BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Financial Statements

As of December 31, 2018

(With Independent Auditors' Report)

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Banco Nacional de Panama

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banco Nacional de Panamá (hereinafter, the "Bank"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss, other comprehensive income, changes in capital funds and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and of its financial performance and its 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 Financial Statements* section of our report. We are independent of the Bank in accordance with the 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 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 financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on this matter.

Implementation of IFRS 9 Financial Instruments
See notes 3(e) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
As described in the notes to the financial statements, the classification and measurement of financial assets and liabilities and impairment losses have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter, as IFRS 9 is a new accounting standard that involves significant judgment in determining the appropriate classification and measurement and impairment reserves for financial instruments, and which in turn impacts the processes and controls related to the calculation of such reserves. The following are some of the areas of judgment involved: • The interpretation of the guidelines established in IFRS 9 for the determination of impairment and significant increases in credit risk of financial instruments, reflected in the Bank's expected credit loss ("ECL") model. • The identification of financial instruments with significant exposures and impairment of their credit quality. • It involves careful evaluation to determine the assumptions used in the ECL methodologies such as the financial condition of the counterparty, expected future cash flows and prospective analysis, including other factors such as the growth of the country's economic activity.	Our audit procedures with respect to transitional adjustments to the classification and measurement of financial assets and liabilities, considering the use of specialists, included: • We assessed the Bank's adopted IFRS 9 classification and measurement policies for compliance with the requirements of this standard. • We obtained an understanding and assessed the reasonableness of the assumptions/judgments used by management on the classification and measurement of financial instruments, including the business model applied by the Bank. • We evaluated the contractual terms of the various financial instruments in order to determine the reasonableness of cash flows that are solely payments of principal and interest ("SPPI"). • We review that the accounting entries for the adoption of IFRS 9 have been properly recorded. Our audit procedures with respect to the transition adjustments and to the impairment testing methodologies, considering the use of specialists, included: • We assessed that the modeling techniques and methodology used by the Bank to calculate its impairment reserves were in compliance with the requirements of IFRS 9. • We evaluated the process design and tested the operational effectiveness of relevant controls associated with:

Implementation of IFRS 9 Financial Instruments (continued)
See notes 3(e) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
• The need to apply additional assumptions to reflect current or future external factors that may not be adequately incorporated into the ECL model.	– The technological environments of the information systems involved in the calculation 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 of loan granting, continuous internal assessments of the credit quality of the financial instruments, and the storage of key data. – The ECL model, including the development and approval of each methodology, continuous monitoring/validation and its mathematical accuracy. • We evaluate and test the significant assumptions of the ECL model of the various financial instruments. • We evaluated the mathematical accuracy and fair presentation of the disclosures in the financial statements by adopting this new standard.

Reserve for losses on financial assets
See notes 3(e) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
The allowance for losses on financial assets at amortized cost is considered one of the most significant issues since it requires the application of judgments and the use of assumptions by management in the construction of the expected credit loss ("ECL") model. Assets at amortized cost subject to the allowance for expected losses represent 95% of the Bank's total assets.	Our audit procedures, considering the use of specialists, included: • Evaluation of key controls on delinquency calculations, internal customer risk ratings, external risk ratings of banks and investment instruments, review of accuracy of customer information and of the model and methodologies used. • Assessment tests of whether contractual cash flows from financial assets at amortized cost represent SPPI.

Reserve for losses on financial assets (continued)
See notes 3(e) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
The allowance for losses on financial assets at amortized cost comprises the ECL as a result of the loan rating model, the external ratings assigned to interbank placements and investment instruments, and the mechanism for determining the probability of default of the financial asset according to the stage of impairment at which it is assigned. The model to estimate the ECL is determined according to the grouping of financial assets at amortized cost with similar credit risk characteristics. The methodology applied by the model is composed of estimates of the probability of default, loss given default, prospective analysis and exposure to default. The evaluation of whether or not there has been a significant increase in the credit risk of financial assets entails the application of important judgments in said methodology. This is a challenge from an audit perspective because of the complexity in estimating the components used to make these calculations and applying management's judgment	• For a sample of financial assets, 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 the guarantees that support the credit operations determined by expert appraisers, the investment prospects and other publicly available information, and other factors that could represent a loss event, to determine the reasonableness of the assigned credit risk rating. • The methodologies applied by the Bank in the ECL estimation model were evaluated in accordance with IFRS 9, through the inspection of documented policies, manuals and methodologies. • An independent assessment of the inputs used was conducted based on the methodology used by the Bank and recalculation was performed according to the ECL estimation model. • We evaluated management's judgments on assumptions regarding current economic conditions and prospective analysis considerations that may change the level of ECL, based on our experience and knowledge of the industry.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free of 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis on these 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 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 understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, we conclude on whether or not there are material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that material uncertainty exist, we are required to draw attention in our auditors' report to the related disclosure in the 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, subject to decisions by the Panamanian government, may cause the Bank to cease to be a going concern.

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

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 provided to those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear or 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 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 partner in charge of the audit who has prepared this independent auditors' report is Kuldip Singh K.

KPMG

Panama, Republic of Panama
February 4, 2019

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Financial Position

As of December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Assets			
Cash and cash equivalents		236,150,367	311,017,486
Deposits in banks:			
Demand deposits- foreign		64,737,831	88,351,485
Time deposits - local		87,000,000	225,000,000
Time deposits - foreign		1,630,300,000	2,172,900,000
Accrued interest receivable		1,126,068	4,658,702
Less: Reserve for losses on deposits with banks		47,724	0
Total bank deposits, net		1,783,116,175	2,490,910,187
Total cash, cash equivalents and bank deposits	6	2,019,266,542	2,801,927,673
Securities purchased under resale agreements	7	100,276,265	72,309,600
Accrued interest receivable		717,148	173,275
Investments in securities	8	2,620,487,245	3,068,580,067
Accrued interest receivable		21,087,626	28,290,549
Less: Reserve for investment losses		4,386,163	0
Investments in securities, net		2,637,188,708	3,096,870,616
Private sector loans		3,788,102,451	3,421,103,174
Government loans		464,327,629	219,742,778
Accrued interest receivable		28,231,790	24,630,680
Less: Allowance for loan losses		53,607,992	34,675,449
Interest and unearned commissions		26,910,713	26,166,407
Loans, net	9	4,200,143,165	3,604,634,776
Properties and equipment, net	10	80,071,356	74,086,575
Other assets:			
Borrowers' foreclosed assets, net	13	8,659,284	9,473,110
Intangible assets - licenses and software	11	14,473,048	16,673,745
Tax credits on preferential interest	12	60,629,982	49,692,349
Miscellaneous	13	18,983,761	14,639,086
Total other assets		102,746,075	90,478,290
Total assets		9,140,409,259	9,740,480,805

The statement of financial position should be read in conjunction with the notes that form an integral part of the financial statements.

Liabilities and Capital Funds	Note	2018	2017
Liabilities:			
Deposits:			
Demand deposits:			
Local - private		760,064,166	800,731,912
Local - public		2,363,986,666	2,211,550,149
Foreign		25,551,927	21,222,664
Savings:			
Local - private		689,627,303	662,414,790
Foreign		3,052,792	5,100,930
Time deposits:			
Local - private		404,513,979	600,422,522
Local - public		3,737,059,359	4,223,623,141
Foreign		16,126,653	17,598,743
Restricted - inactive accounts	14	14,030,612	19,287,734
Restricted - escrow funds	14	50,288,981	42,547,758
Accrued interests payable		3,405,613	3,600,071
Total deposits		8,067,708,051	8,608,100,414
Obligations:			
Foreign borrowings received	15	35,000,000	0
Accrued interests payable		198,829	0
Other liabilities:			
Guarantee certificates for legal proceedings		113,608,270	135,389,758
Accrued interests payable		2,113,001	4,328,213
Miscellaneous creditors	16	59,339,740	47,942,170
Management checks and certificates		27,204,991	51,246,993
Miscellaneous	16	25,413,212	26,120,273
Total other liabilities		227,679,214	265,027,407
Total liabilities		8,330,586,094	8,873,127,821
Capital funds:			
Paid-in capital by Government of Panama	4	650,000,000	570,000,000
Regulatory reserve for foreclosed assets		3,828,444	3,649,121
Valuation of investments in securities	3	5,215,618	86,074,116
Actuarial valuation	16	891,043	0
Dynamic regulatory provision	25	56,598,706	56,598,706
Retained earnings		93,289,354	151,031,041
Total capital funds		809,823,165	867,352,984
Commitments and contingencies	17		
Total liabilities and capital funds		9,140,409,259	9,740,480,805

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Profit or Loss

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Interest and commission income:			
Interest on:			
Loans		214,801,518	194,431,952
Deposits with banks		34,417,685	35,873,395
Securities		102,820,649	96,060,817
Loan commissions		8,639,918	7,714,334
Total interest and commission income		360,679,770	334,080,498
Interest expenses:			
Deposits		77,998,470	65,892,600
Borrowings		1,434,513	233,314
Total interest expenses		79,432,983	66,125,914
Net interest and commission income		281,246,787	267,954,584
Reversal of provision for losses in deposits with banks	4	(838,836)	0
Provision for investment securities losses	4	1,226,298	0
Provision for loan losses	9	4,599,885	9,466,368
Provision (reversal) for valuation of foreclosed assets	12	342,884	(66,632)
Net interest and commission income, after provisions		275,916,556	258,554,848
Other income:			
Fees for banking services	18	17,054,680	17,530,856
Dividends	8	913,424	1,305,541
Net gain on sale of securities	8	13,039,225	949,746
Other income	19	17,023,617	18,869,834
Total other income		48,030,946	38,655,977
Other expenses:			
Provision for tax credits, net		413,127	376,227
Commissions		483,734	221,358
Total other expenses		896,861	597,585
Total other income, net		47,134,085	38,058,392
General and administrative expenses:			
Salaries and other staff costs	20	82,425,298	85,740,951
Rentals		2,040,759	1,868,669
Repairs and maintenance		11,057,621	10,733,872
Depreciation and amortization	10 y 11	16,607,721	13,165,642
Electricity		3,118,070	2,911,992
Advertising and promotion		3,180,069	3,376,027
Communications		5,221,563	4,819,354
Insurance		529,287	634,294
Stationery and office supplies		1,665,019	1,898,720
Fees and professional services		3,604,997	3,222,114
Mobilization of personnel		1,316,070	997,407
Transportation of valuables		1,800,557	1,738,762
Electronic cashiers		1,541,716	996,784
Others	20	5,036,706	4,078,344
Total general and administrative expenses:		139,145,453	136,182,932
Net income		183,905,188	160,430,308

The statement of profit or loss should be read in conjunction with the notes that are an integral part of the financial statements

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Other Comprehensive Income

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Net income		183,905,188	160,430,308
Other comprehensive income (loss):			
Items that are or may be reclassified to earnings of the operations:			
Reserve for valuation of investments in securities:			
Net change in valuation of available-for-sale securities		0	35,732,312
Transfer to income from the sale of securities		0	(949,746)
		0	34,782,566
Items that may not be reclassified to profit and loss of the operations:			
Net change in valuation of investments at fair value with changes in other comprehensive income (FVOCI)	8	(1,054,952)	0
Net change in actuarial valuation	16	891,043	0
Other comprehensive income (loss) for the year		(163,909)	34,782,566
Total comprehensive income for the year		183,741,279	195,212,874

The statement of other comprehensive income should be read in conjunction with the notes that are an integral part of the financial statements

BANCO NACIONAL DE PANAMA
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Statement of Changes in Capital Funds

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	Paid-in Capital by the Government of Panama	Regulatory reserve for foreclosed assets	Valuation of investments in securities	Acturial valuation	Dynamic regulatory provision	Retained earnings	Total capital funds
Balance as of December 31, 2016		570,000,000	2,968,002	51,291,550	0	56,598,706	76,281,852	757,140,110
Net income, 2017		0	0	0	0	0	160,430,308	160,430,308
Other comprehensive income (loss):								
Net change in valuation of available-for-sale securities		0	0	35,732,312	0	0	0	35,732,312
Transfer to income from the sale of securities		0	0	(949,746)	0	0	0	(949,746)
Total other comprehensive income for the year		0	0	34,782,566	0	0	0	34,782,566
Total comprehensive income for the year		0	0	34,782,566	0	0	160,430,308	195,212,874
Other capital fund movements:								
Regulatory reserve for foreclosed assets		0	681,119	0	0	0	(681,119)	0
Transactions recorded directly in capital funds:								
Distribution of profits to the Panamanian State		0	0	0	0	0	(85,000,000)	(85,000,000)
Balance as of December 31, 2017		570,000,000	3,649,121	86,074,116	0	56,598,706	151,031,041	867,352,984
Impact on initial appliciation of IFRS 9 on January 1, 2018	3	0	0	(79,803,546)	0	0	(21,467,552)	(101,271,098)
Balance as of January 1, 2018		570,000,000	3,649,121	6,270,570	0	56,598,706	129,563,489	766,081,886
Net income, 2018		0	0	0	0	0	183,905,188	183,905,188
Other comprehensive income (loss):								
Net change in valuation of investments to FVOCI	8	0	0	(1,054,952)	0	0	0	(1,054,952)
Net change in actuarial valuation	16	0	0	0	891,043	0	0	891,043
Total other comprehensive income (loss) for the year		0	0	(1,054,952)	891,043	0	0	(163,909)
Total comprehensive income (loss) for the year		0	0	(1,054,952)	891,043	0	183,905,188	183,741,279
Other capital fund movements:								
Regulatory reserve for foreclosed assets		0	179,323	0	0	0	(179,323)	0
Transactions recorded directly in capital funds:								
Capitalization of profits		80,000,000	0	0	0	0	(80,000,000)	0
Earnings distributed to the Government of Panama		0	0	0	0	0	(140,000,000)	(140,000,000)
Total transactions recorded directly in capital funds		80,000,000	0	0	0	0	(220,000,000)	(140,000,000)
Balance as of December 31, 2018		650,000,000	3,828,444	5,215,618	891,043	56,598,706	93,289,354	809,823,165

The statement of changes in capital funds must be read in conjunction with the notes that are an integral part of the financial statements

BANCO NACIONAL DE PANAMA
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Statement of Cash Flows

