Financial Statements of

BAC BAHAMAS BANK LIMITED

Year ended December 31, 2018

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Financial Statements

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of BAC Bahamas Bank Limited

Opinion

We have audited the financial statements of BAC Bahamas Bank Limited (the "Bank"), which comprise the statement of financial position as at December 31, 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 from material misstatement, whether 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the 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.

KPMG

April 25, 2019

BAC BAHAMAS BANK LIMITED

Statement of Financial Position

December 31, 2018, with corresponding figures for 2017
(Expressed in United States dollars)

		2018	2017
ASSETS			
Cash and cash equivalents (notes 7 and 8)	$	86,503,178	74,048,570
Loans to customers, net (notes 7 and 9)		3,007,594	3,334,317
Furniture and equipment		5,975	4,059
Other receivables and assets (note 7)		102,107	24,088
Total Assets	$	89,618,854	77,411,034
LIABILITIES AND EQUITY			
Liabilities:			
Demand deposits from customers (notes 7 and 10)	$	42,682,880	33,176,667
Time deposits from customers (notes 7 and 11)		21,069,632	19,721,752
Accrued interest payable (notes 7 and 11)		107,386	131,025
Other liabilities (note 7)		17,183	29,418
		63,877,081	53,058,862
Equity:			
Share capital (note 12)		18,000,000	18,000,000
Regulatory Reserve (note 16)		308,812	308,812
Retained earnings		7,432,961	6,043,360
		25,741,773	24,352,172
Contingencies and commitments (note 17)			
Total liabilities and equity	$	89,618,854	77,411,034

The accompanying notes are an integral part of these financial statements.

The financial statements were approved on behalf of the Board of Directors on April 25, 2019 by the following:

Director

Director

BAC BAHAMAS BANK LIMITED

Statement of Comprehensive Income

Year ended December 31, 2018, with corresponding figures for 2017
(Expressed in United States dollars)

	2018	2017
Net interest income:		
Interest income calculated using the effective interest method on cash and cash equivalent (note 7)	$ 2,870,986	2,239,998
Interest income on loans to customers (note 7)	173,354	411,777
Interest expense (note 7)	(796,871)	(757,325)
Net interest income	2,247,469	1,894,450
Net commission expense:		
Commission income	16,263	11,195
Commission expense	(18,945)	(14,109)
Net commision expense	(2,682)	(2,914)
Other operating (expense) income:		
Other income (note 7)	39,201	79,592
General and administrative (notes 7 and 13)	(877,817)	(817,880)
Reversal of loan losses	20,434	1,180
	(818,182)	(737,108)
Net income and total comprehensive income for the year	$ 1,426,605	1,154,428

The accompanying notes are an integral part of these financial statements.

BAC BAHAMAS BANK LIMITED

Statement of Changes in Equity

Year ended December 31, 2018, with corresponding figures for 2017
(Expressed in United States dollars)

	Number of shares	Share capital	Regulatory reserve	Retained earnings	Total
Balance at December 31, 2016	18,000,000	$ 18,000,000	308,812	4,888,932	23,197,744
Net income and total comprehensive income for the year	0	0	0	1,154,428	1,154,428
Balance at December 31, 2017	18,000,000	18,000,000	308,812	6,043,360	24,352,172
Impact of adopting IFRS 9 at January 1, 2018	0	0	0	(37,004)	(37,004)
Restated balance at January 1, 2018	18,000,000	18,000,000	308,812	6,006,356	24,315,168
Net income and total comprehensive income for the year	0	0	0	1,426,605	1,426,605
Balance at December 31, 2018	18,000,000	$ 18,000,000	308,812	7,432,961	25,741,773

The accompanying notes are an integral part of these financial statements.

BAC BAHAMAS BANK LIMITED
Statement of Cash Flows

Year ended December 31, 2018 with corresponding figures for 2017
(Expressed in United States dollars)

		2018	2017
Cash flows from operating activities:			
Net income	$	1,426,605	1,154,428
Adjustments for:			
Reversal for loan losses		(20,434)	(1,180)
Depreciation		2,575	2,386
Net interest income		(2,247,469)	(1,894,450)
		(838,723)	(738,816)
Changes in operating assets and liabilities:			
Loans to customers		308,963	11,032,565
Other receivables and assets		(82,510)	7,648
Demand deposits		9,506,213	(239,600)
Time deposits		1,347,880	(5,860,667)
Other liabilities		(12,235)	(83,747)
		10,229,588	4,117,383
Interest received		3,045,530	2,673,159
Interest paid		(820,510)	(742,257)
Net cash provided by operating activities		12,454,608	6,048,285
Increase in cash and cash equivalents during the year		12,454,608	6,048,285
Cash and cash equivalents at beginning of year		74,048,570	68,000,285
Cash and cash equivalents at end of year	$	86,503,178	74,048,570

The accompanying notes are an integral part of these financial statements.

1. Reporting entity

BAC Bahamas Bank Limited ("the Bank") was incorporated under the laws of The Commonwealth of The Bahamas on August 13, 1992 and was granted a banking license on March 16, 1992 by The Central Bank of The Bahamas. The Bank's registered office is located at Caves Village, West Bay Street, Nassau, Bahamas.

The Bank is a wholly owned subsidiary of BAC International Bank, Inc. (the Parent Company), a bank incorporated in the Republic of Panama. The Parent Company is ultimately owned by Grupo Aval Acciones y Valores S.A., a company incorporated in Colombia.

The Bank is primarily involved in corporate banking.

A substantial portion of the Bank´s business is with the related parties. A significant amount of the Bank´s cash and cash equivalents are held with related parties and the Bank´s revenue is primarily from the interest income on such cash and cash equivalents (see note 7). Accordingly, the Bank is economically dependent on these related parties and is exposed to a significant credit risk in respect of the related parties' balances at the reporting date.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

The Bank initially recognizes loans, accounts receivable and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

(c) Functional and presentation currency

These financial statements are presented in United States dollars ($), which is also the Bank's functional currency.

(d) Use of estimates and judgments

Preparation of financial statements requires the Bank's management to make judgments, estimates and assumptions affecting the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Final results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

2. Basis of preparation, continued

(d) Use of estimates and judgments, continued

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are disclosed in the following notes:

- Fair value measurement (note 4(j) and 15)
- Impairment note (4(d) and (6)
- Allowance for loan losses note (4 (g) and 6)

3. Changes in Accounting Policies

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements.

a) IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 *Financial Instruments* issued in July 2014 with date of initial implementation of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard requires fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The following table summarizes the impact, of the transition to IFRS 9 on the initial balance of retained earnings.

	Impact of adoption of IFRS 9 as of January 1, 2018
Retained earnings	
Recognition of Expected Credit Loss under IFRS 9 - Loans	37,004
Total	37,004

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below:

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 4 (d).

3. Changes in Accounting Policies, continued

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 4 (d).

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings as of January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The Bank made assessments based on the facts and circumstances that existed at the date of initial application to determine the business model within which the Bank's financial assets were held.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

b) *IFRS 15 "Revenue from Regular Activities from Contracts with Customers"*
The Bank has adopted IFRS 15 *Revenue from Ordinary Activities from Contracts with Customers* since January 1, 2018, the date of its effective date.

