1	16,862,753	16,753,229
Weighted average number of shares at the end of the year	16,862,753	16,845,049
Net income per share basic and diluted	2.88	3.00

(22) Commitments and Contingencies

Commitments:

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

	2018	2017
Letters of credit	5,770,923	4,961,227
Guarantees issued	128,802,330	131,136,432
Commitment letters	237,697,666	313,449,518
	372,270,919	449,547,177
Allowance for expected credit losses (Note 19)	(487,357)	0
	371,783,562	449,547,177

(22) Commitments and Contigencies, continued

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

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

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

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

Contingencies:

Common legal proceedings against the Group are in place in the amount of B/.22,871,848 (2017: B/.17,287,131). Group's management and its legal counsel do not estimate any material adverse effect on the consolidated financial position, the consolidated results of operations or business of the Group. For those cases where there is a potential unfavorable outcome, the Bank maintains a reserve designated for these contingencies for B/.864,231 (2017: B/.810,731).

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

Years	Total
2019	5,226,431
2020	4,718,263
2021	2,510,933
2022	4,372,821

During the period ended on December 31, 2018, lease expenses amounting to B/.3,022,317 (2017: B/.2,766,027), include property rental expenses of B/.2,364,911 (2017: B/.2,097,734).

(23) Investment Entities and Separate Legal Vehicles

The subsidiary Multi Trust, Inc. administered trust agreements at customers' risk and expense, amounting to B/.176,990,193 (2017: B/.164,181,309); from which collateralized trust agreements amount B/.173,574,390 (2017: B/.126,953,243) and administration trust contracts amount to B/.3,415,803 (2017: B/.37,228,066).

(23) Investment Entities and Separate Legal Vehicles, continued

The subsidiary Multi Trust, Inc. administered trust agreements at customers' risk and expense, amounting to B/.344,177,611 (2017: B/.353,877,259).

At December 31, 2018, the subsidiary Multi Securities, Inc., manages customer discretionary accounts for B/.899,963 (2017: B/.2,738,882).

The Group maintains a total of B/.229,650,055 (2017: B/.217,389,786), corresponding to investments of the Board of Directors of the Savings & Capitalization Pension System for Public Sector Employees (SIACAP). The administration of SIACAP was awarded to the Multibank/Multi Securities Operating Venture, (The "Administrator") through Service Contract No. 008-2017 published in the Official Gazette No.28379 of October 4, 2017. Some important clauses of this Contract establish the following:

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

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

(24) Derivative Financial Instruments

Fair value hedges of interest rate risk

As of December 31, 2018, the Group uses interest rate swap agreements ("interest rate swaps") to mitigate the interest rate risk of financial assets and liabilities. Such agreements are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, where appropriate.

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

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

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

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

(24) Derivative Financial Instruments, continued

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 Group has measured the effects of the credit risk of its counterparties and its own credit risk to determine the fair value of its derivative financial instruments. Some of the contracts entered into with counterparties include early termination clauses.

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

Cash flow hedges of the Exchange rate risk

As of December 31, 2018, the Group uses interest rate swap and cross currency swap agreements to reduce the risk of the exchange rate of financial liabilities. These contracts are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, as appropriate.

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

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

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

Net Investment hedge

As of December 31, 2018, the Group uses non-delivery forward contracts with maturities of one year, to reduce the risk of currency translation in a net investment made in one of its subsidiaries abroad. These contracts are recorded at fair value in the consolidated statement of financial position, in other assets and other liabilities, as applicable.

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

2018 Accounting method	Outstanding balance of nominal amount 1 year	Fair Value Assets	 Liabilities
Foreign exchange forward	20,000,000	1,119,743	0

(24) Derivative Financial Instruments, continued

2017 Accounting method	Outstanding balance of nominal amount 1 year	Fair Value Assets	Fair Value Liabilities
Foreign exhange forward	35,000,000	0	45,579

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

Measurement of fair value of derivative instruments

	2018	2017
Financial assets at fair value	1,119,743	0
Financial liabilities at fair value	(3,769,626)	(4,457,025)
Net	(2,649,883)	(4,457,025)

See description of levels in Note 27.