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Operational activities:			
Net income		183,905,188	160,430,308
Adjustments to reconcile net income and cash of operational activities:			
Depreciation		12,865,037	10,217,077
Amortization of intangible assets - licenses and programs		3,742,684	2,948,565
Reversal of provision for losses on bank deposits		(838,836)	0
Provision for investment losses		1,226,298	0
Provision for loan losses		4,599,885	9,466,368
Provision (reversal) for valuation of foreclosed assets		342,884	(66,632)
Provision for fiscal credits, net		413,127	376,227
Gain on sale of foreclosed assets		(1,575,033)	(850,721)
Gain on sale of furniture and equipment		(250,581)	(53,381)
Dividends		(913,424)	(1,305,541)
Net gain on sale of securities		(13,039,225)	(949,746)
Net interest and commission income		(281,246,787)	(267,954,584)
Changes in operating assets and liabilities:			
Time deposits in banks with maturities originals older than 3 months		875,000,000	976,750,000
Securities purchased under resale agreements, net		(27,966,665)	(59,166,600)
Loans		(613,928,291)	(60,254,865)
Other assets		(17,374,621)	(4,258,764)
Sight deposits received		116,098,034	(1,997,844,843)
Savings deposits received		25,164,375	57,271,704
Time deposits received		(681,460,314)	1,133,513,462
Warranty certificates for legal proceedings		(21,781,488)	2,995,183
Management checks and certificates		(24,042,002)	25,321,940
Sundry creditors		11,397,570	(3,558,893)
Other liabilities		183,982	4,819,580
Cash with operations:			
Interest and commissions received		370,349,541	344,971,877
Interest paid		(81,643,824)	(67,337,364)
Dividends received		913,424	1,305,541
Cash flows from operating activities		(159,859,062)	266,785,898
Investment activities:			
Acquisitions of investments in securities at amortized cost		(752,415,862)	(789,634,482)
Redemptions of investments in securities at amortized cost		833,978,221	461,002,491
Proceeds from the sale of investments in securities at amortized cost		295,605,200	20,933,944
Acquisition of furniture and equipment		(18,859,642)	(10,946,325)
Proceeds from the sale and disposal of furniture and equipment		260,405	292,818
Acquisition of intangible assets - licenses and software		(1,541,987)	(681,332)
Proceeds from the sale of foreclosed assets of borrowers		3,751,954	1,595,504
Cash flows from investing activities		360,778,289	(317,437,382)
Financing activity:			
Funding received		35,000,000	0
Distribution of profits to the Panamanian State		(140,000,000)	(85,000,000)
Cash flows from financing activities		(105,000,000)	(85,000,000)
Net increase (decrease) in cash and cash equivalents		95,919,227	(135,651,484)
Cash and cash equivalents at the beginning of the year		1,822,268,971	1,957,920,455
Cash and cash equivalents at the end of the year	6	1,918,188,198	1,822,268,971

The cash flow statement should be read in conjunction with the notes that are an integral part of the financial statements

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(1) Incorporation and Operations

Banco Nacional de Panama (the “Bank”) was created by Laws No.74 of 1904, 6 of January of 1911, 11 of 1956, reorganized by Law 20 of 1975, subrogated by Decree-Law 4 of 2006, as amended by Law 24 of 2017; is a public entity with its proper legal status, own capital funds, autonomous and independent in its regulations, budget and internal management, subject to the supervision of the Executive Body and the corresponding supervisory bodies, under the terms established by the Law. As the Nation's primary financial institution, the Bank is responsible, in addition to the objectives described in the above mentioned law, for performing banking activities within the official sector, and obtaining the necessary funds to develop the national economy.

Banco Nacional de Panama is exempt from the payment of any national, municipal or any other tax, rate, lien or contribution, with the exception of employer's contributions to Social Security, Educational Insurance Tax, Professional Risk, Public Services Tax and other exceptions provided for in Decree Law No. 4 of January 18, 2006, as amended by Law No. 24 of May 16, 2017. In addition, the Bank enjoys all the privileges granted to the State by procedural laws, in any judicial or administrative proceedings to which it is a party; and has coercive jurisdiction for the collection of overdue obligations incurred in its favor.

The Bank is responsible for directing and managing the clearing operations for the entire national banking system.

The main office is located at Torre Banco Nacional, Via España and 55th Street, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

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

These financial statements were reviewed by the Audit Steering Committee on January 31, 2019 and approved by the Board of Directors for issuance on January 31, 2019.

(b) Basis of Measurement

These financial statements have been prepared on a historical cost and amortized cost basis, except for certain investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of carrying value or fair value less costs to sell.

(2) Basis of Preparation, continued

The Bank recognizes financial assets and financial liabilities at the settlement date.

(c) Functional and Presentation Currency

These 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 Dollar of the United States of America (US$). The Republic of Panama does not issue its own paper currency, and in lieu, the Dollar (US$) of the United States of America is used as legal tender and is considered the functional currency of the Bank.

(3) Summary of Significant Accounting Policies

Except as described in policy (e), the accounting policies applied in these financial statements are the same as those applied in the financial statements for the year ended December 31, 2017.

(a) Fair Value Measurement

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants on the measurement date, or in its absence, in the most advantageous market that the Bank has access to at the time. The fair value of a liability reflects the effect of default risk.

Where applicable, the Bank measures the fair value of an instrument using a price quoted in an active market for that instrument. A market is considered active if transactions in these assets or liabilities occur with enough frequency and volume to provide information for pricing on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all factors that market participants would consider when pricing a transaction.

The fair value of a demand deposit is not less than the amount payable when it becomes due, discounted from the first date on which payment may be required.

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

(b) Foreign Currency Transactions

Assets and liabilities held in foreign currencies are translated into balboas at the exchange rate prevailing at the date of the statement of financial position.

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of the transactions. Gains or losses on foreign currency translation are reflected in the accounts of other income or other expenses in the statement of profit or loss.

(3) Summary of Significant Accounting Policies, continued

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include deposits with banks with original maturities of three months or less.

(d) Securities Purchased under Resale Agreements

Resale agreements represent secured financing transactions and are measured at the amount at which the securities are acquired, plus accrued financial returns. Generally, the Bank takes possession of securities purchased under resale agreements. The related income or expense is recognized in the statement of profit or loss.

(e) Financial Assets

Policy applicable from January 1, 2018

As from January 1, 2018, the Bank has adopted IFRS 9 *Financial Instruments*. This standard supersedes IAS 39 Financial Instruments: *Recognition and Measurement*.

Changes in accounting policies resulting from the adoption of IFRS 9 were made using the standard's exemption from restatement of comparative information for prior periods. The differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 were recognized in retained earnings on January 1, 2018.

The following table analyses the impact on reserves and retained earnings of the opening balances at January 1, 2018 from the transition to IFRS 9. The impact relates to the reclassification of assets and the recognition of expected losses. There is no impact on other components of equity.

	Note	Impact of adopting IFRS 9 at January 1, 2018
Valuation of investments in securities		
Closing balance under IAS 39 at December 31, 2017		86,074,116
Adjustment for change in classification of debt securities from available-for-sale to amortized cost	(e.1)	(79,803,546)
Opening balance under IFRS 9 at January 1, 2018		6,270,570

	Note	Impact of adopting IFRS 9 at January 1, 2018
Retained earnings		
Closing balance under IAS 39 at 31 December 2017		151,031,041
Recognition of expected losses under IFRS 9 (including loans, investments in securities at Amortized cost and deposits with banks)	(e.2)	(21,467,552)
Opening balance under IFRS 9 at January 1, 2018		129,563,489

(3) Summary of Significant Accounting Policies, continued

The significant new accounting policies and the nature and impact of the changes from the policies previously held at December 31, 2017, are detailed below.

(e.1) Classification and measurement of financial instruments under IFRS 9

IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale investments securities.

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is detailed below.

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Bank classifies financial assets under the adopted business model as: measured at amortized cost (AC) and at fair value through changes in other comprehensive income (FVOCI).

Business model assessment

The Bank makes an assessment of the business model for each group of financial instruments, in order to reflect the best way the business is managed and information is provided to management. The information includes:

- The policies and objectives identified for each group of financial instruments and the compliance with those guidelines in practice. These include whether management's strategy focuses on earning contractual interest revenue, or the sale of assets, achieving expected returns according to the business model;
- The measurement and risks management that affect the compliance with the business model and the performance of financial instruments;
- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment of whether contractual cash flows are solely payments of principal and interests *(SPPI)*

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

(3) Summary of Significant Accounting Policies, continued

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank´s claim to cash flows from specific assets (for example, non-recourse asset agreements); and
- Features that modify consideration of the time value of money (for example, periodical reset of interest rates).

Classification and Measurement

The Bank classifies a financial asset at AC and not at fair value through profit or loss (FVTPL) if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to obtain contractual cash flows; and
- The contractual terms of the financial asset meets the SPPI criteria.

A financial asset is classified as FVOCI only if it meets both of the following conditions and has not been designated as a FVTPL:

- The asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling these financial assets; and
- The contractual terms of the financial asset meet SPPI criteria.

The Bank classifies a financial asset as FVTPL if the contractual cash flows do not meet SPPI criteria.

On initial recognition of an equity investment that is not held for trading, the Bank irrevocably elected to designate such investments as measure through FVOCI, and therefore they are measured at fair value and changes in fair value are recognized directly in the statement of comprehensive income.

Financial assets are not reclassified after initial recognition, except if the Bank changes its business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured initially at fair value plus transaction-related costs directly attributable to its acquisition; except for investments accounted for at FVTPL.

(3) Summary of Significant Accounting Policies, continued

The following accounting policies are applied to the subsequent measurement of financial assets.

Financial assets measured at AC	These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income and impairment losses are recognized in the statement of profit or loss, as well as any gains or losses.
Investments in equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in the statement of profit or loss. Other net gains and losses are recognized in the statement of comprehensive income and will never be recognized in the statement of profit or loss.
Investments in FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the statement of profit or loss.

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction, in which it has transferred substantially all the risks and rewards of ownership of the financial asset, or when it transfers, it does not retain substantially all the risks and rewards of ownership and does not retain control over the transferred assets.

(3) Summary of Significant Accounting Policies, continued

Impact on the Classification of Financial Instruments on the Initial Application Date of IFRS 9

The application of the above policies resulted in reclassifications and remeasurements to financial assets. The following table and accompanying notes show the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities at January 1, 2018. The following table does not include allowance losses balances, which are presented in note (3.e.2).

	Original classification under IAS 39	New classification under IFRS 9	Notes	December 31, 2017 Original amount under IAS 39	January 1, 2018 New amount under IFRS 9
Financial Assets					
Cash, cash equivalents and deposits with banks	Loans	Amortized Cost		2,801,927,673	2,801,041,113
Loans to customers	Loans	Amortized Cost		3,604,634,776	3,587,213,649
Debt investments	Available for sale	Amortized Cost	(a)	3,089,456,819	3,006,493,408
Equity investments	Available for sale	FVOCI	(b)	7,413,797	7,413,797
Total Financial Assets				9,503,433,065	9,402,161,967
Financial Liabilities					
Deposits from customers	Amortized Cost	Amortized Cost		8,608,100,414	8,608,100,414
Total Financial Liabilities				8,608,100,414	8,608,100,414

(a) Management considers that these investments are held within a business model whose objective is to hold the investments in order to obtain contractual cash flows; therefore, in the adoption of IFRS 9 these investments were classified at amortized cost. These investments may be sold, but management does not expect these sales to be frequent.

(b) The Bank has designated investments in equity instruments (shares) of corporate and financial local and foreign entities to FVOCI. These equity investments are not held for trading, but rather for strategic purposes and because of this, Bank's management has irrevocably elected to designate these investments in this category, as it is considered that recognizing fluctuations in fair value in the statement of profit or loss in the short term would not be consistent with the Bank's strategy.

(3) Summary of Significant Accounting Policies, continued

The following table reconciles the carrying amounts under IAS 39 with the carrying amounts under IFRS 9 on transition to IFRS 9 at January 1, 2018:

	Carrying value at December 31, 2017 under IAS 39	Reclassification	Remeasurement	Carrying value at January 1, 2018 under IFRS 9
Financial assets at amortized cost:				
Cash, cash equivalents and deposits with banks				
Opening balance	2,801,927,673			
Recognition of expected loss			(886,560)	
Final balance				2,801,041,113
Loans:				
Opening balance	3,604,634,776			
Recognition of expected loss			(17,421,127)	
Final balance				3,587,213,649
Investments in securities at AC:				
Opening balance	0			
From available for sale		3,089,456,819		
Fair Value Remediation to AC			(79,803,546)	
Recognition of expected loss			(3,159,865)	
Final balance				3,006,493,408
Investments available for sale:				
Opening balance	3,096,870,616			
To FVOCI (Shares)		(7,413,797)		
To amortized cost		(3,089,456,819)		
Final balance				0
Investments at FVOCI:				
Opening balance	0			
From available for sale		7,413,797		
Final balance				7,413,797

The effect of the change in the classification of investments in securities classified as available for sale under IAS 39 and classified at amortized cost under IFRS 9 is shown below:

Fair value of investments at amortized cost at December 31, 2018	2,640,750,625
Gains that would have been recognized at fair value at December 31, 2018 in OCI if the financial assets had not been reclassified	5,507,806

(3) Summary of Significant Accounting Policies, continued

(e.2) Impairment of financial assets

The Bank replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model under IFRS 9. This requires that considerable judgment be applied with respect to how changes in economic factors affect ECL, which will be determined on a weighted average basis.

The new impairment model is applicable to the following financial assets that are not measured at FVTPL:

- Deposits with banks
- Debt instruments
- Loans
- Irrevocable loan commitments

No impairment losses are recognized on equity investments.

Under IFRS 9, the ECL is measured on the following basis:

- 12-month ECL: is the portion of the ECL resulting from default events on a financial instrument that are possible within 12 months after the reporting date.
- Lifetime asset ECL: are the losses that result from all possible default events over the life of a financial instrument.

Allowance for losses are recognized at an amount equal to the lifetime ECL, except in the following cases in which the recognized amount is equivalent to 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments (other than leases receivable) for which the credit risk has not increased significantly since initial recognition.

Significant increase in credit risk

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

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

(3) Summary of Significant Accounting Policies, continued

Definition of Default

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

- Qualitative (e.g. breach of contract covenants).
- Quantitative (e.g. default status and non-payment of another obligation of the same borrower to the Bank); and
- Based on internally developed data (for loans and local investments securities) and data obtained from external sources, such as risk ratings by rating agencies (for cases of placements and foreign investments securities) and Panama's sovereign risk.

Inputs in ECL measurement

The key inputs in ECL measurement are usually the term structures of the following variables:

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

The Bank obtains these parameters from internal statistical models and other historical data, which are adjusted to reflect forward-looking information as described above.

PD estimates are made at a certain date, at which time the Bank uses one-year regulatory transition matrices with a 60-month observation horizon, in accordance with the Bank's defined portfolio segmentation. These statistical models are based on internally compiled data composed of both qualitative and quantitative factors. Similarly, market information for prospective analysis, when available, is used to adjust the loan portfolio's PD. The statistical analyses performed determined that the monthly economic activity index (IMAE, for its initials in Spanish) is the macroeconomic variable that shows the highest correlation with the levels of non-performing loans by segments of the Bank's economic activity.

To determine the PD for the portfolios of interbank deposits and investments in sovereigns and financial institutions, market information from external rating agencies is used. The Bank established that it is not necessary to incorporate the impact of the context of macroeconomic variables for prospective analysis, since the external ratings produced by the rating firms capture such impacts.

(3) Summary of Significant Accounting Policies, continued

The LGD is the magnitude of the loss given a default event. The Bank estimates the parameters of the LGD based on a historical recovery rate of claims against defaulting counterparts (doubtful and unrecoverable). LGD models consider the structure, collateral, counterparty portfolio segment and recovery costs of any comprehensive guarantees for the financial asset. It should be calculated on a discounted cash flow basis using the effective interest rate of the loans as a discount factor.

The EAD represents the expected exposure in the event of default. The Bank determines the EAD of the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including any amortization. For loan commitments, financial guarantees and unused credit line balances, the EAD considers the expected amount, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and projections.

