BANCO GENERAL, S. A.
AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2018

(With Independent Auditors' Report)

"This document has been prepared with the knowledge that its contents shall be made available to the investing and general public"

(FREE ENGLISH LANGUAGE TRANSLATION FROM THE SPANISH VERSION)

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Banco General, S. A.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Adoption of IFRS 9 Financial Instruments
See Notes 3(h), 7, 30, and 32 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit

As described in the notes accompanying the consolidated financial statements, impairment losses have been determined pursuant to IFRS 9 Financial Instruments.
 	
This was deemed as a key audit matter because IFRS 9 is a new standard that requires significant levels of judgment to determine the appropriate classification and measurement, and subsequent impairment assessment of financial instruments, which in turn has an impact on processes and controls relating to the calculation of impairment allowance. Areas that require judgments are as follows:
 	
• Interpretation of the requirements set forth by IFRS 9 to determine impairment and significant increase of credit risk of financial assets, embedded within the Bank's expected credit losses (ECL) model.
 	
• Identifying financial instruments with significant exposure and impairment in their credit quality.
 	
• Detailed assessment to determine the assumptions that are used in the ECL methodologies, for example, the counterparties' financial condition, expected future cash flows, forward-looking assessment, and gross domestic product growth.
 	
• Applying additional assumptions to reflect external factors that could otherwise not be appropriately incorporated into the ECL model.
	Our audit procedures with respect to the classification and measurement of financial assets and liabilities consisted of, considering the use of specialists, the following:
	
	• Assessing the Bank's policies relating to compliance with IFRS 9 in respect of classification and measurement of financial instruments.
	
	• Obtaining an understanding and assessment of the reasonableness of the assumptions/judgments made by management regarding the classification and measurement of financial instruments, including the Bank's business model evaluation.
	
	• Assessing the contractual terms of several financial instruments to determine the reasonableness of the cash flows that meet the criteria of solely payments of principal and interest (SPPI).
	
	• Reviewed the appropriateness of the IFRS 9's opening balance adjustments.
	
	Our audit procedures with respect to the impairment evaluation methodologies consisted of, considering the use of specialists, the following:
	
	• Assessing the modeling techniques and methodologies used by the Bank to calculate the ECL to determine whether they meet the requirements of IFRS 9.
	
	• Evaluating the design of the processes and performed tests of operating effectiveness of controls associated with:
	
	  • Technological environments of information systems involved in the calculation of ECL estimate of financial assets, transaction data during loan origination, continuous credit quality assessment of financial instruments, and storage of key data.
	
	  • ECL model, including the approval of each methodology, monitoring/validation, governance, and mathematical accuracy.

- Testing the ECL model's significant assumptions for several financial instruments.

- Assessing the mathematical accuracy and presentation of the disclosures for adoption of this new standard included in the consolidated financial statements and accompanying notes.

Allowance for Loan Losses
See Notes 3(h), 7 and 30 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit
The allowance for losses on loans at amortized cost is considered as one of the most significant matters because it requires management to make judgments and subjective assumptions in the construction of the ECL model. The loan portfolio´s gross balance represents 63% of the Bank´s total assets. The allowance for loan losses at amortized cost consists of ECL based on loans' credit risk rating and the mechanisms used to determine the loans' probability of default depending on the impairment stage into which each loan is assigned to. The ECL model is determined by grouping loans with similar credit risk characteristics, and segmented methodologies for "Consumer Banking" and "Corporate Banking". Both of these methodologies consist of probability of default, loss given default, and exposure at default estimates. The assessment of whether a loan has presented a significant increase in credit risk since initial recognition entails the use of important judgment. Therefore, this constitutes a challenge from an audit perspective due to the complexity in estimating the inputs needed to calculate ECL and the essential use of management's subjective judgment.	Our audit procedures consisted of, considering the use of specialists, the following: • Testing the operating effectiveness of controls relating to the calculation of delinquency on payments, internal credit risk rating of clients, including the accuracy of debtors' information used in the risk assessment of loans, and applied ECL methodologies and model. • Testing whether contractual cash flows of loans at amortized cost meet the SPPI criteria. • Testing a sample of corporate and commercial loans, classified based on debtors' industry or business activity, and debtors' whose credit risk rating presented changes due to the Bank's assessment of quantitative and qualitative factors; this testing consisted of examining clients´ loan files, including the debtors' financial information, collateral values as determined by qualified appraisers, and other factors that could lead to an event of loss, to determine the reasonableness of the credit risk rating assigned by the Bank's risk officers. • Assessing the Bank's ECL methodologies to determine whether they complied with the requirements set forth in IFRS 9 Financial Instruments. This was achieved through the inspection of policies, manuals, and methodologies documented and approved by the Bank's corporate governance. • Performing an independent assessment of the inputs used in the Consumer and Corporate Banking methodologies, and recalculating the ECL based on these methodologies.

- Assessing management's judgments with respect to forward-looking inputs based on current economic conditions, our experience and industry knowledge.

Valuation of Investments
See Notes 3(b), 3(h), 6 and 30 to the consolidated financial statements

Key audit matter	How the key matter was addressed in our audit
As of December 31, 2018, investment securities at fair value through profit (FVTPL) or loss and investment securities measured at fair value through other comprehensive income (FVOCI) represent 28% of total assets. The Bank uses external price vendors that provide pricing for most of these investments, and uses internal valuation methodologies for those securities for which pricing is not provided by external price vendors. The fair value of investments determined through internal valuation models involve judgments made by management and the use of some inputs that are not readily available in active markets. Furthermore, the valuation of investments, for which prices are provided by an external price vendors, require additional effort from auditors to assert the reasonableness of their valuation. Judgments made over estimates of fair value of an investment, when it includes some unobservable inputs (i.e. investments categorized as Level 3 in the fair value hierarchy), are significant. As of December 31, 2018, the investments categorized as level 3 represent 21% of total investments measured at fair value and 6% of total assets.	Our audit procedures consisted of, considering the use of specialists, the following: • Testing the operating effectiveness of the key controls within the processes of identification, measurement, and management of valuation risk; and assessment of methodologies, inputs, and assumptions made by the Bank over the fair values. • Testing the valuation of instruments categorized as level 1, by comparing the fair values established by the Bank against public and observable market data. • Assessing the fair value models and inputs used in the valuation of Level 2 instruments; by comparing observable market inputs against independent sources and readily available external market data. • Testing a sample of investments with significant unobservable valuation inputs (Level 3), which consisted of assessing the internal valuation models approved by the Bank's Corporate Governance and re-performing calculations of prices used for valuation of these investments. • Obtaining Type 2 reports (ISAE 3402), which contain an independent opinion on the internal controls implemented by price vendors used for the valuation of the investment portfolio. We also, assessed the complementary user controls applied by the Bank, indicated in those reports.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient and appropriate evidence related to the financial information of the entities and business activities within the Bank to express an opinion about the consolidated financial statements. We are responsible for the direction, supervision and execution of the group audit. We are solely responsible for the auditors' report.

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

We also provided to those charged with corporate governance a declaration of compliance with the relevant ethical requirements regarding independence and we communicated all relations and other matters that we consider could reasonably affect our independence and, when applicable, the appropriate safeguards.

Among the matters that have been communicated to those charged with corporate governance, we determined the ones that have been the most significant throughout the audit of the consolidated financial statements during the current period and are, consequently, the key audit matters. We have described these matters in the auditor´s report except if legal dispositions or requirements prohibit the public disclosure of the matter, or in extreme rare circumstances, we determine the matter should not be communicated in our report because we could reasonably expect the adverse consequences of doing so outweigh the benefits of public interest of such communication.

The partner in charge of the audit who has prepared this independent auditors' report is Ricardo A. Carvajal V.

KPMG (SIGNED)

Panama, Republic of Panama
January 31, 2019

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2018

(Expressed in Balboas)

Assets	**Note**	**2018**	**2017**
Cash and cash items	5	202,536,914	283,199,967
Deposits with banks:			
Local demand deposits		90,175,452	89,035,277
Foreign demand deposits		194,761,974	166,467,290
Local time deposits		206,728,124	212,659,475
Foreign time deposits		0	94,026,167
Total deposits with banks	5	491,665,550	562,188,209
Total cash, cash items and deposits with banks		694,202,464	845,388,176
Investment securities and other financial assets, net	6	5,187,999,868	4,414,783,855
Loans	7	11,952,384,674	11,506,060,752
Less:			
Allowance for loan losses		158,531,274	144,832,305
Unearned commissions		41,104,450	38,254,754
Loans, net		11,752,748,950	11,322,973,693
Investments in associates	8	26,034,716	22,075,753
Property, furniture, equipment and improvements, net of accumulated depreciation and amortization	9	234,404,923	223,200,152
Customer liabilities under acceptances		14,959,284	38,619,957
Securities and other financial assets sold pending settlement	10	389,698,425	350,981,692
Accrued interest receivable		74,034,604	67,637,536
Deferred tax assets	24	38,107,649	33,756,441
Goodwill and other intangible assets, net	11	59,838,713	61,725,358
Foreclosed assets, net	12	15,003,598	5,667,571
Other assets		217,123,316	185,111,764
Total assets		18,704,156,510	17,571,921,948

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

Liabilities and Equity	Note	2018	2017
Liabilities:			
Deposits:			
Local:			
Demand		2,752,026,295	2,414,866,377
Savings		3,283,113,208	3,271,077,384
Time:			
Customers		5,503,234,018	5,267,297,518
Banks		130,458,385	91,071,301
Foreign:			
Demand		83,905,776	79,518,651
Savings		232,049,923	127,477,535
Time:			
Customers		243,519,425	207,118,320
Total deposits		12,228,307,030	11,458,427,086
Securities sold under repurchase agreements	13	0	45,814,600
Borrowings and debt securities issued, net	15	2,886,528,342	2,661,365,208
Perpetual bonds	16	217,680,000	217,680,000
Acceptances outstanding		14,959,284	38,619,957
Securities and other financial assets purchased pending settlement	10	561,836,021	405,771,013
Accrued interest payable		118,282,025	108,732,837
Liabilities from insurance operations	17	17,648,645	16,999,292
Deferred tax liabilities	24	3,469,408	3,539,569
Other liabilities	14	470,423,226	569,129,576
Total liabilities		16,519,133,981	15,526,079,138
Equity:	20		
Common shares		500,000,000	500,000,000
Legal reserve		182,098,343	179,461,247
Capital reserves		4,642,044	36,796,615
Retained earnings		1,498,282,142	1,329,584,948
Total equity		2,185,022,529	2,045,842,810
Commitments and contingencies	25		
Total liabilities and equity		18,704,156,510	17,571,921,948

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Income

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Interest and commission income:			
Interest:			
Loans		781,358,271	708,926,086
Deposits with banks		7,932,023	6,215,318
Securities and other financial assets		168,763,694	133,428,336
Commissions on loans		45,511,659	43,080,817
Total interest and commission income		1,003,565,647	891,650,557
Interest expenses:			
Deposits		229,386,783	208,227,386
Borrowings and debt securities issued		123,245,302	85,033,238
Total interest expenses		352,632,085	293,260,624
Net interest and commission income		650,933,562	598,389,933
Provision for loan losses, net	7	41,983,447	44,484,763
Provision for impairment of securities		1,937,809	940
Provision for foreclosed assets, net	12	1,882,475	539,001
Net interest and commission income, after provisions		605,129,831	553,365,229
Other income (expenses):			
Fees and other commissions	27	212,896,602	199,461,792
Insurance premiums, net		29,997,713	26,884,905
(Loss) gain on financial instruments, net	21	(11,538,237)	16,477,377
Other income, net	22	25,649,325	39,085,609
Commission expenses and other expenses	11	(85,278,007)	(77,757,769)
Total other income, net		171,727,396	204,151,914
General and administrative expenses:			
Salaries and other employee expenses		173,009,468	165,674,924
Depreciation and amortization	9	24,983,778	22,214,444
Premises and equipment expenses		25,306,097	23,925,449
Other expenses		70,667,643	68,584,418
Total general and administrative expenses		293,966,986	280,399,235
Operational net income		482,890,241	477,117,908
Equity participation in associates	8	9,934,441	8,569,626
Net income before income tax		492,824,682	485,687,534
Income tax, net	24	58,616,476	55,941,007
Net income		434,208,206	429,746,527

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

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

(Expressed in Balboas)

	2018	2017
Net income	434,208,206	429,746,527
Other comprehensive (expense) income:		
Items that are or may be reclassified to profit or loss:		
Valuation of securities and other financial assets:		
Changes net in fair value of securities at FVOCI	(40,688,414)	0
Transfer to profit or loss for sales of securities at FVOCI	(8,327,395)	0
Credit risk valuation	1,936,501	0
Change net in fair value of securities available-for-sale	0	3,344,161
Transfer to profit or loss for sales of securities available-for-sale	0	842,722
Change in fair value of hedging instruments	(2,036,539)	(677,080)
Other comprehensive (expense) income, net	(49,115,847)	3,509,803
Total comprehensive income	385,092,359	433,256,330

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

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

(Expressed in Balboas)

	Common shares	Legal reserve	Capital reserves: Insurance reserve	Capital reserves: Valuation of securities and other financial assets	Capital reserves: Valuation of hedging instruments	Capital reserves: Total capital reserves	Retained earnings	Total equity
Balance as of December 31, 2016	500,000,000	177,719,221	1,000,000	31,609,732	677,080	33,286,812	1,121,179,809	1,832,185,842
Net income	0	0	0	0	0	0	429,746,527	429,746,527
Other comprehensive income (expense):								
Items that are or may be reclassified to profit or loss:								
Valuation of securities and other financial assets:								
Changes in fair value of securities available-for-sale	0	0	0	3,344,161	0	3,344,161	0	3,344,161
Transfer to profit or loss for sales of securities available-for-sale	0	0	0	842,722	0	842,722	0	842,722
Changes in fair value of hedging instruments	0	0	0	0	(677,080)	(677,080)	0	(677,080)
Total other comprehensive income (expense), net	0	0	0	4,186,883	(677,080)	3,509,803	0	3,509,803
Total comprehensive income	0	0	0	4,186,883	(677,080)	3,509,803	429,746,527	433,256,330
Transactions with owner:								
Dividends paid on common shares	0	0	0	0	0	0	(220,000,074)	(220,000,074)
Complementary tax	0	0	0	0	0	0	400,712	400,712
Transfer from retained earnings	0	1,742,026	0	0	0	0	(1,742,026)	0
Total transactions with owner	0	1,742,026	0	0	0	0	(221,341,388)	(219,599,362)
Balance as of December 31, 2017	500,000,000	179,461,247	1,000,000	35,796,615	0	36,796,615	1,329,584,948	2,045,842,810
Changes due to adoption of IFRS 9	0	0	0	16,961,276	0	16,961,276	500,791	17,462,067
Balance as of January 1, 2018	500,000,000	179,461,247	1,000,000	52,757,891	0	53,757,891	1,330,085,739	2,063,304,877
Net income	0	0	0	0	0	0	434,208,206	434,208,206
Other comprehensive (expense) income:								
Items that are or may be reclassified to profit or loss:								
Valuation of securities and other financial assets:								
Changes in fair value of securities at FVOCI	0	0	0	(40,688,414)	0	(40,688,414)	0	(40,688,414)
Transfer to profit or loss for sales of securities at FVOCI	0	0	0	(8,327,395)	0	(8,327,395)	0	(8,327,395)
Credit risk valuation	0	0	0	1,936,501	0	1,936,501	0	1,936,501
Changes in fair value of hedging instruments	0	0	0	0	(2,036,539)	(2,036,539)	0	(2,036,539)
Total other comprehensive (expense) income, net	0	0	0	(47,079,308)	(2,036,539)	(49,115,847)	0	(49,115,847)
Total comprehensive income	0	0	0	(47,079,308)	(2,036,539)	(49,115,847)	434,208,206	385,092,359
Transactions with owner:								
Dividends paid on common shares	0	0	0	0	0	0	(261,800,000)	(261,800,000)
Complementary tax	0	0	0	0	0	0	(1,574,707)	(1,574,707)
Transfer from retained earnings	0	2,637,096	0	0	0	0	(2,637,096)	0
Total transactions with owner	0	2,637,096	0	0	0	0	(266,011,803)	(263,374,707)
Balance as of December 31, 2018	500,000,000	182,098,343	1,000,000	5,678,583	(2,036,539)	4,642,044	1,498,282,142	2,185,022,529

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

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Operating activities:			
Net income		434,208,206	429,746,527
Adjustments to reconcile net income to net cash provided from operation activities:			
Provision for loan losses, net	7	41,983,447	44,484,763
Provision for impairment of securities		1,937,809	940
Provision for impairment of foreclosed assets, net	12	1,882,475	539,001
Loss (gain) unrealized on securities and other financial assets	21	5,561,507	(22,024,053)
Loss unrealized on derivative instruments	21	3,046,425	4,700,900
Loss (gain) on sale of securities and other financial assets at FVTPL, net	21	2,053,530	(4,102,716)
Loss on sale of securities and other financial assets at FVOCI (2017: Loss on sale available-for-sale), net	21	7,826,666	1,029,905
(Gain) loss realized on derivative instruments	21	(6,949,891)	3,918,587
Foreign exchange fluctuations, net	22	1,328,557	5,791,607
Gain on sale of fixed assets, net	22	(319,475)	(18,374,575)
Deferred income tax, net	24	(3,771,875)	(3,530,263)
Depreciation and amortization	9	24,983,778	22,214,444
Amortization of intangible assets	11	2,617,387	2,617,392
Equity participation in associates	8	(9,934,441)	(8,569,626)
Interest income		(958,053,988)	(848,569,740)
Interest expense		352,632,085	293,260,624
Changes in operating assets and liabilities:			
Time deposits with banks		5,932,732	(10,288,606)
Securities and other financial assets at fair value through profit or loss		(172,564,790)	(101,412,361)
Loans		(475,020,948)	(765,620,299)
Unearned commissions		2,849,696	2,743,669
Tax credit from preferential interest loans	7	(40,823,558)	(36,228,726)
Other assets		(53,219,068)	11,824,343
Demand deposits		341,547,043	(145,225,158)
Savings accounts		116,608,212	118,526,921
Time deposits		311,724,689	412,439,619
Liabilities under insurance operations		649,353	2,042,450
Other liabilities		66,048,100	53,569,415
Cash provided by operating activities:			
Interest received		951,656,920	839,503,812
Interest paid		(343,082,897)	(274,245,921)
Dividends received	22	5,089,377	2,424,611
Total		184,218,857	(416,559,041)
Cash flows from operating activities		618,427,063	13,187,486
Investing activities:			
Purchases of securities and other financial assets at FVOCI (2017: available-for-sale)		(5,309,796,603)	(9,075,052,687)
Sale and redemptions of securities and other financial assets at FVOCI (2017: available-for-sale)		4,664,695,919	8,845,061,043
Purchases of securities to amortized cost (2017: held-to-maturity)		(67,150,000)	0
Redemptions of securities to amortized cost (2017: held-to-maturity)		56,200,000	9,384,619
Investments in associates		5,975,478	5,084,434
Sale of property, furniture, equipment and improvements		473,791	25,124,375
Purchases of property, furniture, equipment and improvements	9	(36,342,865)	(56,622,501)
Cash paid in business acquisition, net		(377,215)	0
Cash flows used in investing activities		(686,321,495)	(247,020,717)
Financing activities:			
News borrowings and debt securities issued		801,199,610	1,538,668,863
Redemption of debt secutirities in issue and cancellation of borrowings		(565,126,868)	(835,924,967)
Securities sold under agreements to repurchase		(45,814,600)	(227,485,378)
Dividends paid on common shares		(261,800,000)	(220,000,074)
Complementary tax		(5,816,690)	(5,028,683)
Cash flows (used) from in financing activities		(77,358,548)	250,229,761
Net (decrease) increase in cash and cash equivalents		(145,252,980)	16,396,530
Cash and cash equivalents at beginning of the year		672,734,133	656,337,603
Cash and cash equivalents at end of the year	5	527,481,153	672,734,133

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

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(1) General Information

Banco General, S. A. was incorporated under the laws of the Republic of Panama in 1954 and started operations in 1955. The Bank operates under a general license granted by the Superintendence of Banks of Panama which allows it, to engage in the banking business both in Panama and abroad. Banco General, S. A. and its subsidiaries will be referred to collectively as "the Bank".

The Bank provides a wide variety of financial services, mainly, corporate, mortgage and consumer banking, insurance, reinsurance, wealth management, pensions, retirement and severance funds.

The Bank has representation offices in Colombia, Mexico, El Salvador, Guatemala and Peru.

Grupo Financiero BG, S. A., a 60.07% (2017: 60.12%) owned subsidiary of Empresa General de Inversiones, S. A., owns 100% of the common shares issued and outstanding of Banco General, S. A.

Banco General, S. A. owns 100% of the following subsidiaries which form part of its consolidation:

- Finanzas Generales, S. A. and subsidiaries: financial leases and loans in Panama. Finanzas Generales, S. A. owns the following subsidiaries:
  - BG Trust, Inc.: trust management in Panama.
  - Vale General, S. A.: administration and marketing of pretax food and health related contributions in Panama.
- BG Investment Co., Inc.: securities brokerage, assets management and brokerage company in Panama.
- General de Seguros, S. A.: insurance and reinsurance in Panama.
- Overseas Capital Markets, Inc. and subsidiaries: holding company in the Cayman Islands. Overseas Capital Markets, Inc. owns the following subsidiaries:
  - Banco General (Overseas), Inc.: international banking business in the Cayman Islands.
  - Commercial Re. Overseas, Ltd.: international reinsurance in the British Virgin Islands.
- BG Valores, S. A.: securities brokerage, asset management and brokerage company in Panama.
- Banco General (Costa Rica), S. A.: banking business in Costa Rica.
- ProFuturo Administradora de Fondos de Pensiones y Cesantía, S. A.: management of pension and retirement, severance and investment funds in Panama.

On July 31, 2018, Finanzas Generales, S.A., through its subsidiary Vale General, S.A., acquired 100% of the shares of Pases Alimenticios, S.A.. As of August 1, 2018, income and expenses are presented in the consolidated statement of income.

As of September 30, 2018, Vale General, S.A. absorbed by merger the subsidiary Pases Alimenticios, S.A., all assets, liabilities and equity accounts of this company were incorporated into the statement of financial position of the subsidiary Vale General, S.A. as of that date.

The Bank´s main office is located at Banco General Tower, Urbanization Marbella, Aquilino de la Guardia Avenue, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

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

These consolidated financial statements were reviewed by the Audit Committee and authorized for issue by the Board of Directors on January 31, 2019.

(b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for the assets and liabilities at fair value, securities at fair value with changes in other comprehensive income and derivative financial instruments, which are measured at fair value; and foreclosed assets, which are measured at the lower of their carrying value or fair value less costs to sell.