During the months of August and September 2017, the administration had sales of securities and settlement of derivatives hedging those securities with nominal values of B/.16,393,000, given the perfect economic relationship that existed among them.

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

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

(25) Balances and Transactions with Related Parties

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

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

(25) Balances and Transactions with Related Parties, continued

	2017	
	Related parties	Shareholders, Directors and Key executives
Assets		
Loans	35,413,196	4,938,849
Accrued interest receivable	212,625	7,191
Accounts receivable	286,843	0
Securities held to maturity	16,000,000	0
Liabilities		
Demand deposits	6,015,136	55,576
Savings deposits	631,752	800,571
Time deposits	17,231,911	479,750
Accrued interest payable	230,258	17,776
Commitments and contingencies		
Guarantees issued	0	502,843
Commitment letters	2,182,157	0
Interest earned on:		
Loans	2,249,498	160,794
Interest expenses:		
Deposits	589,571	19,905
General and administration expenses:		
Allowance	0	422,230
Salaries and other benefits	0	4,371,146
Rental	1,345,828	0

Loans granted to related parties have various maturities from December 2018 to July 2048 (2017: from December 2017 to November 2044) and bear annual interest rates ranging from 2.25% and 24.50% (2017: 2.25% and 24%).

These loans are backed with cash collateral amounting to B/.8,175,265 (2017: B/.5,696,550), by real estate collateral for B/.81,343,546 (2017: B/.88,316,355) other assets pledged for B/.346,484 (2017: B/.431,309) cash guarantees by B/.57,099 and guarantees of securities by B/.0 (2017: B/.2,182,156).

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

(25) Balances and Transactions with Related Parties, continued

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

(26) Operating Segments

Composition of the Operating Segments are as follows:

2018	Financial Services	Fund Management	Insurance	Eliminations	Total Consolidated
Interest income and commissions	274,036,364	118,020	620,293	0	274,774,677
Interest expenses	132,170,264	0	36,920	(176,307)	132,030,877
Other income, net	22,746,551	1,656,833	9,577,918	275,837	34,257,139
Provisions for impairment of financial assets	8,861,583	0	4,199	0	8,865,782
General and administrative expenses	94,984,244	1,346,941	3,528,549	(292,575)	99,567,159
Net income before income tax	60,766,824	427,912	6,628,543	744,719	68,567,998
Total assets	4,869,168,457	4,670,926	36,788,256	(6,747,465)	4,903,880,174
Total liabilities	4,346,918,741	472,394	16,093,953	13,544,899	4,377,029,987

2017	Financial Services	Fund Management	Insurance	Eliminations	Total Consolidated
Interest income and commissions	259,528,527	90,085	424,858	0	260,043,470
Interest expenses	110,643,244	144	50,284	(68,982)	110,624,690
Other income, net	11,542,231	2,044,199	6,182,413	252,000	20,020,843
Provisions for impairment of financial assets	12,122,818	0	0	0	12,122,818
General and administrative expenses	83,449,752	1,448,452	2,875,651	(258,334)	87,515,521
Net income before income tax	64,854,944	685,688	3,681,336	579,316	69,801,284
Total assets	4,669,521,603	4,507,108	25,708,671	(3,691,251)	4,696,046,131
Total liabilities	4,177,969,111	479,740	10,474,332	9,327,844	4,198,251,027

(27) Fair Value of Financial Instruments

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

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

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

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

(27) Fair Value of Financial Instruments, continued

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

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

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

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

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

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Time deposits	154,212,333	154,212,333	212,812,912	212,812,912
Securities purchased under resale agreements	1,175,072	1,175,072	3,132,718	3,132,718
Derivative assets held for risk management	1,119,743	1,119,743	0	0
Securities at fair value through profit or loss	71,932,575	71,932,575	9,074,169	9,074,169
Debt instruments at fair value through other comprehensive income	677,391,682	677,391,682	0	0
Securities available for sale	0	0	604,983,656	604,983,656
Debt instruments at amortized cost	78,786,869	78,166,209	0	0
Securities held to maturity	0	0	252,729,398	264,036,161
Loans, net	3,411,788,116	3,582,141,886	3,157,179,026	3,168,402,932
	4,396,406,390	4,566,139,500	4,239,911,879	4,262,442,548