The Bank recognizes revenue from ordinary activities in a way that represents the transfer of goods or services committed to customers in exchange for an amount that reflects the consideration to which the Bank expects to be entitled in exchange for said goods or services.

The Bank evaluates its income plans based on specific criteria to determine if it acts as principal or agent.

Income is recognized to the extent that the economic benefits are likely to flow to the Bank and if it is possible to reliably measure revenues and costs, if any.

3. Changes in Accounting Policies, continued

Below is a description of the main activities through which the Bank generates income from contracts with customers:

(i) Banking (financial services)

Banks usually sign contracts that cover different services. Such contracts may contain components that are within or outside the scope of IFRS 15. For this reason, banks only apply the indications of IFRS 15 when they have all or part of their contracts outside the scope of IFRS 9.

The sources of income obtained by banks through contracts with clients are the following:

- **Credit cards:**

  Exchange fees, general fees (annual, quarterly, monthly), loyalty schemes. There are contracts that create rights and obligations required between the bank and the cardholders or merchants, under which the bank usually provides services in exchange for annual or other fees. Below are some of the services that may exist in the contract with the cardholder:

  - Issuance of loyalty points (options to acquire free / discounted goods / services in the future), which are usually based on the monetary volume of card transactions,
  - Payment processing service,
  - Insurance, where the bank is not the insurer,
  - Protection against fraud, and
  - Processing of certain transactions, such as purchases in foreign currency and cash withdrawals.

  The transaction price is assigned to each performance obligation based on the relative sales prices of the goods or services provided to the customer. The allocation of the transaction price to each individual performance obligation is not absolutely necessary when there is more than one performance obligation, but all are met at the same time or equally during the period.

  Commitment fees are within the scope of IFRS 15 when it is unlikely that a specific loan agreement will be generated and that such commitment is not measured at fair value through profit or loss.

In accordance with the evaluation performed by the Bank, this standard has not had an impact on the accounting policies for the recognition of income from fees and commissions.

The adoption of IFRS 15 had no impact on the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Bank. Consequently, the impact on comparative information is limited to the new disclosure requirements.

4. Summary of Significant Accounting Policies

The accounting policies explained below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Assets and liabilities in foreign currencies are translated at prevailing exchange rates at the reporting date. Transactions in foreign currencies during the year are translated at exchange rates in effect on the date of the transaction. Differences arising from such translations are presented as other operating income or other expenses in the statement of comprehensive income.

(b) Interest

Policy applicable after January 1, 2018

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

4. Summary of Significant Accounting Policies, continued

Calculation of interest income and expenses

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired, see Note 4 (d).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss includes:

– interest on financial assets and financial liabilities measured at amortized cost;

Interest expense presented in the statement of profit or loss includes:
– financial liabilities measured at amortized cost

Policy applicable before January 1, 2018

Interest income and expense are recognized as part of profit or loss in the statement of comprehensive income using the effective interest rate method. This method uses a rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(c) *Fees and commission*

Fees and commission income that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including service commissions are recognized as the related services are provided.

4. Summary of Significant Accounting Policies, continued

Deferred loan fees, if any, are amortized over the period of the loan using the effective interest rate method.

(d) Financial instruments
Financial assets are classified on the date of initial recognition, based on the nature and purpose of the financial asset's acquisition.

Classification
Policy applicable after January 1, 2018
At initial recognition, financial assets are classified as measured at: AC, FVOCI or FVPL.
A financial asset is measured at amortized cost and not at FVPL, if it meets both of the following conditions:

- The asset is kept within a business model to collect contractual cash flows; and
- The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the outstanding balance.

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

- The asset is kept within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets and;
- The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the current outstanding balance.

All financial assets not classified as measured at AC or at FVOCI as described above, are measured at FVPL.

In addition, at initial recognition, the Bank may irrevocably designate a financial asset that meets the measurement requirements at AC or FVOCI to be measured at FVPL, if doing so eliminates or significantly reduces an accounting mismatch that may occur if not done. The Bank has not recognized any financial instrument to be measured at FVPL.

A financial asset is classified in one of the referenced categories at the time of its initial recognition.

Business Model Assessment
The Bank assesses the objectives of the business models that hold the financial assets in a portfolio to better represent how it manages the business and how management information is reported. The information considered includes:

- The policies and objectives stated for each portfolio of financial assets and the operation of these policies in practice. These include, whether management's strategy is to collect income from contractual interest; hold a profile of specific interest performance or coordinate the duration of the financial assets with the liabilities being financed or the expected outgoing cash or through cash flows from the sale of assets;

4. Summary of Significant Accounting Policies, continued

- How they are evaluated or reported to key management personnel on portfolio performance;
- The risks that affect the performance of the portfolios (and the financial assets held within) and the way those risks are managed;
- 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);
- The frequency, value and timing of sales in prior fiscal periods, the reasons for those sales and expectations about future sales activity. However, the information on sales activity cannot be considered in isolation, but rather as part of an assessment of how the Bank objectives established for managing financial assets is achieved and how cash flows are realized; and
- Financial assets held or managed for trading and where their performance is evaluated on a fair value basis, are measured at FVPL because these are not held to recover contractual cash flows or to obtain contractual cash flows and to sell these financial assets.

Assessment if contractual cash flows are solely payments of principal and interest
For purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as compensation for the time value of money and credit risk associated with holding the current principal for a period of time and for other basic risk from loan agreements and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

When evaluating whether contractual cash flows are solely payment of principal and interest, the Bank consider the contractual terms of the instrument. This includes an assessment to determine whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows in such a way that it does not meet this condition. In making this assessment the Bank considers:

- Contingent events that will change the amount and timing of cash flows;
- Hedging conditions;
- Prepayment and extension terms;
- Terms that limit the Bank in achieving cash flows for specific assets (e.g. unfunded asset agreements); and
- Terms that change the considerations on the value of money over time (e.g. periodic revision of interest rates).

4. Summary of Significant Accounting Policies, continued

Interest rates on certain consumer and business loans are based on variable interest rates established at the discretion of the Bank. Variable interest rates are generally established in accordance with the practices of where the Bank operates, plus certain additional discretionary points. In these cases, the Bank assess whether the discretionary feature is consistent with the solely principal and interest criteria considering a number of factors that include whether:

- Debtors can prepay the loans without significant penalties;
- Competitive market factors insure that interest rates are consistent between banks; and,
- Any regulatory protection standard in favor of customers requiring banks to treat customers reasonably (e.g. regulated rates).

All fixed rate consumer and corporate loans contain a prepayment condition.

A prepayment feature is consistent with the solely principal and interest criteria, if the prepayment amount substantially represents unpaid amounts of principal and interest on the amount of outstanding principal, which may include fair compensation for early termination of the contract.

In addition, a prepayment feature is consistent with these criteria, if a financial asset is acquired or originates from a premium or discount to the contractual par amount and the prepayment amount substantially represents the contractual par amount, plus accrued, but unpaid, contractual interest (which may include fair compensation for early termination) and the fair value of the prepayment feature is insignificant at initial recognition.