The Bank evaluates at each reporting date, the ECL of financial assets held at amortized cost. The amount of losses determined during the period is recognized as a provision expense in profit or loss and increases an allowance account for losses on loans, deposits in banks or investments in securities at amortized cost. The reserve is presented as a deduction from the financial assets that generated it, in the statement of financial position.

When a loan is determined to be uncollectible, the unrecoverable amount is decreased from the referred reserve account. Subsequent recoveries of loans previously written off as uncollectible increase the reserve account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by decreasing the allowance account for losses on loans, investments in securities at amortized cost or deposits in banks, as applicable. The amount of any reversal is recognized in the statement of profit or loss.

The Bank has approved policies for determining the write-off of loans that are uncollectible. This decision is made after an analysis of the days of arrears of the loan, the financial conditions and payment capacity of the borrowerr(s) and the evaluation of the risk mitigating guarantees that support the loan. For loans of smaller amounts, write-offs are generally based on the length of past due of the loan.

(3) Summary of Significant Accounting Policies, continued

Loan Impairment

The Bank determines the expected loss on loans using two basis for the assessment:

- *Individually Assessed Loans*
  Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the original effective interest rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the consolidated statement of profit or loss.

- *Collectively Assessed loan*
  For purposes of a collective assessment for impairment, the Bank principally uses statistical methods with a formula approach based on historical loss rate experience, the opportunity of recoveries and the actual loss incurred and make an adjustment if current economic and credit conditions are such that it is likely that the actual losses are higher or lower than those suggested by historical trends. Roll rates, loss rates and the expected future recoveries terms are regularly benchmarked against actual loss experience, in order to assure that they are still appropriate.

Credit Risk Rating

The Bank assigns each exposure the regulatory classification of the Superintendency of Banks of Panama (SBP). These risk classifications are defined using qualitative and quantitative factors that are indicative of risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Since the Bank uses regulatory classifications as input for the calculation of the PD, it considers the standard classification (1) as the classification of all loans at initial recognition. Exposures will be subject to ongoing monitoring, which may result in the movement of an exposure to a different credit risk classification.

Generating the term structure of PD

Regulatory credit risk classifications are the main input to determine the PD term structure for the different loan portfolios. The Bank obtains performance and loss information on credit risk exposures analyzed by jurisdiction or region, by the type of product and borrower, as well as by credit risk rating. For some portfolios, information from external credit reference agencies may also be used.

(3) Summary of Significant Accounting Policies, continued

Significant increase in credit risk in the loan portfolio

The Bank considers a loan with a significant increase in risk by business segments of the loan portfolio when: it is in substandard classification (3) for all business segments, with the exception of the retirees segment, for which the special mention classification (2) is used.

Definition of default in the loan portfolio

The Bank considers a loan with a significant increase in risk by business segment of the loan portfolio when: it is in classification 3 for all business segments, except for the retired segment, for which classification 2 has been determined.

The following table shows the stages of impairment by business segment established for the loan portfolio:

	SBP regulatory classification categories		
Segment	**Low Risk**	**Significant Risk**	**Default**
Agriculture	1 and 2	3	4 and 5
Livestock	1 and 2	3	4 and 5
Commercial	1 and 2	3	4 and 5
Consumer	1 and 2	3	4 and 5
Consumer - Retirees	1	2	3, 4 and 5
Mortgage - Preferential	1 and 2	3	4 and 5
Mortgage - Non-preferential	1 and 2	3	4 and 5

Impairment of deposits in banks and investments at AC

For interbank deposits and investment securities, allocations to the impairment stages for the calculation of losses are based on external ratings, which are shown below:

- Low risk: International low risk financial instruments, that is, those with an investment grade higher or equal to BBB- at the time of the evaluation; and for local financial instruments rated as BB+, BB and BB- that maintained the same rating from their acquisition to the evaluation date.
- Significant risk: financial instruments with risk ratings lower to BB but higher than CCC.
- Default: financial instruments with risk ratings lower than or equal to CCC.

In certain instances, using its expert judgment and, to the extent possible, relevant historical experience, the Bank may determine that an exposure has significantly increased its credit risk based on particular qualitative indicators that it believes are indicative of this and whose effect would not otherwise be fully reflected through timely quantitative analysis.

(3) Summary of Significant Accounting Policies, continued

The Bank intends to monitor the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

Impact on the Measurement of Impairment of Financial Instruments at the Date of Initial Application of IFRS 9

As a result of the application of the new impairment models described above, which were adopted as from January 1, 2018 with the adoption of IFRS 9, the Bank has allocated new impairment reserves and has increased the allowance for losses already held, as summarized below:

	At December 31, 2017 (under IAS 39)	Remeasurement	As of January 1, 2018 (under IFRS 9)
Reserve for losses on bank deposits	0	886,560	886,560
Reserve for losses on investments at AC	0	3,159,865	3,159,865
Reserve for loan losses	34,675,449	17,421,127	52,096,576
Total	34,675,449	21,467,552	56,143,001

Policy applicable before 1 January 2018

Investments Securities

Securities are classified at the initial date, considering management's ability and intent to sell or hold them until maturity. The classification used by the Bank is as follows:

- Securities Available for Sale
  This category includes investments acquired with the intention of holding them for an indefinite term, which can be sold in response to liquidity needs, changes in interest rates, currency exchange rates or market prices of shares. These investments are measured at fair value and changes in fair value are recognized directly in other comprehensive income using a valuation allowance account until they are sold or redeemed (i.e., derecognized) or it is determined that an investment is impaired in value, in which case the cumulative gain or loss previously recognized in other comprehensive income is included in earnings in the statement of profit or loss.

- Impairment of Securities Available for Sale
  The Bank assesses at each reporting date whether there is objective evidence of impairment in investment securities. A significant and prolonged decline in fair value below cost is considered in determining whether the assets are impaired.

(3) Summary of Significant Accounting Policies, continued

If there is any objective evidence of impairment for the available-for-sale financial assets, the cumulative loss is written down from equity and recognized in the 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 is reversed through the statement of profit or loss.

Loans

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and generally originate by providing funds to a borrower as a loan. Loans are stated at their principal amount outstanding, less allowance for loan losses and unearned interest and commissions. Unearned interest and fees are recognized as income over the life of the loans using the effective interest rate method.

Allowance for Loan Losses

The Bank assesses at each reporting date whether there is any objective evidence of impairment of a loan or loan portfolio. The amount of loan losses determined during the period is recognized as a provision expense in the statement of profit or loss and increases an account for allowance loan losses. The allowance is presented as a deduction from loans receivable in the statement of financial position. When a loan is determined to be non-collectible, the non-collectible amount is decreased from the allowance account. Subsequent recoveries of loans previously written off as non-collectible increase the allowance account.

Impairment losses are determined using two methodologies which indicate whether objective evidence of impairment exists, i.e. individually for loans that are individually significant and collectively for loans that are not individually significant.

- Individually Evaluated Loans
  Impairment losses on individually assessed loans are determined based on a case-by-case assessment of the exposures. If it is determined that there is no objective evidence of impairment for an individually significant loan, the loan is included in a group of loans with similar characteristics and is assessed collectively for impairment. Impairment losses are calculated by comparing the present value of expected future cash flows, discounted at the loan's current rate or the fair value of the loan collateral less costs to sell, to its current carrying value, and the amount of any loss is recognized as a provision for losses in the profit or loss statement. The carrying value of impaired loans is written down through the use of the allowance for loan losses.

(3) Summary of Significant Accounting Policies, continued

- Collectively Evaluated Loans
  For the purposes of a collective impairment assessment, the Bank primarily uses statistical models of historical trends in the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates, and expected timing of future recoveries are regularly compared against actual results to ensure that they remain appropriate.

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

Restructured Loans
Restructured loans are those to which the Bank considers granting some change in the credit parameters due to impairments in the debtor's financial condition. These loans, once restructured, remain in the assigned category, regardless of whether the debtor shows any improvement in condition, subsequent to the restructuring.

(f) Dynamic Provision
The dynamic provision is an equity item that will be increased or decreased through transfers from and to retained earnings and is constituted by requirement of Agreement No. 004-2013 of the Superintendency of Banks of Panama.

(g) Property and Equipment
Properties include land, and buildings used by the Bank's offices and branches. Property and equipment are recorded at historical cost, and are shown net of accumulated depreciation and amortization.

Subsequent major improvements are included in the carrying value of the assets or are recognized as a separate asset, as appropriate. Other repairs and improvements that do not significantly extend the life of the asset are recognized as expenses in the statement of profit or loss as incurred.

(3) Summary of Significant Accounting Policies, continued

Depreciation and amortization expenses are recognized in current operations, using the straight-line method, over the estimated useful life of the related assets up to their residual value, except for land which is not depreciated. The estimated useful life of the assets is summarized as follows:

Buildings	40 years
Improvements	5 to 20 years
Furniture and equipment	5 to 20 years
Transportation equipment	4 to 11.7 years

In 2018, management conducted a review of the useful life of certain properties and equipment, specifically in the areas of furniture and equipment and transportation equipment. This change in the estimated useful life was applied prospectively and did not have a significant effect on the depreciation expense recognized in the statement of profit or loss.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of an asset is immediately reduced to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the cost to sell and its value in use.

(h) Intangible Assets - Licenses and Programs

Licenses and software purchased separately are shown at historical cost. Licenses and software have a defined useful life, which is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses and programs over their estimated useful lives of 5 to 10 years. Software licenses acquired are capitalized on the basis of the costs incurred to acquire and use the specific technology program.

In 2018, management conducted a review of the useful life of certain intangible assets. This change in the estimated useful life was applied prospectively and did not have a significant effect on the amortization expense recognized in the statement of profit or loss.

(i) Foreclosed Borrowers' Assets

Foreclosed borrower´s assets are recognized at the lowest value of the carrying value of the unpaid loans and the fair value of the asset less the cost of sale. The difference between these values is maintained as an impairment allowance, in order to maintain control over the original value of the foreclosed assets recognized. The provision for impairment is recognized in the statement of profit or loss.

(j) Customer Deposits and Obligations

Customer deposits are initially measured at fair value. Subsequently, they are measured at amortized cost, using the effective interest rate method.

(3) Summary of Significant Accounting Policies, continued

(k) Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements are short-term financing transactions collaterized by securities, in which there is an obligation to repurchase the securities sold at a future date and at a specified price. The difference between the sale price and the future purchase value is recognized as interest expense under the effective interest rate method.

(l) Certificates of Warranties for Legal Proceedings

The funds that support guarantee certificates and/or judicial deposit certificates are deposited under the provisions of article 570 of the Judicial Code, as amended by article 9 of Law 67 of October 30, 2009, to guarantee the results of judicial proceedings or as bail to ensure the personal freedom of a person subject to criminal proceedings. These funds are measured at amortized cost and generate interest at the rate established by the Bank and are received in custody, by provision of said Law and the funds are consigned to the orders of the respective Judge subject to compliance with a judicial process.

(m) Seniority bonus provision

The Bank grants a seniority bonus to the Bank's employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate their employment relationship due to old age pension or absolute disability.

The cost of providing this benefit is determined annually by an actuary using the projected unit credit method. Actuarial gains and losses are recognized in full in the period they occur in the statement of comprehensive income. The liability comprises the present value of the defined benefit obligation. The Bank determines the net interest cost on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into account any changes in the benefit liability during the period as a result of the benefit payments.

(n) Interest Income and Expense

The Bank has adopted IFRS 15 Revenue from Ordinary Activities under Customer Contracts from January 1, 2018, the effective date of IFRS. Based on the Bank's assessment, this standard has had no impact on the accounting policies for revenue recognition.

Interest income and expense are recognized in the statement of profit or loss using the effective interest rate method.

(3) Summary of Significant Accounting Policies, continued

The effective interest rate method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant term. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (e.g., prepayment options). The calculation includes all fees and commissions paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts. Transaction costs are costs incurred that are directly attributable to the acquisition, issuance or disposal of an asset.

(o) Commission and Other Income

Generally, commissions on short-term loans, letters of credit and other banking services are recognized as income under the cash method due to their short-term maturity. Income recognized under the cash method is not significantly different from income that would be recognized under the accrual method. Commissions on medium- and long-term transactions are deferred and amortized as income using the effective interest rate method over the life of the instrument. Fees related to the granting of loans are deferred and recognized in income over the term of the loan contracts as an adjustment to performance. Fees for other banking services are included in other income as banking service fees. The Bank recognizes revenue when it transfers control over a service to a customer and the performance obligation is met. Dividend income is recognized as received.

(p) Uniformity in the Presentation of the Financial Statements

The accounting policies described above have been applied consistently in the periods presented in the financial statements.

Certain amounts in the 2017 financial statements have been reclassified to adapt its presentation to the one used in 2018, specifically in the statement of financial position and the segment information note.

(q) New IFRSs and Unadopted Interpretations

As of the date of the financial statements, the following issued standard has not yet been applied in its preparation:

IFRS 16 Leases

IFRS 16 Leases is effective from January 1, 2019, replacing current IAS 17 Leases; IFRIC 4 Determining whether an Arrangement contains a Lease; SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Essence of Transactions Involving the Legal Form of a Lease.

IFRS 16 changes the way a lease is accounted for by lessees, using a unique model for accounting for such transactions. This unique model determines that a lessee must recognize a right-of-use asset, which represents its right to use the underlying asset, and a lease liability, which represents its obligation to make future lease payments.

(3) Summary of Significant Accounting Policies, continued

The standard includes exemptions for its application to short-term leases and leases where the underlying asset is of low value.

The lessor's accounting remains similar to that set out in IAS 17, i.e. lessors continue to classify leases as either finance or operating leases.

The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements as described below:

Leases where the Bank is a lessee
As of the reporting date, the Bank has the following types of operating leases for the operation of: branches, administrative offices, ATMs, warehouses (deposits), among others. The nature of the expenses related to these leases will change from January 1, 2019, as the Bank will recognize a depreciation expense, for the right-of-use assets, and additionally interest expense, for the lease liabilities. Previously, the Bank recognized operating lease expense on a straight-line basis over the term of the lease.

The Bank does not maintain leases recorded as finance leases in accordance with IAS 17; similarly, the Bank does not maintain leases in which it is the lessor.

Transition
The Bank will apply IFRS 16 from January 1, 2019, applying the effect of the adoption of the standard on the date of initial application, i.e. the information presented for 2018 will not be restated. That is, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, without presenting comparative information.

The Bank plans to apply the standard's exemption for existing leases to continue the definition of a lease at the transition date. This means that it will apply IFRS 16 to all leases entered into prior to January 1, 2019 and identified as leases in accordance with IAS 17.

The Bank is in the process of assessing the impact of applying IFRS 16 on its financial statements.

(4) Financial Risks Management

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities relate primarily to the use of financial instruments and, as such, the statement of financial position consists primarily of financial instruments.

(4) Financial Risks Management, continued

The Bank's Board of Directors has the responsibility for establishing and monitoring financial instruments risk management. For this purpose, it has appointed certain committees to manage and periodically monitor the risks to which the Bank is exposed. These committees are: Risk and Policy Steering Committee, Credit Steering Committee, Audit Steering Committee and the Money Laundering Prevention Steering Committee.

Additionally, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Market of Panama, r related to concentration, liquidity and capitalization risks, among others.