(27) Fair Value of Financial Instruments, continued

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Time deposits	2,004,624,832	2,029,373,385	1,823,617,920	1,823,617,920
Repurchase agreements	75,475,448	75,720,938	50,512,216	51,124,554
Borrowings received	684,613,257	672,568,982	686,613,257	677,380,700
Bonds payable	438,380,392	424,953,921	452,348,141	451,271,743
Negotiable commercial papers	37,309,849	37,096,922	11,516,068	11,441,374
Derivative liabilities held for risk management	3,769,626	3,769,626	4,457,025	4,457,025
	3,244,173,404	3,243,483,774	3,029,064,627	3,019,293,316

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

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

2018	Level 1	Level 2	Level 3	Total
Debt instruments at fair value through other comprehensive income *as of January 1, 2018:*				
Foreign corporate bonds	30,682,322	42,383,874	2,017,315	75,083,511
Local corporate bonds and fixed income funds	0	26,013,095	11,838,464	37,851,559
Bonds of the Republic of Panama	0	146,453,501	373,733	146,827,234
Other governments' bonds	10,783,720	32,957,683	0	43,741,403
Bonds of US Government and Agencies	18,107,582	205,379,924	144,400,310	367,887,816
	59,573,624	453,188,077	158,629,822	671,391,523
Accrued interest receivable				6,000,159
Total debt instruments at fair value through other comprehensive income *as of January 1, 2018*				677,391,682

2017	Level 1	Level 2	Level 3	Total
Available for sale securities and securities at fair value through profit or loss *until December 31, 2017*:				
Foreign common shares	0	0	23,777	23,777
Local shares and fixed income funds	0	0	8,255,966	8,255,966
Preferred shares	27,055	0	0	27,055
Foreign corporate bonds	8,100,080	18,170,119	4,836,785	31,106,984
Local corporate bonds and fixed income funds	0	17,577,023	26,141,440	43,718,463
Bonds of the Republic of Panama	0	69,947,233	4,440,829	74,388,062
Other governments' bonds	4,636,225	15,759,519	0	20,395,744
Bonds of US Government and Agencies	7,004,330	211,663,904	187,966,771	406,635,005
Negotiable certificates corresponding to the second installment of the XIII- month salary	0	0	197,731	197,731
Negotiable certificates of participation	0	0	25,699,472	25,699,472
	19,767,690	333,117,798	257,562,771	610,448,259
Accrued interest payable				3,419,359
Total securities available for sale measured at fair value *until December 31, 2017*				613,867,618

(27) Fair Value of Financial Instruments, continued

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

During 2018, 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:

	2018	**2017**
Beginning balance of the year	257,562,771	224,857,874
Purchases	0	40,223,214
Sales and redemptions	(47,633,557)	(950,310)
Changes in fair value	(2,819,470)	(5,225,456)
Category reclassifications	(48,479,922)	(1,342,551)
Ending balance of the year	158,629,822	257,562,771

During 2018 and 2017, certain securities available for sale were transferred to Level 3, since certain inputs used to determine their fair value were not observable.

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

Financial Instrument	Valuation technique and inputs used	Level
Corporate bonds and bonds of the Republic of Panama.	Discounted cash flows using a discount rate composed of the risk-free rate, an issuer's risk spread, and a liquidity spread, for an instrument with similar remaining maturity.	2 and 3
Shares and Bonds of US Government and Agencies.	Quoted prices for identical instruments in non-active markets.	2 and 3
Mutual funds.	Net Asset Value	2

(27) Fair Value of Financial Instruments, continued

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

Financial Instrument	Valuation technique	Significant non-observable inputs	Range (Weighted Average)	Sensitivity of the fair value measurement to significant unobservable inputs
Corporate bonds	Discount cash flows	Discounted cash flows at a rate adjusted to the credit and liquidity risk of each instrument.	0.85% - 8.50% (3.30%)	An increase or (decrease) in the unobservable input alone would lead to lower (higher) fair value measurement.
Negotiable certificates of participation / Negotiable certificates corresponding to the second installment of the XIII-month salary	Discounted cash flows	Discounted cash flows at a rate adjusted to the liquidity risk of each instrument.	0.48% - 1.00%	An increase or (decrease) in the unobservable input alone would lead to lower (higher) fair value measurement.