The Bank initially recognizes loans, account receivables and deposits on the date on which they originated. All other financial instruments (including assets designated at fair value through profit or loss) 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

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

(3) Summary of Significant Accounting Policies

The Bank has consistently applied the accounting policies as set out below to all periods presented in these consolidated financial statements except, where the policies of financial instruments were modified by the adoption of IFRS 9:

(a) Basis of Consolidation

- *Subsidiaries*

  The Bank controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries mentioned in Note 1 are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

- *Investment Entities and Separate Vehicles*
  An investment entity and a separate vehicle is used when the Bank manages and administers assets held in trust and other investment vehicles as collateral on behalf of investors. The financials statements of these entities are not consolidated, except for when the Bank has control over the entity.

- *Structured Entities*
  A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example, when any voting rights are related solely to administrative tasks, and key activities are directed by contractual agreement. In assessing whether the Bank has control over such entities in which it has an interest, the Bank considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity. The financials statements of these entities are not consolidated, except when the Bank has control over the entity.

- *Investments in Associates*
  An associate is an entity over which it has significant influence, but has no control or joint control, over its financial or operating policies. It is presumed that it has significant influence when it owns between 20% and 50% of the voting power within the entity.

  Investments in associates are accounted for using the equity method. Under this method, such investments are initially recognized at cost, including transaction costs.

  The consolidated financial statements include the Bank´s share of the profit or loss and other comprehensive income of equity-accounted investees, after any adjustment to conform to the Bank’s accounting policies, from the date it has significant influence until the date on which significant influence ceases.

  The investor's share of losses of an equity-accounted investee is recognized only until the carrying amount of the Bank's equity interest in the investee is reduced to zero. After the investor's interest is reduced to zero, a liability is recognized only to the extent that the Bank has an obligation to fund the investee's operations or has made payments on behalf of the investee.

- *Balances and Transactions Eliminated in Consolidation*
  The consolidated financial statements include the assets, liabilities, equity, income and expenses of Banco General, S. A. and subsidiaries detailed in note 1. Significant intercompany balances and transactions are eliminated.

(b) *Fair Value Measurement*
Fair value is the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

When an asset is acquired or a liability is assumed, the transaction price is the price paid to acquire the asset or received to assume the liability (entry price). The initial fair value of a financial instrument is the transaction price.

The fair value of an instrument is measured using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing the transaction. Fair value is a measurement based on market variables (prices, performance, credit margin, etc.), therefore, it is relies on the assumptions that market participants would make when setting the price of an asset or liability.

The fair value of financial instruments is determined using quoted prices in active markets, several electronic information systems, custodians, market makers, prices from a third party pricing vendors, investment management companies and banks. In addition, in certain instances the fair value measurement is determined using valuation techniques, mainly discounted cash flows at the appropriate discount rate for that instrument. Investments in equity securities whose fair value cannot be reliably measured, will be maintained at cost.

(c) Cash and Cash Equivalents
For the purpose of the consolidated statement of cash flows, cash equivalents include demand deposits and time deposits with banks that have an original maturity of three months or less.

(d) Securities Purchased Under Resale Agreements
Securities purchased under resale agreements are short-term transactions guaranteed with securities, in which the Bank acquires the securities at a discounted market price and agrees to resell them at a future date at a specified price. The difference between the purchase price and the value of the future sale is recognized as interest income under the effective interest rate method.

Securities received as collateral are not recognized in the consolidated financial statements, except in case of default by the counterparty, which gives the Bank the right to keep the securities.

The market price of these securities is monitored on a daily basis and additional collateral is obtained, if necessary, to protect the Bank from credit risk exposure.

(e) *Investment Securities and Other Financial Assets*
Accounting policies applicable before January 1, 2018:

<u>*Classification and measurement - Financial assets under IAS 39*</u>
Investments and other financial assets are classified at their trade date and initially measured at fair value, plus transaction costs directly attributable to their acquisition, except for investments recognized at fair value through profit or loss.

Securities and other financial assets are accounted for based on the classifications held according to the characteristics of the instrument and the acquisition objective.

- *Securities and Other Financial Assets at Fair Value through Profit or Loss:*
  - *Held for Trading Securities and Other Financial Assets*
    This category includes those securities and other financial assets acquired for the purpose of generating a profit from short term fluctuations in the market value of the instrument. These securities and other financial assets are reported at their fair value and changes in fair value are recognized in the consolidated statement of income.

  - *Other Securities and Financial Assets at Fair Value*
    This category includes those securities and other financial assets acquired with the intention of holding them for an undetermined period of time and for which a quoted price in an active market is available. These securities and other financial assets are measured at their fair value and changes in valuation are recognized in the consolidated statement of income.

- *Securities and Other Financial Assets Available for Sale*
  This category includes the securities and other financial assets acquired with the intention of holding them for an undetermined period of time. These securities and other financial assets are measured at their fair value and changes in valuation are recognized in equity accounts.

- *Securities Held to Maturity*
  Securities held to maturity are financial assets that the Bank has the intention and ability to hold until maturity. These securities consist mainly of debt instruments and are carried at their amortized cost.

Accounting policies applicable as of January 1, 2018:

<u>*Classification and measurement - Financial assets under IFRS 9*</u>
Investments and other financial assets are classified at their trade date and initially measured at fair value, plus transaction costs directly attributable to their acquisitions, except for investments recognized at fair value through profit or loss.

The classification and measurement of financial assets is based on the business model of the area that manage assets and on the contractual cash flows of assets.

The business model includes three classification categories for financial assets, namely:

- *Amortized Cost (AC)*
  A financial asset is measured at amortized cost if it complies with both of the following conditions:

  - The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
  - The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

- *Fair value with changes in other comprehensive income (FVOCI)*
  A debt instrument is measured at FVOCI only if both of the following conditions are met, and has not been designated at fair value through profit or loss (FVTPL):

  - The asset is held within a business model whose objective is to collect the contractual cash flows and sell the financial assets; and
  - The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

  During the initial recognition of investments in equity instruments not held for trading, the Bank may irrevocably elect to record the subsequent changes in fair value as part of other comprehensive income. This choice must be made on an instrument-by-instrument basis.

- *Fair value through profit or loss (FVTPL)*
  All other financial assets are measured at fair value through profit or loss.

Evaluation of the business model
The evaluation at the level of the portfolios and the objective of the business model that applies to financial instruments of said portfolios, includes the following:

- The policies and objectives identified for the loan portfolio and the operation of those policies including management's strategy to define:

  (i) the collection of contractual interest income
  (ii) maintain a defined interest return profile
  (iii) maintain a specific duration period
  (iv) be able to sell at any time due to liquidity needs or in order to optimize the risk / return profile of a portfolio based on interest rates, risk spreads, current duration and defined objective

- The way in which the behavior of different portfolios is reported to the senior management;
- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which those risks are managed;
- The frequency and value of sales in previous periods, the reasons for those sales and expectations regarding future sales activities.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis, are measured at FVTPL because its business model objective is to obtain profit from short-term fluctuations in their market value.

Assessment of whether the contractual cash flows are solely payments of principal and interest (SPPI)
For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as consideration for the time value of money; for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic risks of a loan agreement and other associated costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank focused on the instrument's contractual terms. This assessment considered, among others, the following characteristics:

- Contingent events that could change the amount and / or timing of cash flows
- Leverage conditions
- Prepayment and extension terms
- Terms that limit the Bank's ability to collect cash flows from specific assets
- Features that modify considerations for the time value of money.

(f) Derivative Financial Instruments
Derivatives are accounted for at fair value in the consolidated statement of financial position, with transaction costs recognized in profit or loss when incurred, and subsequently accounted as either fair value hedge or cash flow hedge, when held for risk management purposes, or as trading when the instruments does not qualify for hedge accounting.

- *Fair value hedge*
  Derivative instruments accounted for using the fair value method are instruments that hedge the exposure to change in the fair value of: (a) assets or liabilities or an identified portion of the value of assets or liabilities recognized in the consolidated statement of financial position, or (b) a firm commitment or a forecasted transaction which is almost certain to occur. Changes in the value of these instruments using the fair value method are recognized in the consolidated statement of income.

For hedged assets classified as available for sale, changes in fair value are recognized in equity. Starting on the date an available-for-sale asset becomes a hedged item, changes in fair value are recognized in the consolidated statement of income and the revaluation balance which is accounted in equity, remains recorded until these assets are sold or redeemed.

A hedged asset or liability otherwise carried at amortized cost is adjusted by the change in fair value that is attributable to the changes in interest rates. Amortization for these hedged assets and liabilities should begin when they cease to be adjusted for changes in their fair value, based on a recalculated effective interest rate. If the hedged asset carried at amortized cost suffers a permanent impairment, the loss is calculated based on the difference between its carrying value after fair value adjustments of the hedged asset attributable to the risk being hedged, and the present value of the estimated cash flows discounted at the adjusted effective interest rate.

- *Cash flow hedges*
  Derivative instruments designated under the cash flow method are instruments that hedge the exposure to variability in cash flows of an asset or liability recognized in the consolidated statement of financial position affecting net income. The effective portion of changes in the fair value of the hedging instrument is recognized directly in equity, while the ineffective portion of changes in the fair value is recognized in the consolidated statement of income.

- *Derivative without hedge accounting*
  Derivative instruments that do not qualify for hedge accounting are classified as assets or liabilities at fair value and are recognized in the consolidated statement of financial position at their fair value. Changes in the fair value of these derivatives are recognized in the consolidated statement of income.

As of January 1, 2018, hedging relationships that meet the requirements of hedge accounting were incorporated in accordance with IAS 39, who also meet the requirements of hedge accounting in accordance with the criteria of IFRS 9, after taking into account any new rebalancing of the coverage relationship at the time of transition, they are considered as a continuation of the coverage relationships.

At the initial application of hedge accounting under IFRS 9, the coverage ratio in accordance with IAS 39 was considered as the starting point to rebalance the coverage ratio of a continuing hedging relationship. Any gain or loss on this rebalancing will be recognized in profit or loss of the year.

Hedge accounting is discontinued prospectively only when the relationship or part of a hedging relationship ceases to meet the rating criteria after taking into account any rebalancing. This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect the coverage ratio in its entirety or in part, maintaining the coverage ratio for the remainder.

The Bank may choose to designate one or more hedging relationship(s) between a hedging instrument and a hedged item with one or more external entities, as well as opting for hedges between its subsidiaries.

(g) Loans and Interest

Loans are reported at their principal amounts outstanding. Interest income on loans is recognized in profit or loss using the effective interest method.

The financial leases portfolio is reported as part of the loan portfolio and recorded under the financial method, which presents financial leases at the present value of the lease contracts. The difference between a contract's present value and the cost of the leased property is recorded as unearned interest and is recognized as interest income on loans during the life of the lease term using the effective interest rate method.

(h) Impairment of Financial Instruments

Accounting policies applicable before January 1, 2018:

Impairment of financial assets under IAS 39

At the date of the consolidated statement of financial position, it is assessed whether there is objective evidence that the financial instruments are impaired, and the allowance method is used to provide for losses on financial instruments.

Investment Securities and Other Financial Assets

- *Securities Available for Sale*

  Periodically, the Bank assesses whether there is objective evidence that its investment securities or other financial assets are impaired based on whether there has been a significant or prolonged decline in their fair value below their cost, downgrade in their risk rating below B+, default on payments or other contractual terms, bankruptcy, debt restructuring or similar events. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the consolidated statement of income.

  If, in a subsequent period, the fair value of investment securities and other financial assets classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss the impairment loss is reversed through the consolidated statement of income.

- *Securities Held to Maturity*

  The value of any security is reduced to its fair value for any material loss due to a non-temporary impairment, by establishing a specific allowance for securities against the results of operations of the year.

Loans:
The amount of loan losses determined during the year is recognized as a provision expense in the results of operations and is credited to the allowance for loan losses

The allowance is presented as a deduction from gross loans receivable in the consolidated statement of financial position. The Bank periodically reviews its impaired loan portfolio to identify loans that should be charged-off against the allowance for loan losses. Recoveries of loans previously charged-off as non-recoverable, are credited to the allowance.

Impairment losses are determined following two methodologies to assess whether objective evidence of impairment exists:

- *Individually Assessed Loans*
  Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. This procedure is applied to all loans, whether individually significant or not. If it is determined that no objective evidence of impairment exists for an individual loan, it is included in a group of loans with similar credit characteristics and collectively assessed for impairment.

  The impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, to its current carrying value, and the amount of any loss is charged as a loss provision in the consolidated statement of income. The carrying amount of impaired loans is reduced through the use of an allowance account.

- *Collectively Assessed Loans*
  For the purpose of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of similar assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed.

  Future cash flows in a group of loans that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the group, historical loss experience for assets with credit risk characteristics similar to those in the group and Management's experienced judgment as to whether the current economy and credit conditions are such that the actual level of inherent losses is likely to be greater or less than the suggested historical experience.

- *Reversal of Impairment*
  If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by reducing the loan impairment allowance account. The amount of any reversal is recognized in the consolidated statement of income.

Accounting policies used as of January 1, 2018:

Impairment of financial assets under IFRS 9
At the date of the consolidated statement of financial position, it is assessed whether there is objective evidence that the financial instruments are impaired, and the allowance method is used to provide for losses on these financial instruments.

IFRS 9 replaced the "incurred loss" model in IAS 39 with an “expected credit loss" (ECL) model.

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

- Loans
- Debt instruments;
- Leases receivable;
- Financial guarantee contracts issued; and
- Loan commitments issued

Impairment losses on investments in equity instruments are not recognized.

The assessment of whether the credit risk of a financial asset has increased significantly is one of the critical judgments implemented in the impairment model.

Loss allowances are measured at an amount equal to 12-month ECL for the following:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which the credit risk has not increased significantly since their initial recognition.

For all other financial assets, allowances are measured at an amount equal to lifetime ECL.

12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within a 12-month period after the reporting date.

The standard introduces three stages of impairment for financial assets that are applied from the date of origin or acquisition. These stages are summarized below:

- Stage 1: The Bank recognizes a credit loss allowance at an amount equal to 12-month ECL. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

- Stage 2: The Bank recognizes a credit loss allowance at an amount equal to the lifetime expected credit losses (LTECL) for those financial assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the calculation of ECL based on the asset's remaining lifetime probability of default (LTPD). The allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon in comparison with 12 months in Stage 1.

- Stage 3: The Bank recognizes a credit loss allowance at an amount equal to the LTECL, based on a probability of default (PD) of 100% over the asset's recoverable cash flows.

Significant Increase in Credit Risk
When determining whether the credit risk of a financial asset has increased significantly since its initial recognition, the Bank considers as main indicators, variations in days of delinquency, collection score and risk rating, analysis of quantitative and qualitative factors based on its historical experience and expert credit assessment including forward-looking information.

Credit Risk Rating
The Bank assigns a credit risk rating to each financial asset based on a model that incorporates a series of predictive data on the incurrence of losses. The model is applied over several periods to evaluate its reasonableness. Risk ratings are used to identify significant increases in credit risk.

Credit risk ratings are defined using qualitative and quantitative factors that are indicative of risk of loss. These factors may vary depending on the nature of the exposure and the type of borrower. Regarding foreign investments and bank deposits, the international risk ratings of Fitch, Standard and Poor's or Moody's and associated changes to the ratings were used to establish whether there was a significant increase in risk and in the calculation of the PD.

Credit risk ratings are defined and calibrated such that the risk of loss increases exponentially as the credit risk deteriorates.

Each exposure will be assigned a credit risk rating at the time of initial recognition based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in an exposure being moved to a different credit risk rating.

Determining whether the credit risk has increased significantly
The Bank considers that credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on credit risk classification models and / or days of delinquency, a determined range has deteriorated.

In certain instances, based on expert judgment and, to the extent possible, relevant historical experience, the Bank determines an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers relevant and whose effect would not be comprehensively reflected otherwise.

As required by IFRS 9, a significant increase in credit risk occurs when an asset shows delinquency of more than 30 days, except for residential mortgages and personal loans, which are measured at more than 60 days. The delinquency period is determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The effectiveness of the criteria used to identify significant increases in credit risk is monitored through regular reviews.

Definition of loss
The Bank considers a financial asset to be in default when:

- It is likely that a debtor will not pay its credit obligations to the Bank in full, without recourse to actions such as realizing collateral (if available); or
- The debtor has more than 90 days delinquency in all credit obligations, except for overdrafts that are measured at more than 30 days and residential mortgages at more than 120 days.

In assessing whether a debtor is in default, the Bank considers the following indicators:

- Quantitative – past due status and non-payment of another obligation of the same issuer; and
- Qualitative – breach of contract or legal situation.

The inputs used in the assessment of whether financial instruments are in default are specific to the type of portfolio, and their importance may vary over time to reflect changes in circumstances and trends.

Measurement of the ECL
The ECL is a probability-weighted estimate of credit losses which is measured according to the following items:

- Financial assets that are not credit-impaired at the reporting date
- Financial assets that are credit-impaired at the reporting date
- Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank in the event that the commitment is drawn down and the cash flows the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount the Bank expects to recover.

Generating the term structure of the PD
Days of delinquency are the main input to determine the term structure of the PD for exposures in the consumer loan portfolio. For the corporate loan portfolio, the following factors are considered as primary inputs: risk rating, days of delinquency, restructurings and materiality thresholds.

The Bank designed and evaluated statistical models to analyze the data collected and to generate estimates of the remaining lifetime PD of credit exposures, and how they are expected to change over time.

The PD of foreign investments and placed deposits was estimated using liquid market proxies (Credit Default Swaps "CDS") based on international risk ratings and the industry relating to the investment or deposit.

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

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

PD estimates are calculated, using statistical credit rating models and tools adapted to the different categories of counterparties and exposure. Statistical models were acquired from internationally recognized firms or developed internally based on historical data. These models incorporate quantitative factors, and can also consider qualitative factors. If an exposure migrates between rating categories, then this may lead to a change in the estimate of the associated PD. The PD is estimated considering contractual maturities and estimated prepayment rates. In the case of foreign investments and placed deposits, the ECL is obtained from the probability of default implicit in the CDS used as proxies for each bond or deposit based on its international credit rating and industry.

The levels of LGD are estimated based on historical recovery rates:

- Observed: corresponding to the portion of EAD in default that is effectively recovered
- Estimated: corresponding to the portion of EAD in default estimated to be recoverable.

The LGD model considers the financial asset, related collateral and recovery costs of any collateral. The Bank can calibrate the LGD estimate for different economic scenarios. The Bank used the LGD implicit in the CDS for foreign investments and placed deposits.

In most cases, the EAD is equivalent to the outstanding balance of the contract; with the exception of credit cards and contingencies, which consider variables such as the current balance, available balance and the CCF (credit conversion factor), in order to estimate the exposure at the time of default on existing operations. The EAD is determined on current exposures to the counterparty and the potential changes to the current amount permitted under the contract, including any amortization.

Overdrafts and credit card products include both the loan and undrawn commitment components. These facilities do not have a fixed term or repayment structure and are managed on a collective basis; the Bank can cancel them unilaterally at any time.

Forward-looking information
The Bank could incorporate forward-looking information in its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and ECL measurement.

External information may include economic data and projections published by government entities and monetary authorities in the countries in which the Bank operates, supranational organizations such as the Organization for Economic Cooperation and Development and the International Monetary Fund, as well as academic and private sector projections.

(i) Property, Furniture, Equipment and Improvements
Property, furniture, equipment and improvements are stated at cost, less accumulated depreciation and amortization. Improvements are capitalized when they increase the useful life of the asset, while minor repairs and maintenance expenses which do not extend the useful life or improve the asset are charged directly to expenses when incurred.

Depreciation and amortization expenses are charged to current operations using the straight-line method over the estimated useful life of the following assets, except for land, which is not depreciated:

- Buildings	30 - 50 years
- Licenses and internally developed projects	3 - 12 years
- Furniture and equipment	3 - 10 years
- Improvements	5 - 15 years

(j) Goodwill and Intangible Assets
Goodwill
When an acquisition of a significant part of the equity of another company occurs, goodwill represents the portion of the cost of acquisition in excess of the fair value of the net assets acquired. Goodwill is recognized as an asset in the consolidated statement of financial position and is tested annually for impairment. When it is determined that an impairment exists, the difference between the carrying value of the goodwill and its fair value is recorded as an expense in the consolidated statement of income.

Intangible Assets
Intangible assets are recognized at cost less accrued amortization and impairment losses and are amortized using the straight-line method over a useful life of 20 years. Intangible assets are subject to annual review for impairment or when there are events or changes in circumstances that indicate their carrying value may not be recoverable.

(k) Foreclosed Assets
Foreclosed assets are recognized at the lower of the outstanding principal of the secured loan and the estimated realizable value of the acquired asset.

The Bank uses the allowance method in providing for significant impairment losses on foreclosed assets. The impairment provision is recognized in the consolidated statement of income and the allowance for losses is presented as a deduction from the carrying value of foreclosed assets.

(l) Impairment of Non-Financial Assets
The carrying value of non-financial assets is reviewed at the consolidated statement of financial position date to determine whether there is evidence of impairment. If an impairment exists, the asset's recoverable amount is estimated, and an impairment loss which is equivalent to the difference between the asset's carrying value and its estimated recoverable amount is recognized as an expense in the consolidated statement of income.

(m) Securities Sold Under Repurchase Agreements
Securities sold under repurchase agreements ("Repos") are short-term funding transactions guaranteed with securities, in which the Bank is obligated to repurchase the securities sold at a future date at a specified price. The difference between the selling price and the future purchase price is recognized as interest expense under the effective interest rate method.

Securities provided as collateral continue to be recognized in the consolidated financial statements, as the counterparty has no property right on these securities, unless there is a default by the Bank.

(n) Deposits, Borrowings and Debt Securities Issued
Deposits from customers, borrowings and debt securities issued are initially measured at fair value. Subsequently, they are measured at their amortized cost using the effective interest rate method.

(o) Financial Liabilities
IFRS 9 largely preserves the existing requirements of IAS 39 for the classification of financial liabilities.

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

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

(p) Other Financial Liabilities at Fair Value
This category includes financial liabilities measured at fair value; changes in valuation are recognized in the consolidated statement of income.

(q) Financial Guarantees
Financial guarantees are contracts that require the Bank to make specific payments on behalf of its customers, to reimburse the beneficiary of the guarantee, in the event that the client fails to make payments when due in accordance with the terms and conditions of the contract.

Liabilities for financial guarantees are initially recognized at fair value; this initial value is amortized over the life of the financial guarantee. Financial guarantees are included in the consolidated statement of financial position within other liabilities.