The main risks identified by the Bank are credit, liquidity, market and operational risks, which are described below:

(a) Credit Risk

This is the risk that the debtor, issuer or counterparty of a financial asset owned by the Bank will not comply, fully and on time, with any payment due to the Bank in accordance with the terms and conditions agreed at the time the Bank acquired or originated the respective financial asset. To assume this risk, the Bank has a management framework whose main elements include:

- The risk analysis or pre-approval is carried out independently of the business, whose objectives, in addition to identifying, evaluating and quantifying the risk of the proposals, are to determine the impact they will have on the Bank's credit portfolio.
- A control area is responsible for validating that the proposals are within the Bank's policies and limits, obtain the required approval according to the level of risk assumed, and comply with the conditions agreed upon in the approval, at the time the transaction is settled.
- The approval process is carried out through various instances within the Bank in accordance with the established approval limit policy.
- A portfolio management process focused on monitoring risk trends at the Bank level with the objective of anticipating any signs of portfolio deterioration.
- Compliance with collateral policies, including required coverage on loan amounts established by the Credit Steering Committee and reviewed periodically.

The respective management committees assigned by the Board of Directors periodically monitor the financial condition of the respective debtors and issuers that involve a credit risk for the Bank.

The Bank manages credit risk through:

- Credit and investment policies, which are periodically reviewed and amended.
- Authorization limits, which are periodically reviewed and amended.
- Exposure and concentration limits for the investment portfolios, placements and loans.

(4) Financial Risk Management, continued

- Development and maintenance of credit risk assessment, through permanent review of the credit portfolio; frequent monitoring of credit classification and special attention to the portfolio with higher risk levels.
- Review of compliance with procedures and policies, through specialized administrative units.

To limit credit risk, the Bank has established policies that ensure diversification and allow for an adequate evaluation for each loan.

The key procedures and practices in credit risk management are detailed as follows:

- Limitations on concentration risk (large credit extensions, loans to related parties, refinancing).
- Loan risk monitoring and rating matrix.
- Allowance for loan losses policy.
- Compliance with credit policies and credit management procedures.
- Identification and monitoring of initial and changing credit risks observed in customers and in the economic activity carried out by those customers.
- Collection procedure on irregulars and classified loans

Credit Quality Analysis
The Bank uses for the evaluation of loans the same credit risk classification system that the Superintendency of Banks of Panama has established for the determination of regulatory reserves. This classification system considers the evaluation of quantitative and qualitative factors of the debtor's financial condition and the market in which it operates to determine its credit risk classification, including the evaluation of the debtor's delinquency. Nevertheless, the consumer portfolio, given its nature, is mainly evaluated based on its delinquency to determine its credit risk classification.

(4) Financial Risk Management, continued

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances per ECL for these assets held by the Bank as of December 31, 2018:

	2018			
	Low risk	**Significant Risk**	**Default Risk**	**Total**
Loans				
Standard	3,975,505,309	0	0	3,975,505,309
Special-mention	227,465,999	526,896	0	227,992,895
Sub-standard	0	20,234,912	101,442	20,336,354
Doubtful	0	0	12,221,080	12,221,080
Loss	0	0	16,374,442	16,374,442
Gross Balance	4,202,971,308	20,761,808	28,696,964	4,252,430,080
Loss allowance	27,591,677	5,225,522	20,790,793	53,607,992
Net balance	4,175,379,631	15,536,286	7,906,171	4,198,822,088
Consumer Loans				
0 to 30 days	2,198,162,367	1,159,562	2,521,721	2,201,843,650
31 to 60 days	16,824,530	304,398	363,891	17,492,819
More than 61 days	5,031,778	3,839,764	8,947,258	17,818,800
Balance	2,220,018,675	5,303,724	11,832,870	2,237,155,269
Individually assessed loans	14,358,308	0	0	14,358,308
Loss allowance:				
Individual	528,232	0	0	528,232
Collective	27,063,445	5,225,522	20,790,793	53,079,760
Total loss reserve	27,591,677	5,225,522	20,790,793	53,607,992
Credit commitments				
Standard	418,902,426	0	0	418,902,426
Balance	418,902,426	0	0	418,902,426
Loss allowance	332,502	0	0	332,502
Net balance	418,569,924	0	0	418,569,924
Bank deposits				
Standard	1,782,037,831	0	0	1,782,037,831
Gross balance	1,782,037,831	0	0	1,782,037,831
Loss allowance	47,724	0	0	47,724
Net balance	1,781,990,107	0	0	1,781,990,107
Investments in securities at AC				
Standard	2,614,155,193	0	0	2,614,155,193
Gross balance	2,614,155,193	0	0	2,614,155,193
Loss allowance	4,386,163	0	0	4,386,163
Net balance	2,609,769,030	0	0	2,609,769,030

(4) Financial Risk Management, continued

The following table analyzes the credit quality of the financial assets at amortized cost, credit commitments and loss reserves incurred for these assets held by the Bank as of December 31, 2017:

	2017		
	Loans	**Investment Securities**	**Loan commitments and collaterals**
Maximum exposure			
Balance	3,640,845,952	3,140,889,667	389,646,687
At amortized cost			
Standard	3,366,795,719	72,309,600	389,646,687
Special-mention	230,789,229	0	0
Sub-standard	20,214,319	0	0
Doubtful	7,525,277	0	0
Loss	15,521,408	0	0
Gross Balance	3,640,845,952	72,309,600	389,646,687
Impairment Loss Allowance	(34,675,449)	0	0
Interest and unearned commissions	(26,166,407)	0	0
Net balance	3,580,004,096	72,309,600	389,646,687
Available for sale			
Standard	0	3,061,166,270	0
Total	0	3,061,166,270	0
Non delinquent non impaired			
Standard	3,356,129,388	0	389,646,687
Special-mention	216,731,530	0	0
Total	3,572,860,918	0	389,646,687
Delinquent Non-impaired			
31 to 60 days	14,953,510	0	0
61 to 90 days	5,916,706	0	0
More than 90 days	3,853,814	0	0
Total	24,724,030	0	0
Individually impaired			
Sub-standard	20,214,319	0	0
Doubtful	7,525,277	0	0
Loss	15,521,408	0	0
Total	43,261,004	0	0
Loss allowance			
Individual	1,950,205	0	0
Collective	32,725,244	0	0
Total	34,675,449	0	0

(4) Financial Risk Management, continued

The Bank maintains deposits in banks for B/.1,782,037,831 as of December 31, 2018 (2017: B/.2,486,251,485). Deposits placed are held with recognized financial institutions applying the limits established in the counterparty risk policy. These placements of the Bank's liquid resources are made under safe, liquid and profitable conditions, adjusting to risk and term diversification criteria, in financially solvent and risk rated banks. As of December 31, 2018, an expected loss reserve was established for interbank placements of B/.47,724.

The following table presents the deposits placed in banks according to their short-term credit risk rating, granted by international rating agencies:

	2018	2017
Deposits in banks		
A1, P1, F1	703,022,671	1,261,329,510
A2, P2, F2	947,932,770	1,009,611,324
A3	5,000,000	15,000,000
B	25,000,000	0
Unrated	101,082,390	200,310,651
Gross subtotal	1,782,037,831	2,486,251,485
Loss reserve	(47,724)	0
Net reserve balance	1,781,990,107	2,486,251,485

The deposits placed presented in the "Unrated" category correspond to resources placed in an international financial institution that only accepts deposits from central banks and, therefore, does not have a credit rating.

The following table presents investments in debt securities according with their local or international long-term credit risk classification, granted by risk rating agencies.

	2018	2017
Investments in securities		
AAA	117,161,231	104,559,020
AA+ to A	762,230,483	862,222,268
A-	115,629,409	68,462,508
BBB+ to BBB-	1,320,533,211	1,723,793,975
BB+	129,917,143	69,525,485
BB to B-	91,000,000	94,463,273
Unrated	77,683,716	138,139,741
Gross subtotal	2,614,155,193	3,061,166,270
Loss reserve	(4,386,163)	0
Net reserve balance	2,609,769,030	3,061,166,270

(4) Financial Risk Management, continued

Guarantees and their Financial Effect

The Bank maintains guarantees and other credit enhancement to reduce credit risk, to ensure collection of its financial assets exposed to credit risk. The table below presents the main types of guarantees taken with respect to different types of financial assets.

	% of exposure that is subject to warranty requirements		Type of collateral
	2018	2017	
Securities under resale agreements	100%	100%	Debt securities
Loans	54%	57%	Cash, property and equipment

Residential Mortgage Loans

The following table presents the range of loan to value (LTV) ratios of the mortgage portfolio. LTV is a mathematical equation that measures the relationship between what is borrowed and the value of the property that will be the subject (and collateral) of the loan. Gross amounts do not include any provision for impairment. The valuation of the collateral does not include all adjustments for obtaining and selling the collateral. The value of collateral for consumer mortgage loans is based on the value of the collateral at the date of disbursement and is generally not updated, unless the loan is updated based on changes in the price indexes of the collateral.

Consumer mortgage loans:

% LTV	2018	2017
Less than 50%	134,375,321	123,616,473
51-70%	252,503,854	240,743,410
71-90%	458,156,490	366,550,660
91-100%	279,446,800	236,556,045
Gross total	1,124,482,465	967,466,588

Assets Received under Guarantee

The Bank has taken possession of financial and non-financial assets that were constituted as collateral to ensure the collection of impaired loans. As of December 31, 2018, the Bank holds properties that have been awarded to the Bank for a value of B/.17,979,083 (2017: B/.18,478,690).

(4) Financial Risk Management, continued

The Bank's policy is to realize or execute the sale of these assets, to cover the balances due, in case of their adjudication. It is not generally the Bank's policy to use non-financial assets for its own operations, but in the event of foreclosure the intention is to dispose of these assets in the short term.

Credit Risk Concentration

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

	Loans		Investments in securities and securities purchased under resale agreements		Deposits in banks		Loan commitments and guarantees granted	
	2018	2017	2018	2017	2018	2017	2018	2017
Gross book value	4,252,430,080	3,640,845,952	2,714,431,458	3,133,475,870	1,782,037,831	2,486,251,485	418,902,426	389,646,687
Concentration by sector:								
Corporate	1,333,355,765	1,254,915,673	1,110,490,003	1,270,528,260	0	0	39,861,400	42,878,909
Consumer	2,237,155,270	2,028,639,264	0	0	0	0	370,152,150	346,767,778
Financial institutions	217,591,416	137,548,237	458,015,992	363,707,569	1,782,037,831	2,436,251,485	162,950	0
Public sector	464,327,629	219,742,778	1,145,925,463	1,499,240,041	0	50,000,000	8,725,926	0
	4,252,430,080	3,640,845,952	2,714,431,458	3,133,475,870	1,782,037,831	2,486,251,485	418,902,426	389,646,687
Geographic concentration:								
Panama	4,252,430,080	3,640,845,952	1,659,117,421	2,051,735,195	87,000,000	225,000,000	418,902,426	389,646,687
USA and Canada	0	0	850,349,339	933,662,458	1,210,877,216	1,780,842,799	0	0
Europe	0	0	25,097,087	25,251,156	126,160,597	290,407,446	0	0
Others	0	0	179,867,611	122,827,061	358,000,018	190,001,240	0	0
	4,252,430,080	3,640,845,952	2,714,431,458	3,133,475,870	1,782,037,831	2,486,251,485	418,902,426	389,646,687

Concentrations by sector are based on the economic activity of the issuer or borrower. The public sector includes government and supranational entities. Geographic concentrations of loans and deposits in banks are based on the location of the debtor and correspondent bank, respectively. The geographic concentration for investments is determined based on the location of the issuer of the investment. All other assets and liabilities are located in the Republic of Panama.

The Bank also monitors and follows up on operations outside the statement of financial position, which are those operations that although not reflected within that statement, are reviewed in detail because they may expose the Bank to financial obligations depending on future events or actions by other parties. These transactions are subject to the concentration limits (loans to a single person and to related parties) to which the loan portfolio recorded in the statement of financial position is subject to.

(4) Financial Risk Management, continued

Expected credit losses

The following table provides a reconciliation between the opening and closing balance of the reserves for losses on financial assets at amortized cost:

	2018			
	Low risk	Significant risk	Default risk	Total
Deposits at amortized cost				
Balance as of January 1, 2018	886,560	0	0	886,560
Net remeasurement of loss allowance	(772,352)	0	0	(772,352)
Allocation of reserve to new originated financial assets	2,632	0	0	2,632
Reversal of reserve due to derecognized assets	(69,116)	0	0	(69,116)
Balance as of December 31, 2018	47,724	0	0	47,724
Investments in securities at amortized cost				
Balance as of January 1, 2018	3,159,865	0	0	3,159,865
Net remeasurement of loss allowance	174,221	0	0	174,221
Allocation of reserve to new purchased financial assets	1,819,551	0	0	1,819,551
Reversal of reserve due to derecognized assets	(767,474)	0	0	(767,474)
Balance as of December 31, 2018	4,386,163	0	0	4,386,163
Loans at amortized cost				
Corporate Loans				
Balance as of January 1, 2018	17,231,388	4,614,837	8,371,392	30,217,617
Transfers to 12-month ECL (low risk)	922,619	(689,252)	(233,367)	0
Transfers to ECL lifetime (significant risk)	(16,977)	224,786	(207,809)	0
Transfers to ECL lifetime (default)	(105,966)	(448,631)	554,597	0
Net remeasurement of loss allowance	(3,558,231)	610,329	6,939,796	3,991,894
Allocation of reserve to new originated financial assets	2,140,618	549,319	2,109,670	4,799,607
Reversal of reserve due to derecognized assets	(1,248,793)	(472,441)	(4,519,988)	(6,241,222)
Loans written off	0	0	(1,010,331)	(1,010,331)
Recoveries	0	0	515,064	515,064
Balance as of December 31, 2018	15,364,658	4,388,947	12,519,024	32,272,629
Consumer Loans				
Balance as of January 1, 2018	10,224,761	2,696,641	8,391,758	21,313,160
Transfers to 12-month ECL (low risk)	3,385,086	(1,636,467)	(1,748,619)	0
Transfers to ECL lifetime (significant risk)	(44,407)	348,761	(304,354)	0
Transfers to ECL lifetime (default)	(101,979)	(620,528)	722,507	0
Net remeasurement of loss allowance	(3,685,459)	148,729	4,426,033	889,303
Allocation of reserve to new originated financial assets	1,699,033	33,698	159,606	1,892,337
Reversal of reserve due to derecognized assets	(617,527)	(134,258)	(781,962)	(1,533,747)
Loans written off	0	0	(3,765,477)	(3,765,477)
Recoveries	0	0	1,172,275	1,172,275
Balance as of December 31, 2018	10,859,508	836,576	8,271,767	19,967,851
Financial institution loans				
Balance as of January 1, 2018	236,185	0	0	236,185
Net remeasurement of loss allowance	122,021	0	0	122,021
Allocation of reserve to new originated financial assets	81,579	0	0	81,579
Balance as of December 31, 2018	439,785	0	0	439,785
Public Sector Loans				
Balance as of January 1, 2018	329,614	0	0	329,614
Net remeasurement of loss allowance	(5,306)	0	0	(5,306)
Allocation of reserve to new originated financial assets	605,393	0	0	605,393
Reversal of reserve due to derecognized assets	(1,974)	0	0	(1,974)
Balance as of December 31, 2018	927,727	0	0	927,727

(4) Financial Risk Management, continued

Loans written off during 2018 in the amount of B/.4,775,808 (2017: B/.736,727) are still subject to collection activities.