Impairment of Financial Assets
Policy applicable after January 1, 2018

The Bank assesses the impairment of financial assets with an ECL model. This model requires the application of considerable judgment regarding how changes in economic factors impact on ECL, which is determined on a weighted average basis.

The impairment model applies to the following financial asset (AC) that are not measured at FVPL.

- Loan portfolio
- Cash and cash equivalent

The Bank recognizes a provision for impairment of financial assets at AC and in an amount equal to the expected impairment losses in a period of twelve months after the end date of financial statements or during the remaining life of the loan. Expected losses during the remaining life of the loan are the losses expected from all possible impairment events during the expected life of the financial instrument, while expected losses in a twelve-month period are the portion of expected losses arising from impairment events resulting from impairment events that are possible during the twelve months following on the date of the report.

4. Summary of Significant Accounting Policies, continued

Reserves for losses are recognized in an amount equal to the ECL during the life of the asset, except in the following cases, in which the amount recognized is equal to ECL for the 12 months following the measurement date:

- Other financial assets (other than short term accounts receivable) on which the credit risk has not increased significantly since initial recognition.

Impairment requirements are complex and require estimated judgments and significant assumptions by management, particularly in the following areas:

- Assess whether the credit risk has increased significantly from initial recognition; and,

- Incorporate prospective information in the measurement of expected impairment losses.

Measuring ECL

ECL is the estimated weighted probability of credit losses measured as follows:

- Financial assets with no credit impairment to the reporting date: the present value of all cash insufficiency (for example: the difference between the cash flow debt to the Bank in accordance with the contract and cash flows that the Bank expects to receive);

- Impaired financial assets to the reporting date: the difference between the book value and the present value of estimated future cash flows;

- Outstanding loan commitments: the present value of the difference between contractual cash flows owed to the Bank in the event it enforces the commitment and cash flows that the Bank expects to receive.

Definition of impairment

The Bank considers a financial asset to be impaired when:

- It is highly unlikely that the debtor will fully pay its credit obligations to the Bank, without recourse for the Bank to take such actions as enforcing the guarantees (if any); or

- The debtor is more than 90-days past-due on any material credit obligation. Overdrafts are considered in arrears once the client has exceeded the established limit, or the established limit is less than the outstanding balance.

To assess whether a debtor is impaired, the Bank considers indicators such as:

- Qualitative, e.g. noncompliance with contractual clauses;

4. Summary of Significant Accounting Policies, continued

- Quantitative, e.g. arrears or non-payment of another obligation from the same issuer to the Bank; and,

- Based on data developed internally and obtained from external sources.

Significant increase in credit risk
Under IFRS 9, when determining whether the credit risk of a financial assets has increased significantly since initial recognition, the Bank considers reasonable, sustainable information available at no cost or disproportionate effort, including information and quantitative and qualitative analyses based on historical experience and expert assessment of Bank credit risk, including information with future projection.

The Bank identifies if a significant increase in the credit risk has occurred for each exposure by comparing:

- The probability of default (PD) during the remaining life of a financial instrument at the closing date, with

- The PD during the remaining life at a point in time, which was estimated at initial recognition of the exposure.

The assessment of whether the credit risk has increased significantly from initial recognition of a financial asset requires identification of the initial recognition date of the instrument. Changes in the contractual terms of a financial asset may also impact this assessment, as discussed below.

Grading by credit risk categories
The Bank assigns a credit risk grade to each exposure based on a variety of data that is determined to predict the PD and applying the judgment of a credit expert. The Bank uses these grades to identify significant increases in credit risk. Credit risk grading is defined using qualitative and quantitative factors indicative of the risk of losses. These factors vary depending on the type of exposure and the type of borrower.

Credit risk grading is defined and calibrated so that the risk of losses increases exponentially as the credit risk is impaired and so that, for example, the difference in the risk of losses between grade 1 and 2 is less than the difference between the credit risk between grades 2 and 3.

Each exposure is given a credit risk grade upon initial recognition based on information available on the debtor. Exposures are subject to continuous monitoring, that may result in displacement of an exposure to a different credit risk grade.

4. Summary of Significant Accounting Policies, continued

Generating the Structure of the PD term

Credit risk grading is the main input to determine the structure of the PD term for the different exposures. The Bank obtains performance and loss information on the credit risk exposures analyzed by jurisdiction or region, type of product and debtor, as well as by credit risk grade. For some portfolios, information purchased from external credit reference agencies could be used.

The Bank uses statistical models to analyze the data compiled and generate estimates of the probability of default during the remaining life of the exposures and how these probabilities of default change over time.

These analyses include identification and calibration of relationships between changes in default rates and key macroeconomic factors, as well as in-depth analysis of certain impairment risk factors (for example, loans portfolio charge-offs). For the majority of loans, key economic factors includes growth in gross domestic product, changes in interest rates and unemployment.

For exposures in specific industries and/or regions, the analysis may extend to products regarding real estate prices.

The approach used by the Bank to prepare prospective economic information within its assessment is described below.

Determine if the credit risk has increased significantly

The Bank has established a general framework that incorporates quantitative and qualitative information to determine if the credit risk of a financial asset has significantly increased since its initial recognition.

The initial framework is aligned with the internal process of the Bank for credit risk management.

The criteria to determine whether the credit risk has increased significantly varies by portfolio and includes limits based on noncompliance.

The Bank evaluates whether the credit risk of a particular exposure has increased significantly since initial recognition if, based on the Bank's qualitative modeling, the expected probability of default during the remaining life will increase significantly from initial recognition. In determining the credit risk increase, the expected impairment losses in the remaining life is adjusted by changes in expiration.

Under certain circumstances, using the judgment of credit experts, and based on relevant historical information, the Bank determines that an exposure has had a significant increase in credit risk, if particular qualitative factors indicate this and those factors may not be completely captured by periodic quantitative analyses. As a limit, the Bank assumes that a significant credit risk occurs no later than when the asset is in arrears for more than 30 days.

4. Summary of Significant Accounting Policies, continued

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk based on regular reviews to confirm that:

- The criteria can identify significant increases in credit risk before an exposure becomes impaired;
- The criteria are inconsistent with the time when the asset is more than 30 days past the due date;
- The average time to identify a significant increase in credit risk and noncompliance appear to be reasonable;
- Exposures are not generally transferred directly to the Bank on the probability of expected impairment in the twelve months following the impairment of the group of loans; and,
- There is no unjustified volatility in the provision for impairment of transfers between groups with the probability of expected losses in the twelve months following and the probability of expected losses in the remaining life of the loans.

Modified financial assets

The contractual terms of the loans may be modified for a number of reasons, including changes in market conditions, client retention and other factors unrelated to an actual or potential impairment of the client's loan.

When the terms of a financial asset are modified and the modification does not result in the removal of the asset from the statement of financial position, the determination of whether the credit risk has significantly increased reflects comparisons of:

- The PD during the remaining life on the date of the balance sheet based on the modified terms; and
- The PD on the estimated remaining life based on the date of initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximize the opportunities to collect and to minimize the risk of noncompliance. Under the Bank's renegotiation policies, customers in financial difficulties are given concessions that generally involve a reduction in interest rate, extension of the payment term, reductions in the balances due or a combination of these.