(r) Interest Income and Expense
Interest income and expense are recognized in the consolidated statement of income for all financial instruments using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to the carrying amount of the financial asset or financial liability. The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate.

(s) Commission Income
Generally, the commission on short-term loans, letters of credit and other banking services are recognized as income on a cash basis due to their short-term maturity. Income recognized on a cash basis is not significantly different from the income that would be recognized under the accrual method.

Commission income on medium and long-term loans, net of certain direct loan origination costs, is deferred and amortized using the effective interest rate method over the average life of these loans.

(t) Insurance Operations
The portion of unearned premiums as of the date of the consolidated statement of financial position, considering the contractual term, is presented within the allowance for insurance operations caption as an allowance for unearned premiums.

Unearned premiums and reinsurers' participation in unearned premiums are calculated using the daily quota method.

Estimated claims pending settlement are represented by claims incurred but not settled at the consolidated statement of financial position date, whether reported or not including related claim management expenses, both internal and external, and an appropriate prudential margin.

Fees paid to insurance agents and taxes paid on premiums are deferred as acquisition costs in accordance with their relation to unearned premiums net of reinsurers' participation. They are presented within the other assets caption in the consolidated statement of financial position.

Premiums issued in advance are credited in the consolidated statement of financial position in accordance with their maturity date. The portion corresponding to the current year is recorded as premium income at their due dates while the remainders of the premiums, relating to future years, are maintained as premiums issued in advance and are presented in other liabilities in the consolidated statement of financial position.

(u) Trust Operations

Assets held in trust or where the Bank has a fiduciary function are not considered part of the Bank operations; consequently, such assets and their corresponding income are not included in the consolidated financial statements. The Bank is required by contractual agreements to manage the assets held in trust independently from its own equity.

Fees earned in relation to trust operations are recognized as fees and other commissions in the consolidated statement of income.

(v) Income Tax

Estimated income tax is calculated on net taxable income, using tax rates enacted at the consolidated statement of financial position date, and any adjustment to prior years' income tax.

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the tax rates enacted at the consolidated statement of financial position date. These temporary differences are expected to be reversed in future years.

Deferred tax assets are reduced to the extent that it is no longer probable the related tax effect will be realized.

(w) *Share-Based Compensation Plan and Restricted Share Option Plan*
The Board of Directors of Grupo Financiero BG, S. A. authorized a grant to key executives ("participants") under the following plans:

- Option to purchase shares of Grupo Financiero BG, S. A. and its holding company
- Restricted Share Option Plan of Grupo Financiero BG, S. A.

The fair value of options granted to the participants is recognized as an administrative expense against the balance due to Grupo Financiero BG, S. A., and its holding company. The fair value of the options on the grant date is recognized as an expense of the Bank, during the vesting period.

The fair value of the restricted share options granted annually to the participants is recognized in the Bank's consolidated statement of income as an administrative expense during the year.

(x) *Segment Reporting*
A business segment is a component of the Bank for which financial information is available and whose operating results are reviewed regularly by management to make decisions regarding the allocation of resources to each segment and assess their respective performance.

(y) *Foreign Currency Transactions*
Transactions in foreign currencies are recorded at the exchange rates in effect at the transaction date. Assets and liabilities held in foreign currencies are converted into dollars at the exchange rate in effect at the consolidated statement of financial position date, and income and expense accounts are converted at the average yearly exchange rate.

Gains and losses from foreign currency conversion are reflected in other income or other expenses in the consolidated statement of income.

(z) *New International Financial Reporting Standards (IFRS) and Interpretations Not Yet Adopted*
As of the date of the consolidated statement of financial position, there are standards, amendments, and interpretations that are not yet effective; consequently they have not been applied in preparing these consolidated financial statements. The most significant is shown below:

- IFRS 16 – Leases replaces IAS 17 - Leases

  This standard is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 changes the form of accounting for the lease of tenants, using a single model to account for such transactions. This unique model determines that a lessee must recognize a right-of-use asset representing its right to use the underlying asset and a lease liability, representing its obligation to make future lease payments.

IFRS 16 includes recognition exemptions for short-term leases and leases of low-value underlying asset.

No significant impact is expected for finance leases recorded in accordance with IAS 17, as a result of the adoption of IFRS 16.

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 initial balance of retained earnings as of January 1, 2019, without presenting comparative information, so that the information presented will not be restated for the year 2018.

The Bank plans to apply the exemption from the existing lease standard to give continuity to the definition of lease at 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 46.

Preliminary evaluation impact
The Bank has evaluated the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, based on its operating lease agreements mainly of bank branches and parking lots.

Based on the Bank’s preliminary assessment it estimates that as of January 1, 2019 the right-of-use assets and lease liabilities will represent an amount between 8 and 10 million balboas according to the information currently available.

The Entity does not expect the adoption of IFRS 16 to affect its ability to comply with the contractual clauses of the obligations and placements described in note 15 of the consolidated financial statements.

Due to the nature of the Bank's financial operations, the adoption of this standard could lead to changes in the consolidated financial statements, an aspect that is under evaluation by management.

(4) Balances and Transactions with Related Parties

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

	2018			
	Directors and Management	Related Companies	Affiliated Companies	Total
Assets:				
Investment securities and other financial assets	0	162,067,000	36,580,208	198,647,208
Loans	7,539,015	137,558,553	20,073,177	165,170,745
Investments in associates	0	26,034,716	0	26,034,716
Liabilities:				
Deposits:				
Demand	999,893	368,223,635	76,101,535	445,325,063
Savings	5,415,638	147,513,188	468,719	153,397,545
Time	1,893,345	418,242,277	101,769,231	521,904,853
	8,308,876	933,979,100	178,339,485	1,120,627,461
Perpetual bonds	0	0	90,000,000	90,000,000
Commitments and contingencies	0	63,730,393	32,552,608	96,283,001
Interest income:				
Loans	361,810	8,660,112	1,177,982	10,199,904
Investment securities and other financial assets	0	12,314,367	2,238,177	14,552,544
Interest expense:				
Deposits	79,473	12,978,307	998,643	14,056,423
Borrowings and debt securities issued	0	0	5,951,042	5,951,042
Other income:				
Equity participation in associates	0	9,934,441	0	9,934,441
Dividends	0	3,671,608	0	3,671,608
General and administrative expenses:				
Directors' fees	275,600	0	0	275,600
Benefits to key management personnel	5,571,852	0	0	5,571,852

	2017			
	Directors and Management	**Related Companies**	**Affiliated Companies**	**Total**
Assets:				
Investment securities and other financial assets	0	262,034,590	49,628,440	311,663,030
Loans	6,349,512	111,478,360	22,651,923	140,479,795
Investments in associates	0	22,075,753	0	22,075,753
Liabilities:				
Deposits:				
Demand	3,826,289	93,656,587	72,428,215	169,911,091
Savings	5,355,607	82,626,254	45,479	88,027,340
Time	1,565,061	291,534,192	62,000,000	355,099,253
	10,746,957	467,817,033	134,473,694	613,037,684
Perpetual bonds	0	0	90,000,000	90,000,000
Commitments and contingencies	0	84,554,833	24,828,400	109,383,233
Interest income:				
Loans	299,111	5,146,321	426,491	5,871,923
Investment securities and other financial assets	0	12,917,178	2,517,486	15,434,664
Interest expense:				
Deposits	58,837	9,983,357	970,056	11,012,250
Borrowings and debt securities issued	0	0	5,850,000	5,850,000
Other income:				
Equity participation in associates	0	8,569,626	0	8,569,626
Dividends	0	1,293,134	0	1,293,134
General and administrative expenses:				
Directors' fees	134,500	0	0	134,500
Benefits to key management personnel	4,883,435	0	0	4,883,435

The benefits to key management personnel include salaries and other expenses in the amount of B/.5,272,995 (2017: B/.4,679,455) and options to purchase shares for B/.298,857 (2017: B/.203,980).

The conditions granted in transactions with related parties are substantially similar to those granted to third parties not related to the Bank.

(5) Cash and Cash Equivalents

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

	2018	**2017**
Cash and cash items	202,536,914	283,199,967
Demand deposits with banks	284,937,426	255,502,567
Time deposits with banks	206,728,124	306,685,642
Total deposits with banks	491,665,550	562,188,209
Less: time deposits with original maturities of more than three months	166,721,311	172,654,043
Cash and cash equivalents in the consolidated statement of cash flows	527,481,153	672,734,133

Demand deposits with banks include cash collateral accounts in the amount of B/.27,475,591 (2017: B/.41,670,444) that secure derivative operations and repos, in addition to the next quarterly payments of principal, interest and expenses of certain obligations.

(6) Investment Securities and Other Financial Assets

As of December 31, 2018, the breakdown of investment securities and other financial assets is as follows:

Investment Securities and Other Financial Assets at Fair Value through Profit or Loss

The portfolio of investment securities and other financial assets measured at FVTPL, are detailed as follows:

Local Commercial Paper	250,000
Local Corporate Bonds and Fixed Income Funds	53,285,932
Bonds issued by the Republic of Panama	2,361,471
Local Corporate Shares	54,240,959
Foreign Treasury Bills	249,682
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	324,156,608
Asset Backed Securities	7,489,044
Foreign Fixed Income Funds	340,074,338
Foreign Corporate Shares and Variable Income Mutual Funds	83,161
Total	782,191,195

The Bank sold securities and other financial assets at FVTPL in the amount of B/.6,911,060,235. These sales generated a net loss of B/.4,026,489, which is presented in the consolidated statement of income as (loss) gain on financial instruments, net.

Securities and Other Financial Assets at Fair Value OCI

The portfolio of securities and other financial assets at FVOCI are detailed as follows:

	Fair Value	Amortized Cost
Local Commercial Paper and Treasury Bills	9,149,074	9,126,333
Local Corporate Bonds	1,013,248,627	997,698,229
Bonds issued by the Republic of Panama	197,174,372	190,128,337
Bonds issued by the US Government and Agencies	56,748,859	56,827,087
Foreign Commercial Paper and Treasury Bills	610,837,417	611,256,063
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	1,378,068,871	1,393,131,967
Asset Backed Securities (ABS)	86,020,812	85,396,866
Foreign Corporate Bonds	969,737,294	980,138,700
Other Government Bonds	73,874,655	74,515,269
Total	4,394,859,981	4,398,218,851

The Bank sold securities and other financial assets at FVOCI in the amount of B/.1,765,213,407. These sales generated a net loss of B/.7,826,666, which is presented in the consolidated statement of income as (loss) gain on financial instruments, net.

The following table shows the reconciliation between the initial balance and closing balance of the expected credit losses (ECL) by the type of allowance model:

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-Impaired	Purchased credit-impaired	Total
Balance as of January 1, 2018	5,887,002	1,902,585	0	0	7,789,587
Transferred to 12-month ECL	13,705	(13,705)	0	0	0
Transfer of 12-month ECL to lifetime ECL not credit-impaired	(326,873)	326,873	0	0	0
Transfer of 12-month ECL to lifetime ECL credit-impaired	(13,091)	121,307	(108,216)	0	0
Net remeasurement of portfolio	35,260	(1,561,651)	2,158,857	12,416	644,882
New investment securities purchased	2,788,329	70,253	0	0	2,858,582
Investment securities that have been derecognized	(1,514,832)	(51,697)	(295)	(139)	(1,566,963)
Balance as of December 31, 2018	6,869,500	793,965	2,050,346	12,277	9,726,088

Securities at Amortized Cost
The portfolio of securities at amortized cost amounted to B/.10,950,000 less a 12-month ECL allowance of B/.1,308.

	Amortized Cost	Fair Value
Foreign Securities purchased under resold agreements (Repos), net	10,948,692	10,950,000
Total	10,948,692	10,950,000

The movement of the allowance for 12-month ECL for investment securities at amortized cost is as follows:

Balance at beginning of year	91,361
Changes due to adoption of IFRS 9	(91,361)
Provision registered to expense	1,308
Balance at end of year	1,308

Foreign Securities purchased under resold agreements (Repos), net amount of B/.10,948,692 were guaranteed with foreign securities amount of B/.11,408,862.

As of December 31, 2017, the investment securities and other financial assets are detailed as follows:

Investment Securities and Other Financial Assets at Fair Value through Profit or Loss
The portfolio of investment securities and other financial assets measured at fair value through profit or loss amounted to B/.1,160,244,285 and was comprised of held for trading securities and other securities at fair value through profit or loss, which are detailed as follows:

Held for Trading Securities and Other Financial Assets
Held for trading securities at fair value are detailed as follows:

Local Corporate Bonds and Fixed Income Funds	2,440,759
Foreign Corporate Bonds and Fixed Income Funds	334,702
Total	2,775,461

The Bank sold held for trading securities and other financial assets in the amount of B/.665,774,734. These sales generated a net gain of B/.4,029,277, which is presented in the consolidated statement of income as gain on financial instruments, net.

Other Securities and Financial Assets at Fair Value

The other securities and financial assets at fair value are detailed as follows:

Local Corporate Bonds and Fixed Income Funds	63,536,875
Bonds issued by the Republic of Panama	2,778,813
Local Corporate Shares	37,792,019
Bonds issued by the US Government	8,225,780
Foreign Commercial Paper, Treasury Bills and Mutual Funds	68,076,805
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	710,114,094
Asset Backed Securities	28,089,707
Foreign Fixed Income Funds	238,843,387
Foreign Variable Income Mutual Funds	11,344
Total	1,157,468,824

The Bank sold other securities and financial assets at fair value in the amount of B/.4,865,166,899. These sales generated a net gain of B/.2,761,459, which is presented in the consolidated statement of income as gain on financial instruments, net.

Securities and Other Financial Assets Available-for-Sale

The portfolio of securities and other financial assets available for sale are detailed as follows:

	Fair Value	**Amortized Cost**
Local Commercial Paper and Treasury Bills	7,355,857	7,308,331
Local Corporate Bonds and Fixed Income Funds	1,005,898,732	975,023,289
Local Borrowings	49,512,563	49,612,361
Bonds issued by the Republic of Panama	136,569,675	133,942,766
Local Corporate Shares	5,896,888	3,082,736
Bonds issued by the US Government and Agencies	30,787,360	31,076,902
Foreign Commercial Paper and Treasury Bills	196,445,930	196,505,211
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	891,556,118	895,883,921
Asset Backed Securities (ABS)	78,948,933	79,143,864
Foreign Corporate Bonds and Fixed Income Funds	743,362,727	738,881,432
Other Government Bonds	58,130,917	58,188,478
Foreign Corporate Shares and Variable Income Mutual Funds	91,048	110,842
Total	3,204,556,748	3,168,760,133

The Bank sold securities and other financial assets available for sale in the amount of B/.2,569,582,573. These sales generated a net loss of B/.1,029,905, which is presented in the consolidated statement of income as gain on financial instruments, net.

The Bank held corporate shares for an amount of B/.2,182,317, which were carried at their acquisition cost since the Bank was not able to determine their fair value reliably. The equity shares that were held at cost did not have an active market and the entity does not intend to dispose them. During 2017 the Bank did not acquire corporate shares, and had sales for the amount of B/.43,377.

Securities Held-to-Maturity

The portfolio of securities held to maturity amounted to B/.50,074,183 less a valuation allowance of B/.91,361, due to the permanent impairment of some securities.

	Amortized Cost	Fair Value
Local Corporate Bonds	9,178,390	8,880,563
Bonds issued by the Republic of Panama	26,394,768	37,557,420
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	14,316,014	14,839,727
Asset Backed Securities (ABS), net	93,650	147,991
Total	49,982,822	61,425,701

The movement of the valuation allowance for investment securities held to maturity is as follows:

Balance at beginning of year	90,421
Provision registered to expense	940
Balance at end of year	91,361

The payment of capital and interest on 99.9% of the Bank's MBS portfolio is 100% guaranteed by the following agencies: the Government National Mortgage Association (GNMA), which is an agency of the Federal Government of the United States and counts on the explicit guarantee of the Federal Government, the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Association (FHLMC), who rely on AAA ratings provided by Moody's and Fitch, on its counterparty debt. The guarantee and primary source of payment of the MBS guaranteed by the aforementioned agencies is a set of residential mortgages on houses that must fulfill credit policies that are required by these programs. Similarly, 74.7% of the CMO portfolio of the Bank is 100% guaranteed by GNMA, FNMA or FHLMC.

The average life of the portfolio of MBS and CMOs is 2.89 years for MBS and 1.81 years for CMOS (2017: 2.88 years for MBS and 1.71 years for CMOS).

The Bank has in place a documented procedure to determine fair value and the responsibilities of the areas involved in this process. This process has been approved by the Assets and Liabilities Committee, the Risk Committee of the Board of Directors, and the Bank´s Board of Directors.

The Bank uses price vendors for most of the prices of assets and liabilities at fair value which are processed by the department of Operations and validated by the area of Management and Control of the Treasury and Risk department.

The Bank uses internal valuation methodologies for certain assets and liabilities at fair value classified in Level 3 of the fair value hierarchy. The calculation of fair values using internal methodologies is performed by the area of management and control of the Treasury and validated by the Risk department.

The Bank measures fair value using the fair value hierarchy, which categorizes the variables used in valuation techniques to measure fair value into three levels. The hierarchy is based on the transparency of the inputs used in measuring the fair values of financial assets and financial liabilities at their valuation date. The three levels are defined as follows:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets accessible to the Bank, for identical instruments.

Level 2: Inputs other than quoted prices included within 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 market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Unobservable inputs for assets or liabilities. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The classification of the valuation of fair value is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The relevance of a variable should be evaluated with respect to the entire fair value measurement.

Fair Value Measurement of Securities and Other Financial Assets at FVTPL

	2018	Level 1	Level 2	Level 3
Local Commercial Paper	250,000	0	0	250,000
Local Corporate Bonds and Fixed Income Funds	53,285,932	0	0	53,285,932
Bonds issued by the Republic of Panama	2,361,471	0	2,361,471	0
Local Corporate Shares	54,240,959	3,477	0	54,237,482
Foreign Treasury Bills	249,682	249,682	0	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	324,156,608	0	324,156,608	0
Asset Backed Securities (ABS)	7,489,044	0	7,489,044	0
Foreign Fixed Income Funds	340,074,338	0	241,801,861	98,272,477
Foreign Corporate Shares and Variable Income Mutual Funds	83,161	0	13,519	69,642
Total	782,191,195	253,159	575,822,503	206,115,533

	2017	Level 1	Level 2	Level 3
Local Corporate Bonds and Fixed Income Funds	65,977,634	0	0	65,977,634
Bonds issued by the Republic of Panama	2,778,813	0	2,778,813	0
Local Corporate Shares	37,792,019	0	0	37,792,019
Bonds issued by the US Government	8,225,780	8,225,780	0	0
Foreign Commercial Paper, Treasury Bills and Mutual Funds	68,076,805	246,283	67,830,522	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	710,114,094	0	709,298,574	815,520
Asset Backed Securities (ABS)	28,089,707	0	28,089,707	0
Foreign Corporate Bonds and Fixed Income Funds	239,178,089	0	150,027,467	89,150,622
Foreign Variable Income Mutual Funds	11,344	0	486	10,858
Total	1,160,244,285	8,472,063	958,025,569	193,746,653

Fair Value Measurement of Securities and Other Financial Assets at FVOCI

	2018	Level 1	Level 2	Level 3
Local Commercial Paper and Treasury Bills	9,149,074	0	0	9,149,074
Local Corporate Bonds	1,013,248,627	0	153,437,011	859,811,616
Bonds issued by the Republic of Panama	197,174,372	0	197,174,372	0
Bonds issued by US Government	56,748,859	56,748,859	0	0
Foreign Commercial Paper and Treasury Bills	610,837,417	241,052,103	369,785,314	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	1,378,068,871	0	1,377,302,241	766,630
Asset Backed Securities (ABS)	86,020,812	0	86,020,812	0
Foreign Corporate Bonds	969,737,294	0	969,737,294	0
Bonds issued by Other Governments	73,874,655	11,585,500	62,289,155	0
Total	4,394,859,981	309,386,462	3,215,746,199	869,727,320

Fair Value Measurement of Securities and Other Financial Assets Available for Sale

	2017	Level 1	Level 2	Level 3
Local Commercial Paper and Treasury Bills	7,355,857	0	0	7,355,857
Local Corporate Bonds and Fixed Income Funds	1,005,898,732	0	132,997,971	872,900,761
Local Borrowings	49,512,563	0	0	49,512,563
Bonds issued by the Republic of Panama	136,569,675	0	136,569,675	0
Local Corporate Shares	3,784,212	5,461	0	3,778,751
Bonds issued by US Government and Agencies	30,787,360	30,787,360	0	0
Foreign Commercial Paper and Treasury Bills	196,445,930	29,878,452	166,567,478	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	891,556,118	0	891,556,118	0
Asset Backed Securities (ABS)	78,948,933	0	78,948,933	0
Foreign Corporate Bonds and Fixed Income Funds	743,362,727	0	743,352,210	10,517
Bonds issued by Other Governments	58,130,917	0	44,315,941	13,814,976
Foreign Variable Income Mutual Funds	21,407	0	21,407	0
Total	3,202,374,431	60,671,273	2,194,329,733	947,373,425

Changes in the Fair Value Measurement of the Level 3 hierarchy

	Investment Securities and Other Financial Assets		
	Fair Value through Profit or Loss	Fair Value OCI	Total
December 31, 2017	**193,746,653**	**947,373,425**	**1,141,120,078**
Changes due to adoption of IFRS 9	518,820	16,303,767	16,822,587
January 1, 2018	**194,265,473**	**963,677,192**	**1,157,942,665**
Gain recognized in income	636,551	34,092	670,643
Loss recognized in equity	0	(10,696,936)	(10,696,936)
Transfer from level 3	0	(13,629,063)	(13,629,063)
Purchases	59,790,867	163,475,966	223,266,833
Amortization, sales and redemptions	(48,577,358)	(233,133,931)	(281,711,289)
December 31, 2018	**206,115,533**	**869,727,320**	**1,075,842,853**
Total (loss) gains related to instruments held at December, 2018	**724,086**	**(10,472,103)**	**(9,748,017)**

	Fair Value through Profit or Loss	Available-for-Sale	Total
December 31, 2016	**203,837,018**	**906,324,607**	**1,110,161,625**
Gain recognized in income	8,006,852	304,214	8,311,066
Loss recognized in equity	0	(721,310)	(721,310)
Purchases	100,601,967	333,978,366	434,580,333
Amortization, sales and redemptions	(118,699,184)	(292,512,452)	(411,211,636)
December 31, 2017	**193,746,653**	**947,373,425**	**1,141,120,078**
Total gains related to instruments held at December 31, 2017	**7,705,032**	**823,956**	**8,528,988**

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period in which the change has occurred.

During 2018, as a result of changes in the source of prices for bonds in the other Governments category non material transfers were made from level 3 to level 1 of the fair value OCI category.