The following table shows the estimated impact on the allowance for loan losses caused by assumed increases or decreases of 2% and 3% in the IMAE:

	200bp of increase	200 bp of decrease	300 bp of increase	300 bp of decrease
As of December 31, 2018	(2,019)	6,878	(4,244)	9,102

The movement in the allowance for loan losses under IAS 39 is detailed as follows:

	2017
Balance at the beginning of the year	24,216,081
Provision (reversal) charged to expenses	9,466,368
Loans written off	(736,727)
Recoveries	1,729,727
Balance at the end of the year	34,675,449

(b) Liquidity risk

Liquidity risk is defined as the inability of the Bank to meet all its obligations due to, among other things, unexpected withdrawal of funds by creditors or customers, deterioration in the quality of the loan portfolio, reduction in the value of investments, excessive concentration of liabilities in a particular source, mismatch between assets and liabilities, lack of liquidity of assets, or funding of long-term assets with short-term liabilities. The Bank manages its liquid resources to meet its liabilities as they mature under normal conditions.

Risk Management of Liquidity Risk

The Superintendency of Banks of Panama requires that banks with a general license always should maintain a liquidity of no less than 30%, defined based on the parameters established in Agreement No. 004-2008. However, the liquidity risk management policies establish the estimation of alternative liquidity indicators, which contemplate high liquidity assets.

Monitoring of the liquidity position includes daily reviews and monthly deposit volatility analysis. Stress tests are developed in different scenarios considering that they cover normal or more severe conditions. All policies and procedures are subject to review and approval by the Asset-Liability Steering Committee (ALCO) and the Risk and Policy Steering Committee.

(4) Financial Risk Management, continued

The Board of Directors has established minimum liquidity levels on the proportion of funds available to meet these requirements and on the minimum level of inter-bank and other lending facilities that must exist to cover withdrawals at unexpected levels of demand. The Bank maintains a portfolio of short-term assets, comprised largely of liquid investments and inter-bank placements, to ensure that it maintains enough liquidity.

Liquidity Risk Exposure

The Bank uses the legal liquidity ratio as the basis for liquidity risk management. It is the ratio of net liquid assets to deposits received from customers. Net liquid assets are cash and cash equivalents and debt securities for which there is an active and liquid market, deposits with maturities of less than 186 days and bond payments with maturities of no more than 186 days.

The result of the estimation of the legal liquidity index as of the date of the statement of financial position is detailed below:

	2018	**2017**
As of December 31	74.4%	95.3%
Average of the year	75.5%	87.0%
Maximum of the year	91.6%	95.3%
Minimum of the year	65.8%	80.9%

The following table details the undiscounted cash flows from financial assets and liabilities, and loan commitments not recognized, in contractual maturity groupings for the remaining period from the date of the statement of financial position:

2018	Book Value	Gross nominal amount (outflows)/inflows	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years
Financial liabilities						
Customer deposits	8,067,708,051	(8,152,205,398)	(3,683,378,167)	(1,157,573,673)	(65,759,643)	(3,245,493,915)
Borrowings	35,198,829	(35,099,458)	(35,099,458)	0	0	0
Loan commitments	0	(410,907,527)	(151,357,815)	(259,549,712)	0	0
Financial guarantees/endorsements	0	(7,994,899)	(7,836,085)	(158,814)	0	0
	8,102,906,880	(8,606,207,282)	(3,877,671,525)	(1,417,282,199)	(65,759,643)	(3,245,493,915)
Financial assets						
Cash, cash equivalents and bank deposits	2,019,266,542	2,022,772,419	2,022,772,419	0	0	0
Investments in securities and securities purchased under resale agreements	2,738,182,121	2,831,581,260	486,030,063	962,400,490	540,394,921	842,755,786
Loans, net	4,200,143,165	5,011,280,224	433,239,942	769,818,385	146,006,395	3,662,215,502
	8,957,591,828	9,865,633,903	2,942,042,424	1,732,218,875	686,401,316	4,504,971,288

2017	Book Value	Gross nominal amount (outflows)/inflows	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years
Financial liabilities						
Customer deposits	8,608,100,414	(8,758,612,543)	(4,444,289,503)	(1,152,148,791)	(26,085,404)	(3,136,088,845)
Loan commitments	0	(381,577,674)	(146,732,760)	(234,844,914)	0	0
Financial guarantees/endorsements	0	(8,069,013)	(7,422,813)	(646,200)	0	0
	8,608,100,414	(9,148,259,230)	(4,598,445,076)	(1,387,639,905)	(26,085,404)	(3,136,088,845)
Financial assets						
Cash, cash equivalents and bank deposits	2,801,927,673	2,803,866,670	2,803,866,670	0	0	0
Investments in securities and securities purchased under resale agreements	3,169,353,491	3,507,850,817	657,955,112	811,118,857	891,568,552	1,147,208,296
Loans, net	3,604,634,776	4,342,557,648	385,136,752	278,503,043	324,698,610	3,354,219,243
	9,575,915,940	10,654,275,135	3,846,958,534	1,089,621,900	1,216,267,162	4,501,427,539

(4) Financial Risk Management, continued

For non-derivative financial assets and liabilities, the gross nominal amount is measured based on undiscounted cash flows and includes estimated interest payable and receivable, which is why it differs from the amounts presented in the statement of financial position.

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

	2018	**2017**
Assets:		
Investments in securities	2,195,719,042	2,389,933,053
Loans	3,746,480,024	3,136,318,320
Total assets	5,942,199,066	5,526,251,373
Liabilities:		
Time deposits	1,623,279,668	1,582,968,288

(c) Market Risk

It is the risk that the value of a Bank's financial asset will be reduced due to changes in interest rates, monetary exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events. The objective of market risk management is to manage and monitor risk exposures, and to keep them within acceptable parameters.

Risk management policies provide for compliance with limits by financial instrument, concentration limits, instrument rating limits, limits with respect to the maximum amount of loss from which the closing of the positions that caused such loss is required; and the requirement that, except for Board of Directors' approval, substantially all assets and liabilities are denominated in US dollars or in balboas.

Market Risk Management

The Bank does not currently maintain a trading portfolio; therefore, the risk inherent in this activity is substantially reduced.

The Bank maintains investments in securities that are presented in the Bank's statement of financial position at either amortized cost or fair value. Changes in the fair value of investments measured at FVOCI are recorded directly and recognized in a valuation account in the capital funds until the securities are sold or redeemed; in these cases, the cumulative gains or losses previously recognized in the capital funds are transferred to retained earnings.

(4) Financial Risk Management, continued

The Bank manages the market risk of its financial instruments through periodic reports to the Asset-Liability Steering Committee (ALCO) and the Risk and Policy Steering Committee, in which price changes in each instrument are analyzed and Value at Risk (VaR) is estimated daily to monitor and make decisions about its portfolio, based on the VaR limit that has been established.

Value at Risk is an estimate of probable loss over a given time horizon, which allows the Bank to set limits or caps on exposures in its investment portfolio.

The VaR model used by the Bank is based on the correlation method and considers a 99% confidence level over a one (1) day portfolio holding period.

The Bank has established maximum realized and unrealized loss limits for both individual instruments and the total investment portfolio. The market value of the securities investment portfolio is compared daily against these limits. If there is an excess in some limits, the Bank may liquidate the position or maintain it in the portfolio until its maturity or until its prices allow the sale of the securities without incurring losses, since it considers that these are usually market effects and not an impairment in the payment capacity of the issuer.

Although the VaR model is one of the most widely used tools for measuring market risks, its main limitation is that the result obtained depends closely on the information used to calibrate the models and the historical data used. VaR is considered a good measure for estimating the risk of loss under normal market conditions, but practice has shown that it fails significantly in crisis conditions. Stress analyses seek to cover these deficiencies.

An impairment loss is recognized when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a loss) and that loss has an impact on future estimates of the security's cash flows, which can be reasonably estimated.

The Bank's Board of Directors has determined that all market risk issues are managed and monitored directly by the Assets and Liabilities Steering Committee (ALCO) and the Risk and Policy Steering Committee; these committees are responsible for the development of market risk management policies, as well as reviewing and approving the implementation of those policies.

(4) Financial Risk Management, continued

The Bank manages its exposure to market risk from the following perspectives:

- Monitoring the price of the different securities on a daily basis, in order to verify if they are within the limits established by the Board of Directors, with respect to the global losses of its investment portfolio and on the losses of individual instruments.
- Determining the effect on the Bank's profits and on the value of financial assets and liabilities.

The composition and analysis of each type of market risk is presented in detail below:

- *Exchange rate risk:*
  It is the risk that the value of a financial instrument fluctuates as a consequence of variations in the exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For the purposes of accounting standards, this risk does not arise from financial instruments that are not monetary items, nor from financial instruments denominated in the functional currency.

  Generally, the Bank conducts its transactions in United States dollars; however, it maintains some deposits in euros and yen.

  Considering current market conditions and the amount these balances represent, the Bank currently assumes the exchange rate risk.

  The following table shows the operations of monetary financial instruments in the statement of financial position, agreed upon in foreign currencies, which are presented in their equivalent in balboas, as follows:

		2018			2017	
	Euro	Yen	Total	Euro	Yen	Total
Deposits in bank	78,207	19	78,226	96,795	1,239	98,034
Total assets	78,207	19	78,226	96,795	1,239	98,034

- *Cash flow interest rate risk:*
  These are the risks that the future cash flows and value of a financial instrument will fluctuate due to changes in market interest rates. The Assets and Liabilities Steering Committee (ALCO) and the Risks and Policies Steering Committee follow up on rate sensitivity reports.

  The Bank's management, in order to evaluate interest rate risks and their impact on the fair value of financial assets and liabilities, performs simulations to determine the sensitivity of financial assets and liabilities.

(4) Financial Risk Management, continued

In order to mitigate this risk, the Bank periodically performs a sensitivity analysis of the financial and equity margin by measuring the impact of interest rate changes on rate-sensitive financial assets and liabilities, using the following tools:

- Financial margin sensitivity
  The variation in the sensitivity of the financial margin is estimated by determining the changes in the financial margin before decreases or increases of 100 and 200 basic points (bp) of the market interest rate.

- Sensitivity of the equity margin
  Measures the impact of changes of 100 and 200 basis points (bp) on the value of financial assets and liabilities.

The base analysis that management performs consists of determining the impact on financial assets and liabilities caused by increases or decreases of 100 and 200 basis points (bp) in interest rates. The impact is summarized below:

Sensitivity in the projected net interest income

2018	**100 bp of increase**	**100 bp of decrease**	**200 bp of increase**	**200 bp of decrease**
As of December 31	8,907,111	(9,583,964)	17,814,222	(22,389,333)
Average of the year	9,173,336	(10,990,732)	18,346,671	(27,269,521)
Maximum of the year	9,763,553	(12,954,625)	19,527,105	(30,924,383)
Minimum of the year	7,743,718	(8,534,173)	15,487,437	(22,389,333)
2017				
As of December 31	10,331,449	(14,396,870)	20,662,898	(27,304,140)
Average of the year	10,641,460	(13,925,257)	21,282,920	(27,546,686)
Maximum of the year	11,574,696	(15,769,612)	23,149,393	(30,510,115)
Minimum of the year	8,810,902	(11,880,750)	17,621,806	(25,582,779)

Sensitivity in equity to rate changes in financial assets and liabilities

2018	**100 bp of increase**	**100 bp of decrease**	**200 bp of increase**	**200 bp of decrease**
As of December 31	(393,713,005)	451,771,014	(861,827,206)	1,028,308,746
Average of the year	(394,203,035)	453,037,292	(863,641,241)	1,056,483,860
Maximum of the year	(406,311,238)	464,854,950	(883,934,850)	1,119,790,333
Minimum of the year	(387,567,239)	444,922,751	(849,020,737)	1,013,075,634
2017				
As of December 31	(420,847,494)	481,974,390	(868,049,647)	1,011,511,698
Average of the year	(388,083,220)	445,244,451	(813,869,261)	935,718,646
Maximum of the year	(434,067,835)	496,915,124	(880,318,793)	1,048,478,786
Minimum of the year	(99,933,289)	114,821,668	(242,568,441)	115,514,911

(4) Financial Risk Management, continued

The table below summarizes the Bank's exposure to interest rate risk. The Bank's assets and liabilities are included in the table at their carrying values, classified by category by the earlier of contractual rate reset or maturity dates. Financial assets and liabilities that do not have a contractual fixed rate are excluded.

			2018		
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Total
Assets:					
Time deposits in banks	1,717,300,000	0	0	0	1,717,300,000
Securities purchased under resale agreements	100,276,265	0	0	0	100,276,265
Investments in securities	418,436,150	925,741,141	649,988,086	619,989,815	2,614,155,192
Loans, gross balance	612,218,613	643,719,048	130,277,324	2,866,215,095	4,252,430,080
Total	2,848,231,028	1,569,460,189	780,265,410	3,486,204,910	8,684,161,537
Liabilities:					
Savings deposits	692,680,094	0	0	0	692,680,094
Time and restricted deposits	2,598,739,915	1,096,300,154	56,730,059	470,249,455	4,222,019,583
Borrowing received	35,000,000	0	0	0	35,000,000
Total	3,326,420,009	1,096,300,154	56,730,059	470,249,455	4,949,699,677
Net interest sensitivity margin	(478,188,981)	473,160,035	723,535,351	3,015,955,455	3,734,461,860

			2017		
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Total
Assets:					
Time deposits in banks	2,397,900,000	0	0	0	2,397,900,000
Securities purchased under resale agreements	72,309,600	0	0	0	72,309,600
Securities available for sale	671,233,218	781,794,942	769,549,326	838,588,784	3,061,166,270
Loans, gross balance	609,691,055	132,211,388	247,912,616	2,651,030,893	3,640,845,952
Total	3,751,133,873	914,006,330	1,017,461,942	3,489,619,677	9,172,221,822
Liabilities:					
Savings deposits	667,515,720	0	0	0	667,515,720
Time and restricted deposits	3,320,511,609	1,111,346,251	18,790,297	452,831,741	4,903,479,898
Total	3,988,027,329	1,111,346,251	18,790,297	452,831,741	5,570,995,618
Net interest sensitivity margin	(236,893,456)	(197,339,921)	998,671,645	3,036,787,936	3,601,226,204

The interest rate risk position is managed directly by the Bank's Treasury, which uses instruments such as investments in securities, deposits in banks and deposits from banks to manage the general position of the Bank's activities.

- *Price risk:*

  The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to the particular instrument or its issuer, or by factors affecting all securities traded in the market.

  The Bank is exposed to price risk on equity instruments classified as available for sale. To manage the price risk arising from investments in equity investments, the Bank diversifies its portfolio according to the limits set by the Bank.

(4) Financial Risk Management, continued

(d) Operational Risk

Operational risk is the risk of potential losses, direct or indirect, related to the Bank's processes, people, technology and infrastructure, external factors and legal aspects, which are not related to credit, market and liquidity risks, such as those arising from legal and regulatory requirements and from the performance of generally accepted corporate standards.

The Bank's objective is to manage operational risk, seeking to avoid financial losses and damage to the Bank's reputation.