4. Summary of Significant Accounting Policies, continued

For financial assets modified as part of the Bank's renegotiation policies, the estimation of the PD reflects whether the modifications have improved or restored the ability of the Bank to collect principal and interest and the prior experience of the Bank in similar actions. As part of the process, the Bank evaluates the debtor's payment compliance as compared to the modified terms of the debt and considers several performance indicators for the group of debtors modified.

Generally, restructuring indicators are a relevant factor of increased credit risk. Therefore, a restructured debtor must demonstrate a consistent payment behavior over a period of time before no longer being considered as an impaired loan or that the PD has decreased in such a way that the provision may be reversed and the loan measured for impairment over a term of twelve months after the closing date of the financial statement.

Inputs in Measuring ECL

Key inputs in measuring ECL are based on the following variables:

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

The foregoing parameters are derived from internal statistical models and other historical information. These models are adjusted to reflect prospective information as described below.

Estimated PDs at a certain date, which is calculated based on statistical classification and assessment models using grading tools adjusted to the different counterpart categories and exposures. These statistical models are based on data compiled internally comprising both qualitative and quantitative factors. If a counterpart or exposure migrates between different grades, then this will result in a change in the estimated PD. PDs are estimated considering contractual terms on expiration of exposures and estimated prepayment rates.

LGD is the magnitude of probable losses in the event of noncompliance. The Bank estimates the parameters of the LGD based on historical loss recovery rates against the noncomplying parties. LGD models consider the structure, collateral and the priority of the lost debt, the industry of the counterpart and the recovery costs of any collateral integrated into the financial asset. For loans secured by real property, indices relating to the value of the security as compared to the loan (Loan to value, "LTV"), are parameters used in the determination of the LGD. LGD estimates are calibrated at different economic scenarios and for loans secured by real estate, variations in price indices for these assets. These loans are calculated on the bases of discounted cash flows using the effective interest rate of the loan.

4. Summary of Significant Accounting Policies, continued

EAD represents expected exposure in the event of noncompliance. The Bank derives the EAD from the current exposure of the counterpart and potential changes in the current amount permitted under the terms of the contract, including amortization and prepayments. The EAD of a financial asset is the gross value at the time of noncompliance. For loan commitments and financial security, the EAD considers the amount disbursed, as well as potential future amounts that may be disbursed or collected under the contract, which are estimated based on historical issues and projected prospective information. For some financial assets, the Bank determines the EAD by modeling a range of possible results of exposures at several points over time using scenarios and statistical techniques. As described above and subject to using a maximum PD of twelve months for which credit risk has increased significantly, the Bank measures the EAD considering the risk of noncompliance during the maximum contractual period (including options to extend the customer's debt) on which there is an exposure to credit risk, even if, for purposes of risk management, the Bank considers a longer period of time. The maximum contractual period is extended to the date on which the Bank has the right to require payment of a loan or terminate a loan commitment or guarantee.

For credit card balances and certain corporate revolving credit that includes both a loan and a component of the customer not withdrawn the loan, the Bank measures EADs over a longer period than the maximum contractual period, if the contractual ability of the Bank to demand payments and pay off the commitment not withdrawn does not limit the Bank's exposure to credit losses for the contractual period of the contract. These facilities do not have a fixed term or a collection structure and are operations on a collective basis. The Bank may cancel them effective immediately, but this contractual right is forced in the normal management of the Bank's day to day operations, rather only when the Bank finds that there has been increased credit risk for each loan. This longer period of time will be estimated taking into account the actions for the management of credit risk that the Bank expects to take and that mitigate the EAD. These measures include a reduction in limits and cancellation of loan contracts.

Where parameter modeling is performed on a collective basis, the financial instruments are pooled on the basis of shared risk characteristics that include:

- Type of instrument
- Credit risk rating
- Guarantees
- Date of initial recognition
- Remaining expiration term
- Industry
- Geographical location of the debtor

The above pooling is subject to regular review to ensure that the exposure of a particular group remains uniform.

(Expressed in United States dollars)

4. Summary of Significant Accounting Policies, continued

Projection of future conditions

The Bank incorporates information with projection of future conditions in both the assessment of whether the credit risk of an instrument has increased significantly from initial recognition and a measurement of ECL, based on the recommendations of the Bank's Credit Risk Committee, use of economic experts and consideration of a variety of current and projected external information. The Bank formulates a base case for the projection of relevant economic variables as well as a range representative of other possible projected scenarios. This process involves the development of two more additional economic scenarios and considers the relative probabilities of each outcome.

The external information includes economic data and publication of projections by government committee and monetary authority, supranational organizations (such as the Organization for Economic Cooperation and Development, the International Monetary Fund and others), academic projections, private sector, and credit risk rating agencies.

The base case represents the most probable outcome consistent with the information used by the Bank for other purposes and strategic planning and the budget. Other scenarios represents a more optimistic or pessimistic outcome. In addition, the Bank uses periodic stress testing to calibrate the determination of these other representative scenarios.

The economic scenarios approved by the Ultimate Parent Company includes the following key indicators:

Variables	Annual
Annual variation of the GPD	Base 2.55% Range between 2.16% and 4.85%
Annual variation of Real interest rate (TD-Inflation)	Base 2.76% Range 1.79% and 3.68%
Annual variation of Real interest rate	Base 0.46% Range between 0.45% and 0.47%

Policies before and after January 1, 2018

Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest method, except when there are financial liabilities measured at FVPL.

Recognition, disposal and measurement

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

4. Summary of Significant Accounting Policies, continued

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Transactions whereby the Bank transfers assets recognized on its statement of financial position, but retains either significantly all risks and rewards of the transferred assets or a portion of them are not derecognized from the statement of financial position.

The Bank also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by IFRS or for gains and losses arising from similar transactions.

(e) Cash and cash equivalents

Policy applicable before January 1, 2018

Cash and cash equivalents include notes and coins on hand, unrestricted balances with banks and highly liquid financial assets, which are subject to insignificant risk of changes in their fair value, and used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(f) Loans receivable

Policy applicable before January 1, 2018

As described in note 4(d), loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active markets and are originated when funds are provided to a debtor in the form of a loan. Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Unearned interest and commissions are recognized as income during the life of the loan using the effective interest method.

Loans receivable are stated at their outstanding unpaid principal balances adjusted for unearned income, when applicable, and are presented net of specific and general allowances for collectability.

4. Summary of Significant Accounting Policies, continued

(g) Allowance for impairment of financial assets

Policy applicable after January 1, 2018
Refer to *Impairment of financial assets* in Note 4 (d).

Policy applicable before January 1, 2018
The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets could be impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and the event (or events) that causes the loss has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of loss due to impairment can include indications that the debtors or a group of debtors is experiencing important financial difficulties, non-payment or delays in payments of the interest or principal, the likelihood that they will enter bankruptcy or any other financial reorganization situation, and when observable data indicate that there is a decrease subject to valuation in future estimated cash flows, such as changes in the payment conditions or in the economic conditions that are correlated to non-payment.

Once a financial asset or group of similar financial assets has been impaired, financial income is recognized using the interest rate used to discount the future cash flows, in order to measure the impairment in value through the original effective interest rate.