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

Type of financial instruments	Valuation technique	Significant unobservable input	Range of estimates for unobservable inputs 2018	Range of estimates for unobservable inputs 2017	Fair value measurement sensitivity to unobservable inputs
Corporate Shares	Dividend discount model and Dividend free cash flow model (DCF)	Equity risk premium	Minimum 5.80% Maximum 11.16%	Minimum 5.51% Maximum 9.86%	If equity risk premiums increase the price decreases and vice versa
		Growth rate of assets, liabilities, equity, profits and dividends	Minimum (36.95%) Maximum 16.51%	Minimum (20.50%) Maximum 29.32%	If the growth increases the price increases and vice versa
Fixed Income	Discounted cash flow model	Credit spreads	Minimum 0.55% Maximum 8.31% Average 2.92%	Minimum 0.37% Maximum 5.87% Average 2.73%	If the credit spreads increase the price decreases and vice versa

The main valuation techniques, assumptions and inputs used to measure the fair value of financial instruments are as follows:

Instrument	Valuation technique	Inputs	Level
Local Fixed Income	Quoted prices in active markets	Observable quoted prices	2-3
	Discounted cash flows model	Benchmark interest rate Liquidity risk premiums Credit spreads	
Local Shares	Quoted prices in active markets	Quoted prices in active markets	1-3
	Dividend discount model Discount free cash flows model, which are compared with the stock prices	Benchmark interest rate Equity risk premium Growth rate of assets, liabilities, equity, profits and dividends	
	Carrying amount model	Equity Common shares issued and outstanding	
Foreign Fixed Income	Quoted prices in active markets	Quoted prices in active markets	1-2
	Quoted prices in active markets for similar instruments	Observable quoted prices	
	Bid and ask prices from market participants	Prices from a broker	
	Discounted cash flows model	Credit spreads Benchmark interest rate Liquidity risk premiums	

Instrument	Valuation technique	Inputs	Level
Agency MBS / CMOs	Discounted cash flows model	Features of collateral TBA's price Treasury yield Yield curves Prepayment speeds Market analysis	2-3
Private MBS / CMOs and ABS	Discounted cash flows model	Features of collateral Treasury yield Yield curves Expected cash flow and losses Market assumptions related to discount rates, prepayments, losses and recoveries	2
Foreign Shares	Carrying amount model	Carrying amount of the shares of the company	3
Investment vehicles	Net asset value	Net asset value	2-3

The Bank considers that its methodologies for valuation of investment securities classified as Level 3 are appropriate; however, the use of different estimates for the unobservable variable could lead to different measurements of fair value. For investment securities classified in Level 3, adjustments to the credit spread (in the case of fixed income) and to the equity risk premium (in the case of the corporate shares) of +50bp and -50bp would result in favorable and unfavorable impacts in the Bank's consolidated statement of income and in the consolidated equity, as described below:

	2018			
	Fair Value Effect of profit or loss		Available for sale Effect in equity	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Fixed Income	1	(2)	7,448,774	(10,623,861)
Corporate Shares	4,709,374	(3,952,971)	0	0
Total	4,709,375	(3,952,973)	7,448,774	(10,623,861)

	2017			
	Fair Value Effect of profit or loss		Available for sale Effect in equity	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Fixed Income	153,440	(150,633)	8,459,331	(10,166,208)
Corporate Shares	3,310,175	(2,662,145)	68,001	(65,906)
Total	3,463,615	(2,812,778)	8,527,332	(10,232,114)

For investments and other financial assets pledged to secure repurchase agreements, see note 13.

(7) Loans

The composition of the loan portfolio is summarized as follows:

	2018	2017
Local loans:		
Residential mortgages	4,091,042,745	3,798,892,418
Personal, auto and credit cards	1,776,981,209	1,652,578,497
Commercial mortgages	1,920,857,554	1,789,765,115
Lines of credit and commercial loans	1,590,811,256	1,673,245,046
Interim financing	700,899,475	807,677,587
Financial leases, net of unearned interest	108,302,008	120,390,513
Other secured loans	203,744,331	185,068,481
Overdrafts	152,890,905	148,591,673
Total local loans	10,545,529,483	10,176,209,330
Foreign loans:		
Residential mortgages	249,375,750	254,472,419
Personal, auto and credit cards	16,779,215	17,033,882
Commercial mortgages	259,580,692	259,841,921
Lines of credit and commercial loans	798,964,318	700,260,919
Interim financing	3,099,755	0
Other secured loans	23,238,900	31,972,343
Overdrafts	55,816,561	66,269,938
Total foreign loans	1,406,855,191	1,329,851,422
Total	11,952,384,674	11,506,060,752

The movement of the allowance for loan losses is summarized as follows:

	2018			
	12-month ECL	**Lifetime ECL Not credit-impaired**	**Lifetime ECL credit-Impaired**	**Total**
Balance at the beginning of the year IAS 39				144,832,305
Changes due to adoption of IFRS 9	0	0	0	412,548
Balance at the beginning of the year IFRS 9	79,103,845	25,839,115	40,301,893	145,244,853
Transferred to 12-month ECL	9,658,365	(7,503,785)	(2,154,580)	0
Transferred to lifetime ECL not credit-impaired	(1,702,386)	3,382,563	(1,680,177)	0
Transferred to lifetime ECL credit-impaired	(1,247,049)	(2,030,918)	3,277,967	0
Net remeasurement of portfolio	(5,909,866)	8,385,170	46,385,775	48,861,079
New Loans	19,810,458	3,110,543	6,128,641	29,049,642
Loans that have been derecognized	(13,103,818)	(6,637,900)	(16,185,556)	(35,927,274)
Recovery of loan write-off	0	0	23,052,680	23,052,680
Loans charged-off	0	0	(51,749,706)	(51,749,706)
Balance at the end of year	86,609,549	24,544,788	47,376,937	158,531,274

Consumer loans allowance for loan losses:

	2018			
	12-month ECL	**Lifetime ECL Not credit – impaired**	**Lifetime ECL credit-Impaired**	**Total**
Balance at the beginning of the year IFRS 9	65,727,982	17,973,365	16,360,282	100,061,629
Transferred to 12-month ECL	8,504,175	(6,349,595)	(2,154,580)	0
Transferred to lifetime ECL not credit-impaired	(1,543,345)	2,139,252	(595,907)	0
Transferred to lifetime ECL credit-impaired	(1,234,182)	(1,686,949)	2,921,131	0
Net remeasurement of portfolio	(565,765)	9,868,007	40,948,875	50,251,117
New Loans	15,088,436	1,406,763	1,037,375	17,532,574
Loans that have been derecognized	(9,269,528)	(5,548,894)	(11,458,184)	(26,276,606)
Recovery of loans write-offs	0	0	21,691,904	21,691,904
Loans charged-off	0	0	(49,772,680)	(49,772,680)
Balance at end of year	76,707,773	17,801,949	18,978,216	113,487,938

Corporate loans allowance for loan losses:

	2018			
	12-month ECL	**Lifetime ECL Not credit – impaired**	**Lifetime ECL credit-Impaired**	**Total**
Balance at beginning of year IFRS 9	13,375,863	7,865,750	23,941,611	45,183,224
Transferred to 12 months ECL	1,154,190	(1,154,190)	0	0
Transferred to lifetime ECL not credit impaired	(159,041)	1,243,311	(1,084,270)	0
Transferred to lifetime ECL credit impaired	(12,867)	(343,969)	356,836	0
Net remeasurement of portfolio	(5,344,101)	(1,482,837)	5,436,900	(1,390,038)
New Loans	4,722,022	1,703,780	5,091,266	11,517,068
Loans paid down	(3,834,290)	(1,089,006)	(4,727,372)	(9,650,668)
Recovery of loans charged-off	0	0	1,360,776	1,360,776
Loans charged-off	0	0	(1,977,026)	(1,977,026)
Balance at end of year	9,901,776	6,742,839	28,398,721	45,043,336

	2017
Balance at beginning of year	128,917,367
Provision charged to expenses, net	44,484,763
Recoveries of written-off loans	21,367,866
Loans written-off	(49,937,691)
Balance at end of year	144,832,305

The Bank's loan portfolio is composed 55% (2017: 53%) of residential and commercial mortgage loans backed by residential units and commercial or industrial buildings.

The loan portfolio classification by type of guarantee, mainly mortgages on real estate and chattels, and other collateral such as deposits, securities, and corporate guaranties, is detailed as follows:

	2018	**2017**
	(in thousands)	
Mortgages on real estate	7,958,802	7,704,167
Chattel mortgages	736,775	720,421
Deposits	375,540	360,553
Other guaranties	381,456	386,699
Unsecured	2,499,812	2,334,221
Total	11,952,385	11,506,061

For loans pledged to secure borrowings, see Note 15.

The Bank recognized a tax credit in the amount of B/.40,823,558 (2017: B/.36,228,726), originating from the annual benefit awarded on mortgage loans granted with preferential interest rates on the first fifteen (15) years of the loan.

This benefit is equivalent to the difference between the income the Bank would have earned on these mortgage loans had it used the market reference interest rate in effect for that year, and the interest income actually earned.

Financial Leases, Net

The balance of financial leases, net of unearned interest, and the maturity schedule of the minimum payments are summarized as follows:

	2018	**2017**
Minimum payments up to 1 year	51,738,424	53,511,398
Minimum payments from 1 to 6 years	68,868,979	81,097,686
Total minimum payments	120,607,403	134,609,084
Less unearned interest	12,305,395	14,218,571
Total financial leases, net	108,302,008	120,390,513

(8) Investments in Associates

The investments in associates are detailed as follows:

		Equity Participation			
Associates	**Activity**	**2018**	**2017**	**2018**	**2017**
Telered, S. A.	Processing of electronic transactions	40%	40%	10,674,693	7,427,075
Proyectos de Infraestructura, S. A.	Real estate investors	38%	38%	6,028,239	5,961,080
Processing Center, S. A.	Credit card processing	49%	49%	6,704,319	6,317,596
Financial Warehousing of Latin America, Inc.	Administrator of trust funds	38%	38%	2,627,465	2,370,002
				26,034,716	22,075,753

The financial information of investments in associates is summarized as follows:

2018

Associates	Financial Information Date	Assets	Liabilities	Equity	Income	Expenses	Net Profit (Loss)	Equity Participation
Telered, S. A.	30-nov-2018	41,358,796	11,986,119	29,372,677	41,522,277	28,524,806	12,997,471	5,603,253
Proyectos de Infraestructura, S. A.	31-dic-2018	15,800,432	0	15,800,432	2,466,516	498	2,466,018	927,334
Processing Center, S. A.	30-nov-2018	19,216,004	6,023,517	13,192,487	17,099,443	11,308,921	5,790,522	2,883,051
Financial Warehousing of Latin America, Inc.	31- oct-2018	8,912,230	2,588,760	6,323,470	3,632,089	1,768,841	1,863,248	520,803
Total								9,934,441

2017

Associates	Financial Information Date	Assets	Liabilities	Equity	Income	Expenses	Net Profit (Loss)	Equity Participation
Telered, S. A.	30-nov-2017	30,316,995	7,109,684	23,207,311	39,213,896	28,779,231	10,434,665	4,579,435
Proyectos de Infraestructura, S. A.	31-dic-2017	15,584,414	0	15,584,414	2,092,387	509	2,091,878	815,433
Processing Center, S. A.	30-nov-2017	16,813,365	4,277,455	12,535,910	16,504,377	11,422,611	5,081,766	2,625,336
Financial Warehousing of Latin America, Inc.	30-nov-2017	7,383,971	1,302,805	6,081,166	4,235,069	1,927,571	2,307,498	549,422
Total								8,569,626

(9) Property, Furniture, Equipment and Improvements

Property, furniture, equipment and improvements are summarized as follows:

2018

	Land	Buildings	Licenses and Internally developed projects	Furniture and Equipment	Improvements	Total
Cost:						
At beginning of year	32,076,810	130,415,437	87,218,844	115,290,423	36,573,777	401,575,291
Additions	220,679	4,911,259	26,009,959	2,367,990	2,832,978	36,342,865
Sales and disposals	150,000	0	2,572	13,484,591	661,667	14,298,830
At end of year	32,147,489	135,326,696	113,226,231	104,173,822	38,745,088	423,619,326
Accumulated depreciation and amortization:						
At beginning of year	0	26,510,195	56,121,288	68,748,375	26,995,281	178,375,139
Expense of the year	0	3,584,810	8,819,301	10,707,753	1,871,914	24,983,778
Sales and disposal	0	0	2,572	13,480,275	661,667	14,144,514
At end of year	0	30,095,005	64,938,017	65,975,853	28,205,528	189,214,403
Net balance	32,147,489	105,231,691	48,288,214	38,197,969	10,539,560	234,404,923

2017

	Land	Buildings	Licenses and Internally developed projects	Furniture and Equipment	Improvements	Total
Cost:						
At beginning of year	36,142,044	128,747,027	71,575,101	89,350,561	36,583,555	362,398,288
Additions	0	7,599,962	16,729,142	29,350,825	2,942,572	56,622,501
Sales and disposals	4,065,234	5,931,552	1,085,399	3,410,963	2,952,350	17,445,498
At end of year	32,076,810	130,415,437	87,218,844	115,290,423	36,573,777	401,575,291
Accumulated depreciation and amortization:						
At beginning of year	0	27,277,540	48,584,123	62,698,862	28,295,868	166,856,393
Expense of the year	0	2,641,014	8,621,730	9,328,071	1,623,629	22,214,444
Sales and disposal	0	3,408,359	1,084,565	3,278,558	2,924,216	10,695,698
At end of year	0	26,510,195	56,121,288	68,748,375	26,995,281	178,375,139
Net balance	32,076,810	103,905,242	31,097,556	46,542,048	9,578,496	223,200,152

(10) Securities and Other Financial Assets Sold and Purchased Pending Settlement

The Bank recognizes each sale and purchase of financial instruments on a trade-date basis; the settlement of the transaction generally occurs within three to thirty working days following the trade date. The period between the trade date and the settlement date varies depending on the type of financial instrument traded and the regulations in effect at the market where the negotiation occurred.

Securities and other financial assets pending settlement amounted to B/.389,698,425 (2017: B/.350,981,692) for sales of securities and other financial assets and B/.561,836,021 (2017: B/.405,771,013) for purchases of securities and other financial assets.

(11) Goodwill and Intangible Assets, Net

The following table summarizes the goodwill generated from the acquisition of the following entities:

Company	Date of acquisition	Equity	% Acquisition	Balance
Banco General, S. A.	March 2004	ProFuturo-Administradora de Fondos de Pensiones y Cesantías, S. A.	17%	679,018
Banco General, S. A.	March 2005	BankBoston, N.A. – Panama (banking operations)	100%	12,056,144
ProFuturo - Administradora de Fondos de Pensiones y Cesantías, S. A.	March 2005	Purchase of trust fund	100%	861,615
Banco General, S. A.	March 2007	Banco Continental de Panama, S. A. and subsidiaries (banking and fiduciary activities)	100%	27,494,722
Vale General, S. A.	July 2018	Pases Alimenticios, S. A. (administration and marketing of food vouchers)	100%	730,742
Total				**41,822,241**

On July 31, 2018, Finanzas Generales, S. A., through its subsidiary Vale General, S. A., acquired all shares of company Pases Alimenticios, S. A.

The fair value of the assets and liabilities acquired in this transaction are detailed as follows:

Cash and deposits in bank	372,785
Account receivable, net	132,810
Other assets	9,516
Other liabilities	(495,853)
Total net assets acquired	19,258
Consideration effectively transferred	(750,000)
Goodwill	(730,742)

The movement of goodwill and intangible assets is summarized as follows:

	2018		
	Goodwill	**Intangible assets**	**Total**
Cost:			
Balance at beginning and end of year	41,091,499	47,462,084	88,553,583
Addition by acquisition	730,742	0	730,742
Net balance at end of year	41,822,241	47,462,084	89,284,325
Accumulated amortization:			
Balance at beginning of year	0	26,828,225	26,828,225
Expense of the year	0	2,617,387	2,617,387
Balance at end of year	0	29,445,612	29,445,612
Net balance at end of year	41,822,241	18,016,472	59,838,713

	2017		
	Goodwill	**Intangible assets**	**Total**
Cost:			
Balance at beginning and end of the year	41,091,499	47,462,084	88,553,583
Accumulated amortization:			
Balance at beginning of the year	0	24,210,833	24,210,833
Expense of year	0	2,617,392	2,617,392
Balance at end of the year	0	26,828,225	26,828,225
Net balance at end of the year	41,091,499	20,633,859	61,725,358

To test for impairment of goodwill or other intangible assets, a valuation of several assets (contracts, portfolios) or businesses acquired by the Bank is made annually to determine if the recoverable amount of an asset or business is greater than is carrying amount. In assessing value in use, the Bank mainly uses a discounted future cash flows model or alternative valuation models including multiples of earnings and equity, as applicable.

It is the Bank's policy to conduct an impairment test on an annual basis or when there is evidence of impairment. As of December 31, 2018 and 2017, no impairment losses on goodwill or intangibles assets was recognized. The valuation used by discounting the future cash flows generated from the acquisition of assets or businesses resulted in a present value which exceeded their carrying value.

To carry out the valuation of assets and businesses acquired, expected net cash flows of assets or businesses were projected for periods ranging from six to ten years and included a perpetual growth at the end of the period to estimate terminal cash flows. The growth rates in assets or businesses fluctuate based on their individual nature, and the current range is between 0% and 10%, while the perpetual growth rate ranged from 0% to 5%.

- To determine the growth rates of assets or businesses, the Bank used reference growth, performance, and actual historical metrics of relevant assets or businesses, future prospects, anticipated macroeconomic growth of the country, business segments or evaluated business; as well as the Bank's business plans and expected growth rates in general, and for specific business assessment.

- To calculate the present value of future cash flows and determine the value of the assets or businesses being evaluated, the Bank's estimated average cost of capital was used as a discount rate for the periods referred to, when the business unit being assessed is the Bank; when discounting cash flows of assets or units with a profile other than that of the Bank, the applicable cost of capital to that unit is used. The Bank's capital cost is based on the average interest rates of long-term AAA dollar instruments, the country risk premium and return premium applicable for capital investments. The cost of capital used fluctuates between 10.08% and 11.08% and changes over time.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonable possible changes under these assumptions do not affect the recoverable amount of the business units or decreases them below their carrying amounts.

The amortization expense is presented in the consolidated statement of income as commission and other expenses.

(12) Foreclosed Assets, Net

The Bank holds foreclosed assets, amounting to B/.17,570,968 (2017: B/.6,867,857), less a reserve of B/.2,567,370 (2017: B/.1,200,286).

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

	2018	**2017**
Balance at beginning of year	1,200,286	1,300,482
Provisions charged to expenses	2,038,159	1,035,369
Reversal of provision	(155,684)	(496,368)
Foreclosed assets sold	(515,391)	(639,197)
Balance at end of year	2,567,370	1,200,286

(13) Securities Sold Under Repurchase Agreements

As of December 31, 2017 the Bank helded obligations from securities sold under repurchase agreements which amounted to B/.45,814,600 with various maturities until April 2020 at an annual interest rate 3.63%; the average interest rate of these securities was 3.63%. These securities were guaranteed by investment securities that amounted to B/.47,027,583.

(14) Other Financial Liabilities at Fair Value

The Bank holds, within other liabilities caption, financial liabilities of debt instruments at fair value arising from short sales, which are summarized as follows:

	Level	**2018**	**2017**
"Mortgage Backed Securities" (MBS)	2	127,004,276	124,725,921
Bonds issued by the US Government	1	0	13,541,088
Total		127,004,276	138,267,009

See the description of the main valuation methods, assumptions and variables used in estimating the fair value of these liabilities and the Levels in note 6.

(15) Borrowings and Debt Securities Issued, Net

The Bank issued bonds payable and other borrowings, as follows:

	2018	**2017**
Corporate bonds with maturities in 2018, at an annual interest rate of 1.625%, issued in CHF 180MM	0	184,710,108
Corporate bonds with maturities in 2018, at an annual interest rate of 2.50%	0	5,200,000
Corporate bonds with maturities in 2019, at an annual interest rate of 2.75%	25,000,000	25,000,000
Corporate bonds with maturities in 2021, at an interest rate of 3 month Libor plus a margin	75,000	75,000
Corporate bonds with maturities in 2026, at an interest rate of 3 month Libor plus a margin	2,680,000	2,680,000
Corporate bonds with maturities in 2027, at an annual interest rate of 4.125%	550,000,000	550,000,000
Borrowings with maturity in 2018, at interest rates of 3 and 6 month Libor plus a margin	0	290,828,863
Borrowings with maturity in 2019, at interest rates of 3 and 6 month Libor plus a margin	217,015,548	267,515,625
Borrowings with maturity in 2020, at interest rates of 3 and 6 month Libor plus a margin	1,406,725,729	904,444,444
Borrowings with maturity in 2021, at interest rates of 6 month Libor plus a margin	75,703,125	0
Borrowings with maturity in 2022, at interest rates of 3 and 6 month Libor plus a margin	290,384,615	101,923,077
Borrowings with maturity in 2023, at interest rates of 3 month Libor plus a margin	47,368,422	50,000,000
Borrowing under USAID (guarantor) program with maturity in 2025, at a fixed annual interest rate of 7.65%	3,603,252	3,988,091
Notes with maturities in 2024, at a fixed interest rate	200,000,000	200,000,000
Notes with maturities in 2027, at a fixed interest rate	75,000,000	75,000,000
Subtotal borrowings and debit securities issued	2,893,305,691	2,661,365,208
Less: Accumulated revaluations of borrowings and debt securities issued under hedge accounting	6,777,349	0
Total borrowings and debit securities issued, net	2,886,528,342	2,661,365,208

The fund obtained in 1985 under the USAID Housing Program resulted from the Bank's participation in the Housing Program No.525-HG-013 with the United States of America Agency for International Development (USAID), which involves the financing of low cost housing by foreign investors. These borrowings have a maturity of thirty (30) years, and a grace period of ten (10) years for repayment of principal. These borrowings are guaranteed by USAID. In turn, the Bank must keep these borrowings secured by mortgage loans pledged on behalf of USAID that amounted to B/.4,504,065 (2017: B/.4,985,114), representing 1.25 times the amount of the borrowed funds.

The Bank is the residual beneficiary of the liquid assets of Banco General DPR Funding Limited, a special purpose entity. The following transactions have been executed through this entity: in 2012 a borrowing in the amount of B/.100,000,000; in 2016 a borrowing in the amount of B/.50,000,000 and notes in the amount of B/.200,000,000; in 2017 a borrowing in the amount of B/.50,000,000 and notes in the amount of B/.75,000,000 collateralized with future cash flows of remittances received (MT103). The Bank must maintain a money market deposit with an amount equivalent to the next quarterly payment of principal, interest and expense, which is presented within the Deposits with banks caption. The balance of the financing received is B/.372,368,422 (2017: B/.375,000,000).