The main responsibility for the development and implementation of operational risk controls is assigned to senior management within each business area, the Operational Risk and Technology Risk Committee, the Risk and Policy Steering Committee, the Executive Compliance Management, the Executive Internal Control Management, the Executive Audit Management and the Executive Comprehensive Risk Management. This responsibility is supported by the development of standards for managing operational risk, contained in the Bank's Risk Manual.

These standards are related to the identification of the different operational risks faced by the Bank (risk map) and the collection of information related to the different operational risk events that have occurred, in order to identify the frequency and impact of each one of them.

(e) Capital Management

The Bank's policy is to maintain strong capital that can ensure the future development of the investment and credit business within the market, with adequate levels of return on shareholder capital and capital adequacy required by regulators. Decree Law No. 4 of 2006, as amended by Law No. 24 of May 16, 2017, establishes the Bank's capital at B/.500,000,000. This capital may be periodically increased by the Board of Directors, subject to a favorable opinion of the Executive Body through a Decree, in accordance with the provisions of banking legislation or best banking practices. As of December 31, 2018, the Bank maintains capital funds of B/.650,000,000 (2017: B/.570,000,000).

The Superintendency of Banks of Panama and the Superintendency of the Securities Market of Panama, as regulatory entities, require the Bank to maintain a total capital index measured based on risk weighted average assets. The Bank complies with the regulatory capital requirements to which it is subject.

(4) Financial Risk Management, continued

Article No. 81 of Law Decree No. 2 of 2008, which amends Article No. 45 of Decree-Law No. 9 of 1998, provides that banks with a general and international license must maintain capital funds equivalent to at least eight percent (8%) of their total assets and operations outside the state of financial position, weighted according to their risks. This article was regulated by Agreement No. 001-2015 of the Superintendency of Banks of Panama, which establishes the capital adequacy standards applicable to banks and came into force on January 1, 2016. Agreement No. 003-2016 of the Superintendency of Banks of Panama establishes the rules for the determination of credit risk weighted assets and counterparty risk, this began to be effective on July 1, 2016.

As of December 31, 2018, the Bank's capital adequacy ratio is determined as follows:

	2018	**2017**
Primary Capital		
Capital funds	650,000,000	570,000,000
Retained earnings	93,289,354	151,031,041
Other items in comprehensive income	6,106,661	86,074,116
Less: intangible assets	14,473,048	16,673,745
Primary Capital	734,922,967	790,431,412
Dynamic regulatory provision	56,598,706	56,598,706
Total Capital Funds	791,521,673	847,030,118
Total risk-weighted assets	4,758,976,792	5,021,365,961
Capital adequacy ratio	16.63%	16.87%

(5) Critical Accounting Estimates and Judgments in the Application of Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and assumptions are evaluated periodically and are based on historical experience and other factors, including expectations of future events, believed to be reasonable under the circumstances. Any changes in assumptions or criteria may significantly affect the estimates.

(a) Impairment losses on loans

The Bank reviews its loan portfolio at each reporting date. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes decisions as to whether there is observable information indicating that there is a reduction in the value of the loan that can be measured in the estimated future cash flows of the loans.

(5) Critical Accounting Estimates and Judgments in the Application of Accounting Policies, continued

This evidence includes observable information indicating that there has been an adverse change in the payment condition of borrowers or economic conditions that correlate with defaults on loans in the Bank. The methodology and assumptions used to estimate the amount and timing of future cash flows are regularly reviewed to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of investment instruments

The Bank determines that investments in securities are impaired when there has been a significant or prolonged decline in fair value below cost. This determination of what is a significant or prolonged decline requires judgment.

In addition, impairment may be considered when there is evidence of a deterioration in the financial health of the issuer, in the performance of the industry and sector, due to changes in technology and in its operating and financial cash flows.

(c) Fair value

For investment instruments listed on active markets, the fair value is determined by the instrument's reference price published on stock exchanges and stock exchange electronic systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data. These techniques include discounted future cash flow analyses and other valuation techniques commonly used by market participants. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

(d) Foreclosed assets of borrowers

Foreclosed properties that are impaired are reserved as such impairment occurs.

(6) Cash and Cash Equivalents

Cash and cash equivalents are detailed below for purposes of reconciliation with the cash flows statement:

	2018	**2017**
Cash and cash equivalents	236,150,367	311,017,486
Demand deposits	64,737,831	88,351,485
Time deposits	1,717,300,000	2,397,900,000
Total gross cash, cash equivalents and deposits with banks in the statement of financial position	2,018,188,198	2,797,268,971
Less: Time deposits in banks with original maturities over 90 days	100,000,000	975,000,000
Total cash and cash equivalents in the cash flow statement	1,918,188,198	1,822,268,971

(6) Cash and Cash Equivalents, continued

As of December 31, 2018, the Bank maintains an expected loss reserve for deposits in banks of B/.47,724. See note (3.e) change in accounting policy as a result of the adoption of IFRS 9.

(7) Securities Purchased under Resale Agreements

At December 31, 2018, the Bank holds securities purchased under resale agreements as follows:

Maturity	Interest Rate				
Date	Libor	Margin	Collateral	2018	2017
01/25/18	1 months	1.50%	Local corporate bonds	0	6,329,100
01/25/18	1 months	1.50%	Local corporate bonds	0	9,484,400
01/25/18	1 months	1.50%	Local corporate bonds	0	6,026,500
01/25/18	1 months	1.50%	Local corporate bonds	0	8,160,000
03/12/18	3 months	2.00%	Local corporate bonds	0	1,909,600
03/12/18	3 months	2.00%	Local corporate bonds	0	1,600,000
03/20/18	3 months	2.00%	Notes from the Republic of Panama	0	400,000
03/20/18	3 months	2.00%	Notes from the Republic of Panama	0	400,000
03/20/18	3 months	2.00%	Notes from the Republic of Panama	0	800,000
03/20/18	3 months	2.00%	Letters from the Republic of Panama	0	400,000
03/27/18	3 months	2.00%	Letters from the Republic of Panama	0	4,500,000
03/27/18	3 months	2.00%	Letters from the Republic of Panama	0	450,000
03/27/18	3 months	2.00%	Letters from the Republic of Panama	0	900,000
06/18/18	6 months	2.00%	Notes from the Republic of Panama	0	5,950,000
06/18/18	6 months	2.00%	Republic of Panama Global Bond	0	6,200,000
06/18/18	6 months	2.00%	Notes from the Republic of Panama	0	4,950,000
06/18/18	6 months	2.00%	Notes from the Republic of Panama	0	1,350,000
06/18/18	6 months	2.00%	Local corporate bonds	0	6,100,000
06/18/18	6 months	2.00%	Local corporate bonds	0	6,400,000
01/04/19	2 months	1.35%	Local corporate bonds	12,000,000	0
01/04/19	2 months	1.35%	Supranational entity bonds	3,102,500	0
01/28/19	3 months	1.35%	Supranational entity bonds	1,997,500	0
01/28/19	3 months	1.35%	Republic of Panama Global Bond	18,000,000	0
03/21/19	3 months	1.35%	Local corporate bonds	5,956,800	0
03/21/19	3 months	1.35%	Local corporate bonds	9,416,400	0
03/21/19	3 months	1.35%	Local corporate bonds	5,672,000	0
04/24/19	9 months	1.50%	Local corporate bonds	6,607,380	0
05/27/19	12 months	1.50%	Notes from the Republic of Panama	5,950,000	0
06/17/19	6 months	1.50%	Republic of Panama Global Bond	6,196,050	0
06/17/19	6 months	1.50%	Local corporate bonds	3,528,000	0
06/17/19	6 months	1.50%	Local corporate bonds	960,000	0
06/17/19	6 months	1.50%	Notes from the Republic of Panama	4,942,575	0
06/17/19	6 months	1.50%	Notes from the Republic of Panama	1,350,000	0
06/17/19	6 months	1.50%	Local corporate bonds	6,400,000	0
06/28/19	12 months	1.50%	Supranational entity bonds	8,197,060	0
			Total	100,276,265	72,309,600

These securities purchased under resale agreements are held with local financial institutions with a credit risk rating between BBB- and AA+.

(8) Investments in Securities

The detail composition and classification of investments in securities is as follows:

	2018			2017
	FVOCI	AC	Total	Available for Sale
Public debt securities	0	1,145,925,463	1,145,925,463	1,478,903,841
Private debt securities	0	1,468,229,730	1,468,229,730	1,582,262,429
Private equity shares	6,332,052	0	6,332,052	7,413,797
Total	6,332,052	2,614,155,193	2,620,487,245	3,068,580,067

Equity instruments at fair value with changes in other comprehensive income as of December 31, 2018, recorded a net unrealized loss of B/.1,054,952 as a result of the net change in fair value. As of December 31, 2017, available-for-sale investments had a net unrealized gain of B/.35,732,312.

As of December 31, 2018, the Bank received dividends on private equity investments for B/.913,424 (2017: B/.1,305,541).

As of December 31, 2018, the Bank sold securities at amortized cost for a total of B/.295,605,200 (2017: securities available for sale for B/.20,933,944) obtaining net realized gains for B/.13,039,225 (2017: B/.949,746) included in the statement of profit or loss.

As of December 31, 2018, securities at amortized cost were redeemed for B/.833,978,221 (2017: B/.461,002,491).

As of December 31, 2018, the Bank maintains an expected loss reserve for investments in securities at amortized cost of B/.4,386,163. See on note (3.e) the change in the accounting policy due to the adoption of IFRS 9.

(9) Loans

The distribution by economic activity of the loan portfolio, net of the allowance for loan losses and unearned interest and commissions, is summarized below:

	2018	2017
Public sector, gross	464,327,629	219,742,778
Private sector, gross:		
Residential mortgages	1,124,482,465	967,466,588
Personal	1,112,655,003	1,061,147,676
Agriculture	585,728,440	550,114,394
Commercial	696,753,735	653,212,975
Financial institutions	217,591,416	137,548,237
Industrials	50,674,309	51,292,734
Overdrafts	217,083	320,570
Total gross private sector	3,788,102,451	3,421,103,174
Total gross loans	4,252,430,080	3,640,845,952
More (less):		
Accrued interest receivable	28,231,790	24,630,680
Reserve for loan losses	(53,607,992)	(34,675,449)
Interest and unearned commissions	(26,910,713)	(26,166,407)
Loans at amortized cost	4,200,143,165	3,604,634,776

(10) Properties and Equipment

The properties and equipment are summarized as follows:

2018	Land, Buildings and Improvements	Office Furniture and Equipment	Vehicles	Constructions in Progress	Total
Cost:					
At the beginning of the year	78,113,475	74,915,937	12,273,601	6,822,892	172,125,905
Purchases	0	9,040,812	3,108,825	6,710,005	18,859,642
Sales and disposals	(2,556,472)	(1,704,767)	(1,949,546)	0	(6,210,785)
Reclassifications	5,479,777	65,800	0	(5,545,577)	0
At the end of the year	81,036,780	82,317,782	13,432,880	7,987,320	184,774,762
Accumulated depreciation and amortization:					
At the beginning of the year	33,145,099	55,806,940	9,087,291	0	98,039,330
Expense of the year	2,629,026	9,108,772	1,127,239	0	12,865,037
Sales and disposals	(2,556,473)	(1,695,043)	(1,949,445)	0	(6,200,961)
At the end of the year	33,217,652	63,220,669	8,265,085	0	104,703,406
Net balance	47,819,128	19,097,113	5,167,795	7,987,320	80,071,356

(10) Property and Equipment, continued

2017	Land, Buildings and Improvements	Office Furniture and Equipment	Vehicles	Constructions in Progress	Total
Cost:					
At the beginning of the year	77,822,846	74,108,527	11,177,329	3,660,348	166,769,050
Purchases	0	4,919,307	1,376,534	4,650,484	10,946,325
Sales and disposals	(958,451)	(4,124,897)	(280,262)	(225,860)	(5,589,470)
Reclassifications	1,249,080	13,000	0	(1,262,080)	0
At the end of the year	78,113,475	74,915,937	12,273,601	6,822,892	172,125,905
Accumulated depreciation and amortization:					
At the beginning of the year	31,202,582	53,538,585	8,431,119	0	93,172,286
Expense of the year	2,900,968	6,379,697	936,412	0	10,217,077
Sales and disposals	(958,451)	(4,111,342)	(280,240)	0	(5,350,033)
At the end of the year	33,145,099	55,806,940	9,087,291	0	98,039,330
Net balance	44,968,376	19,108,997	3,186,310	6,822,892	74,086,575

The Bank maintains within the construction in progress category, its own properties under construction for B/.5,987,689 (2017: B/.6,073,870) and purchases in transit for B/.1,999,631 (2017: B/.749,022). Additionally, within the heading of office furniture and equipment, purchases in transit for B/.4,024,410 (2017: B/.2,960,194) are maintained.

(11) Intangible Assets - Licenses and Programs

The movement of intangible assets - licenses and technology programs is summarized below:

	2018	2017
Balance at the beginning of the year	16,673,745	18,940,978
Purchases	1,541,987	681,332
Amortization for the year	(3,742,684)	(2,948,565)
Balance at the end of the year	14,473,048	16,673,745

(12) Tax Credits on Preferred Interest

In accordance with tax regulations in force in Panama, financial entities that grant mortgage loans not exceeding B/.120,000 with preferential interest, receive the annual benefit of a tax credit. As of July 2010, according to Law No. 8 of March 15, 2010, which repeals article 6 of Law No. 3 of 1985, the benefit of a tax credit is increased from the first ten (10) years to the first (15) years for new loans, for the amount equivalent to the difference between the income that the financial entity would have received if it had collected the market reference interest rate, which was in effect during that year, and the income actually received as interest in relation to each of such preferential mortgage loans.

(12) Tax Credits on Preferred Interest, continued

The tax credit under Act No. 3 of 1985, as amended by Act No. 29 of 2008, can be used for the payment of national taxes, including income tax. The tax credit under Act No. 11 of 1990, Act No. 28 of 1994 and Act No. 50 of 1999 can only be used for the payment of income tax. If in any tax year a bank is not able to use effectively all tax credits to which it is entitled, then it may use the excess credit during the next three years at its discretion or transfer it, in whole or in part, to another taxpayer. Article 7 of Law 3 of 1985 was amended by Article 9 of Law No. 66 of 2017, which included a transitory paragraph, which stipulates that the tax credits established and regulated, which would have expired in 2017, based on the three-year statute of limitations, will regain their validity and will be subject to the five-year statute of limitations.

As of December 31, 2018, there were unrecognized tax credits from the General Revenue Authority (DGI, for its initials in Spanish) amounting to B/.57,963,376 (2017: B/.46,836,957) and current tax credits amounting to B/.2,734,981 (2017: B/.2,928,607). During the year 2018, the DGI recognized tax credits of the Bank for B/.6,796,765 (2017: B/.6,377,551), and sales were made for B/.6,990,392. The Bank's management has established a valuation allowance for the portion of the tax credits that it estimates will not be recovered through their sale. As of December 31, 2018, the Bank maintains a valuation allowance for tax credits in the amount of B/.68,375 (2017: B/.73,215). The movement of this reserve is presented below:

	2018	2017
Balance at the beginning of the year	73,215	242,213
Provision charged to profit or loss	413,127	376,227
Reserve used	(417,967)	(545,225)
Balance at the end of the year	68,375	73,215

(13) Other Assets

Borrowers' foreclosed assets

The foreclosed assets of borrowers correspond to real estate that guaranteed loans, and whose guarantee was foreclosed and granted to the Bank. Management expects to recover the written-off balance of principal and interest through the sale of these properties.