Impairment losses are determined using two methodologies, which indicate whether there is objective impairment evidence, that is, individually for loans that are individually significant and collectively for loans that are not individually significant.

Loans assessed collectively
The allowance for the homogeneous loans portfolio is established based on joint assessments of the segmented portfolio, generally by product type. Models of losses incurred are used for these segments that consider various factors, including, without being limited to, historic losses, noncompliance or foreclosure of assets, delinquency, economic conditions and credit scores. These models of losses incurred in consumption products are updated periodically to include information that reflects current economic conditions.

The allowance for loan losses represents the best estimate of losses inherent in the credit portfolio. The method to calculate losses incurred depends on the size, type and risk characteristics of the products.

Assumptions, estimates and underlying assessments used to quantify losses are continuously updated, at least each quarter, to reflect current conditions.

4. Summary of Significant Accounting Policies, continued

Allowance model for homogeneous loans (personal and credit cards)
Loans of a homogeneous nature (for example, with similar risk profiles and amounts) are grouped and assessed collectively for impairment (delinquency levels).

Different models are used to determine the allowance for losses in homogeneous loan groups: the progression rate model (credit cards and personal) and the recovery of guarantees model.

The progression rate model that is used to calculate allowance levels is based on the percentage observed historically for the portfolios in each delinquency range, with a weighted average for various months (per product) in each delinquency level until it is reflected as a loss in the portfolio.

The methodology to reserve mortgages is based on two components:

- Loss rate incurred, which is the rate observed at which the account will tend to progress for each range, until reaching 180 days past due.

- Recovery rate of a loan once it falls into default.

The allowance for impaired restructured loans is calculated using the present value of future expected flows discounted at the effective interest rate of the loan before the restructuring.

Loans assessed individually
Remaining corporate portfolios are assessed individually and are separated into two sub-categories: impaired and not impaired. The sub-standard rating was defined as impaired.

Allowance Model of Corporate Loans with Impairment
Commercial loans exceeding $1,000,000 with a Sub-standard or higher risk rating are subject to individual impairment assessments based on cash flows. For loans with Sub-standard, Doubtful or Loss risk rating less than or equal to $1,000,000, an observed historical recovery rate is applied.

If a corporate loan exceeding $1,000,000, is determined to be impaired, the impairment amount must be determined individually, based on one of the following methodologies: present value of future expected cash flows discounted at the original effective interest rate, market value of the loan or the fair value of the collateral.

For the category of loans and receivables, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (regardless of future credit losses that have not been incurred) discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is recognized in the allowance for loan losses. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

4. Summary of Significant Accounting Policies, continued

Allowance Model of Individually Significant without Impairment

Each corporate client is assessed individually on a regular basis (at least annually) and a risk category is assigned, associated to a level of allowance for loan losses. The allowance level for risk ratings Satisfactory and Special Mention is calculated based on the historic information of the impairment incurred but not identified.

Impairment reversal

If in a subsequent period the amount of the impairment loss reduces, and the reduction can be objectively attributed to an event that occurred after the impairment was recognized (as an improvement in the debtor's credit quality), the impairment reversal previously recognized will be recorded in the provision for losses in loans.

Restructured loans

Restructured loans are those to which the Bank has made a permanent concession due to impairment in the financial condition of the debtor. These loans once restructured will remain with the risk rating assigned to the debtor at the time of its restructuring; when the debtor evidences improvement on its financial condition for an extended period of time subsequent to the restructuring, the risk rating may be modified without losing its restructured status.

Allowance for loan losses

The allowance for loan losses are those amounts that Management deems adequate to cover inherent losses from existing loans as of the reporting date.

The Bank has developed policies and procedures that reflect a credit risk assessment considering all information available, to determine whether the allowance for loans losses are adequate. When appropriate, this assessment includes a monitoring of quantitative and qualitative trends, including changes in delinquency levels on in the classification of the operation as sub-standard or a lower level.

In carrying out this assessment, the Bank depends on the history of each portfolio to determine the loss and uses its judgment to assess credit risk. Increases in the allowance for loan losses are estimated based on a variety of factors, including without being limited to, an analytical review of the experience in loans losses regarding the loans' outstanding balance, a continuous review of problematic loans, the general quality of the loan portfolio, the adequacy of guarantees, the results of the reviews of regulatory bodies, assessments by independent experts, and management's judgment of the impact of current economic conditions on the present loan portfolio.

(h) Furniture and equipment

Furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of furniture and equipment.

4. Summary of Significant Accounting Policies, continued

The estimated useful lives for the current and corresponding periods are as follows:

- Equipment 3 - 5 years
- Fixtures and fittings 5 - 10 years

Depreciation methods and useful lives are reassessed at the reporting date.

Expenditure for maintenance and repairs are charged against income. At the time of disposal or retirement of assets, the cost and related accumulated depreciation are eliminated, and any resulting profit or loss is reflected in the statement of comprehensive income.

(i) Related parties

(a) A person or a close member of that person's family is related to the Bank if that person:

(i) has control or joint control over the Bank;

(ii) has significant influence over the Bank; or

(iii) is a member of the key management personal of the Bank or of a parent of the Bank.

(b) An entity is related to the Bank if any of the following conditions applies:

(i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or associate or joint venture of a member of a group of which the other entity is a member)

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(vi) The entity is controlled or jointly controlled by a person identified in (i)(a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(c) A related party transaction is a transfer of resources, services or obligations between the Bank and related party, regardless of whether a price is charged.

4. Summary of Significant Accounting Policies, continued

(j) New International Financial Reporting Standards (IFRS) not yet adopted
As of the date of the financial statements, there were IFRS that were still not applied when preparing them.

- **IFRS 16 "Leases"**
  IFRS 16 *Leases* will be effective as of January 1, 2019. IFRS 16 replaces the current IAS 17 *Leases* standard; IFRIC 4 *Determination of whether an Agreement contains a Lease*; SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluation of the Essence of Transactions that adopt the Legal Form of a Lease.*

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

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

  The lessor's accounting remains similar to the one established in IAS 17, that is, the lessors continue to classify the leases as financial or operational.

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

  Leases in which the Bank is a lessee
  The Bank will recognize the new assets and liabilities for its operating leases.

  The nature of the expenses related to these leases will change as of January 1, 2019, because the Bank will recognize an expense for depreciation, for the assets by right of use, and additionally expenses for interest, for the liabilities for leases. Previously, the Bank recognized operating lease expenses on a straight-line basis over the term of the lease.

  For those leases registered as financial in accordance with IAS 17, no significant impact is expected for the Bank because of the entry into force of IFRS 16.

  Based on the information currently available, the Bank estimates that as of January 1, 2019, it will recognize lease liabilities of approximately $330,000 and right of use of assets for approximately $350,000.

(Expressed in United States dollars)

4. Summary of Significant Accounting Policies, continued

Transition

The Bank will apply IFRS 16 effective January 1, 2019, using the modified retrospective approach. This approach establishes that the accumulated effect of the adoption of IFRS 16 will be recognized as an adjustment to the balance of retained earnings as of January 1, 2019, with no restatement of comparative information, so that the information presented for the year 2018 will not be restated.