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

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

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

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

(27) Fair Value of Financial Instruments, continued

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

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Time deposits	0	0	154,212,333	154,212,333
Debt instruments at amortized cost	0	10,767,729	67,398,480	78,166,209
Loans, net	0	0	3,582,141,886	3,582,141,886
	0	10,767,729	3,803,752,699	3,814,520,428
Liabilities:				
Time deposits	0	0	2,029,373,385	2,029,373,385
Repurchase agreements	0	0	75,720,938	75,720,938
Borrowings received	0	0	672,568,982	672,568,982
Bonds payable	0	0	424,953,921	424,953,921
Negotiable commercial papers	0	0	37,096,922	37,096,922
Derivative liabilities held for risk management	0	0	3,769,626	3,769,626
	0	0	3,243,483,774	3,243,483,774

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Time deposits	0	0	212,812,912	212,812,912
Securities helt to maturity	21,811,107	125,226,581	113,438,783	260,476,471
Loans, net	0	0	3,168,402,932	3,168,402,932
	21,811,107	125,226,581	3,494,654,627	3,641,692,315
Liabilities:				
Time deposits	0	0	1,823,617,920	1,823,617,920
Repurchase agreements	0	0	51,124,554	51,124,554
Borrowings received	0	0	677,380,700	677,380,700
Bonds payable	0	0	451,271,743	451,271,743
Negotiable commercial papers	0	0	11,441,374	11,441,374
	0	0	3,014,836,291	3,014,836,291

(27) Fair Value of Financial Instruments, continued

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

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

(28) Main Applicable Laws and Regulations

Laws and Regulations

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

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

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

Regulation in the Republic of Colombia

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

Law of the Republic of Costa Rica

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

(28) Main Applicable Laws and Regulations, continued

(b) Financial Companies Law

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

(c) Law for Finance Leases

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

(d) Insurance and Reinsurance Laws

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

Insurance Reserve

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

(e) Securities Law

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

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

(f) Trust Law

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

(28) Main Applicable Laws and Regulations, continued

(g) Foreclosed Assets

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

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

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

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

The Group maintains a regulatory reserve for B/.6,690,098 (2017: B/.4,148,928) under Rule No.3-2009.

Regulations issued by the Superintendency of Banks effective since 2014:

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

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

(28) Main Applicable Laws and Regulations, continued

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

Specific Provisions

Rule No.4-2013 sets forth that specific provisions are generated by any objective and concrete evidence of impairment. These provisions shall be recorded for credit facilities classified in the following risk categories: special-mention, substandard, doubtful or loss, both for individual or groups of credit facilities.

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

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

The table below summarizes the classification on the loan portfolio of the Multibank, Inc. and Subsidiaries based on Rule No. 4-2013:

	2018		2017	
	Loans	Reserves	Loans	Reserves
Individual impairment assessment:				
Special mention	191,523,833	16,506,298	164,826,452	14,349,676
Substandard	53,846,073	8,035,675	43,748,741	8,625,921
Doubtful	29,069,313	11,510,408	18,041,283	7,933,549
Loss	37,954,775	19,964,732	18,711,138	13,997,155
Gross amount	312,393,994	56,017,113	245,327,614	44,906,301

(28) Main Applicable Laws and Regulations, continued

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

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

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

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

Loans in non-accrual status amounted to B/.30,864,933 (2017: B/.19,786,508) and had unrecognized accrued interest for B/.1,336,002 (2017: B/.587,909).

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

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

(28) Main Applicable Laws and Regulations, continued

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

	2018	
Past due	Non-performing loans	Total
19,792,383	43,705,385	63,497,768

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

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

The balance of restructured loans at December 31, 2018, amounted to B/.95,058,664 (2017: B/.58,233,807).