The foreclosed assets of borrowers are detailed as follows:

	2018	2017
Foreclosed assets of borrowers	17,979,083	18,478,690
Impairment reserve	(9,319,799)	(9,005,580)
Net balance	8,659,284	9,473,110

(13) Other Assets, continued

The movement of the impairment reserve of borrower's foreclosed assets is detailed below:

	2018	2017
Balance at the beginning of the year	9,005,580	9,417,254
Provision (reversal of) for valuation of foreclosed assets	342,884	(66,632)
Derecognized assets	(28,665)	(345,042)
Balance at end of year	9,319,799	9,005,580

As of December 31, 2018, the Bank sold foreclosed assets from borrowers for B/.3,751,954 (2017: B/.1,595,504).

Other miscellaneous assets

The other miscellaneous assets are detailed as follows:

	2018	2017
Numismatic and other currencies	2,532,067	2,383,052
Financing program ("Profinco")	667,346	717,135
Printing and supplies	3,210,964	1,917,952
Account receivable - FECI grant	3,785,951	1,864,538
Other remittances and transfers in transit	1,823,028	2,059,250
Prepaid expenses and insurance	894,631	470,857
Cultural property	256,738	357,014
Cash withdrawals to be compensated – Debit Card	411,117	523,057
Insurance receivable on loans	274,236	416,232
Balance of loans receivable through life insurance policies	1,502,215	858,532
Others	3,625,468	3,071,467
	18,983,761	14,639,086

(14) Restricted Deposits

As of December 31, 2018, restricted deposits amounted to B/.64,319,593 (2017: B/.61,835,492) and consisted of deposits received from banks operating in Panama with a general and international license and entities with a trust license in compliance with the Banking Law, and other restricted deposits from customers for various concepts.

(15) Foreign Borrowing Received

As of December 31, 2018, the Bank maintains a foreign borrowing received for B/.35,000,000 maturing on January 29, 2019 at an interest rate of 3.19%.

(16) Other Liabilities

Miscellaneous Creditors

As of December 31, 2018, in the sundry creditors category, items were recorded in suspense accounts for ATM transactions accumulated over the weekend and which are offset on the following business day by B/.39,339,985 (2017: B/.23,504,970).

Miscellaneous Liabilities

The detail of miscellaneous liabilities is summarized below:

	2018	**2017**
Labor liabilities	8,117,442	7,959,918
Seniority bonus provision	11,639,221	12,001,533
Other provisions	2,551,896	3,013,633
Others	3,104,653	3,145,189
	25,413,212	26,120,273

Seniority Bonus Provision

The seniority bonus is a defined post-employment benefit granted to Bank employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate the employment relationship due to retirement or absolute disability; these employees will be entitled to a seniority bonus at the rate of one week's salary for each working year, up to a maximum of ten months. This benefit is based on the Law of the Banco Nacional de Panama.

The table below shows a reconciliation between the opening and closing balances of the defined benefit liability:

	2018	**2017**
Balance as of January 1	12,001,533	4,132,388
Included in the year's result:		
Current cost of service	732,716	734,993
Interest cost (income)	443,869	310,160
Employer-paid contribution	0	7,842,397
Included in OCI:		
Actuarial Loss (Gain)	(891,043)	0
Others:		
Benefits paid	(647,854)	(1,018,405)
Balance as of December 31	11,639,221	12,001,533

According to the latest actuarial calculations as of December 31, 2018, the total accumulated seniority bonus obligation is B/.11,639,221 (2017: B/.12,001,533).

(16) Other Liabilities, continued

Below are the main actuarial assumptions as of December 31, 2018:

	2018	**2017**
Discount rate	4.35%	3.57%
Salary increase	1.93%	2.45%
Inflation rate	1.93%	2.45%

The discount rate to be used to discount the flows related to the defined long-term benefits was determined considering, as a first reference, the market yields at the date of the analysis of the high-quality corporate bonds or debentures. The currency and term of the high-quality corporate bonds must be consistent with the currency and estimated term of payment of the post-employment benefit obligations.

Mortality assumptions are based on statistics published by the World Health Organization (WHO), in Table 2016 for Panama, separately for men and women.

The population of Bank employees at the date of analysis was composed of 1,912 women (2017: 1,822) and 1,528 men (2017: 1,424) for a total of 3,440 employees (2017: 3,246), as follows:

		2018			**2017**	
	Women's	**Men's**	**Total**	**Women's**	**Men's**	**Total**
Employee population						
Employees (number)	1,912	1,528	3,440	1,822	1,424	3,246
Average age (years)	40	44	42	40	44	42
Average Seniority (years)	11	14	13	11	14	13
Population of employees with more than 15 years of seniority						
Employees (number)	517	530	1,047	495	511	1,006
Average age (years)	50	55	53	51	55	53
Average Seniority (years)	25	29	27	26	29	28

Sensitivity analysis

Post-employment defined benefit obligations were calculated using the projected unit credit method. The obligations and expenses may change in the future as a result of future changes in actuarial methods and assumed changes in the Bank's policy, or as a result of future gains and losses.

(16) Other Liabilities, continued

The effect that an increase or decrease in major actuarial inputs could have in the period is presented below.

2018	Discount rate 100 bp of increase	Discount rate 100 bp of decrease	Rate of salary increase 200 bp of increase	Rate of salary increase 200 bp of decrease
Seniority bonus liability	(893,431)	1,058,898	1,074,785	(921,167)

2017	Discount rate 100 bp of increase	Discount rate 100 bp of decrease	Rate of salary increase 200 bp of increase	Rate of salary increase 200 bp of decrease
Seniority bonus liability	(841,633)	997,018	998,270	(857,785)

(17) Commitments and Contingencies

In the normal course of its operations, the Bank maintains financial instruments with risks outside the statement of financial position to meet the financial needs of its clients. These financial instruments include letters of credit, guarantees issued and promises to pay and involve, to various degrees, elements of credit risk.

Commercial letters of credit, guarantees and endorsements issued on behalf of customers and promises of payment involve some element of risk of loss in the event of customer default, net of the tangible guarantees covering these transactions. The Bank's policies and procedures for granting these contingent credits are similar to those used for extending loans. Management does not anticipate that the Bank will incur material losses resulting from these contingent credits granted for the benefit of customers.

The financial instruments outside the statement of financial position, which are subject to credit risk, are presented below.

	2018	2017
Letters of credit	955,427	2,464,000
Guarantees and endorsements given	7,039,472	5,605,013
Payments pledges	403,265,222	374,504,852
Loan commitments	7,642,305	7,072,822
	418,902,426	389,646,687

(17) Commitments and Contingencies, continued

As of December 31, 2018, there were lawsuits filed against Banco Nacional de Panama for the amount of B/.1,274,796,126 (2017: B/.6,294,316). The Bank's management and attorneys believe that there is a high possibility that the Bank will not be sentenced to pay the total amount claimed. As of December 31, 2018, the Bank maintains a provision of B/.49,484 (2017: B/.49,484) in connection with court cases. In relation to the claim for B/.1,268,704,177, management, based on the opinion of the external lawyers in charge of the case, considers that there is a high probability of a judgment in favor of the Bank, and therefore it is not deemed necessary to make provisions in respect of this process.

As of December 31, 2018, the Bank has commitments with third parties arising from operating leases of real estate, which expire on various dates during the next few years. Future payments under these leases are as follows.

	2018	2017
Less than 1 year	1,173,922	915,151
Between 1 and 5 years	1,669,363	1,154,565
More than 5 years	342,626	570,734
	3,185,911	2,640,450

(18) Fees for Banking Services

The breakdown of the most significant banking service fee income is as follows:

	2018	2017
Letters of Credit	130,567	360,895
Transfers	717,034	700,377
Card Services	9,170,118	10,970,434
Fund management, custody and brokerage	2,103,424	893,340
Current accounts	747,360	667,952
Savings accounts	4,780	4,535
Government services	511,701	549,399
Guarantee certificates and cashier's checks	629,242	634,463
National stamps	16,187	18,792
Clearinghouse services	1,354,643	700,213
Others	1,669,624	2,030,456
	17,054,680	17,530,856

(19) Other Income

The other income included in the statement of profit or loss is summarized below:

	2018	**2017**
Miscellaneous banking services	858,232	1,167,377
Gain on sale of foreclosed assets	1,575,033	850,721
Cash management	1,076,638	1,036,923
Inspections and appraisals	92,195	52,467
Legal income	235,409	214,110
Employee resource management	159,369	140,773
Foreign exchange gain, net	707,599	585,078
Insurance management and collection management	7,513,704	9,864,266
Others	4,805,438	4,958,119
	17,023,617	18,869,834

(20) General and Administrative Expenses

The breakdown of salary and other personnel expenses and other general and administrative expenses is as follows:

	2018	**2017**
Salaries and other staff costs		
Salaries and other remunerations	60,888,351	56,887,024
Seniority bonus	1,176,585	8,887,550
Social Security	9,507,409	8,753,172
Employee Benefits	9,497,210	9,879,182
Training	1,053,015	906,178
Others	302,728	427,845
	82,425,298	85,740,951
Other expenses		
Banking regulation and supervision fees	168,590	167,811
Legal	134,618	36,907
Water service	112,905	82,937
Disposals and loss of assets	10,116	26,154
(Reversal of) provision and other expenses	(394,586)	660,253
Security service	966,613	1,108,421
Food	263,450	211,894
Others	3,775,000	1,783,967
	5,036,706	4,078,344

The seniority bonus expense is related to the restatement of the labor liability for the seniority bonus according to the update of the actuarial report as of December 31, 2018 (see note 16).

(21) Segment Information

Management has established the reportable segments according to the line of business to which the customers belong. These segments offer various products and services and are managed separately based on the Bank's organizational structure. Segment information is presented below.

2018

Detail	Corporate and Commercial	Agriculture and Forestry	Consumer	Financial Institutions	Financial Institutions	Treasury	Total
Interest and Fee Income	31,391,023	37,532,243	130,661,449	12,820,168	11,036,553	137,238,334	360,679,770
Interest expenses	(11,159,446)	(13,342,637)	(46,449,884)	(4,557,544)	(3,923,472)	0	(79,432,983)
Reversal of provision for losses on deposits with banks	0	0	0	0	0	838,836	838,836
Provision for investment securities losses	0	0	0	0	0	(1,226,298)	(1,226,298)
Provision for loan losses	(836,076)	(711,249)	(2,716,573)	(335,987)	0	0	(4,599,885)
Provision for valuation of foreclosed assets	(61,666)	(246,138)	(35,080)	0	0	0	(342,884)
Other income	6,747,811	8,067,926	28,086,970	2,755,822	2,372,417	0	48,030,946
General and administrative expenses	(19,433,429)	(23,235,311)	(80,889,366)	(7,936,658)	(6,832,465)	(1,715,085)	(140,042,314)
Net income	6,648,217	8,064,834	28,657,516	2,745,801	2,653,033	135,135,787	183,905,188
Segment assets	676,791,968	575,745,761	2,199,027,015	271,976,371	918,500,690	4,498,367,454	9,140,409,259
Segment liabilities	1,214,567,640	1,033,230,598	3,946,363,398	488,087,499	1,648,336,959	0	8,330,586,094

2017

Detail	Corporate and Commercial	Agriculture and Forestry	Consumer	Financial Institutions	Financial Institutions	Treasury	Total
Interest and Fee Income	27,814,226	34,423,229	115,859,158	8,613,755	15,435,918	131,934,212	334,080,498
Interest expenses	(9,098,565)	(11,260,496)	(37,899,745)	(2,817,724)	(5,049,384)	0	(66,125,914)
Provision for loan losses	(1,836,980)	(1,522,195)	(5,613,349)	(493,844)	0	0	(9,466,368)
Reversal of provision for investment losses	38,357	9,000	19,275	0	0	0	66,632
Other income	5,318,852	6,582,676	22,155,485	1,647,188	2,951,776	0	38,655,977
General and administrative expenses	(18,618,032)	(23,041,906)	(77,552,742)	(5,765,796)	(10,332,353)	(1,469,688)	(136,780,517)
Net income	3,617,858	5,190,308	16,968,082	1,183,579	3,005,957	130,464,524	160,430,308
Segment assets	654,278,973	542,161,536	1,999,311,765	175,892,920	741,694,459	5,627,141,152	9,740,480,805
Segment liabilities	1,411,383,802	1,169,528,659	4,312,833,449	379,429,003	1,599,952,908	0	8,873,127,821

As of 2018, the Treasury segment has been segregated in order to disclose the income and expenses related to this item, which corresponds to the total income and expenses related to deposits in banks and investments in securities.

(22) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and government entities, including autonomous and semi-autonomous entities. Given the Bank's state-owned nature and its role as a financial agent of the state and official depository of the nation's funds, significant concentrations of loans and deposits received from government entities are maintained. At December 31, 2018, the following were the aggregate balances in respect of transactions with related parties:

	Directors and Key Management Personnel		Government sector	
	2018	**2017**	**2018**	**2017**
Assets				
Investments in securities	0	0	985,488,156	1,376,412,981
Loans:				
Loans outstanding at beginning of year	2,070,102	1,304,174	219,742,778	406,138,253
Loans issued during the year	590,786	901,703	898,844,519	613,373,989
Loans cancelled during the year	(569,574)	(135,775)	(654,259,668)	(799,769,464)
Loans outstanding at year-end	2,091,314	2,070,102	464,327,629	219,742,778
Accrued interest receivable	286	41	12,267,879	20,612,231
Fiscal credit from preferential interest	0	0	60,629,982	49,692,349
Liabilities				
Deposits:				
Demand deposits	46,544	20,768	2,363,986,666	2,211,550,149
Savings deposits	327,677	304,450	0	0
Time deposits	0	0	3,737,059,359	4,223,623,141
Restricted deposits	0	0	3,414,152	8,359,890
Accrued interest payable	0	0	1,888,136	2,196,580
Commitments:				
Letters of credit	0	0	3,404,152	6,439,890
Profit and Loss				
Interest and commission income:				
Investments in securities	0	0	45,563,766	48,315,301
Loans	67,734	58,254	16,314,855	15,463,098
Interest expenses:				
Deposits	17,934	14,928	68,099,893	57,415,174
General and administrative expenses:				
Directors' allowances	265,000	192,250	0	0
Salaries	3,331,568	3,034,621	0	0
Employee Benefits	169,529	152,252	0	0

Directors and key management staff consists of 5 directors and 29 executive managers maintained by the Bank.

Loans to key management personnel are granted on the same terms and conditions that are available to other employees. As of December 31, 2018, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.935,203. As of December 31, 2017 no allowances for incurred losses were recognized related to these loans.

(23) Assets under administration and custody

As of December 31, 2018, the Bank held under administration trust agreements for the account and risk of third parties in the amount of B/.2,551,135,838 (2017: B/.2,458,546,854). Given the nature of these services, management considers that the Bank does not assume significant risks in the administration of these contracts.