The Bank plans to apply the exemption from the existing lease standard to give continuity to the definition of lease on the transition date. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

5. Financial risk management

(a) Introduction and overview

Risk management is a fundamental part of the Bank. It comprises an infrastructure to comprehensively manage risks, in order to ensure a responsible and sustainable growth in time, to maintain the confidence of its stakeholders, and to assure with reasonable certainty the fulfillment of its short, medium and long-term goals, through a balance between meeting objectives and taking risks, in line with the corporate strategy.

Classification of financial assets

See the classification under IFRS 9 in Note 3 and accounting policies in Note 4(d).

The following table provides the financial assets line items in the statement of financial position and categories of financial instruments.

2018	**Amortized Cost**
Cash and cash equivalents	86,503,178
Loans to customers	3,007,594
Total financial assets	89,510,772

2017	**Amortized Cost**
Cash and cash equivalents	74,048,570
Loans to customers	3,334,317
Total financial assets	77,382,887

(Expressed in United States dollars)

5. Financial risk management, continued

Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets at January 1, 2018; also, it reconciles the carrying amounts of transition between accounting standards.

	Original classification under IAS 39	New classification under IFRS 9	Original classification under IAS 39	Remeasurement	New classification under IFRS 9
Cash and cash equivalents	AC	AC	74,048,570	0	74,048,570
Loans to customers at amortized cost	AC	AC	3,334,317	(37,004)	3,297,313
Total financial assets			77,382,887	(37,004)	77,345,883

As of December 31, 2018 and December 31, 2017, all of the financial liabilities held by the Bank are classified at amortized cost.

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee ("ALCO"), and Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to regulatory and internal limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank aims to develop a disciplined and constructive control environment through trainings, established procedures, and manuals, in which all employees understand their roles and responsibilities.

(Expressed in United States dollars)

5. Financial risk management, continued

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

This following section provides information of the Bank's exposure to risk and describes the methods used by management to control risks. The most significant types of financial risk to which the Bank is exposed are credit, liquidity, and price risk. Market risk includes currency risk, interest rate risk and price risk.

(b) Credit risk

Management of credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank's maximum credit risk exposure is shown below:

		2018	2017
Cash and cash equivalents	$	86,503,178	74,048,570
Loans to customers at amortized cost		3,007,594	3,334,317
Other receivables and assets		102,107	24,088
	$	89,612,879	77,406,975

The Board of Directors has delegated responsibility for the management of credit risk to the Parent Company's Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers.

  Larger facilities require approval by the Head of the Credit Committee or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographic areas and industries (for loans to customers).

5. Financial risk management, continued

(b) Credit risk, continued

- Developing and maintaining the Bank's risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of nine grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.

- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank's management of credit risk.

- Each business unit is required to implement credit policies and procedures, with approval from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risk in its portfolios, including those subject to central approval. Regular audits of business units and credit processes are undertaken by the Parent Company´s Internal Audit department.

Quality of the portfolio of bank deposits

As of December 31, 2018 the Bank maintains deposits with banks for $86,503,178 (2017: $74,048,570). Deposits are maintained at financial institutions, most of which have A to BB+ risk ratings, based on Standard & Poor's. Of the total deposits as of December 31, 2018, approximately $77,695 and (2017: $552,695), respectively did not have a risk rating.

(Expressed in United States dollars)

5. Financial risk management, continued

(b) Credit risk, continued

Exposure to credit risk of loans to customers is shown below.

	Loans			
2018	**12 months ECL**	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Total**
Corporate				
Grade 5 watch list	2,255,807	0	0	2,255,807
Gross amount	2,255,807	0	0	2,255,807
Allowance for ECL	42,634	0	0	42,634
Net amount	2,213,173	0	0	2,213,173
Consumer				
Grade 1 low risk	750,000	0	0	750,000
Grade 3 fair risk	32,340	0	0	32,340
Gross amount	782,340	0	0	782,340
Allowance for ECL	929	0	0	929
Net amount	781,411	0	0	781,411
Accrued interest receivable from loans	13,010	0	0	13,010
Net carrying amount, net of reserve	3,007,594	0	0	3,007,594

		2017
Grade 3 Fair Risk		50,258
Grade 5 Watch List		3,296,852
Gross amount		3,347,110
Allowance for impairment		(26,993)
Accrued interest receivable from loans		14,200
Total carrying amount loans	$	3,334,317

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Credit Committee determines that the carrying value of the loan is not recoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer meet the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

At December 2018 and 2017, the Bank has no impaired loans.

(Expressed in United States dollars)

5. Financial risk management, continued

(b) Credit risk, continued

Collateral

The Bank holds collateral in respect of loans and advances in the form of certificate of deposit, chattel mortgages and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At December 31, 2018, an estimate of the fair value of collateral held for mortgages and chattel mortgages in respect of financial assets was $2,255,807 (2017: $3,296,852).

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD and, for the wholesale portfolio:

Wholesale
The wholesale portfolio of the Banks comprised of corporate loans.

Grading	12-month weighted-average PD
Grade 5: watch list	2.360

Retail
The retail portfolios are comprised of personal loans and credit cards.

Grading	12-month weighted-average PD
Grade 1-3: low-fair risk	6.369

ECL allowance

For a further discussion of the ECL calculation model, see Note 4 (d).
The following table shows a reconciliation of the opening and closing balances of the year as of December 31, 2018, of the financial assets' The ECL allowance. The comparative amounts as of December 31, 2017 represent the provision for loss on financial assets under IAS 39.

	2018		2017
Loans at AC	**12 months ECL**	**Total**	**Total**
Balance at December 31, 2017	26,993	26,993	28,173
Impact of adoption of IFRS 9 as of January 1, 2018	37,004	37,004	0
Restated balance at January 1, 2018	63,997	63,997	28,173
Net remeasurement of loss release allowance	(20,434)	(20,434)	(1,180)
Balance at December 31, 2018	43,563	43,563	26,993

The Bank considers that financial assets classified as cash and cash equivalents will not record impairment due to their very short term which represents a non-material impairment.

5. Financial risk management, continued

(b) Credit risk, continued

Concentration of credit risk

The Bank monitors concentration of credit risk by geographic location. As of December 31, 2018, there was a concentration of credit risk in respect of loans to customers in Panama amounting to $3,007,594 (2017: $3,334,317). Concentration by location of loans to customers is measured based on the location of the costumers holding the asset, which has a high correlation with the location of the borrower.

As of December 31, 2018, there was concentration of credit risk in respect of cash and cash equivalents with related parties amounting to $79,693,379 (2017: $70,714,761). The credit risk exposure arising from these balances held with related parties is managed at the group level.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a borrower to honor its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from risk committees.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Liquidity risk exposures are measured by liquidity ratio limits established by the ALCO.

The Parent Company's Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

(Expressed in United States dollars)

5. Financial risk management, continued

(c) Liquidity risk, continued

The liquidity position is monitored on a daily basis and regular liquidity stress testing is conducted under scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the ALCO. Weekly reports cover the liquidity position of local and foreign currency. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the ALCO.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the maturity-wise analysis, volatility measurements and stress testing. For this purpose, net liquid assets are considered to include cash and cash equivalents for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month, including any statistical analysis of assets and liabilities that may not have a defined maturity.