The borrowings detailed above were agreed to following terms and types of fees: 7 years with capital repayments from the second year and an interest rate of 3 month Libor plus a margin (2012), 7 years with capital repayments from the second year and an interest rate of 3 month labor plus a margin for the borrowing (2016), 8 years with capital repayments from the third year and a fixed interest rate for the notes (2016), 5 years with capital repayments from the second year and a interest rate of 3 month Libor plus a margin for the borrowing (2017) and 10 years with capital repayments from the fifth year and a fixed interest rate for notes (2017).

During 2016, the Bank agreed medium-term borrowings amount of B/.206,500,000 with a variable rate of Libor 3 months plus a margin and payment of quarterly interest and capital to maturity. The loans were syndicated between commercial banks in the United States, Europe, Asia, the Middle East and Latin America

In August 2017, the Bank issued bonds in the international market under the Standard 144A/Reg S for the amount of B/.550,000,000 with a ten-year fixed coupon of 4.125 and a maturity date of August 7, 2027. The bonds have biannual interest payments on the 7th day of February and August of each year, beginning on February 7, 2018. The principal amount will be paid at maturity.

In December 2017, the Bank obtained midterm financing of B/.800,000,000 with an interest rate of 3 month Libor plus a margin. The loans were syndicated among commercial banks in the United States, Europe, Asia, Middle East and Latin America. These funds were used to prepay the 2015 B/.500,000,000 financing with expiration on May 21, 2018.

In June 2018, the Bank made use of the "Increase Facility" of the borrowings agreements agreed in December 2017, syndicating medium-term loans amount of B/.300,000,000, with a variable rate of Libor 3 months plus a margin. The loans were syndicated between commercial banks in the United States, Europe, Asia, the Middle East and Latin America.

In October 2018, the Bank agreed medium-term borrowings amount of B/.200,000,000, with a variable rate of Libor 3 months plus a margin and payment of quarterly interest and capital at maturity. The loans were syndicated between commercial banks in the United States, Europe and Asia.

The Bank had no default events and is in compliance as to principal, interest or other contractual clauses relating to its borrowings and debt securities issued.

The movement during the year of borrowings and debt securities issued, net is detailed below for the reconciliation with the consolidated statement of cash flows:

	2018	**2017**
Balance at beginning of year	2,661,365,208	1,950,624,340
New borrowings and debt securities issued	801,199,610	1,538,668,863
Redemption of debt securities issued and cancellation of borrowings	(565,126,868)	(835,924,967)
Product of currency exchange fluctuations	(4,132,259)	7,996,972
Revaluations of borrowings and debt securities issued under hedge accounting during the year	(6,777,349)	0
Balance at end of year	2,886,528,342	2,661,365,208

(16) Perpetual Bonds

Under Resolution No.366-08 of November 24, 2008, issued by the Superintendence of the Securities Markets of the Republic of Panama, Banco General, S. A. is authorized to offer Perpetual Bonds with a face value of up to B/.250,000,000 through public offering. The bonds will be issued in nominative, registered form, with no coupons, in one series, in denominations of B/.10,000 and multiples of B/.1,000, with no specific maturity or redemption date. Also, they can be redeemed by the Issuer, at its discretion either totally or partially, starting on the fifth year after the issuance date and at any interest payment day after that first redemption date. The bonds will earn a 6.5% interest rate and interest will be paid quarterly. The Bank, under certain circumstances, as described in the informative prospectus, may suspend interest payment without being considered in default. The bond's repayment is subordinated to all existing and future preferential borrowings of the issuer, and backed solely by the general credit worthiness of Banco General, S. A.

The balance of perpetual bonds is B/.217,680,000 (2017: B/.217,680,000).

(17) Liabilities from Insurance Operations

Liabilities from insurance operations amounted to B/.17,648,645 (2017: B/.16,999,292) and are comprised of unearned premiums and estimated insurance claims incurred. The movement of the reserves for insurance operations is summarized as follows:

	2018	2017
Unearned Premiums		
Balance at beginning of year	19,043,645	18,137,706
Issued premiums	37,731,101	36,703,164
Earned premiums	(37,122,407)	(35,797,225)
Balance at end of year	19,652,339	19,043,645
Reinsurers participation	(4,473,403)	(4,379,851)
Unearned premiums, net	15,178,936	14,663,794
Insurance Claims Incurred, Estimated		
Balance at beginning of year	2,530,640	1,868,969
Incurred claims	6,883,588	6,930,692
Paid claims	(6,258,004)	(6,269,021)
Balance at end of year	3,156,224	2,530,640
Reinsurer participation	(686,515)	(195,142)
Insurance claims incurred, net estimated	2,469,709	2,335,498
Total insurance claims reserves	17,648,645	16,999,292

(18) Concentration of Financial Assets and Liabilities

The geographical concentration of the most significant financial assets and liabilities is as follows:

		2018		
	Panama	Latin America and the Caribbean	United States of America and Others	Total
Assets:				
Deposits with banks:				
Demand deposits	5,407,158	84,935,575	194,594,693	284,937,426
Time deposits	206,247,436	480,688	0	206,728,124
Investment securities and other financial assets at FVTPL	81,422,168	29,726,910	671,042,117	782,191,195
Investment securities and other financial assets at FVOCI	1,251,896,519	229,945,640	2,913,017,822	4,394,859,981
Investment securities at amortized cost, net	0	0	10,948,692	10,948,692
Loans	10,545,529,483	1,406,825,399	29,792	11,952,384,674
Total	12,090,502,764	1,751,914,212	3,789,633,116	17,632,050,092
Liabilities:				
Deposits:				
Demand	2,703,594,552	114,524,009	17,813,510	2,835,932,071
Saving	3,422,212,563	84,106,486	8,844,082	3,515,163,131
Time	5,548,077,869	321,500,372	7,633,587	5,877,211,828
Borrowings and debt securities issued, net	112,286,250	102,000,000	2,672,242,092	2,886,528,342
Perpetual bonds	217,680,000	0	0	217,680,000
Other liabilities/securities sold short	0	0	127,004,276	127,004,276
Total	12,003,851,234	622,130,867	2,833,537,547	15,459,519,648
Commitments and contingencies	984,019,123	10,660,351	0	994,679,474

	2017			
	Panama	Latin America and the Caribbean	United States of America and Others	Total
Assets:				
Deposits with banks:				
Demand deposits	11,262,993	77,961,915	166,277,659	255,502,567
Time deposits	212,247,017	412,458	94,026,167	306,685,642
Securities and other financial assets at fair value through profit or loss	80,365,271	57,774,648	1,022,104,366	1,160,244,285
Securities and other financial assets available-for-sale	1,205,215,330	179,082,214	1,820,259,204	3,204,556,748
Securities held to maturity, net	35,573,158	0	14,409,664	49,982,822
Loans	10,176,209,330	1,329,437,283	414,139	11,506,060,752
Total	11,720,873,099	1,644,668,518	3,117,491,199	16,483,032,816
Liabilities:				
Deposits:				
Demand	2,355,393,070	123,475,612	15,516,346	2,494,385,028
Saving	3,323,170,618	65,533,137	9,851,164	3,398,554,919
Time	5,236,970,748	320,189,943	8,326,448	5,565,487,139
Securities sold under repurchase agreements	0	0	45,814,600	45,814,600
Borrowings and debt securities issued	78,970,625	55,000,000	2,527,394,583	2,661,365,208
Perpetual bonds	217,680,000	0	0	217,680,000
Other liabilities/securities sold short	0	0	138,267,009	138,267,009
Total	11,212,185,061	564,198,692	2,745,170,150	14,521,553,903
Commitments and contingencies	1,103,425,566	9,205,076	0	1,112,630,642

(19) Segment Information

The Bank maintains three business segments for its financial analysis, which offer different products and services and are managed separately, consistent with the way in which management receives data, budgets and assesses their performance.

Segments	Operations
Banking and Financial Activities	Various financial services, mainly corporate, mortgage and consumer banking, financial leases, discounted bills, administration of trusts, administration and marketing of pretax food and health related contributions and securities brokerage
Insurance and Reinsurance	Insurance and reinsurance of policies of general lines, collective life and various risks
Pension and Retirement Fund Management	Administration of pension and retirement, severance and investment funds

The Bank's management prepared the following segment information based on the bank's businesses for its financial analysis:

	2018				
	Banking and financial activities	**Insurance and reinsurance**	**Pension and retirement fund management**	**Eliminations**	**Total**
Interest and commission income	999,951,865	5,855,491	981,337	3,223,046	1,003,565,647
Interest and provision expenses	401,661,999	(3,137)	0	3,223,046	398,435,816
Other income, net	134,367,687	24,698,193	12,672,454	10,938	171,727,396
General and administrative expenses	260,697,669	2,764,196	5,532,281	10,938	268,983,208
Depreciation and amortization expense	24,495,777	228,038	259,963	0	24,983,778
Equity participation in associates	9,934,441	0	0	0	9,934,441
Net income before income tax	457,398,548	27,564,587	7,861,547	0	492,824,682
Net Income tax	52,343,275	4,512,070	1,761,131	0	58,616,476
Net income	405,055,273	23,052,517	6,100,416	0	434,208,206
Total assets	18,577,880,273	255,753,937	32,870,144	162,347,844	18,704,156,510
Total liabilities	16,605,763,019	55,694,246	618,498	142,941,782	16,519,133,981

	2017				
	Banking and financial activities	**Insurance and reinsurance**	**Pension and retirement fund management**	**Eliminations**	**Total**
Interest and commission income	888,013,229	5,112,307	775,724	2,250,703	891,650,557
Interest and provision expenses	340,536,031	0	0	2,250,703	338,285,328
Other income, net	169,811,364	22,525,065	11,825,719	10,234	204,151,914
General and administrative expenses	250,118,976	2,836,473	5,239,576	10,234	258,184,791
Depreciation and amortization expense	21,764,803	228,649	220,992	0	22,214,444
Equity participation in associates	8,569,626	0	0	0	8,569,626
Net income before income tax	453,974,409	24,572,250	7,140,875	0	485,687,534
Net Income tax	50,606,331	3,730,890	1,603,786	0	55,941,007
Net income	403,368,078	20,841,360	5,537,089	0	429,746,527
Total assets	17,432,536,491	230,925,596	27,203,051	118,743,190	17,571,921,948
Total liabilities	15,572,481,802	53,384,063	850,401	100,637,128	15,526,079,138

The composition of the secondary segment based on geographical distribution is as follows:

	2018			
	Panama	**Latin America and the Caribbean**	**United States of America and Others**	**Total**
Total income, net	986,172,868	115,969,725	83,084,891	1,185,227,484
Nonfinancial assets	289,339,541	4,904,095	0	294,243,636

	2017			
	Panama	**Latin America and the Caribbean**	**United States of America and Others**	**Total**
Total income, net	952,263,626	84,795,390	67,313,081	1,104,372,097
Nonfinancial assets	279,285,496	5,640,014	0	284,925,510

(20) Equity

The authorized share capital of Banco General, S. A. is represented by 10,000,000 common shares without par value (2017: 10,000,000 common shares); of which there are 9,787,108 common shares issued and outstanding (2017: 9,787,108 common shares).

The legal reserves are established pursuant to regulations of the Superintendence of Banks of Panama, the Superintendence of Insurance and Reinsurance of Panama and the General Superintendence of Financial Entities of Costa Rica.

The detail of the legal reserve and its transfer from retained earnings is summarized as follows:

	2018				
	Reserves				
	Dynamic	Foreclosed Assets	Legal	Insurance	Total
Banco General, S. A.	133,877,476	757,386	0	0	134,634,862
Finanzas Generales, S. A.	2,810,061	0	0	0	2,810,061
General de Seguros, S. A.	0	0	0	29,135,566	29,135,566
Banco General (Overseas), Inc.	9,480,047	0	0	0	9,480,047
Banco General (Costa Rica), S. A.	4,951,850	0	1,085,957	0	6,037,807
Total	151,119,434	757,386	1,085,957	29,135,566	182,098,343

	2017				
	Reserves				
	Dynamic	Foreclosed Assets	Legal	Insurance	Total
Banco General, S. A.	133,877,476	381,637	0	0	134,259,113
Finanzas Generales, S. A.	2,810,061	0	0	0	2,810,061
General de Seguros, S. A.	0	0	0	27,328,263	27,328,263
Banco General (Overseas), Inc.	9,480,047	0	0	0	9,480,047
Banco General (Costa Rica), S. A.	4,580,865	0	1,002,898	0	5,583,763
Total	150,748,449	381,637	1,002,898	27,328,263	179,461,247
Transfer from retained earnings of the year	370,985	375,749	83,059	1,807,303	2,637,096

The Bank, through its subsidiary General de Seguros, S. A., maintains legal reserves and reserves for statistical deviations and catastrophic risks as established by the Superintendence of Insurance and Reinsurance of Panama. The use and restitution of these reserves shall be regulated by the Superintendence of Insurance and Reinsurance of the Republic of Panama.

The complementary tax of companies establish in the Republic of Panama corresponds to the advance of the dividend tax that is applied to the net income of the year and that the taxpayer must retain and pay to the tax authorities within the stipulated years. The tax is attributable to the shareholder and it is applied as a tax credit at the time of distribution of dividends.

(21) (Loss) Gain on Financial Instruments, Net

The net (loss) gain on financial instruments included in the consolidated income statement is summarized as follows:

	2018	**2017**
Unrealized (loss) gain on securities and other financial assets	(5,561,507)	22,024,053
Unrealized loss on derivative instruments	(3,046,425)	(4,700,900)
(Loss) gain on sale of securities and other financial assets at FV through profit or loss, net	(2,053,530)	4,102,716
Loss on sale of securities and other financial assets FVTPL, net (2017: AFS)	(7,826,666)	(1,029,905)
Realized gain (loss) on derivative instruments	6,949,891	(3,918,587)
(Loss) gain on financial instruments, net	(11,538,237)	16,477,377

The (loss) gain on the sale of securities and other financial assets to FV through profit or loss, net includes gain on sale of financial instruments of debt for short sales amount of B/.1,972,959 (2017: loss amount of B/.2,688,110).

Detail of (loss) gain on sale of securities and other financial assets, net by type of classification, is disclosed in Note 6.

(22) Other Income, Net

Other income, net included in the consolidated income statement, is summarized as follows:

	2018	**2017**
Dividends	5,089,377	2,424,611
Foreign exchange fluctuations, net	(1,328,557)	(5,791,607)
Various banking services	14,572,075	15,730,344
Gain on sale of fixed assets, net	319,475	18,374,575
Fiduciary services	152,641	155,314
Other income	6,844,314	8,192,372
Total other income, net	25,649,325	39,085,609

(23) Personnel Benefits

Contributions made by the Bank corresponding to personnel benefits are recognized as salaries and other employee expenses in the consolidated statement of income.

Share-Based Compensation Plan

The balance of options granted by the Bank to its key participating executives to purchase shares from Grupo Financiero BG, S. A. is 4,940,385 (2017: 3,909,010). The options outstanding are 2,048,943 (2017: 1,340,480), which have an average exercise price of B/.63.47 (2017: B/.52.54). The total expense relating to the options granted to the participants, based on their fair value, amounted to B/.1,523,755 (2017: B/.1,429,349). These options may be exercised by the executives until the year 2026.

Restricted Share Plan
On March 2018, the Board of Directors of Grupo Financiero BG, S. A. approved to grant up to 325,000 common shares of its authorized share capital in order to be awarded under the Restricted Share Plan for participants, which applies for the 2018-2022 period.

The number of shares to be granted will be determined annually by the Compensation Committee of the Board of Grupo Financiero BG, S. A. based on the performance of the Bank and its participants.

The shares to be issued to the participants are awarded at the average price of the month preceding the grant quoted in the Stock Exchange of Panama.

Once the restricted shares are issued, the participant may dispose of them as follows: 50% after the first year and 50% after the second year.

As the restricted share plan is a voluntary plan it may be discontinued by the Board of Directors of Grupo Financiero BG, S. A. at its sole discretion.

In 2018, 43,807 (2017: 36,694) shares were granted under the restricted share plan and recognized as an expense of B/.3,444,780 (2017: B/.3,290,103). The reconciliation of the balance for these shares is as follows:

	2018	2017
Shares at the beginning of year	0	36,694
Shares approved	350,000	0
Shares issued	(43,807)	(36,694)
Balance at end of year	306,193	0

Retirement Plan
The Bank maintains a closed retirement plan, which was amended and approved by the Board of Directors in 1998; this plan is under independent administration by a fiduciary agent.

The contribution to the retirement plan was B/.134,568 (2017: B/.134,568) and the disbursements to former employees who are covered under the retirement plan amounted to B/.178,022 (2017: B/.178,022).

(24) Income Tax
Income tax returns of companies incorporated in the Republic of Panama, are subject to examination by local tax authorities for the last three years.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on the following: profits derived from foreign operations, interest earned on deposits with local banks, securities issued by the Government of Panama, securities listed with the Superintendence of the Securities Markets and the Panama stock exchange and, lastly, securities and loans to the Panamanian government and its autonomous and semi-autonomous institutions.

Companies incorporated in the following jurisdictions are subject to income tax rates imposed by the respective local tax authorities:

Country	Tax rate
Panama	25%
Costa Rica	30%

The companies incorporated in Cayman Islands and British Virgin Islands are not subject to the payment of income tax, due to the nature of their foreign operations.

The income tax amounted to B/.60,866,030 (2017: B/.58,287,286) on financial income generated by companies incorporated in the Republic of Panama B/.439,273,373 (2017: B/.417,714,272) The average effective income tax rate for the year ended December 31, 2018 was 14% (2017: 14%). The income tax rate applicable according to current legislation in the Republic of Panama is 25% (2017: 25%) or based on the alternative calculation, whichever is greater.

Income tax, net is detailed as follows:

	2018	2017
Estimated income tax	62,037,804	58,937,544
Prior year income tax adjustments	350,547	533,726
Deferred income tax	(3,771,875)	(3,530,263)
	58,616,476	55,941,007

The reconciliation between financial income before income tax and net taxable income, from companies incorporated in the Republic of Panama, is detailed as follows:

	2018	2017
Financial income before income tax	439,273,373	417,714,272
Foreign, exempt and non taxable income, net	(346,144,712)	(290,665,546)
Non deductible costs and expenses	150,335,460	106,100,418
Net taxable income	243,464,121	233,149,144

The income tax paid in cash during 2018 was B/.35,195,942 (2017: B/.47,670,493).

The detail of deferred income tax asset and liability, recorded by the Bank, is as follows:

	2018	2017
Deferred income tax – asset:		
Allowance for loan losses	37,681,165	33,623,858
Allowance for other real estate owned	426,484	132,583
Total deferred income tax – asset	38,107,649	33,756,441
Deferred income tax – liability:		
Allowance for losses on financial leases	(191,314)	(448,264)
Allowance for other real estate owned	(7,218)	(3,878)
Allowance for losses on loans	149,409	0
Allowance for losses on securities	(25,153)	0
Financial lease operations	3,076,348	3,554,643
Deferred commission expense	467,336	437,068
Total deferred income tax – liability	3,469,408	3,539,569

Based on the current and projected results, the Bank's management considers that there will be sufficient taxable income to absorb the deferred taxes detailed above.

(25) Commitments and Contingencies

In the normal course of business, the Bank holds commitments and contingencies which are not reflected in the consolidated statement of financial position that involve certain levels of credit and liquidity risks.

Guarantees issued on behalf of customers, letters of credit and promissory notes include certain exposure to credit loss in the event of non-compliance by the customer, net of collateral guarantees securing these transactions. The Bank's policies and procedures to approve these commitments are similar to those for extending loan facilities recorded within the Bank's assets.

In accordance with the calculations made by the Bank's management the amount of allowance for expected credit losses associated with these commitments are not significant.

Off balance sheet commitments, by maturity are summarized as follows:

		2018	
	0 – 1 year	1 – 5 years	Total
Letters of credit	166,739,681	43,049,940	209,789,621
Financial guarantees	44,097,699	38,080,124	82,177,823
Mortgage disbursement commitment	702,712,030	0	702,712,030
Total	913,549,410	81,130,064	994,679,474

		2017	
	0 – 1 year	**1 – 5 years**	**Total**
Letters of credit	166,621,110	30,657,714	197,278,824
Financial guarantees	59,492,310	23,496,047	82,988,357
Mortgage disbursement commitment	832,363,461	0	832,363,461
Total	1,058,476,881	54,153,761	1,112,630,642

Credit Quality Analysis of Commitments and Contingencies
The table below presents information about the credit quality of commitments and contingencies held by the Bank:

	2018	**2017**
Maximum exposure		
Carrying amount	994,679,474	1,112,630,642
Letters of credit		
Grade 1: Standard	201,321,628	193,134,894
Grade 2: Special mention	7,662,059	2,830,305
Grade 3: Sub-standard	805,934	1,313,625
Gross amount	209,789,621	197,278,824
Financial guarantees		
Grade 1: Standard	81,652,537	82,416,773
Grade 2: Special mention	209,461	381,178
Grade 3: Sub-standard	315,825	190,406
Gross amount	82,177,823	82,988,357
Mortgage disbursement commitment		
Grade 1: Standard	697,333,289	824,946,709
Grade 2: Special mention	3,461,992	2,687,087
Grade 3: Sub-standard	1,075,671	2,323,727
Grade 4: Doubtful	841,078	1,654,202
Grade 5: Loss	0	751,736
Gross amount	702,712,030	832,363,461

The Bank is not involved in any litigation that in management's opinion may result in a material adverse effect on the Bank, its consolidated financial position or to its consolidated financial performance.

(26) Investment Entities and Separate Vehicles

The Bank managed trust contracts at client's own risk in the amount of B/.2,491,053,094 (2017: B/.2,357,209,093), and had the custody of securities in investment accounts at client's own risk amounting to B/.10,885,827,104 (2017: B/.10,219,936,357). Given the nature of these services, the Bank's management considers that there are no significant risks attributable to the Bank.

At December 31, 2018 the Bank does not hold assets under discretionary investment management.

(27) Structured Entities

The following table describes the structured entity designed by the Bank:

Type of structured entity	Nature and purpose	Interest held by the Bank
- Investment funds	To offer an alternative to investors through a diversified portfolio while preserving capital	10.66% (2017: 11.72%)

The funds managed at client's own risk amount to B/.496,066,082 (2017: B/.468,477,962); income fees for administration and custody amount to B/.5,555,254 (2017: B/.4,935,381), and are presented as Fees and other commissions in the consolidated statement of income.