The Bank currently has a trust agreement with Balboa Bank & Trust and Balboa Securities, Corp. as Trustee. This trust, hereinafter the Balboa-Pasivos Trust, consists of the custody of the assets in trust, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the assets in trust.

The Bank has a trust agreement with Felix B. Maduro, S. A. and Grupo Cima Panama, S. A. (the trustors), who transferred to the Bank (as Trustee) the ownership of the shares of certain companies. Notwithstanding the foregoing, the management and control of these companies is not under the administration of the Trustee, but of a Board of Directors. The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks associated with the administration of this contract.

The Bank has a trust agreement with Leemart Property, Ltd. (the Settlors), who transferred ownership of Westline Enterprises, Inc. shares to the Bank (as Trustee). (owner of the Soho Mall) to the Bank (as Trustee). The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks associated with the administration of this contract.

The Bank provides securities brokerage and custody services. This activity is carried out under a securities firm license, at the clients' risk. As of December 31, 2018, the carrying value of this portfolio amounted to approximately B/.3,941,288,735 (2017: B/.2,997,057,967) and is controlled in memorandum accounts that are not part of the Bank's statement of financial position. Given the nature of these services, management considers that there is no significant risk of loss to the Bank in the provision of such services.

As of December 31, 2018, the Bank obtained income from commissions earned on trust activities for B/.1,189,310 (2017: B/.579,444), brokerage and custody services for B/.421,234 (2017: B/.313,896) and securities services for B/.492,880. During the year 2018 the Bank incurred in financial services expenses for B/.767,404 (2017: B/.634,677).

Banco Nacional de Panama does not have a portfolio under discretionary management of third party accounts.

(24) Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer's price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that are not frequently traded and for which there is little availability of pricing information, fair value is less objective, and its determination requires the use of varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair value using the following levels of hierarchy that reflect the significance of the inputs used in making the measurements:

- Level 1: prices quoted (unadjusted) in active markets for identical assets or liabilities that are accessible to the Bank's management at the measurement date.

- Level 2: input data other than quoted prices included in Level 1 that are observable, either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques where significant input data are directly or indirectly observable in a market.

- Level 3: this category covers all instruments where valuation techniques include unobservable inputs and have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable assumptions or adjustments reflect the difference between the instruments.

Other valuation techniques include net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free reference rates, credit spreads and other assumptions used in estimating discount rates and share prices.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or transfer the liability between market participants would occur at the date of measurement under current market conditions.

(24) Fair Value for Financial Instruments, continued

The fair value and carrying amount of financial assets and liabilities are detailed as follows:

	2018	
	Carrying Value	**Fair Value**
Financial assets:		
Time deposits	1,718,378,353	1,718,426,068
Investments in securities at AC	2,630,856,656	2,640,750,625
Investments in securities at FVOCI	5,759,585	5,759,585
Loans	4,200,143,165	4,028,015,214
	8,555,137,759	8,392,951,492
Financial liabilities:		
Time deposits	4,161,105,604	4,071,466,300

	2017	
	Carrying Value	**Fair Value**
Financial assets:		
Time deposits	2,402,558,702	2,402,558,702
Securities available for sale	3,096,271,353	3,067,980,804
Loans	3,604,634,776	3,460,165,218
	9,103,464,831	8,930,704,724
Financial liabilities:		
Time deposits	4,845,244,477	4,745,965,061

The following table analyses 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 data input and valuation techniques used:

	Fair Value	
2018	**Level 1**	**Total**
Investments in securities at FVOCI:		
Equity shares	5,759,585	5,759,585
	5,759,585	5,759,585

	Fair Value			
2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale:				
Public debt securities	0	1,478,903,841	0	1,478,903,841
Private debt securities	0	1,582,262,429	0	1,582,262,429
Equity Shares	6,814,534	0	0	6,814,534
	6,814,534	3,061,166,270	0	3,067,980,804

(24) Fair Value for Financial Instruments, continued

As of December 31, 2017, the Bank held equity shares for an amount of B/.599,263, which were held at acquisition cost because their fair value could not be reliably determined.

For investment instruments in securities that are quoted in active markets, the fair value is determined by the instrument's reference price published in stock exchanges, published in electronic stock information systems, or provided by price suppliers. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

The table below describes the valuation techniques and inputs used in recurring fair value measurements classified within Level 2 and 3:

Financial Instruments	**Valuation Technique and Data Inputs Used**
Investments in securities	The discounted future cash flow method is used. The valuation model used values fixed-income instruments based on the flows of the instruments, their remaining term at the valuation date, and discounts the flows by a rate composed of the sum of the following variables: - Market reference rates - More credit risk margin In addition, the model considers within its inputs the observable market prices for similar instruments.

The following table analyses the fair value of financial instruments that are not carried at fair value, classified by level, as follows:

	2018		**2017**
Description	**Level 2**	**Level 3**	**Level 3**
Assets:			
Time deposits	0	1,718,426,068	2,402,558,702
Investments in securities to AC	2,640,750,625	0	0
Loans	0	4,028,015,214	3,460,165,218
	2,640,750,625	5,746,441,282	5,862,723,920
Liabilities:			
Time deposits	0	4,071,466,300	4,745,965,061

(24) Fair Value for Financial Instruments, continued

The table below describes the valuation techniques and inputs used in the valuation of financial assets and liabilities not measured at fair value that are classified in the fair value hierarchy within Level 3:

Financial Instruments	Valuation Technique and Data Inputs Used
Investments in securities at amortized cost	Future cash flows discounted at current market rates for the term and type of instrument.
Loans	Future cash flows discounted at current market rates.
Time deposits placed with banks and received from customers	Discounted cash flows using current market rates for new deposits with similar remaining maturities.

For customer demand deposits, customer savings deposits, and demand deposits at banks, the carrying value approximates their fair value due to their short-term nature.

(25) Principal Applicable Laws and Regulations

General Laws and Regulations

(a) Banking Law

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, whereby establishing the banking system in Panama and creates the Superintendency of Banks and its regulations.

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

(b) Securities Law

The securities market in the Republic of Panama is regulated by Law Decree No. 1 of July 8, 1999, which has been modified by Law 67 of September 1, 2011.

In the year 2013, the regulatory entity issued Agreement No. 008-2013, which modified rules that are within Agreement No. 004-2011 on capital adequacy, total minimum required capital, solvency ratio, liquidity ratio and credit concentrations that must be attended by brokerage firms in Panama and those financial institutions that have a brokerage firm license.

(25) Principal Applicable Laws and Regulations, continued

The following is a description of the modified rules in the Agreement No. 008-2013 of the Superintendency of Securities Market and the indexes on each of these provisions:

- Total Minimum Required Capital: Banks with a brokerage firm license must constitute and maintain free of encumbrances, at all times, a total minimum required capital, which shall be the sum of the amounts of capital required for each license. The Superintendency of Banks of Panama requires a minimum capital of B/.10,000,000, and the Superintendency of the Securities Market requires a minimum capital of B/.350,000. The capital maintained by the Bank according to these criteria exceeds that total minimum required capital.

- Additional Capital Requirement: Article 4-A of Agreement No. 008-2013, establishes that all securities firms that offer the service of managing custody accounts in physical form or through third parties, must comply with the additional capital requirement. As of December 31, 2018, the Bank had an additional capital requirement of B/.2,311,120 (2017: B/.3,912,630).

  As of December 31, 2018, the capital contributed by the State for B/.650,000,000 covers the total minimum required capital and the additional capital requirement, as required by the Superintendency of Banks of Panama and the Superintendency of the Securities Market.

- Solvency Ratio: Securities firms must maintain at all times a minimum solvency ratio of eight percent (8%) of their total assets and off-balance sheet operations, weighted according to their risks; customer or third party accounts which must be duly separated from the equity of the securities firm or financial institution are not included in the calculation of the solvency ratio.

- Liquidity Ratio: Securities firms shall maintain at all times a volume of investments in low risk and high liquidity assets that shall be at least thirty per cent (30%) of the total liabilities due with a residual term of less than one (1) year.

- Credit Risk Concentrations: The risks maintained by the securities firm with respect to an issuer, individual client or a group of issuers or clients related to each other, shall be considered as a concentration situation when the accumulated value of these risks exceeds ten per cent (10%) of the total value of its capital funds.

  Due to the nature of the operations and services provided by the Bank, management considers that no credit risk concentration risks are present.

(25) Principal Applicable Laws and Regulations, continued

(c) Trust Law

The exercise of the Trust business in the Republic of Panama is regulated by the Superintendency of Banks of Panama in accordance with the regulations established by Law No. 1 of January 5, 1984, as amended by Law No. 21 of May 10, 2017, which establishes the rules for the regulation and supervision of the trustee business and the trust business and dictates other provisions.

The objective of said law is to promote an appropriate and flexible legal platform to boost the trust market and maintain adequate levels of trust and transparency; the strengthening of management by the Superintendency in terms of the application of standards for comprehensive risk-based regulation and supervision, in accordance with the particular characteristics of the trust business.

The following is a summary of the most important aspects introduced by Law 21 of May 10, 2017:

- Composition of capital: Article 25 establishes that companies that are authorized to act as trustees shall issue shares representing their capital stock exclusively in nominative form.

- Minimum paid-in or assigned capital: Article 26 establishes that the minimum paid-in or assigned capital to apply for and maintain a trust license shall be one hundred and fifty thousand balboas (B/.150,000).

(d) Public Sector Employees Seniority Premium

Law 23 of May 12, 2017 includes a new right for public employees, by establishing that the permanent, transitory or contingent public employee, whatever the cause of termination of functions, will be entitled to receive a seniority bonus, at the rate of one week's salary for each year worked in the institution, from the beginning of the permanent relationship.

In addition, it is established that the right to the seniority premium will become effective upon the appointment of three judges to the Civil Service Administrative Tribunal.

As at the date of the financial statements, only one of the three judges of the Civil Service Administrative Tribunal has been appointed, so the seniority premium requirement has not yet become effective and the corresponding liability has not been recorded. The liability to be recorded by the Bank to recognize the seniority premium for public servants will be approximately B/.14 million, according to evaluations and calculations made by management.

(25) Principal Applicable Laws and Regulations, continued

Specific regulations of the Superintendency of Banks of Panama

(a) Acquired Foreclosed Assets

For regulatory purposes the Superintendency of Banks of Panama sets at term of (5) years, from the date of registration in the Public Register, the deadline to alienate property acquired in settlement of unpaid loans. If after that term the Bank has not sold the acquired property, it shall conduct an independent appraisal of the property to determine if its value has decreased, by applying in such case the provisions of IFRS.

Additionally, the Bank must create a reserve in an equity account, through the appropriation in the following order: a) its undistributed profits; and b) profits of the period, to which the following value of the foreclosed asset will be transferred:

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

The aforementioned reserves shall be maintained until the effective transfer of the acquired property and such reserve shall not be considered as a regulatory reserve for the purpose of calculating the equity index.

(b) Loans and off-balance sheet operations

Agreement No. 004-2013 issued by the Superintendency of Banks of Panama establishes provisions on the management and administration of credit risk inherent to the loan portfolio and off-balance sheet operations, including general criteria for the classification of credit facilities for the purpose of determining specific provisions and dynamics for the coverage of the Bank's credit risk. In addition, this Agreement establishes certain minimum required disclosures, in line with IFRS disclosure requirements, on the management and administration of credit risk.

Specific provisions

The Agreement No.004-2013 establishes that specific provisions are generated by any objective and concrete evidence of impairment. These provisions shall be recorded for credit facilities classified in the risk categories referred as: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

(25) Principal Applicable Laws and Regulations, continued

Banks must at all times calculate and maintain the amount of specific provisions determined through the methodology specified in this Agreement, which takes into consideration the balance due of each credit facility classified in one of the categories subject to provisioning, mentioned in the previous paragraph; the present value of each guarantee available as a risk mitigation, as established by type of guarantee in this Agreement; and a weighting table that is applied to the net balance exposed to loss of such credit facilities.

In case of a surplus in the specific provisions, calculated according to this Agreement, on the provision calculated under IFRS, this surplus shall be accounted for as a regulatory reserve in equity, increasing or decreasing allocations to or from retained earnings. The balance of the regulatory reserves will not be considered as capital funds for purposes of calculating certain prudential indices or ratios mentioned in the Agreement.

The following table summarizes the classification of the Bank's loan portfolio based on Agreement No. 004-2013:

	2018		2017	
	Loans	**Allowance**	**Loans**	**Allowance**
Standard	3,975,505,309	0	3,366,795,719	0
Special mention	227,992,895	2,195,162	230,789,229	2,641,440
Sub-standard	20,336,354	1,085,777	20,214,319	1,127,046
Doubtful	12,221,080	2,066,048	7,525,277	1,437,171
Loss	16,374,442	6,670,178	15,521,408	6,913,233
	4,252,430,080	12,017,165	3,640,845,952	12,118,890

The Bank has made the classification of irrevocable off-balance sheet operations and has estimated the reserves based on Agreement No.004-2013 issued by the Superintendency of Banks of Panama, which is shown below:

2018	**Letters of credit**	**Allowance**	**Guarantees and endorsements granted**	**Allowance**
Standard	955,427	0	7,039,472	0

2017	**Letters of credit**	**Allowance**	**Guarantees and endorsements granted**	**Allowance**
Standard	2,464,000	0	5,605,013	0

In addition, based on Agreement No. 008-2014, the recognition of interest income is suspended based on the days of delay in the payment of principal and/or interest and the type of credit operation according to the following:

a) For consumer and commercial loans, if it is overdue in more than 90 days; and
b) For residential mortgage loans, if it is overdue in more than 120 days.

(25) Principal Applicable Laws and Regulations, continued

As of December 31, 2018, the Bank maintains loans for B/.15,936,891 (2017: B/.15,855,991) in nonaccrual status and the interest not received amounts to B/.1,043,646 (2017: B/.1,617,609).

Agreement No. 004-2013 defines as delinquent any credit facility that presents any unpaid amount, in terms of principal, interest or expenses contractually agreed, with an antiquity of more than 30 days and up to 90 days, as of the date established for compliance with the payments.

Agreement No. 004-2013 defines as delinquent any credit facility whose failure to pay contractually agreed amounts is more than 90 days old. This term will be calculated from the date established for the fulfillment of payments. The operations with a single payment at maturity and overdrafts, shall be considered expired when the antiquity of the lack of payment exceeds 30 days, from the date in which the payment obligation is established.

The balances of delinquent and overdue loans based on Agreement No. 004-2013 are detailed as follows:

2018			2017		
Past due	**Overdue**	**Total**	**Past due**	**Overdue**	**Total**
27,410,908	30,198,433	57,609,341	21,497,968	26,454,111	47,952,079

During the period ended December 31, 2018, loans for B/.13,212,828 (2017: B/.17,580,233) were renegotiated.

Dynamic provision

Agreement No. 004-2013 sets forth that a dynamic provision is a reserve established to meet future requirements of specific provisions, which is ruled by prudential criteria inherent to the banking regulation. The dynamic provision is constituted on a quarterly basis on credit facilities without specific provision assigned, that is, on credit facilities classified as normal.

This Agreement regulates the methodology to calculate the amount of the dynamic provision, which considers a maximum and minimum percentage restriction applicable to the amount of provision determined on credit facilities classified as normal.

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

As of December 31, 2018 the Bank's dynamic provision is B/.56,598,706 (2017: B/.56,598,706).