The following table shows the undiscounted cash flows on the Bank's financial liabilities and assets on the basis of their earliest possible contractual maturity.

	Carrying Amount	Gross Nominal (outflow) - inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
December 31, 2018						
Liabilities						
Demand deposits from customers	$ 42,682,880	(42,682,880)	(42,682,880)	0	0	0
Time deposits from customers (1)	21,177,018	(22,196,526)	(824,219)	(2,655,453)	(11,611,155)	(7,105,699)
Total liabilities	$ 63,859,898	(64,879,406)	(43,507,099)	(2,655,453)	(11,611,155)	(7,105,699)
Assets						
Cash and cash equivalents	$ 86,503,178	86,503,178	86,503,178	0	0	0
Loans to customers (1)	3,007,594	3,117,200	189,163	189,163	1,603,892	1,134,982
Total assets	$ 89,510,772	89,620,378	86,692,341	189,163	1,603,892	1,134,982
December 31, 2017						
Liabilities						
Demand deposits from customers	$ 33,176,667	(33,176,667)	(33,176,667)	0	0	0
Time deposits from customers (1)	19,852,777	(20,365,960)	(1,039,429)	(4,110,165)	(6,166,306)	(9,050,060)
Total liabilities	$ 53,029,444	(53,542,627)	(34,216,096)	(4,110,165)	(6,166,306)	(9,050,060)
Assets						
Cash and cash equivalents	$ 74,048,570	74,048,570	74,048,570	0	0	0
Loans to customers (1)	3,334,317	3,532,773	190,961	190,961	859,323	2,291,528
Total assets	$ 77,382,887	77,581,343	74,239,531	190,961	859,323	2,291,528

(1) Includes interest receivable / payable on financial assets / liabilities

5. Financial risk management, continued

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. Overall authority for market risk is vested in the ALCO. Risk committees are responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day-to-day review of their implementation.

Management of market risks

Exposure to currency risk:

The Bank conducts all of its transactions denominated in United States dollars and therefore, is not exposed to any currency risk.

Exposure to interest rate risk – non-trading portfolios:

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands, economic value of equity exposure, including positions on and off the statement of financial position. The ALCO is the monitoring body for compliance with these limits and is assisted by the Parent Company's Risk Management in its day-to-day monitoring activities.

5. Financial risk management, continued

(d) Market risk, continued

A summary of the interest rate gap position of the Bank´s financial instruments is shown below:

(Expressed in $000's)		Total	0-30	31-90	91-180	181-360	361-720	More than 720
				Days				
December 31, 2018								
Assets								
Cash and cash equivalents		86,503	86,503	0	0	0	0	0
Loans (Gross)		3,038	32	2,256	0	750	0	0
Total		89,541	86,535	2,256	0	750	0	0
Liabilities								
Demand deposits		42,683	42,683	0	0	0	0	0
Time deposits		21,070	765	2,536	5,039	6,282	1,952	4,496
Total		63,753	43,448	2,536	5,039	6,282	1,952	4,496
Net interest gap	$	25,788	43,087	(280)	(5,039)	(5,532)	(1,952)	(4,496)

(Expressed in $000's)		Total	0-30	31-90	91-180	181-360	361-720	More than 720
				Days				
December 31, 2017								
Assets								
Cash and cash equivalents		74,049	74,049	0	0	0	0	0
Loans (Gross)		3,347	50	0	3,297	0	0	0
Total		77,396	74,099	0	3,297	0	0	0
Liabilities								
Demand deposits		33,177	33,177	0	0	0	0	0
Time deposits		19,722	963	3,890	3,021	2,860	8,386	602
Total		52,899	34,140	3,890	3,021	2,860	8,386	602
Net interest gap	$	24,497	39,959	(3,890)	276	(2,860)	(8,386)	(602)

Cash flow sensitivity analysis for variable rate instruments:

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's variable rate assets and liabilities. An increase or decrease of 100 basis points would have increased or decreased equity and profit or loss by $122,548 (2017: $98,029). This analysis assumes that all other variables remain constant. The analysis is performed using the same assumptions used in 2017.

Fair value Sensitivity analysis for fixed rate instruments:

The Bank does not account for any fixed rate instruments at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not impact profit or loss.

5. Financial risk management, continued

(e) Operational risks

Operational risk is the risk of direct or indirect loss or damage in any form arising from a wide variety of causes associated with the Parent Company and Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

As per Basel II, operational risk management is performed as a continuous process, with several distinct components:

- risk identification & assessment,
- risk mitigation (control development & implementation),
- control self-assessment (control testing),
- risk monitoring (key risk indicators follow up),
- risk measurement (incident collection & capital calculation), and
- control environment assessment & management (control culture measurement & corrective action implementation).

The primary responsibility for operational risk management is assigned to senior management within each business unit. This responsibility is supported by the development of overall policies and a central unit (Parent Company's Operational Risk Management Department) that coordinates and follows up on the business unit's performance. Status and developments are reported bi-monthly to the Operational Risk Committee, which oversees the risk management cycle. Additionally, compliance with the Bank's policies is supported by periodic reviews undertaken by the Parent Company's Internal Audit department. The results of internal audit reviews are discussed with the business unit's management and then summaries are submitted to the Audit Committee and senior management of the Bank.

(f) Capital management

The Central Bank of The Bahamas requires the Bank to maintain a minimum ratio of total capital to risk-weighted assets of 8%. The capital to risk-weighted assets ratio at December 31, 2018 was 28.14% (2017: 30.27%).

The Bank's policy is to maintain a strong capital base so as to maintain the confidence of stakeholders and to sustain future development of the business. The Bank has complied with all externally imposed capital requirements throughout the year.

There were no changes in Bank's approach to capital management during the year.

(Expressed in United States dollars)

6. Critical accounting estimates and judgments in applying accounting policies

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the BAC's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

7. Related party balances and transactions

Balances and transactions with related parties are shown below:

		2018		2017	
		Key personnel	Related parties	Key personnel	Related parties
Assets					
Cash and cash equivalents	$	0	79,693,379	0	70,714,671
Loans to customers		752,342	0	1,412	0
Accrued interest and other receivables		797	0	0	6,000
Liabilities					
Demand deposits from customers	$	5,323	26,662,127	54	27,479,918
Time deposits from customers		150,000	0	150,000	0
Accrued interest payable		1,286	0	1,385	0
Other liabilities		0	4,465	0	9,204
Income					
Interest income	$	11,599	2,870,945	0	2,465,891
Other income		0	31,650	0	37,824
Expenses					
Interest expenses	$	8,942	22,792	3,728	13,926
General and administrative		0	60,000	0	60,000

During the current year, related parties charged the Bank $60,000 (2017: $60,000) for administrative services.

(Expressed in United States dollars)

8. Cash and cash equivalents

The geographical distribution of cash and cash equivalents by country of the head office is as follows:

		2018	2017
Panama	$	77,789,586	59,555,128
The Cayman Islands		1,366,679	10,670,958
United States of America		6,784,925	3,315,756
Costa Rica		540,944	488,675
The Bahamas		21,044	18,053
	$	86,503,178	74,048,570

At December 31, 2018, cash and cash equivalents earned interest at rates ranging between 0.00% to 4.00% (2017: 0.00% to 4.00%) per annum.