The Bank has no contractual obligation to provide financial or other types of support to this unconsolidated structured entity.

(28) Derivative Financial Instruments

The Bank uses interest rate swap contracts to reduce interest rate risk of both financial assets and financial liabilities. The Bank reduces the credit risk of these contracts by using solid financial institutions as counterparties. These contracts are recorded in the consolidated statement of financial position at fair value using the fair value hedge or cash flow hedge method, in other assets and other liabilities.

For fixed income portfolios under management of third parties, the Bank sometimes makes use of derivatives on fixed income instruments and currencies under defined limits and parameters. These derivatives are recorded at fair value in the consolidated statement of financial position

Summary of derivative contracts is as follow:

	Total		Exchange-Traded		Over the Counter (OTC): Liquidated in a securities exchange		Over the Counter (OTC): Other bilateral counterparts	
	Notional Value	Book Value	Notional Value	Book Value	Notional Value	Book Value	Notional Value	Book Value
2018								
Derivative assets	559,903,150	4,664,866	144,575,494	0	202,375,840	3,347,904	212,951,816	1,316,962
Derivative liabilities	1,429,091,296	17,142,352	56,400,000	0	758,432,473	13,207,837	614,258,823	3,934,515
2017								
Derivative assets	769,712,558	2,713,916	438,500,000	0	112,592,374	2,045,700	218,620,184	668,216
Derivative liabilities	1,560,856,702	32,682,895	360,400,000	0	443,932,810	3,216,998	756,523,892	29,465,897

The Bank held cash and cash equivalents as collateral in institutions that maintain risk ratings between AA- and BBB +, which support derivative operations in the amount of B/.21.4MM (2017: B/.38.1 MM).

The following table presents derivatives by type of derivative instrument:

Other Derivatives classified by Risk:

	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives				
Credit	914,521	3,031,648	1,896,547	1,188,420
Interest rate	2,361,220	2,777,732	632,110	3,567,728
Foreign exchange	482,971	816,641	174,633	27,926,747
Other	0	0	10,626	0
Total	3,758,712	6,626,021	2,713,916	32,682,895

As of December 31, 2018 the Bank holds derivatives contracts with a notional value of B/.1,988,994,446 (2017: B/.2,330,569,260), of which B/.1,287,279,290 (2017: B/.1,448,484,975) were managed by third parties. Of these derivatives managed by third parties, B/.1,033,987,667 (2017: B/.1,203,722,835) are intended to manage the duration and the interest rate risk on these portfolios.

The net impact of the derivative instruments on the interest expense on borrowings in the consolidated statement of income was B/.104,283 (2017: B/.(388,299)).

The following table presents derivatives hedge for risk management:

Hedge Derivatives at Fair Value:

	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedge derivatives for risk management:				
Interest rate	906,154	10,516,331	0	0
Total	906,154	10,516,331	0	0

Interest rate risk hedge accounting

The Bank uses interest rate swaps to hedge part of the fair value exposure of bonds issued and fixed rate notes from changes in a rate index for USD (Libor), and of investments in fixed rate bonds. “Interest rate swaps” must replicate the terms of these positions.

When using derivative instruments to hedge exposures from fluctuations in interest rates, the Bank is exposed to the counterparty risk of the derivative instrument. This risk is minimized by executing transactions with high credit-rating counterparties and liquidating operations with organized markets; in both cases with exchange of daily margins.

The effectiveness of hedging derivatives is analyzed qualitatively and it is concluded that there is no ineffectiveness because the terms of the derivatives are a mirror of the terms of the hedged risk component of the underlying assets and liabilities.

As of December 31, 2018, the Bank held the following interest rate derivatives as fair value hedges for risk management:

Risk Category	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
			Maturity		
Interest rate risk					
Hedging of Bonds					
Notional Value	0	0	0	62,250,000	20,000,000
Average interest rate				3.03%	6.00%
Hedging of Bonds and Notes					
Notional Value	0	0	0	0	350,000,000
Average interest rate					4.08%

As of December 31, 2018, the effects of hedge accounting on the financial situation are detailed as follows:

	Notional Value	Book Value Assets	Book Value Liabilities	Item in the Consolidated statement of financial position that include hedge instruments	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss
Interest rate risk:						
Interest rate derivatives – Bonds Hedge	82,250,000	733,434	1,502,543	Other assets (liabilities)	0	0
Interest rate derivatives – Bonds and notes Hedge	350,000,000	0	6,977,248	Other liabilities	0	0
Total interest rate risk	432,250,000	733,434	8,479,791			

The amounts relating to items designated as hedged items were as follows:

	Book Value Assets	Book Value Liabilities	Accumulated amount of fair value hedge item included in the carrying amount of the hedge item Assets	Accumulated amount of fair value hedge item included in the carrying amount of the hedge item Liabilities	Item in the statement of financial position in which the hedge item is included	Change in the value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedge items that have ceased to be adjusted for hedging gains and losses
Bonds	85,831,655		1,502,543	836,027	Investment securities FVOCI	0	0
Bonds and notes		350,000,000	6,777,350	0	Borrowing and debt securities issued	0	0

As of December 31, 2018 the Bank held the following interest rate derivatives as fair value hedges for risk management:

Risk Category	Maturity Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Interest rate risk					
Hedging of Borrowings					
Notional Value	0	0	0	250,000,000	0
Average interest rate				2.78%	

As of December 31, 2018, the effects of hedge accounting on the financial situation are detailed as follows:

	Notional Value	Book Value Assets	Liabilities	Item in the Consolidated statement of financial position that include hedge instruments	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss
Interest rate risk:						
Derivatives of interest rate – Borrowings Hedge	250,000,000	0	2,036,539	Other liabilities	0	0

The three levels of fair value that were categorized for derivatives are as follows:

	2018 Level 1	Level 2	Level 3	Total
Assets				
Other derivatives:				
Credit	0	914,521	0	914,521
Interest rate	0	2,361,220	0	2,361,220
Foreign exchange	0	482,971	0	482,971
Total	0	3,758,712	0	3,758,712
Hedge Derivatives for risk management:				
Interest rate	0	906,154	0	906,154
Total	0	906,154	0	906,154
Total derivatives assets	0	4,664,866	0	4,664,866
Liabilities				
Other derivatives:				
Credit	0	3,031,648	0	3,031,648
Interest rate	27,547	2,750,185	0	2,777,732
Foreign exchange	0	816,641	0	816,641
Total	27,547	6,598,474	0	6,626,021
Hedge Derivates for risk management:				
Interest rate	0	10,516,331	0	10,516,331
Total	0	10,516,331	0	10,516,331
Total derivates liabilities	**27,547**	**17,114,805**	**0**	**17,142,352**

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Trading derivatives:				
Credit	0	1,896,547	0	1,896,547
Interest rate	0	632,110	0	632,110
Foreign exchange	0	174,633	0	174,633
Other	0	10,626	0	10,626
Total	0	2,713,916	0	2,713,916
Total derivatives assets	0	**2,713,916**	0	**2,713,916**
Liabilities				
Trading derivatives:				
Credit	0	1,188,420	0	1,188,420
Interest rate	0	3,567,728	0	3,567,728
Foreign exchange	0	27,926,747	0	27,926,747
Total	0	32,682,895	0	32,682,895
Total derivates liabilities	0	**32,682,895**	0	**32,682,895**

The main valuation techniques, assumptions and inputs used to measure the fair value of derivatives are as follows:

Derivative	Valuation Technique	Inputs	Level
Organized Market	Quoted prices	Observable quoted prices in active markets	1-2
Over the Counter (OTC)	Discounted cash flow	Yield curves Yield foreign exchange Credit spreads Volatility	2

See Note 6, for the description of these Levels.

(29) Fair Value of Financial Instruments

The following assumptions, where practical, have been made by Management to estimate the fair value of financial assets and liabilities not measured at fair value:

(a) Securities and other financial assets

For securities and others financial assets, the fair value measurement is determined using quoted prices in active markets, prices from a third party pricing vendors, brokers, custodians, investment management companies and banks. In addition, for some cases the fair value measurement is determined using valuation techniques mainly by discounting cash flows at the appropriate discount rate for that instrument. The main valuation techniques are presented in Note 6.

(b) Demand deposits from customers/savings deposits from customers/securities sold under agreements to repurchase

For these financial instruments described above, the carrying value approximates their fair value due to their short-term nature.

(c) Loans
The fair value of the loan portfolio was determined by discounting the future cash flows at an interest rate that represents: (i) current market rates, and (ii) the future expected interest rates, for a term that takes into account the expected anticipated prepayments in the loan portfolio.

(d) Time deposits from customers and banks/borrowings and debt securities issued /perpetual bonds
The fair value of these financial instruments was determined by discounting the future cash flows at an interest rate that reflects: (i) current market rates, and (ii) the future expected interest rates, for a term that shows the remaining life of these instruments.

Fair value estimates are made at a specific date based on relevant market estimates and information about the financial instruments. These estimates do not reflect any premium or discount that could result from the offer to sell a specific financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and significant judgment; therefore, these estimates cannot be determined with precision. Changes in the assumptions or criteria could significantly affect the estimates.

The following table summarizes the carrying value and fair value of those significant financial assets and liabilities not measured at fair value in the Bank's consolidated statement of financial position:

	2018		2017	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
Time deposits	206,728,124	206,411,406	306,685,642	306,934,362
Securities at amortized cost (2017: held to maturity), net	10,948,692	10,950,000	49,982,822	61,425,701
Loans, net	11,752,748,950	11,711,853,419	11,322,973,693	11,295,615,060
	11,970,425,766	11,929,214,825	11,679,642,157	11,663,975,123
Liabilities:				
Deposits	12,228,307,030	12,210,533,516	11,458,427,086	11,474,663,716
Securities sold under repurchase agreements, borrowings, debt securities issued and perpetual bonds	3,104,208,342	3,062,526,236	2,924,859,808	2,871,051,545
	15,332,515,372	15,273,059,752	14,383,286,894	14,345,715,261

The table below summarizes the fair value hierarchy of financial instruments which are not measured at fair value in the Bank's consolidated statement of financial position:

	2018	Level 1	Level 2	Level 3
Assets:				
Time deposits	206,411,406	0	0	206,411,406
Securities at amortized cost, net	10,950,000	0	10,950,000	0
Loans, net	11,711,853,419	0	0	11,711,853,419
	11,929,214,825	0	10,950,000	11,918,264,825
Liabilities:				
Deposits	12,210,533,516	0	0	12,210,533,516
Borrowings and debt securities issued, perpetual bonds	3,062,526,236	0	0	3,062,526,236
	15,273,059,752	0	0	15,273,059,752

	2017	Level 1	Level 2	Level 3
Assets:				
Time deposits	306,934,362	0	0	306,934,362
Securities held to maturity, net	61,425,701	0	52,545,138	8,880,563
Loans, net	11,295,615,060	0	0	11,295,615,060
	11,663,975,123	0	52,545,138	11,611,429,985
Liabilities:				
Deposits	11,474,663,716	0	0	11,474,663,716
Securities sold under repurchase agreements, borrowings and debt securities issued, perpetual bonds	2,871,051,545	0	0	2,871,051,545
	14,345,715,261	0	0	14,345,715,261

See Note 6, for the description of these levels.

(30) Financial Instruments Risk Management

A financial instrument is any contract that originates a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. The Bank's consolidated statement of financial position is primarily composed of financial instruments.

Financial instruments expose the Bank to various types of risks. The Bank's Board of Directors has approved a Risk Management Policy to identify each significant risk the Bank is exposed to. In order to manage and monitor the several risks faced by the Bank, the Board of Directors has created the Credit Risk Committee of the Board of Directors, to oversee the liquidity, market, interest rate, exchange rate and counterparty risks. Likewise, the Board of Directors has established executive Committees, which are composed of key executives that monitor several risks faced by the Bank. These committees have established polices and limits in order to monitor, control and manage these risks. There is also an Audit Committee, composed of members of the Bank's Board of Directors that oversees the establishment of appropriate internal controls for reporting the Bank's financial information.

The main risks identified by the Bank are credit, counter-party, market, liquidity and financing, operational and capital management risks which are described as follows:

(a) Credit Risk

Is the risk that the debtor or issuer of a financial asset owned by the Bank does not fully and timely comply with any required payment, in conformity with terms and conditions agreed upon when the respective financial asset was acquired or originated by the Bank.

To mitigate credit risk, risk management policies establish limits by country, industry, and debtor. The Credit Committee appointed by the Board of Directors, periodically watches over the financial condition of debtors and issuers of financial instruments in the consolidated statement of financial position of the Bank.

Credit Quality Analysis

The table below sets out information on the credit quality of the loan portfolio and the allowance for impairment loss held by the Bank against those assets:

	2018 (in thousand)			
	12-month ECL	**Lifetime ECL Not credit-impaired**	**Lifetime ECL credit-Impaired**	**Total**
Loans at amortized cost				
Grade 1: Standard	11,167,496	46,963	0	11,214,459
Grade 2: Special mention	22,961	355,905	8,880	387,746
Grade 3: Sub-standard	9,210	18,555	103,890	131,655
Grade 4: Doubtful	5,763	3,974	58,353	68,090
Grade 5: Loss	1,844	1,076	39,213	42,133
Gross amount	11,207,274	426,473	210,336	11,844,083
Allowance for impairment	(86,391)	(24,483)	(47,248)	(158,122)
Net carrying amount	11,120,883	401,990	163,088	11,685,961
Financial leases				
Grade 1: Standard	103,337	3,063	16	106,416
Grade 2: Special mention	0	980	0	980
Grade 3: Sub-standard	0	6	151	157
Grade 4: Doubtful	0	0	29	29
Grade 5: Loss	0	0	720	720
Gross amount	103,337	4,049	916	108,302
Allowance for impairment	(218)	(62)	(129)	(409)
Net carrying amount	103,119	3,987	787	107,893
Total loans	**11,310,611**	**430,522**	**211,252**	**11,952,385**
Allowance for impairment	(86,609)	(24,545)	(47,377)	(158,531)
Net carrying amount	11,224,002	405,977	163,875	11,793,854
Renegotiated loans				
Gross amount	4,801	43,880	99,626	148,307
Allowance for impairment	(143)	(2,334)	(22,809)	(25,286)
Net carrying amount	4,658	41,546	76,817	123,021

Loans	**2017** (in thousands)
Maximum exposure	
Carrying amount	11,506,061
At amortized cost	
Grade 1: Standard	10,968,299
Grade 2: Special mention	324,854
Grade 3: Sub-standard	99,966
Grade 4: Doubtful	61,448
Grade 5: Loss	51,494
Gross amount	11,506,061
Allowance for impairment	(144,832)
Unearned commissions	(38,255)
Net carrying amount	11,322,974
Loans with renegotiated terms	
Gross carrying amount	148,250
Impaired amount	148,250
Allowance for impairment	(24,375)
Net carrying amount	123,875
Neither past due nor impaired	
Grade 1	10,811,611
Total	10,811,611
Past due but not impaired	
31 - 60 days	156,688
Total	156,688
Individually impaired	
Grade 2	118,404
Grade 3	67,659
Grade 4	35,823
Grade 5	25,709
Total	247,595
Allowance for impairment	
Individual	29,750
Collective	115,082
Total	144,832

The aging of the loan portfolio delinquency is presented as follows:

		2018	
	Banco General, S. A.	**Subsidiaries**	**Total**
Current	10,530,215,731	1,012,872,019	11,543,087,750
From 31 to 90 days	265,588,078	5,893,552	271,481,630
More than 90 days (capital or interest)	115,856,913	4,908,482	120,765,395
More than 30 days past due (capital)	17,049,899	0	17,049,899
Total	10,928,710,621	1,023,674,053	11,952,384,674

	2017		
	Banco General, S. A.	**Subsidiaries**	**Total**
Current	10,132,782,826	994,115,440	11,126,898,266
From 31 to 90 days	255,148,953	5,917,684	261,066,637
More than 90 days (capital or interest)	101,577,594	4,481,197	106,058,791
More than 30 days past due (capital)	11,933,900	103,158	12,037,058
Total	10,501,443,273	1,004,617,479	11,506,060,752

The following table analyzes the credit quality of the investments and other financial assets and impairment reserves held by the Bank, excluding corporate shares and mutual funds amounting to B/.54,324,120 (2017: B/.43,791,299), which are not subject to credit risk:

			2018		
	12-month ECL	**Lifetime ECL Not credit-impaired**	**Lifetime ECL credit-Impaired**	**Purchased credit-impaired**	**Total**
At amortized cost					
Foreign:					
AAA	10,950,000	0	0	0	10,950,000
Accumulated allowance	(1,308)	0	0	0	(1,308)
Net carrying amount	**10,948,692**	**0**	**0**	**0**	**10,948,692**
At FVOCI					
Local:					
AA+ to BBB-	688,640,137	0	0	0	688,640,137
Lower than BBB-	505,607,540	11,270,755	14,053,641	0	530,931,936
Local carrying amount	1,194,247,677	11,270,755	14,053,641	0	1,219,572,073
Valuation of credit risk	(1,787,390)	(686,244)	(2,050,346)	0	(4,523,980)
Foreign:					
AAA	1,746,979,979	0	0	0	1,746,979,979
AA+ to BBB-	1,222,335,575	0	0	0	1,222,335,575
Lower than BBB-	199,252,974	5,947,361	164,471	607,548	205,972,354
Foreign carrying amount	3,168,568,528	5,947,361	164,471	607,548	3,175,287,908
Valuation of credit risk	(5,082,110)	(107,721)	0	(12,277)	(5,202,108)
Total carrying amount	**4,362,816,205**	**17,218,116**	**14,218,112**	**607,548**	**4,394,859,981**
A Fair Value effect on profit or loss					
Local:					
AA+ to BBB-	2,562,700				
Lower than BBB-	53,334,703				
Local carrying amount	55,897,403				
Foreign:					
AAA	314,820,918				
AA+ to BBB-	249,070,161				
Lower than BBB-	107,868,665				
NR	209,928				
Foreign carrying amount	671,969,672				
Total carrying amount	**727,867,075**				

	2017
Maximum exposure	
Carrying amount	4,371,083,917
At Amortized Cost	
AAA	14,313,126
AA+ to A	15,217
BBB+ to BBB-	28,212,674
BB to B-	7,405,448
NR	127,718
Gross amount	50,074,183
Impairment amount	(91,361)
Net carrying amount	49,982,822
Available for Sale	
AAA	1,046,247,857
AA+ to A	516,005,602
A-	61,338,711
BBB+ to BBB-	703,928,713
BB+	134,297,700
BB to B-	732,815,797
Less than B-	48,756
NR	3,885,676
Carrying amount	3,198,568,812
At Fair Value through profit or loss	
AAA	770,283,975
AA+ to A	165,382,953
A-	182,824
BBB+ to BBB-	14,078,969
BB+	0
BB to B-	97,049,755
Less than B-	71,424,859
NR	4,037,587
Carrying amount	1,122,440,922

The analysis has been based on the highest ratings assigned amongst Fitch Ratings Inc., Moody's and Standard and Poor´s. In the case of local investments that do not have an international rating, the Bank uses an internal rating, which is consistent with international risk ratings.

Time deposits with banks
The time deposits with banks are held with central banks and financial institution counterparties that are rated at least between AAA to BBB-, based on ratings by Standard & Poor's, Moody's and Fitch Ratings Inc., amount to B/.199,247,436 (2017: B/.306,273,184).

According to the calculations made by management, the amounts of reserves for expected credit losses associated with these instruments are not significant.

Factors of major influence in the credit risk of the Bank and the assumptions used for this disclosure are as follows:

- *Impairment of loans and investments and other financial assets and deposits with banks:*
  Impairment of loans, investments and other financial assets and deposits with banks is determined by comparing the carrying value of the asset to its estimated recoverable amount. At December 31, 2017 and 2018 the Bank has no impaired deposits.

- *Past due but not impaired loans and investments and other financial assets:*
  Loans and investments and other financial assets that hold enough collateral and/or sources of repayment to cover the carrying value of such loans or investments and other financial assets are considered past due but not impaired, i.e., no losses incurred.

- *Restructured loans:*
  Restructured loans are those that due to deterioration in the borrower´s financial position, a significant variation in the original terms (balance, term, payment schedule, rate or guarantees) have been formally documented, due to material difficulties in the payment capacity of the debtor, and the result of the assessment of their current condition does not permit their reclassification to Standard.

- *Impairment reserves:*
  The Bank has established reserves for impairment of financial instruments, which are described in Note 3, literal h.

- *Charge-off policy:*
  The Bank periodically reviews its impaired corporate loan portfolio to identify credits that are deemed uncollectible and should be charged-off. For unsecured consumer loans, charge-offs are carried out based on the accrued level of delinquency. In the case of mortgage and consumer loans, charge-offs are recognized for the estimated portion of the carrying value that is not covered by loan collateral.

<u>*Collateral and other credit enhancements held to reduce credit risk*</u>
The Bank holds collateral and other credit enhancements to reduce its exposure to credit risk.

The table below sets out the principal types of collateral held against financial assets.

	% of exposure that is subject to collateral requirements 2018	2017	Type of collateral
Loans	79.09%	79.71%	Cash, Properties, Equipment, and Others
Investment and other financial assets	47.94%	53.28%	Cash, Properties, and Equipment

Residential mortgage loans
The table below presents the value of residential mortgage loans held within ranges of loan-to-value (LTV). The LTV is calculated as the ratio of the gross loan balance to the value of the collateral. The gross loan balances exclude any impairment allowance. The value of collateral for residential mortgage loans is based on the collateral value at loan origination, which in certain instances is updated on a periodic basis.

	2018	**2017**
Residential mortgages loans:		
Less than 50%	705,545,445	642,818,385
51% - 70%	1,124,901,767	1,004,888,972
71% - 90%	2,077,412,999	1,979,688,603
More than 90%	432,558,284	425,968,877
Total	4,340,418,495	4,053,364,837

Concentration of Credit Risk
The Bank monitors credit risk concentration by sector and geographic location. The analysis of credit risk concentration is presented below:

	Loans 2018 (in thousands)	Loans 2017 (in thousands)	Investments and other financial assets 2018 (in thousands)	Investments and other financial assets 2017 (in thousands)
Concentration by Sector:				
Corporate	5,382,515	5,351,181	3,042,510	2,562,121
Consumer	6,136,428	5,725,280	0	0
Government and Government Agencies	0	0	2,145,490	1,852,663
Other Sectors	433,442	429,600	0	0
	11,952,385	11,506,061	5,188,000	4,414,784
Geographical Concentration:				
Panama	10,545,530	10,176,210	1,333,319	1,321,154
Latin America and the Caribbean	1,406,825	1,329,437	259,672	236,857
United States of America and Other	30	414	3,595,009	2,856,773
	11,952,385	11,506,061	5,188,000	4,414,784

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

(b) *Counterparty Risk*

Counterparty risk is the risk that a counterparty does not comply with the settlement of a purchase or sale of securities or other instruments traded in financial markets.