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

a) For consumer and corporate loans, if payment is in arrears for more than 90 days; and
b) For residential mortgage loans, if payment is in arrears for more than 120 days

Dynamic Provision

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

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

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

(28) 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	2018	2017
Multibank, Inc.	45,538,479	44,327,152
Banco Multibank, S. A.	2,317,575	2,317,575
MB Créditos, S. A. and Subsidiaries	2,644,106	1,745,461
Multibank Cayman, Inc.	1,298,224	1,298,224
Multileasing Financiero, S. A.	955,993	955,993
Multibank Factoring, Inc.	516,503	516,503
Gran Financiera, S. A.	176,265	176,265
Hemisphere Bank Inc., Ltd.	0	167,730
	53,447,145	51,504,903

The Group, as per requirements of Rule No.4-2013, in 2018 constituted a regulatory reserve of B/.14,376,432 (2017: B/.13,756,809) which represents the excess of the regulatory credit reserve over the balance of the allowance for loan losses recognized as per IFRS.

Capital Adequacy Ratio

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

- Classification of regulatory capital funds, establishing new concepts as Tier 1 capital (common and additional Tier 1 capital).
- Additional features for compliance with the tier 1 capital and inclusion of new components such as: unrealized gains or losses on securities available for sale, translation adjustments of subsidiaries abroad, among others.
- Incorporation as regulatory adjustments of items such as deferred taxes assets, reserve for cash flow hedges, treasury stock, among others.
- Concept of Supplementary Leverage ratio.
- Application for all units when a financial Group exists (Bank, Bank and subsidiaries and Holding companies that own Banks).
- Establishment of new weighting factors for financial assets (Cash, Investments, Loan portfolio, etc.).
- Establishment of additional concepts of acceptable collateral.

(29) Cash Flows of Financial Liabilities

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

			Non-cash generating Transactions			
	2018	Cash Flows	Acquisitions	Effects of fluctuation in exchange rates	Interest payable	2017
Financial liabilities						
Securities sold under repurchase agreements	75,475,448	24,828,620	0	0	134,612	50,512,216
Borrowings received	684,613,257	(8,055,477)	0	1,239,091	5,193,791	686,235,852
Bonds payable	438,380,392	(13,081,808)	0	1,252,879	(2,138,820)	452,348,141
Negotiable Commercial papers	37,309,849	25,837,562	0	0	(43,871)	11,516,068
Total	1,235,778,946	29,528,897	0	2,491,970	3,145,712	1,200,612,277

			Non-cash generating Transactions			
	2017	Cash Flows	Acquisitions	Effects of fluctuation in exchange rates	Interest payable	2016
Financial liabilities						
Securities sold under repurchase agreements	50,512,216	(65,163,587)	0	0	570,060	115,105,743
Borrowings received	686,235,852	(149,547,153)	0	(2,239,128)	9,590,114	828,432,019
Bonds payable	452,348,141	387,310,826	0	(1,042,013)	4,952,328	61,127,000
Negotiable Commercial papers	11,516,068	11,500,000	0	0	16,068	0
Total	1,200,612,277	184,100,086	0	(3,281,141)	15,128,570	1,004,664,762

			Non-cash generating Transactions			
	2018	Cash Flows	Appropriation of retained earnings	Net Income	Adjustment for application of IFRS 9	2017
Equity						
Common shares	167,676,545	0	0	0	0	167,676,545
Preferred shares	110,000,000	0	0	0	0	110,000,000
Retained earnings	221,513,479	(15,511,842)	(48,798)	56,556,559	(14,535,362)	195,052,922
Total	499,190,024	(15,511,842)	(48,798)	56,556,559	(14,535,362)	472,729,467

			Non-cash generating Transactions			
	2017	Cash Flows	Appropriation of retained earnings	Net Income	Adjustment for application of IFRS 9	2016
Equity						
Common shares	167,676,545	4,600,008	0	0	0	163,076,537
Preferred shares	110,000,000	0	0	0	0	110,000,000
Retained earnings	195,052,922	(15,098,944)	(14,272,781)	58,511,956	0	165,912,691
Total	472,729,467	(10,498,936)	(14,272,781)	58,511,956	0	438,989,228