9. Loans to customers, net

At December 31, 2018, the loan portfolio was segmented by industry as follows:

	2018			2017
	Gross amount	Allowance for ECL	Net carrying amount	Gross amount
Loans				
Corporate				
Corporate	2,255,807	42,634	2,213,173	3,296,852
Total corporate loans	2,255,807	42,634	2,213,173	3,296,852
Consumer loans				
Personal	782,340	929	781,411	50,258
Total loan portfolio	3,038,147	43,563	2,994,584	3,347,110
Accrued interests receivable from loans	13,010	0	13,010	14,200
Allowance for loans losses	0	0	0	(26,993)
Total loans at amortized cost	3,051,157	43,563	3,007,594	3,334,137

At December 31, 2018 and 2017, the Bank did not have non-accrual or past due loans. At December 31, 2018, commercial loans earn interest ranging from 4.25% to 6.19%, (2017: 4.95%) per annum.

(Expressed in United States dollars)

10. Demand deposits from customers

At December 31, 2018 and 2017, demand deposits are from customers primarily domiciled in Central America. Demand deposits bear interest at various rates up to 0.05% (2017: 0.05%) per annum.

		2018	2017
Retail customers	$	4,255,311	3,238,752
Corporate customers		38,427,569	29,937,915
	$	42,682,880	33,176,667

11. Time deposits from customers

At December 31, 2018 and 2017, the time deposits were due within one year with annual interest rates ranging between 2.00% to 5.00% (2017: 1.25% to 5.00%) and are from customers primarily domiciled in Central America.

		2018	2017
Retail customers	$	6,685,106	16,192,511
Corporate customers		14,384,526	3,529,241
	$	21,069,632	19,721,752

12. Share capital

The authorized capital of the Bank is comprised of 18,000,000 shares. At December 31, 2018 and 2017, the issued share capital is represented by 18,000,000 issued ordinary registered shares of $1.00 par value each, for a total of $18,000,000.

13. General and administrative expenses

General and administrative expenses are shown below:

		2018	2017
Personnel	$	441,641	393,940
Corporate services		60,000	60,000
Outside services		75,688	71,144
Depreciation		2,575	2,386
Other		297,913	290,410
	$	877,817	817,880

14. Taxes

The Bank is exempt from income taxes under the laws of The Commonwealth of The Bahamas. In accordance with the current tax regulations in Panama, the Bank is exempt from the payment of income taxes on profits derived from foreign operations. In addition, profits derived from interest earned on time deposits and interest earned from Panama Government securities is also exempt from the payment of income taxes.

15. Measurement of fair values

The fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

The Bank conducts a fair value estimate in accordance to IFRS 13. The different hierarchy levels have been defined as follows:

- Level 1 - Quoted prices in active markets without adjustments for identical assets or liabilities that the Bank can access at the measurement date.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from 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 and other valuation techniques where significant data inputs are directly or indirectly observable in the market.
- Level 3 - unobservable inputs for the asset or liability. This category includes all instruments where the valuation technique includes unobservable inputs and these have a significant effect on the fair value measurement. This category also includes instruments that are valued based on quoted prices for similar instruments for which we must make significant adjustments using unobservable inputs, assumptions or adjustments in which no observable or subjective data are used when there are differences between the instruments.

A market is considered active if quoted prices are readily and regularly available from an exchange, financial intermediaries, a sector institution, pricing service or regulatory agency, and those prices reflect actual market transactions with sufficient frequency and volume to provide pricing information market.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) Cash and cash equivalents

The carrying amounts approximate fair value because of the short-term maturities of these instruments.

(b) Loans to customers

The fair value of loans to customers is estimated by discounting future cash flows using the interest rates offered for loans with similar characteristics.

(c) Demand and time deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting future cash flows using the rates offered for deposits with similar remaining maturities.

(Expressed in United States dollars)

15. Measurement of fair values, continued

As of December 31, 2018 the following table sets out the fair values of the Bank´s significant financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. The fair value information for the financial assets and financial liabilities whose carrying amounts approximate their fair values (such as cash and cash equivalents and demand deposit) are not included in this table.

		Level 1	Level 2	Level 3	Total fair value	Total carrying Amount
December 31, 2018						
Assets:	$					
Loans to customers		0	0	2,988,984	2,988,984	3,007,594
Total assets		0	0	2,988,984	2,988,984	3,007,594
Liabilities:						
Time deposits from customers		0	0	21,289,912	21,289,912	21,069,632
Total liabilities		0	0	21,289,912	21,289,912	21,069,632

		Level 1	Level 2	Level 3	Total fair value	Total carrying Amount
December 31, 2017						
Assets:	$					
Loans to customers		0	0	3,337,793	3,337,793	3,334,317
Total assets		0	0	3,337,793	3,337,793	3,334,317
Liabilities:						
Time deposits from customers		0	0	19,687,883	19,687,883	19,721,752
Total liabilities		0	0	19,687,883	19,687,883	19,721,752

16. Regulatory Reserve (regulatory requirements)

The Parent Company is regulated by the Superintendent of Banks of Panama ("Superintendent"). In 2013, the Superintendent issued the Agreement No. 004-2013 ("the Agreement") setting out certain requirements for the management and administration of the inherent credit risk pertaining to on and off balance sheet operations of banks in Panama.

The Agreement is applicable to the Bank as certain regulations applicable to the Parent Company are also applicable to its subsidiaries.

16. Regulatory Reserve (regulatory requirements), continued

Among other matters, this Agreement defines the classification categories of credit facilities for the specific and dynamic provisions as well as the criteria that the policies for restructured loans, financial guarantees, and charge off operations should contain. The dynamic provisions were established by the Superintendent, as prudential regulation, in order to meet future needs of specific provisions. The Specific provision for impairment of the loan portfolio should be determined and recognized in the financial statements in accordance with the credit facilities′ classification within the risk categories currently in use and calculated based on minimum percentages weighted by each category specified in the Agreement. Accordingly, at December 31, 2018 and 2017, the Bank is not required to established the Specific provision based on this Agreement.

The Agreement also requires establishing the dynamic provision, to be determined and recognized quarterly as reserves in equity following certain calculation criteria and restrictions that will be implemented gradually.
The Agreement establishes that the dynamic reserve cannot be less than 1.25% or greater than 2.50% of risk-weighted assets related to credit facilities classified as normal. Accordingly, at December 31, 2018, the Bank, is required to establish a reserve/ provision in the amount of $308,812 (2017: $308,812), as part of equity through the appropriation of retained earnings.

17. Contingencies and commitments

The Bank holds financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its customers. These financial instruments include, principally, commitments to extend credit, the balances of which are not reflected in the accompanying statement of financial position.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer. As of December 31, 2018 and 2017, the Bank had not entered into non-cancelable commitments to extend credit.

As of December 31, 2018, the Bank had outstanding revolving line of credit available to their credit card customers. The unused portion of the total amount available for this line of credit was $202,660 (2017: $189,842). While these amounts represented the available line of credit to customers, the Bank has not experienced, and does not anticipate, that all of its customers will draw down their entire available lines at any given point in time. The Bank generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.