Risk management policies set counterparty limits that determine, at every moment, the maximum amount of net exposure of unsettled transactions that the Bank can hold with a counterparty. The Assets and Liabilities Committee is responsible for identifying those acceptable counterparties taking into consideration the counterparty's history with respect to the fulfillment of obligations, as well as indications of its capability and position to comply with is obligations.

(c) *Market Risk*

Market risk is the risk that the value of the Bank's financial assets are reduced as a result of changes in interest rates, foreign currency exchange rates, stock prices, and also the impact of other financial variables that are out of the Bank's control.

Management of market risk:

Policies and global limits of exposure to investments, provided in the Investment Manual, are established and approved by the Bank's Board of Directors based on the Assets and Liabilities Committee's recommendation; which take into consideration the portfolio and the assets that comprise it.

The Bank's investment policies provide for the compliance of limits by total amount of the investment portfolio, individual limits by type of asset, by institution, by issuer and/or issue and maximum term by portfolio; for each portfolio the instruments to be included and their credit risk rating are specified.

In addition, the Bank has established maximum limits for market risk losses in its investment and other financial assets portfolio that may be caused by movements in interest rates, credit risk and fluctuations in the market values of equity investments.

Currently, the investment policy of the Bank does not contemplate investments in commodities.

The Assets and Liabilities Committee approves the use of derivatives as part of its strategy to manage the financial assets and liabilities of the Bank. It is the responsibility of the Treasury Unit of the Bank, to carry out interest rate derivative transactions based on the policies and approvals adopted by the Assets and Liabilities Committee as well as future monitoring of existing positions.

Exposure to market risk:

The portfolio of held for trading securities of the Bank has the sole purpose of maintaining an inventory of securities to meet the demands of investment clients. The Bank's investment policies do not include investment portfolios that seek to generate short-term gains.

The composition and analysis of each type of market risk is presented as follows:

- *Exchange rate risk*:
  Exchange rate risk is the risk that the value of a financial instrument fluctuates as a consequence of variations in foreign currency exchange rates, and other financial variables, as well as the market participants' reactions to political and economic events. For accounting standard purposes, this risk does not originate from financial instruments that are non-monetary items, or financial instruments denominated in the functional currency.

  Currently, foreign exchange exposures are low considering the Bank's policy is not to hold foreign exchange positions, unless their purpose is to cover clients' needs or those arising from portfolios managed by third parties which have maximum exposure limits, according to those established by Bank's Board of Directors.

  The table below sets out the Bank´s maximum exposure to foreign currencies. The assets and liabilities are presented at their carrying amount, except derivatives which are presented at their nominal value within other assets/other liabilities.

	2018							
	Euro, expressed in USD	Costa Rican Colon, expressed in USD	Sterling Pound, expressed in USD	Japanese Yen, expressed in USD	Mexican Peso, expressed in USD	Swiss Franc, expressed in USD	Other currencies, expressed in USD*	Total
Exchange rate	1.14	604.39	1.28	110.00	19.66	0.99		
Assets								
Cash and cash items	422,387	9,054,986	755,889	8,060,809	43,282	26,745	285,782	18,649,880
Investments and other financial assets	35,925,432	0	37,086,726	0	0	0	0	73,012,158
Loans	0	12,788,715	0	0	0	0	0	12,788,715
Other assets	3,155,060	1,382,411	713,745	829,881	1,704,806	418,726	8,039,309	16,243,938
	39,502,879	23,226,112	38,556,360	8,890,690	1,748,088	445,471	8,325,091	120,694,691
Liabilities								
Deposits	0	17,792,480	0	0	0	0	0	17,792,480
Borrowings and debt securities issued	0	2,080,250	0	0	0	0	0	2,080,250
Other liabilities	41,317,414	90,388	39,432,855	9,067,677	1,704,198	418,726	11,857,752	103,889,010
	41,317,414	19,963,118	39,432,855	9,067,677	1,704,198	418,726	11,857,752	123,761,740
Net position	(1,814,535)	3,262,994	(876,495)	(176,987)	43,890	26,745	(3,532,661)	(3,067,049)

	2017							
	Euro, expressed in USD	Costa Rican Colon, expressed in USD	Sterling Pound, expressed in USD	Japanese Yen, expressed in USD	Mexican Peso, expressed in USD	Swiss Franc, expressed in USD	Other currencies, expressed in USD*	Total
Exchange rate	1.20	566.42	1.35	112.64	19.63	0.97		
Assets								
Cash and cash items	670,270	7,335,965	631,450	5,128,886	45,403	1,056,963	257,509	15,126,446
Investments and other financial assets	40,655,488	2,208,128	47,497,815	27,116,208	0	0	78,809	117,556,448
Loans	0	11,648,161	0	0	0	0	0	11,648,161
Other assets	466,143	1,634,198	68,108	1,855,162	1,521,006	187,092,794	0	192,637,411
	41,791,901	22,826,452	48,197,373	34,100,256	1,566,409	188,149,757	336,318	336,968,466
Liabilities								
Deposits	0	17,977,169	0	0	0	0	0	17,977,169
Borrowings and debt securities issued	0	1,679,590	0	0	0	184,710,108	0	186,389,698
Other liabilities	41,714,173	329,965	50,118,797	32,195,632	0	0	5,443,387	129,801,954
	41,714,173	19,986,724	50,118,797	32,195,632	0	184,710,108	5,443,387	334,168,821
Net position	77,728	2,839,728	(1,921,424)	1,904,624	1,566,409	3,439,649	(5,107,069)	2,799,645

**Other currencies include Australian Dollar, Indonesian Rupiah, Korean Won, Chinese Yuan, Taiwanese Dollar, Singapur Dollar, Philippine Peso, South African Rand, Colombian Peso, Canadian Dollar, Guatemalan Quetzal, Russian Ruble and Brazilian Real.*

In June 2014, the Bank issued a CHF 180,000,000 bond with a 1.6125% coupon rate and maturity on June 18, 2018. In order to hedge the risk of foreign currency exposure in Swiss Francs ("CHF") related to this issuance, the Bank entered into a futures contract to purchase CHF 180,000,000 with a settlement date on June 18, 2018. This futures contract was measured at its fair value in the consolidated statement of financial position with changes in fair value recognized in the consolidated statement of income.

- *Interest rate risk on cash flows and fair value:*
  The interest rate risk on cash flows and the interest rate risk on fair value are the risks of fluctuation of both the future cash flows and the value of a financial instrument due to changes in market interest rates.

  The net interest margin of the Bank may vary as a result of unanticipated movements in interest rates.

  In order to mitigate this risk, the Bank's management has defined exposure limits to the interest rate risk.

The table below summarizes the Bank's exposure based on the re-pricing terms of interest rates on financial assets and liabilities:

2018	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:							
Time deposits	88,818,130	26,000,000	91,909,994	0	0	0	206,728,124
Securities and other financial assets	1,415,280,682	299,538,120	340,325,355	2,012,430,471	568,639,664	217,483,566	4,853,697,858
Loans	11,099,313,685	457,950,545	101,782,065	248,972,193	26,441,598	17,924,588	11,952,384,674
Total	12,603,412,497	783,488,665	534,017,414	2,261,402,664	595,081,262	235,408,154	17,012,810,656
Liabilities:							
Deposits	5,909,126,617	742,921,905	1,308,903,489	2,596,221,840	2,482,194	0	10,559,656,045
Borrowings, debt securities issued and perpetual bonds	1,724,893,051	340,012,187	10,210,048	184,474,524	626,938,532	217,680,000	3,104,208,342
Total	7,634,019,668	1,082,934,092	1,319,113,537	2,780,696,364	629,420,726	217,680,000	13,663,864,387
Total interest sensitivity gap	4,969,392,829	(299,445,427)	(785,096,123)	(519,293,700)	(34,339,464)	17,728,154	3,348,946,269

2017	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:							
Time deposits	194,749,429	50,661,167	61,275,046	0	0	0	306,685,642
Securities and other financial assets	1,273,319,497	155,549,600	201,311,735	1,598,279,179	712,271,703	211,103,801	4,151,835,515
Loans	10,275,720,434	595,586,904	362,142,300	239,199,556	26,219,223	7,192,335	11,506,060,752
Total	11,743,789,360	801,797,671	624,729,081	1,837,478,735	738,490,926	218,296,136	15,964,581,909
Liabilities:							
Deposits	5,258,487,850	752,443,645	1,159,836,096	2,388,434,523	1,050,376	0	9,560,252,490
Securities sold under repurchased agreements	45,814,600	0	0	0	0	0	45,814,600
Borrowings, debt securities issued and perpetual bonds	1,364,015,425	432,050,732	195,799	175,840,571	689,262,681	217,680,000	2,879,045,208
Total	6,668,317,875	1,184,494,377	1,160,031,895	2,564,275,094	690,313,057	217,680,000	12,485,112,298
Total interest sensitivity gap	5,075,471,485	(382,696,706)	(535,302,814)	(726,796,359)	48,177,869	616,136	3,479,469,611

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

The Bank has defined a standard scenario for the management of interest rate risk and to monitor the sensitivity of financial assets and liabilities. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. The following is an analysis of the Bank's sensitivity to variations in market interest rates:

	Sensitivity of the net interest income			
	100bp increase		100bp decrease	
	2018	2017	2018	2017
At 31 December	7,263,613	9,468,394	(6,012,619)	(8,525,861)
Average for the year	9,112,707	7,692,415	(7,920,295)	(6,245,325)
Maximum for the year	10,476,966	10,547,353	(9,010,227)	(8,945,854)
Minimum for the year	7,263,613	4,905,128	(6,012,619)	(3,378,858)

	Sensitivity in profit or loss for investments at fair value			
	100pb increase		100pb decrease	
	2018	2017	2018	2017
At 31 December	(17,351,278)	(23,995,728)	15,751,013	19,743,192
Average for the year	(17,696,295)	(21,334,374)	16,469,499	17,158,705
Maximum for the year	(18,483,354)	(23,995,728)	17,462,692	19,743,192
Minimum for the year	(17,172,855)	(19,828,456)	15,655,956	15,359,339

	Sensitivity of other comprehensive income			
	100pb increase		100pb decrease	
	2018	2017	2018	2017
At 31 December	(102,520,017)	(94,586,308)	101,985,268	98,643,232
Average for the year	(102,476,287)	(90,553,743)	102,319,747	95,220,350
Maximum for the year	(104,537,931)	(94,586,308)	103,443,771	98,643,232
Minimum for the year	(101,159,105)	(87,284,104)	101,911,794	92,681,697

(d) *Liquidity and Financing Risk*

Liquidity and financing risk is the risk that the Bank is unable to meet all its obligations as a result of, among other reasons, unexpected withdrawals of funds by depositors, the deterioration of the quality of the loan portfolio, the devaluation of securities, the excessive concentration of liabilities in one particular source, a gap between assets and liabilities, a shortage of asset liquidity and, lastly, the mismatch of long-term asset financing with short-term liabilities.

Liquidity Risk Management:

Risk management policies establish a liquidity limit in order to determine the amount of the Bank's assets that should be maintained in highly liquid instruments. It also sets out; financing limits, leverage limits and maturity limits.

The Bank is exposed to daily calls on its available cash resources due to withdrawals of demand and savings deposits, maturity of time deposits and borrowings, and also draw downs on loans and guarantees.

Liquidity is monitored on a daily basis by the Treasury Unit of the Bank and simulations of withdrawals are carried out periodically to determine the capacity of the Bank to deal with crisis scenarios with the available liquidity levels. All policies and procedures for liquidity management are subject to review and approval by the Assets and Liabilities Committee.

The table below summarizes the Bank's assets and liabilities grouped by their residual maturities with respect to the contractual maturity date:

	2018							
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	With no maturity	Total
Assets:								
Cash and cash items	202,536,914	0	0	0	0	0	0	202,536,914
Deposits with banks	373,755,556	26,000,000	91,909,994	0	0	0	0	491,665,550
Securities and other financial assets, net	453,892,236	299,358,948	399,635,436	2,628,955,286	884,576,805	467,257,037	80,358,836	5,214,034,584
Loans, net	1,308,636,553	1,118,712,909	1,254,483,664	7,088,931,436	732,640,173	249,344,215	0	11,752,748,950
Other assets	423,480,902	6,719,210	196,528,998	27,465	61,346	0	416,352,591	1,043,170,512
Total assets	2,762,302,161	1,450,791,067	1,942,558,092	9,717,914,187	1,617,278,324	716,601,252	496,711,427	18,704,156,510
Liabilities:								
Deposits	7,573,072,025	742,921,905	1,312,220,839	2,597,610,067	2,482,194	0	0	12,228,307,030
Borrowings, debt securities issued and perpetual bonds	85,601,074	173,804,175	74,365,701	1,923,138,860	629,618,532	0	217,680,000	3,104,208,342
Other liabilities	812,898,831	40,947,419	123,523,690	1,285,998	0	0	207,962,671	1,186,618,609
Total liabilities	8,471,571,930	957,673,499	1,510,110,230	4,522,034,925	632,100,726	0	425,642,671	16,519,133,981
Net liquidity gap	(5,709,269,769)	493,117,568	432,447,862	5,195,879,262	985,177,598	716,601,252	71,068,756	2,185,022,529

	2017							
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	With no maturity	Total
Assets:								
Cash and cash items	283,199,967	0	0	0	0	0	0	283,199,967
Deposits with banks	450,251,996	31,026,167	80,910,046	0	0	0	0	562,188,209
Securities and other financial assets, net	330,629,024	175,399,776	259,254,845	2,111,254,931	1,076,994,538	417,550,802	65,775,692	4,436,859,608
Loans, net	1,216,877,401	964,402,602	1,293,966,910	6,912,622,458	682,191,795	252,912,527	0	11,322,973,693
Other assets	401,843,951	2,017,506	181,942,522	31,674	69,711	0	380,795,107	966,700,471
Total assets	2,682,802,339	1,172,846,051	1,816,074,323	9,023,909,063	1,759,256,044	670,463,329	446,570,799	17,571,921,948
Liabilities:								
Deposits	7,143,248,409	752,443,645	1,169,177,189	2,392,507,467	1,050,376	0	0	11,458,427,086
Securities sold under repurchased agreements	0	0	0	45,814,600	0	0	0	45,814,600
Borrowings, debt securities issued and perpetual bonds	44,062,160	276,578,857	198,618,109	1,444,900,242	697,205,840	0	217,680,000	2,879,045,208
Other liabilities	737,728,040	3,570,328	144,929,499	8,574,031	0	0	247,990,346	1,142,792,244
Total liabilities	7,925,038,609	1,032,592,830	1,512,724,797	3,891,796,340	698,256,216	0	465,670,346	15,526,079,138
Net liquidity gap	(5,242,236,270)	140,253,221	303,349,526	5,132,112,723	1,060,999,828	670,463,329	(19,099,547)	2,045,842,810

In management's opinion, the Bank's investment portfolio consist of highly liquid investments and other financial assets (with ratings from AAA to BBB-) in the amount of B/.3,609,522,257 (2017: B/.2,869,561,949), which can be readily convertible to cash, in a period of less than a week.

Exposure to Liquidity Risk:
The Bank uses the index of primary liquid assets to total deposits plus borrowings to measure and monitor its targeted liquidity levels. The primary liquid assets are defined as assets that may be exchanged into cash in a term equal or less than 90 days. The Board of Directors has approved that the following assets be classified as primary liquidity: cash, cash items, deposits due from banks, securities purchased under resell agreements in which the underlying value is liquid and highly graded, short-term securities mutual funds, US Government Treasury Bills, foreign commercial paper with minimum credit risk rating of A2/P2/F2, and lastly liquid bonds and syndicated loans with minimum credit risk rating of BBB- and an active secondary market.

The liquidity index of the Bank, that is primary liquid assets to total deposits and borrowings, measured at the consolidated statement of financial position date, is detailed as follows:

	2018	**2017**
At end of year	28.16%	26.12%
Average for the year	26.18%	25.87%
Maximum for the year	28.16%	26.54%
Minimum for the year	25.38%	25.43%

(e) Operational Risk

Operational risk is the risk that losses may occur due to failure or insufficiency of controls in internal processes, persons and systems or external events. This definition includes the legal risk associated with these factors.

The Bank has designed an operational risk management model under a decentralized management structure through risk managers within functional areas.

The Operational Risk Management model, addresses within its key functions the following:

- Definition of strategies and implementation of business continuity plans for the Bank's critical processes
- Identification and assessment of risks
- Reporting of incidents and loss events
- Evaluation and follow-up of risk mitigating actions
- Assessment of operational risks in new initiatives
- Continuous training.

In addition to the operational risk unit, the following areas manage operational risk intrinsically within its functions:

- Operational Risk Unit
- Risk Management of Information Technology
- Information Security
- Prevention and Fraud Control
- Corporate Security.

As part of the Corporate Governance Model; strategy, methodology and monitoring of action plans for events and risks measured as critical and high are reported to the Executive Committee of Operational Risk and, on a quarterly basis, to the Board's Risk Committee.

The Corporate Internal Audit Department reviews and validates compliance of defined policies and methodologies in accordance with existing regulations, the results of which are presented to the Corporate Audit Committee.

(f) *Capital Management*

For purposes of calculating the capital adequacy of the Bank, capital is separated into two tiers based on Rulings No.1-2015 and No.3-2016 issued by the Superintendence of Banks of Panama: ordinary and additional primary capital (Tier I), and secondary capital (Tier II). Ordinary primary capital consists of capital stock paid, capital paid in excess, reserves declared, retained earnings, minority interests and other items of accumulated comprehensive income, less regulatory adjustments such as: goodwill from acquisitions and other intangible assets. The additional primary capital consists of instruments issued by the Bank or consolidated subsidiaries that comply with the established characteristics for inclusion, issue premiums, less regulatory adjustments applicable to the additional primary capital. Secondary capital consists of instruments issued by the bank or consolidated subsidiaries that comply with the established characteristics for inclusion, issue premiums and reserves set up for future losses minus regulatory adjustments applicable to the secondary capital.

In the following table, the Bank presents its consolidated regulatory capital to its risk-weighted assets in accordance with the requirements established by the Superintendence of Banks of Panama:

	2018	2017
Regular Primary Capital (Tier 1)		
Common shares	500,000,000	500,000,000
Legal reserve	182,340,957	180,079,610
Other items comprehensive income	3,642,044	35,796,615
Retained earnings	1,498,282,142	1,329,584,948
Less: regulatory adjustments	57,802,174	61,725,358
Total	2,126,462,969	1,983,735,815
Additional Primary Capital (Tier 1)		
Subordinated debt – perpetual bonds	217,680,000	217,680,000
Total	217,680,000	217,680,000
Total primary capital	2,344,142,969	2,201,415,815
Total capital	2,344,142,969	2,201,415,815
Risk-weighted assets	12,053,459,676	11,521,593,067
Capital ratios		
Total capital	19.45%	19.11%
Total primary capital	19.45%	19.11%

(31) Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank's Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, results of operations, and commitments and contingencies, based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Changes in assumptions or criteria could significantly affect estimates.

(a) *Impairment losses on loans:*
The Bank reviews its loan portfolio at each consolidated statement of financial position date to determine if there is objective evidence of impairment in a loan or loan portfolio that should be recognized in the results of the year.

The Bank makes its best judgment as to whether there is any observable data indicating that there is a measurable impairment in a loan portfolio using estimates based on historical loss experience for loans with similar characteristics at the moment of forecasting the future recoverable cash flows of these operations.

(b) *Fair value of derivative instruments:*
The fair value of derivative instruments that are not quoted in active markets is determined by using valuation techniques to determine their fair value. Models are reviewed before they are used and are calibrated to ensure that outputs reflect actual data and comparative fair values of market prices of similar instruments.
To the extent it is practical, models use only observable data as variables, although certain variables such as counterparty credit risk, volatility measures and correlations require management to make certain estimates.

(c) *Impairment of investment securities and other financial assets:*
The Bank determines that investment securities and other financial assets are impaired when there has been a significant and prolonged decline in their fair value below their respective cost, if its rating was reduced below B+, or there has been default on payment, bankruptcy, debt restructuring, or similar events that change in a material way the original terms and conditions.

(d) *Goodwill impairment:*
The Bank reviews the carrying value of goodwill, on an annual basis or when there is an indication of impairment. The estimate of value in use requires management to estimate future cash flows of the related assets or businesses acquired, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

(32) Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 requires the reclassification and remeasurement of the Bank's financial assets based on established business models, and on the characteristics of the contractual cash flow of the financial asset.

The main objective of the Bank's business model for investment securities is to receive contractual capital and interest flows and be able to sell at any time due to liquidity needs or in order to optimize the risk/return profile of a portfolio based on the interest rate, the risk margins, the current duration and the defined purpose.

As of January 1, 2018, the classification and measurement of financial instruments held as of December 31, 2017, are as follows:

- Investments in securities held to maturity, measured at amortized cost under IAS 39, were classified as FVOCI under IFRS 9.
- Loans and bank deposits that are classified as loans and deposits and measured at amortized cost under IAS 39 maintain this measurement under IFRS 9.
- Debt instruments classified as available for sale under IAS 39 were classified as FVOCI under IFRS 9, unless their contractual flows are not only principal and interest payments in which case they are classified as FVTPL.
- Instruments in securities measured at FVTPL under IAS 39 were mostly classified to FVOCI under IFRS 9 unless their flows are not only principal and interest payments or are part of the portfolios of BG Valores, S. A.
- Derivatives held to manage risks that are classified as FVTPL under IAS 39 maintain this measurement under IFRS 9.

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

January 1, 2018	FVTPL (Mandatory)	FVTPL (Designated)	FVOCI – debt instruments	FVOCI – equity instruments	Amortized cost	Total carrying amount
Financial Assets:						
Cash and cash items	0	0	0	0	283,199,967	283,199,967
Deposits with bank	0	0	0	0	562,188,209	562,188,209
Loans, net	0	0	0	0	11,322,561,145	11,322,561,145
Investment securities:						
Measured at fair value	614,404,459	0	3,817,581,980	0	0	4,431,986,439
Measured at amortized cost	0	0	0	0	0	0
Derivatives for administration risk	50,577	0	0	0	0	50,577
Other derivatives	2,663,336	0	0	0	0	2,663,336
Total Financial Assets	**617,118,372**	**0**	**3,817,581,980**	**0**	**12,167,949,321**	**16,602,649,673**
Financial Liabilities:						
Demand deposits	0	0	0	0	2,494,385,028	2,494,385,028
Savings deposits	0	0	0	0	3,398,554,919	3,398,554,919
Customer time deposits	0	0	0	0	5,474,415,838	5,474,415,838
Bank time deposits	0	0	0	0	91,071,301	91,071,301
Securities sold under repurchase agreements	0	0	0	0	45,814,600	45,814,600
Borrowings and debt securities issued	0	0	0	0	2,661,365,208	2,661,365,208
Perpetual bonds	0	0	0	0	217,680,000	217,680,000
Derivatives for administration risk	29,413,264	0	0	0	0	29,413,264
Other derivatives	3,269,630	0	0	0	0	3,269,630
Other liabilities / Investments short sales	138,267,009	0	0	0	0	138,267,009
Other liabilities / collateral accounts	0	0	0	0	456,293	456,293
Total Financial Liabilities	**170,949,903**	**0**	**0**	**0**	**14,383,743,187**	**14,554,693,090**

December 31, 2018	FVTPL (Mandatory)	FVTPL (Designated)	FVOCI – debt instruments	FVOCI – equity instruments	Amortized cost	Total carrying amount
Financial Assets:						
Cash and cash items	0	0	0	0	202,536,914	202,536,914
Deposits with bank	0	0	0	0	491,665,550	491,665,550
Loans, net	0	0	0	0	11,752,748,950	11,752,748,950
Investment securities:						
Measured at fair value	782,191,195	0	4,394,859,981	0	0	5,177,051,176
Measured at amortized cost	0	0	0	0	10,948,692	10,948,692
Derivatives for administration risk	906,154	0	0	0	0	906,154
Other derivatives	3,758,712	0	0	0	0	3,758,712
Total Financial Assets	**786,856,061**	**0**	**4,394,859,981**	**0**	**12,457,900,106**	**17,639,616,148**
Financial Liabilities:						
Demand deposits	0	0	0	0	2,835,932,071	2,835,932,071
Savings deposits	0	0	0	0	3,515,163,131	3,515,163,131
Customer time deposits	0	0	0	0	5,746,753,443	5,746,753,443
Bank time deposits	0	0	0	0	130,458,385	130,458,385
Borrowings and debt securities issued, net	0	0	0	0	2,886,528,342	2,886,528,342
Perpetual bonds	0	0	0	0	217,680,000	217,680,000
Derivatives for administration risk	10,516,331	0	0	0	0	10,516,331
Other derivatives	6,626,021	0	0	0	0	6,626,021
Other liabilities / Investments short sales	127,004,276	0	0	0	0	127,004,276
Total Financial Liabilities	**144,146,628**	**0**	**0**	**0**	**15,332,515,372**	**15,476,662,000**

The following table shows the original measurement categories under IAS 39 for the Bank's financial assets and liabilities as of December 31, 2017 and its new classification and value under IFRS 9 as of January 1, 2018:

	Original classification IAS 39	New Classification IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Financial Assets:				
Cash and cash equivalents	Amortized cost	Amortized cost	283,199,967	283,199,967
Deposits in banks	Held to maturity	Amortized cost	562,188,209	562,188,209
Loans	Amortized cost	Amortized cost	11,322,973,693	11,322,561,145
Investment securities – debt	Fair value	FVTPL (Mandatory)	514,528,917	514,528,917
Investment securities – debt	Available for sale	FVTPL (Mandatory)	50,180,977	50,180,977
Investment securities – debt	Held to maturity	FVTPL (Mandatory)	88,243	143,561
Investment securities – equity	Fair value	FVTPL (Mandatory)	37,803,363	37,803,363
Investment securities – equity	Available for sale	FVTPL (Mandatory)	5,987,936	11,747,641
Investment securities – debt	Fair value	FVOCI	607,912,005	607,912,005
Investment securities – debt	Available for sale	FVOCI	3,148,387,835	3,148,387,835
Investment securities – debt	Held to maturity	FVOCI	49,894,579	61,282,140
Derivatives for administration risk	N/A	FVTPL (Mandatory)	0	50,577
Other derivatives	Fair value	FVTPL (Mandatory)	2,713,913	2,663,336
Total Financial Assets			**16,585,859,637**	**16,602,649,673**
Financial Liabilities:				
Demand deposits	Amortized cost	Amortized cost	2,494,385,028	2,494,385,028
Savings deposits	Amortized cost	Amortized cost	3,398,554,919	3,398,554,919
Customer time deposits	Amortized cost	Amortized cost	5,474,415,838	5,474,415,838
Bank time deposits	Amortized cost	Amortized cost	91,071,301	91,071,301
Securities sold under repurchase agreements	Amortized cost	Amortized cost	45,814,600	45,814,600
Borrowings and debt securities issued	Amortized cost	Amortized cost	2,661,365,208	2,661,365,208
Perpetual bonds	Amortized cost	Amortized cost	217,680,000	217,680,000
Derivatives for administration risk	N/A	FVTPL (Mandatory)	0	29,413,264
Other derivatives	Fair value	FVTPL (Mandatory)	32,682,894	3,269,630
Other liabilities / Investments short sales	Fair value	FVTPL (Mandatory)	138,267,009	138,267,009
Other liabilities / collateral accounts	Amortized cost	Amortized cost	456,293	456,293
Total Financial Liabilities			**14,554,693,090**	**14,554,693,090**

The following table reconciles the carrying value under IAS 39 to the carrying value under IFRS 9 on January 1, 2018:

Financial Instruments	Carrying Value IAS 39 December 31, 2017	Reclassification	Remeasurement	Carrying Value IFRS 9 January 1, 2018
Financial Assets				
Amortized cost:				
Cash and cash items	283,199,967	0	0	283,199,967
Deposits with banks	562,188,209	0	0	562,188,209
Investment securities:				
Opening balance	49,982,822			
To fair value OCI	0	(49,894,579)	0	
To fair value through profit or loss	0	(88,243)	0	
Closing balance	49,982,822	(49,982,822)	0	0
Loans, net:				
Opening balance	11,322,973,693			
Remeasurement	0	0	(412,548)	
Closing balance	11,322,973,693	0	(412,548)	11,322,561,145
Total amortized cost	**12,218,344,691**	**(49,982,822)**	**(412,548)**	**12,167,949,321**
Available-for-sale:				
Investment securities:				
Opening balance	3,204,556,748			
To fair value through profit or loss	0	(56,168,913)	0	
To fair value OCI	0	(3,148,387,835)	0	
Closing balance	3,204,556,748	(3,204,556,748)	0	0
Total available-for-sale	**3,204,556,748**	**(3,204,556,748)**	**0**	**0**
Fair value OCI:				
Investment securities:				
Opening balance	0			
To available-for-sale	0	3,148,387,835	0	
To held-to-maturity	0	49,894,579	11,387,561	
To fair value through profit or loss	0	607,912,005	0	
Closing balance	0	3,806,194,419	11,387,561	3,817,581,980
Total fair value OCI	**0**	**3,806,194,419**	**11,387,561**	**3,817,581,980**
Fair value through profit or loss:				
Investment securities:				
Opening balance	1,160,244,285			
To fair value OCI	0	(607,912,005)	0	
To available-for-sale	0	56,168,913	5,759,705	
To held-to-maturity	0	88,243	55,318	
Closing balance	1,160,244,285	(551,654,849)	5,815,023	614,404,459
Derivatives for administration risk	0	50,577	0	50,577
Other derivatives	2,713,913	(50,577)	0	2,663,336
Total fair value through profit or loss	**1,162,958,198**	**(551,654,849)**	**5,815,023**	**617,118,372**
Total financial assets	**16,585,859,637**	**0**	**16,790,036**	**16,602,649,673**

Financial Instruments	Carrying Value IAS 39 December 31, 2017	Reclassification	Remeasurement	Carrying Value IFRS 9 January 1, 2018
Financial liabilities				
Amortized cost:				
Deposits from customer	11,458,427,086	0	0	11,458,427,086
Securities sold under repurchase agreements	45,814,600	0	0	45,814,600
Borrowings and debt securities issued	2,661,365,208	0	0	2,661,365,208
Perpetual bonds	217,680,000	0	0	217,680,000
Other liabilities / collateral accounts	456,293	0	0	456,293
Total amortized cost	**14,383,743,187**	**0**	**0**	**14,383,743,187**
Fair value through profit or loss:				
Derivatives for administration risk	0	29,413,264	0	29,413,264
Other derivatives	32,682,894	(29,413,264)	0	3,269,630
Other liabilities / Investments short sales	138,267,009	0	0	138,267,009
Total Fair value through profit or loss	**170,949,903**	**0**	**0**	**170,949,903**
Total financial liabilities	**14,554,693,090**	**0**	**0**	**14,554,693,090**

Impact on capital planning

The main impact on the Bank's regulatory capital arises from the new impairment requirements under IFRS 9.

The following table summarizes the changes in equity items that were modified as a result of the adoption of IFRS 9 as of January 1, 2018:

	Impact of adoption of IFRS 9 in the opening balance
Reserve for valuation of investment securities and other financial assets:	
Balance at December 31, 2017	**35,796,615**
Recognition of expected credit losses for investment securities at FVOCI	7,789,587
Reclassification of investment securities available-for-sale to FVTPL	(2,688,416)
Reclassification of investment securities at FVTPL to FVOCI	461,265
Reclassification of investment securities held to maturity to FVOCI	11,398,840
Changes due to adoption of IFRS 9	**16,961,276**
Balance as of January 1, 2018	**52,757,891**
Retained earnings:	
Balance at December 31, 2017	**1,329,584,948**
Adjustment for reclassification of investments	8,030,933
Recognition of expected credit losses for investment securities at FVOCI	(7,789,587)
Recognition of expected credit losses for loans	(412,548)
Deferred tax related	671,993
Changes due to adoption of IFRS 9	**500,791**
Balance as of January 1, 2018	**1,330,085,739**

The following table reconciles the allowance under IAS 39 to allowance under IFRS 9 on January 1, 2018:

	December 31, 2017 (IAS 39)	Reclassification	Remeasurement	January 1, 2018 (IFRS 9)
Loans	144,832,305	0	412,548	145,244,853
Investment securities held-to-maturity	91,361	0	(91,361)	0
Total allowance of financial assets under IAS 39 and IFRS 9 to amortized cost	144,923,666	0	321,187	145,244,853
Investment securities at FVPTL transferred to FVOCI	0	0	2,369,188	2,369,188
Investment securities available-for-sale transferred to FVOCI	0	0	3,424,823	3,424,823
Investment securities held-to-maturity transferred to FVOCI	0	0	1,995,576	1,995,576
	0	0	7,789,587	7,789,587

The financial assets and liabilities at amortized cost, including interest receivable, are detailed as follows:

Assets:	
Deposits with banks:	
Local demand deposits	90,175,452
Foreign demand deposits	194,761,974
Local time deposits	206,728,124
Interest receivable	2,615,430
Total de deposits with banks	494,280,980
Investment securities and other financial assets, net	5,187,999,868
Interest receivable	978
Investment securities and other financial assets, net	5,188,000,846
Loans	11,952,384,674
Interest receivable	43,167,150
Less:	
Allowance for loan losses	158,531,274
Unearned commissions	41,104,450
Loans, net	11,795,916,100

Liabilities :	
Deposits:	
Locals:	
Demand	2,752,026,295
Savings	3,283,113,208
Time:	
Customers	5,503,234,018
Banks	130,458,385
Foreign:	
Demand	83,905,776
Savings	232,049,923
A plazo:	
Customers	243,519,425
Interest payable	99,032,395
Total deposits	12,327,339,425
Borrowings and debt securities issued, net	2,886,528,342
Perpetual bonds	217,680,000
Interest payable	19,249,630
Total borrowings, debt securities and perpetual bonds, net	3,123,457,972

(33) Main Applicable Laws and Regulations

(a) Banking Law in the Republic of Panama

Banking operations are regulated and supervised by the Superintendence of Banks of Panama, according to the regulations established by Executive Decree No.52 of April 30, 2008, adopting the single text of Decree Law 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, whereby establishing the banking system in Panama and creating the Superintendence of Banks and the rules that govern it.

Liquidity Ratio

The liquidity ratio reported by Banco General S. A. to the regulating body, based on the parameters established in the Agreement No.4-2008, was 42.65% (2017: 38.81%).

Capital Adequacy

The Law mandates general license banks to maintain a minimum paid-in capital or assigned capital of not less than ten million balboas (B/.10,000,000) and a capital adequacy ratio of not less than 8%, including off-balance sheet operations.

The Bank has a ratio of consolidated regulatory capital to its risk-weighted assets of 19.45% (2017: 19.11%) in accordance with Agreements No.1-2015 and No.3-2016, issued by the Superintendence of Banks of Panama.

Agreement No.1-2015 establishes applicable capital adequacy standards for banks and banking groups, which came into effect on January 1, 2016. Agreement No.3-2016, which came into effect on July 1, 2016, establishes standards for the calculation of risk-weighted assets for credit and counterparty risks.

Regulatory Allowances

The accounting treatment for the recognition of losses on loans, investment securities and other real estate owned in conformity with prudential standards enacted by the Superintendence of Banks of Panama, differs in some aspects from the accounting treatment established by International Financial Reporting Standards, specifically IFRS 9 (until December 31, 2017 IAS 39) and IFRS 5. The Superintendence of Banks of Panama mandates that general license banks apply these prudential standards.

Loans and Loan Allowances

Specific provisions

The Agreement No.4-2013 indicates that specific reserves shall be established when there is objective evidence of impairment. These reserves and their applicable percentages must be established for credit facilities classified under the following risk categories for both individual loans and loan portfolios: special mention 20%, substandard 50%, doubtful 80%, and unrecoverable 100%.

Banks must calculate and maintain, at a minimum, the specific reserves determined by the criteria established in this Agreement at all times. The basis for the reserve calculation is the difference between the balance of the loan classified in any of the categories subject to reserve, and the amount of collateral mitigating any possible loss. The weighted values for collateral are also detailed in this Agreement.

If there is a surplus in the specific reserve with respect to the allowance estimated in accordance with IFRS, such surplus will be recorded as a regulatory reserve within equity and its variations are applied against retained earnings. This regulatory reserve shall not be considered as regulatory capital used in calculations of ratios or any other prudential relationships mentioned in the Agreement.

The following table summarizes the classification of the loan portfolio and allowance for loan losses of Banco General, S. A., based on Agreement No.4-2013:

	2018 (in thousands)					
	Standard	Special mention	Sub-standard	Doubtful	Loss	Total
Corporate loans	4,674,984	256,058	83,869	39,296	14,554	5,068,761
Consumer loans	5,770,353	126,726	44,683	28,108	25,080	5,994,950
Total	10,445,337	382,784	128,552	67,404	39,634	11,063,711
Specific Reserve	60	17,740	23,720	32,940	8,966	83,426

	2017 (in thousands)					
	Standard	Special mention	Sub-standard	Doubtful	Loss	Total
Corporate loans	4,730,515	206,224	58,118	36,157	27,533	5,058,547
Consumer loans	5,376,270	116,262	40,916	24,690	21,258	5,579,396
Total	10,106,785	322,486	99,034	60,847	48,791	10,637,943
Specific Reserve	0	22,317	13,164	27,332	16,915	79,728

In accordance with Agreement No.4-2013, loans whose payment of principal and/or interest with more than 90 days in arrears from the contractual payment date will be classified as delinquent. Delinquency days are calculated from the date in which payment was required. Single-payment transactions and overdrafts will be considered delinquent when the payment is over 30 days in arrears from the contractual payment date.

The following table presents the balance of delinquent and loans distributed by loan categories pursuant to Agreement No.4-2013, not including contagion:

	2018 (in thousands)			
	Current	Past Due	Delinquent	Total
Corporate loans	5,002,251	31,227	35,283	5,068,761
Consumer loans	5,663,314	234,341	97,295	5,994,950
Total	10,665,565	265,568	132,578	11,063,711

	2017 (in thousands)			
	Current	Past Due	Delinquent	Total
Corporate loans	4,996,172	36,735	25,640	5,058,547
Consumer loans	5,247,860	243,760	87,776	5,579,396
Total	10,244,032	280,495	113,416	10,637,943

The following table presents the balance of loans and their delinquency distributed by loan categories pursuant to Agreement No.4-2013, including contagion:

	2018 (in thousands)			
	Current	Past Due	Delinquent	Total
Corporate loans	4,988,428	42,811	37,522	5,068,761
Consumer loans	5,637,925	241,624	115,401	5,994,950
Total	10,626,353	284,435	152,923	11,063,711

	2017 (in thousands)			
	Current	Past Due	Delinquent	Total
Corporate loans	4,986,166	35,273	37,108	5,058,547
Consumer loans	5,236,234	238,604	104,558	5,579,396
Total	10,222,400	273,877	141,666	10,637,943

Furthermore, based on Agreement No.8-2014, recognition of interest income on the basis of days in arrears in the payment of principal and/or interest and the type of credit operations is suspended as per the following:

a) Consumer and business loans, if more than 90 days overdue, and
b) Residential mortgage loans, if more than 120 days overdue.

Total loans of Banco General, S. A. in non-accrual status of interest is B/.109,085,756 (2017: B/.84,700,213). Total interest income not recognized on these loans is B/.6,641,407 (2017: B/.5,906,963).

Dynamic Provision
Agreement No.4-2013 indicates that the dynamic provision is a reserve provided to face possible future needs for specific provisions. They are governed by prudential criteria in the banking regulation. Dynamic reserves are established on a quarterly basis, on loans classified as Standard.

The dynamic reserve is an equity account presented as a legal reserve in the consolidated statement of changes in equity and appropriated from retained earnings. The balance of the dynamic reserve is part of the regulatory capital, but cannot be used in satisfying current or future capital adequacy requirements established by this Superintendence. The balance of the Bank´s dynamic reserve is detailed as follows:

	2018	**2017**
Banco General, S. A.	133,877,476	133,877,476
Finanzas Generales, S. A.	2,810,061	2,810,061
Banco General (Overseas), Inc.	9,480,047	9,480,047
Banco General (Costa Rica), S. A.	4,951,850	4,580,865
Total	151,119,434	150,748,449

The current Agreement establishes that the dynamic reserve will not be lower than 1.25%, nor greater than 2.50% of risk-weighted assets applied to the loan facilities classified as standard.

Foreclosed Assets
Agreement No.3-2009 enacted by the Superintendence of Banks of Panama, through which provisions pertaining to the disposal of property are updated, sets a five (5) year period to dispose real estate acquired in settlement of unpaid loans.

Foreclosed assets held for sale are recognized at the lower of the carrying amount of the outstanding loans or the estimated realizable value of the properties. The Agreement establishes that the provision of foreclosed assets shall be progressively applied up to 90% in accordance with the following table:

Years	**Minimum reserve percentage**
First	10%
Second	20%
Third	35%
Fourth	15%
Fifth	10%

Banco General, S. A. holds foreclosed assets held for sale in the amount of B/.16,079,980 (2017: B/.5,730,492) and a provision in the amount of B/.2,463,322 (2017: B/.911,969). The provision was estimated based on Agreements No.1-2000 and No.3-2009 in the amounts of B/.890,558 (2017: B/.514,810).

Off-Balance Sheet Operations

Management has classified off-balance sheet operations and estimated the Bank´s reserve requirements in accordance with Agreement No.4-2013, enacted by the Superintendence of Banks of Panama, as presented below:

			2018 (in thousands)			
	Standard	**Special Mention**	**Sub-Standard**	**Doubtful**	**Loss**	**Total**
Letters of credit	185,018	7,662	806	0	0	193,486
Financial guarantees and mortgage disbursement commitments	767,169	3,607	1,076	841	0	772,693
Total	952,187	11,269	1,882	841	0	966,179
Reserve required	0	0	0	0	0	0

			2017 (in thousands)			
	Standard	**Special Mention**	**Sub-Standard**	**Doubtful**	**Loss**	**Total**
Letters of credit	177,502	2,830	1,314	0	0	181,646
Financial guarantees and mortgage disbursement commitments	899,196	2,717	2,323	1,654	752	906,642
Total	1,076,698	5,547	3,637	1,654	752	1,088,288
Reserve required	0	0	0	0	0	0

Investments
Banco General, S. A. classifies its investment portfolio pursuant to Agreement No. 7-2000, enacted by the Superintendence of Banks of Panama. In addition, Agreement No.7-2000 requires the establishment of provisions for possible investment losses based on certain risk elements stipulated therein. The Bank maintains a valuation allowance for its securities and its provisions are recognized as provision expense in the consolidated statement of income.

(b) Banking Law of Costa Rica
The subsidiary Banco General (Costa Rica), S. A. is regulated by the National Banking System Act, the Costa Rica Central Bank Act, the National Council of Financial System Supervision (CONASSIF), and the General Superintendence of Financial Entities (SUGEF).

(c) Banking Law of the Cayman Islands
The operations of Banco General (Overseas), Inc. is regulated by the Bank and Fiduciary Institutions Law of May 15, 1989, which was last revised on October 11, 2013, issued by the Government of the Cayman Islands.

(d) Financing Companies Law
The operations of financing companies in the Republic of Panama are regulated by the Office of Financial Entities of the Ministry of Commerce and Industry in accordance with provisions established under Law No.42 of July 23, 2001.

(e) Financial leases Law
The operations of financial leases in the Republic of Panama are regulated by the Office of Financial Entities of the Ministry of Commerce and Industry in accordance with provisions established under Law No.7 of July 10, 1990.

(f) Insurance and Reinsurance Law
Insurance and reinsurance operations in the Republic of Panama are regulated by the Superintendence of Insurance and Reinsurance of Panama, in accordance with provisions established under the Insurance Law No.12 of April 3, 2012 and Reinsurance Law No.63 of September 19, 1996.

(g) Insurance Law of the British Virgin Islands
The operations of Commercial Re Overseas Limited are regulated by the Insurance Law of the February 7, 2008 promulgated by the British Virgin Islands legislature and by statutory instrument 2009 No.62 denominated “2009 Insurance Regulations”.

(h) Securities Law
Brokerage operations in Panama are regulated by the Superintendence of the Securities Markets in accordance with legislation established in Law Decree No.1 of July 8, 1999 as revised by Law No.67 of September 1, 2011.

The operations of brokerage houses are regulated by Agreement No.4-2011, modified by provisions of Agreement No.8-2013 and Agreement No.3-2015, established by the Superintendence of the Securities Markets, which obliges brokerage operations to comply with capital adequacy regulations.

(i) *Fiduciary Law*
Fiduciary operations in the Republic of Panama are regulated by the Superintendence of Banks in accordance with provisions established under Law No.1 of January 5, 1984 and modified by provisions of Law No.21 of May 10, 2017.

(j) *Labor Law of the Ministry of Labor and Labor Development (MITRADEL)*
The operations of issuing and printing food vouchers, medicines, school supplies and / or electronic cards provisions established under Law No.59 of August 7, 2003, as amended by Law No. 60 of October 23, 2009 and Executive Decree No. 263 of September 17, 2010.